THE LITTLE BOOK OF

IDEAS

By

OCCUPY LONDON'S
ECONOMICS WORKING GROUP

CONTENTS

Foreword

In October 2011 a group of people came together to form a movement for change. It gathered outside the London Stock Exchange at the foot of the steps at St. Pauls. Their arrival marked the beginning of an occupation of that space for the next 4 months and so began what became known as Occupy London.

Occupy brought together people from all walks of life and backgrounds, but the common denominator was the awareness of a need for change to an economic system that was increasingly serving only a very small proportion of society, the 1%, at the expense of everyone else, the 99%.

Within Occupy London emerged a smaller group with an interest and some experience and expertise in economic and financial matters, the Economics Working Group (EWG). In talking with people within and outside Occupy, it became clear that economic policy and related ideas and concepts were unfamiliar to many as was the language and terms used to describe them. This book is an attempt to clarify and explain some of those ideas and concepts, what they mean and the views for and against them. With this in mind, it is intended to help readers better understand what has happened in the past, what is happening now and where it might lead us.

1. Austerity measures

'Austerity measures' are the policies that have been put in place by the government to both pay off the country's overdraft (the national or sovereign debt), and to reduce our budget deficit (the amount the country overspends each year). At present the government owes over £1trillion and our budget deficit for the year 2011-2012 was £126bn.

The measures are a combination of cuts to public spending and increases in taxes, for example, the increase in fuel duty, VAT, taxes on the disabled and pensioners, and reductions in care, education and public services.

It is the belief of the government that harsh austerity measures, a short sharp shock, will reduce debt and aid the recovery from the financial crisis. However, it is also argued that the austerity measures have:

- Reduced living standards for the majority of people in the country
- Affected the poorest hardest
- Lead to worsening socio-economic conditions within society
- Reduced the amount of disposable income for most people
- Reduced the amount of consumer spending
- Reduced the demand for goods and services
- Reduced economic activity in the country
- Lead the country back into recession
- Initiated the wrong approach to encouraging recovery

- Created conditions which are permanently damaging the economy for generations to come

It is also considered to be unfair and unjust by many that the country should have to foot the bill for the reckless and negligent behaviour of the banks, which resulted in the banking crisis. (It should be remembered that the national debt is only as high as it is because the government had to plough vast sums of money into the banks to stop them going bankrupt). It is also felt that with this approach the government is looking after the people that caused the recession at the expense of the majority of people in the country. The government's argument is that the financial sector contributes a significant amount to the economy and that the banks should be looked after.

It should also be remembered, crucially, that most of the cuts are yet to bite and the worst is yet to come. Many fear that once the full effect of the austerity measures are felt we will find ourselves in an austerity trap – little demand to fuel growth and employment, and the prospect of spiraling into a never-ending and deeper recession.

2. Basic Income
(sometimes called Citizen's Income)

The concept behind Basic Income is that all adult citizens/qualifying residents are paid a flat-rate benefit designed to be sufficient for one person to live on – i.e. in principle equivalent to the poverty line in the country concerned. It would be paid out of general taxation unconditionally (regardless of whether that person is in employment or has other sources of income) and would not affect entitlement to other free state facilities such as the free NHS, schooling etc. The supporters of this policy argue that it would:

- Guarantee that everyone's basic needs are covered by a non-means-tested weekly payment.
- Save money by facilitating the scrapping of huge parts of the benefits system (e.g. there would be no need for Job Seeker's Allowance or other forms of income support.)
- Ensure that anyone who takes paid work will always be better off financially by doing so (avoiding the 'poverty trap' whereby somebody taking a job which pays less than benefits ends up worse off).
- Make working part-time a more attractive option for those people who would prefer it.
- Act as a safety-net to those who wish to take the risk of starting their own business.
- Recognise the worth of the vast amount of unpaid work done by family carers.

- Enable people who want to undertake voluntary/charity work to be able to do so and still have an income.

Opponents of this scheme argue that it may encourage idleness and encourage people who are 'work-shy'. It therefore goes against the age-old concept of a work-ethic. They also argue it would be unaffordable, and that tax rates would have to rise dramatically to fund it. (Rough initial calculations have indicated that a Basic Income of something like £200 a week might require a standard income tax rate of about 60%.)

Further Reading:
http://www.basicincome.com
http://www.basicincome.org

3. Commodities speculation

Commodities speculation is the activity of speculating on the world's hard commodities, which are the things we take out of the ground, for example, crude oil, iron ore, gold, silver and other metals; and soft commodities, generally things that are grown such as coffee, cocoa, sugar, corn, wheat, soybean and fruit. This issue is that speculation can artificially inflate the cost of the world's commodities, and makes prices much more volatile as trading behaviour accentuates the highs and the lows of the market. In this way the price does not relate to the underlying supply and demand of the commodity, but the whims and investment strategies of a very small number of trading houses. Sometimes it is the case that declarations by trading companies that the market has 'reached its peak' serve only to send the market price downwards, potentially to their advantage if, for example, they were shorting the market.

Oxfam, in its report published in June 2011, "Growing A Better Future: Food Justice In A Resource-Constrained World," looked at the reasons behind the drastic increase in food costs globally, and found that much of the blame lay with commodities traders and speculation in the global foodstuffs market. It pointed out that 90% of global grain trading was conducted between just three companies, each of which had made substantial profits from fluctuations in prices since the 2008 food crisis.

It has been estimated that speculation increased the price of wheat by a $1 per bushel, which represents 10-20% of the price. That had an extremely detrimental effect on the world's poor who are now spending up to 80% of their income on food, and the estimated 925 million people officially classified as being in starvation.

The constant manipulation of market prices and volatility also makes it extremely difficult to make long term planning decisions with regards to food production.

It is the same for the oil price, where it is believed commodity speculation has pushed the price way beyond its 'natural' equilibrium price. Consequently the world is suffering through higher prices for products like petrol and plastics. In the meantime, the oil companies and speculators make big profits.

Many believe, as do Oxfam, that there has to be strict controls put on the trading of staple foods to prevent disruption to the world's food supply. It has also been discussed at a meeting of the G20 finance ministers.

Some people feel that it is a necessary part of a functioning market, and a way for farmers to ensure a future price for their food production, so protecting themselves against bad harvests. However many feel that in reality, it is a very few becoming very rich at the expense of the very many.

4. The Commons

The Commons originally referred to land held in common by the community as opposed to privately owned. Until the 18th Century Enclosures Acts, people used the Commons for grazing animals and growing food. It is still used to describe a piece of land people use for recreation e.g. Clapham Common. Traditional communities who shared fish stocks, pastures, forests, lakes etc also formed Commons with agreed rules and practices so that the common resource was shared and looked after sustainably.

The Commons therefore refers to both a resource, and to the group of people who use it. The more modern use of the term refers to everything that mankind holds in common: land, air, water, energy (oil, coal and gas), minerals and even human knowledge, inventions, telecommunications and the monetary system. The theory of the Commons is that all these resources are communal gifts, whether from Nature or created by man, and they should all be shared equitably and not exploited by individuals or corporations – ownership should be shared as widely as possible. They should also be preserved for future generations.

For sensitive resources like fish stocks and forests, and finite resources like oil, this will require careful management. Sometimes there is the need to reclaim the Commons – in the UK for example 0.6% of the people own 50% of the land which creates scarcity and drives up land prices for ordinary people. Sometimes we need to establish a Commons where one hasn't been considered before – for example how we manage the atmosphere and the oceans.

Commoning is what the community does in order to make the resource productive. One inevitable consequence of this is a limit or 'cap' on the amount a resource is used so it is sustainable, and this would probably involve a shift from State and Private ownership towards Shared ownership administered through Commons Trusts. These would ensure that each common resource is preserved for the future. Rights to the resource could also on occasion be rented to commercial enterprises.

Different resources demand different sizes of Commons. Some Commons would therefore need to be national or even global –the solution to which can be met through each local Commons managing its own part of the larger Commons. For example by regulating its own use of the atmosphere, each Commons would do so in relation to the greater Commons, and so ensure humanity's survival.

The overall concept is that the Commons simultaneously creates economic justice and protection for the environment. It makes for a more co-operative society which is less selfish and competitive and which preserves our future for the generations to come.

Further Reading:
http://www.schoolofcommoning.com

5. Debt Creation

Debt is a promise to make payment for material goods or service if it cannot be made with money or in kind (barter). It is a feature of the exchanges necessary for most societies.

So, with debt so central to our economic troubles, how should we try to understand it?

Firstly, there is the 'Healthy Debt' of a productive social organisation, such as a loan for business development. This might alternatively be for the constructive extension of personal freedom in social/work activity, as in taking a car loan. The 'Health' of this debt depends upon realistic ability to pay reasonable interest and, with time the balance of the loan.

Second, there is 'Froth Debt', of more non-essential or luxury transactions – particularly if capacity to pay interest (especially if excessive) and repay capital is insecure. Such behaviour is likely to be manipulated by unregulated marketing promotion.

Thirdly, there is 'Toxic Debt' which is at the epicentre of the economic catastrophe engineered by all those complicit in debt manipulation, which will undoubtedly have long lasting and severe consequences. Such debt is generated with the sole purpose of making money from the interest generated, any benefits being outweighed by resulting, and potentially devastating, economic and social damage. The most familiar example is mortgage loans for those who were mis-sold a 'new and innovative' type of loan they were told they could afford, but in reality could never realistically repay or even afford the interest payments. This was for houses at unsustainable and increasingly inflated prices. With these 'Sub-prime' mortgages, the additional twist was the complexity of a market which sold-on such Toxic Debt and, by trickery and clever marketing, made it look as if it was Healthy Debt.

We live with an economic system which is debt-driven or is modelled around debt. If confined to 'Healthy Debt', there is no reason why this model should not work. However, unregulated manipulation of 'Froth' Debt and, above all, 'Toxic' debt not only results in the exploitation of the 99% for the unacceptable financial gains of the 1%, but also threatens the very survival of an otherwise viable economy.

6. Debt Jubilee

Debt Jubilee is the term given to the massive writing-off of debt on an international scale. It comes from the examination of the origin of debts, and the view that much of the current debt is unjust and significantly damaging to those vastly in-debted nation states. It is argued that if inter-country debts were cancelled out, we would get closer to an understanding of the real debt levels in the global economy, which could then be tackled through debt restructuring and cancellation.

Equally much debt currently being carried by many nation states is a result of having to bail out the banks, who accumulated their own massive debts through huge trading losses. Those trading losses were thus passed onto governments through the bail-outs, and subsequently onto the populations of those governments through austerity economics.

This kind of debt or liability is often referred to as Zombie debt. For example, the Irish government agreed to take on the liabilities of one of Ireland's major banks, Anglo-Irish Bank. Ireland's debt repayments for Anglo-Irish will reach over €47.9 billion by 2031, which is 30% of Ireland's GDP. A debt Jubilee would mean that much of this kind of debt is written-off, or as it is referred to in accounting terminology 'written down'.

It is argued that a debt jubilee would remove a vast obstacle to economic growth, not least because it removes debilitating interest payments which could be spent on encouraging and stimulating business expansion and trade. Opponents suggest that by writing-off certain debts it will have a knock-on effect on innocent parties, who have invested money in good faith and now see their investments wiped out. Some of the consequences of this are also difficult to predict, as it is not always clear who owns the debt. For this reason, there has been much talk of having in place economic firewalls between distressed Eurozone countries and the rest of the region.

Others however feel that, once again, it doesn't seem fair that the populations of whole countries should have to pay for the failure of the banks and the wider banking system.

Further Reading:
http://www.jubileedebtcampaign.org.uk

7. Derivatives

A derivative is basically a complicated bet. It's called a derivative because the value of the security being bet on is related to or derived from the value of an underlying asset. For example oil futures will be related to the price of oil. It is possible to bet with someone what the price will do over the next 3 months, and if you're right you win and if you're wrong you lose, but the bet is over the price of oil, not actually trading oil itself. It can get very, very complicated, and over the last few decades there has been an explosion in the value of the derivatives market.

The main problem with derivatives is that you can lose much more than you actually bet. Many of our banks placed a lot of these bets, and when the crash came they lost a lot of money. When they worked out how much they owed they realised they were technically bankrupt, and they then had to ask governments to save them.

To put it another way, it's as if all the banks were sitting at a roulette table. Whenever they lost they didn't just lose what they bet, but they owed everyone else at the table as well. In fact they owed the total value of debts on the table, and when they lost they would borrow more from the players around them. Everyone owed everyone and it got more and more complicated and larger as time went by and they kept asking each other to lend each other money to stay in the game! Finally they realised there was no money to lend and that instead of losing \$100 million they had lost \$1,000,000,000,000 million and they were all bust. They then had to ask their governments to save them and that's how we ended up bailing out the banking sector.

One of the most complicated derivatives was invented in the late 80's/ early 90's called a Collaterallised Debt Obligation (CDO). Basically this is buying and selling other people's debt. By the 2000's the securities had become so far removed from the underlying assets, that banks and their traders didn't really know what they were trading. However they were making so much money they stopped caring. Then it turned out that the whole world was trading in toxic debt that would never be paid off, and so began the credit crunch, the global banking crisis and the world recession.

The total value of the derivatives being traded globally today is estimated at being anything from $700 trillion to $1000 trillion, or 19 times the total world GDP. The big problem is that much like the credit crunch, it is very likely that there will be further crashes in the derivatives markets. However, this time there will be no bail-out because the size of the losses will be way bigger than total GDP. It's a very big house of cards, and when it falls down we could all go down with it.

Some feel that derivatives are an effective way of trading to make significant revenues and profits, and this in the end will benefit the nation states in which they operate through job creation and tax revenue. Also derivatives can be used to lessen risk by hedging against adverse price movements. Others feel that it is too big a price to pay for the potential risk and that there should be significant controls over derivatives trading. Warren Buffett, the global investment guru, described derivatives as 'financial weapons of mass destruction.'

8. Employee Ownership – The John Lewis Model

In our society most companies are owned by private individuals, who get to keep whatever profits the company makes each year. In some cases one or two individuals own a company, in other cases 'shareholders' each own a proportion of the company, but in both cases the effect is the same – the owners of the company get the profits through the payment of dividends, while the employees get paid a fixed wage. Some people see this as fundamentally unfair, as it is the workers who are contributing to the success of the company, but they don't get to share the benefits of that success. (Some more progressive companies run profit sharing or share-option schemes for their employees, but even then the proportion of the profits given to the employees is relatively small.)

However there is one company that does things very differently and some people would like to see that company as a model for much wider sections of the economy. That company is the John Lewis Partnership.

John Lewis is owned by its employees (there are no outside shareholders), and at the end of each year they, and only they, get a share of whatever profits are made, in addition to their salaries.

The way it works is that on joining the company employees are given shares in John Lewis in exact proportion to their salary. When profits are declared, the shareholders are paid a dividend just like in any other private company, except in this case the shareholders are the employees, not some outside individuals. They thus share in the success of the company they are helping to run. (As shareholders they also get a say in the decision making processes of the company as well).

When employees get a pay-rise they get more shares to keep their proportion of profits the same, they can at no time sell their shares, and if they leave the company they lose their shares.

The problem in extending this model across the economy would be that existing shareholders in private companies would need to be compensated for losing their shareholdings, which could be very expensive. Also companies with outside shareholders often use that ownership structure to raise extra money when needed to invest in the business. This is much more difficult with a John Lewis-style structure of employee ownership.

9. Energy cartels

In this country there are six major energy companies often referred to as The Big 6 energy companies. Given there are 6 companies there is meant to be competition between them to ensure the market dictates the best price for the consumer. However, whilst explicit collusion on fixing the price of gas or electricity is illegal and deemed anti-competitive, it is clear that there is generally little difference in the cost to consumers across the market. This is a feature of a market where there is little choice for the consumer i.e. where the consumer has to buy it. The same can be said for water supply. In such circumstances demand is said to be 'inelastic' and in markets where there is inelasticity of demand, the price is set by the supplier. Essentially the energy companies can set pretty much any price they want and there is little to stop them. This is why they have been able to increase prices in a recession when everybody's income is decreasing. This is also the reason why, in a large part, we have seen inflation during a recession.

Whilst the energy companies would argue they are not setting prices 'in concert' their group behaviour is that of a cartel. If this continues, this will naturally lead to continued increases in energy bills for the consumer, and a higher proportion of the population that are deemed to be in fuel poverty.

Some consider this to be unsustainable and to the detriment of the public, and that the government should step in to curtail and limit 'profiteering' by The Big 6. The government regulator, OFGEN, has in the past talked about taking action, however whenever the threat of market regulation is posed by government, energy companies have threatened to halt their investment programmes and threaten the future energy supply of the country.

It is felt by many that the government should do more to manage this market, control the behaviour of the energy companies, improve our energy security and ensure that we do not see an increasing proportion of the population who will not be able to afford the basic amenities of water and heat.

10. Executive Pay/Bonuses

In recent years executive pay has exploded, while pay for the rest of society has barely kept up with inflation. For example in 1998 chief executives of FTSE-100 companies were paid approximately 48 times the national average wage. By 2010 they were being paid 162 times the average wage. From 2010 to 2011, when the rest of the country was being forced to undergo 'austerity' with average wage increases of 2.5%, FTSE-100 directors gave themselves an average pay rise of 49%. Their average pay of FTSE-100 chief executive is now £5.1m. (These pay ratios are currently the second worst in the Western world, after the USA.)

In addition, their contracts invariably include termination clauses, which means if they are dismissed for any reason they are 'paid-off', with anything up to 3 years salary – even if they are dismissed for poor performance (so called 'payment for failure'). It was just such a clause as this, which enabled Fred Goodwin to leave Royal Bank of Scotland with a £15m pay-off, even though he had effectively overseen the destruction of the company.

The government is attempting to address this by introducing binding shareholder voting on executive pay packages. However there is little evidence this will make any difference to pay levels – directors will simply argue they need to be paid the 'market rate' or they will go elsewhere, and most shares are held by pension funds/insurance companies/investment funds, the trustees of which are invariably friends of the directors so unlikely to push very hard to bring pay down.

One suggestion is to introduce a legally binding maximum wage, in the same way we have a legally binding minimum wage. Critics argue that top execs would simply move abroad, but the John Lewis partnership already run such a system, where the chief executive can't earn more than 75 times the average non-management salary – this doesn't seem to have done them any harm. That scheme limits top pay to around £1m per year, which is surely enough for anyone? If this system were introduced we would need to link top pay to national averages rather than the average at the particular company, to stop execs manipulating salaries (for example by outsourcing) in order to pay themselves more. The legislation would need to include all bonuses, share schemes and other payments in kind to stop execs getting round the system by paying themselves more in other ways.

Legislation needs also to be introduced to ban rolling contracts and hence the 'payments for failure' outlined above.

11. The Financial Transaction Tax (Robin Hood Tax)

The Financial Transaction Tax (FTT) is a proposal for a tax to be levied on specific financial transactions or trading activities. It is sometimes referred to as a Robin Hood tax. It is estimated that the introduction of such a tax in the UK would raise £20bn annually. In 2011 there were 40 countries that made use of FTT's, together raising $38 billion (€29bn). The rate of such a tax is typically very small, as low as 0.05%. However, the volume of trades is so high and the value of the market is so big that even at that level the contribution to the exchequer could be very significant.

Supporters of the FTTsay that:

- It is an obvious and rapid way in which to raise significant funds at a time when it is needed.
- It is only right and just that the banks who triggered the current recession should be forced to make this contribution to the economy.

Opponents suggest that:

- The introduction of an FTT in the UK would encourage many financial institutions to leave and set up in countries with lower taxes. Their view is that this is bad for the long-term prospects of the country due to their contribution to national economy.

Others on the other hand feel that the country should not be held to ransom by the bankers, and that having a government that is at the behest of the bankers is a real problem for democracy, since government should act in the interests of the people it governs. Additionally it is felt that the introduction of this tax should be based on collective international agreement, in order to pre-empt any strategic relocation of financial businesses to avoid FTTs. As yet, the UK government has not supported the introduction of an FTT.

There are two other similar suggestions for this type of taxing of financial institutions – A Financial Activity Tax (FAT) which would operate similarly to VAT; or a one-off levy on banks and other finance houses.

12. Fractional Reserve Banking

Fractional Reserve Banking is the mechanism by which banks take in money from depositors (people and companies) and are then allowed to lend that money back out to other people or companies. Banks are forced to keep a fraction of the deposits in reserve (hence the name) in case depositors want their money back. The fraction varies, from time to time and depending on the country, but is often of the order of 10%. In other words a bank can lend out up to 90% of the deposits it receives, but is legally obliged to keep 10% back in reserve.

The effect of this is that the Money Supply is increased, as every time the bank lends money out, the person borrowing the money has cash to spend, while the person depositing the money still has the money in their account. This can multiply many times over, as every time the person borrowing the money spends it, it is quite likely the person they are spending it with will deposit it with a bank after which it can be lent out yet again. The net result is lots of people with money in their bank accounts but only one lot of cash to pay it back – the difference being made up by all the debt that the various borrowers have accrued.

This all works fine when the economy is booming, but when things start to go wrong, and people want their money back from the banks, the banks can't always repay it because the people they've lent it to have lost their jobs or gone bankrupt and so can't return it. This can lead to a run on the banks – like when everyone wanted their money back from Northern Rock but the bank didn't have enough cash to repay it all. If the problem spreads to the whole economy you have a debt crisis, which is pretty much what the world is going through now.

One alternative to all this is full reserve banking, whereby banks have to retain all the money they receive in case depositors want it back. However in such a system, as the banks can't make money by lending it out, they invariably charge the depositor for keeping the money safe, so instead of free banking people have to get used to paying for their banking services. In such a system it is also generally much harder to obtain loans which can severely restrict economic growth.

13. Free Market Economics and Globalisation

The economic theory of the last few decades – free market economics – has been based on the view that competition and a minimal level of regulation is good for the whole economy, as this forces companies to become ever more efficient and innovative, which in turn leads to the dual benefits of economic growth and lower prices. Although inevitably those at the top will get very rich, the theory is that the wealth will filter down to everyone through job creation and spending. However globalisation has pretty much wrecked that theory.

One of the fundamental tenets of free market economics is that all companies should compete with each other on an equal footing under the same legal conditions. However as wages are higher in the West, there is an incentive for companies to re-locate their workforce East, to countries like India and China, where wages are much lower. (There have been frequent allegations that countries like China manipulate their currency to ensure this is the case). In addition in the West, companies are forced to comply with all sorts of employee protection and health and safety laws, as well as a minimum wage; in countries such as China and India such laws are weak and in many cases do not even exist at all. Therefore increasingly companies in the West look to shift their operations abroad, which cuts costs for them and increases their profits, but puts people out of work here, and additionally places a burden on the taxpayer in terms of all the unemployment benefits which then have to be paid.

The problem is then compounded because the extra money the wealthy now possess is used to buy things which are frequently also made abroad, so the wealth created no longer 'filters down' as it used to. Consequently the rich in this country get richer, as do the factory owners in China and India, while unemployment levels in the West steadily increase, and the Chinese and India workers are exploited, abused and underpaid.

Many feel that with the advent of globalisation the argument in favour of a completely free market is broken, and the situation looks like it can only get worse until the government acts to legislate and so protect the rights of ordinary working people.

14. Land Value Tax (LVT)

LVT is an alternative method of raising public revenue by means of an annual charge on the value of land. The idea is that it is one of the most fundamentally fair ways of raising taxes as land is a common resource, and therefore those who benefit by owning land should compensate the rest of society for having that privilege. The introduction of LVT would facilitate a significant reduction, and in some cases elimination, of other current forms of taxation. As well as the reasons given above, supporters of LVT believe it is also a good system of raising revenue for the following reasons:

- It will lead to a stronger economy as it will encourage under-utilized land (particularly unused industrial land – or brownfield sites) to be brought into production, and will facilitate a reduction in tax on wealth-creating activities (such as income tax).
- It will encourage industry in economically deprived areas where land values are lower, counteracting the negative effects of poorer infrastructure away from existing centres of commerce.
- It will reduce Urban Sprawl as LVT deters speculative land holding, and dilapidated inner-city areas will be returned to good use, reducing the pressure for building on greenfield sites.
- It will reduce house price booms and crashes as the annual tax that is collected will mean it will no longer be so attractive to speculate on the value of property/land prices.
- Tax Avoidance/Evasion will be impossible as it is not possible to hide land.

- If someone makes money through owning land in an area where land values have increased, they will repay some of their gain to the economy via increased tax.
- It is a very simple tax to understand, calculate and collect.

It should be noted that the value of the land would include any planning permission that had been granted (so greenfield sites would have low tax as their commercial potential is minimal). It should also be noted that the value calculated would be the value of the land only, not the buildings on it.

Though simple to run, moving from our current system to LVT would be very complex, and would involve every plot of land in the country being valued for LVT purposes. Concerns have also been expressed about how property owners with very little cash (e.g. pensioners) would be able to afford it. The exact rate at which LVT would be levied would have to be decided, though figures around 3% annually have been mooted.

Further Reading:
http://www.landvaluetax.org

15. LIBOR

The London Inter-Bank Offered Rate (LIBOR) is the interest rate at which banks lend money to each other. It is crucial to the banking system and to lending in general, because it governs the interest rates at which the banks and building societies lend to us. In Europe, interest on mortgages is offered as a percentage over LIBOR. It governs what they pay to borrow and therefore governs what we pay to borrow, on our mortgages, our loans, our HP agreements, credit cards etc. In short it is used as a benchmark for setting the rates on about $250 trillion worth of financial products. The recent storm over LIBOR stems from the fact that traders have been able to manipulate the declared rate by placing orders above or below the rate just before the rate is calculated each day. It would appear that this has been going on for a long time and that many banks are involved in the practice. The reason banks do this is that it can hide if a bank has taken on excessive risk and is getting into financial difficulties, indicated by a higher rate of lending, and it can also alter certain financial ratios, which can lead to bankers being paid bigger bonuses.

Market manipulation is illegal and it is now felt that criminal proceedings should be brought against not only the traders involved, but the senior management within those organizations who have allowed a culture to develop where this is seen a normal and acceptable. They have in fact, by manipulating interest rates for their own gain, also been manipulating our lives.

16. Margin Trading

Margin trading is another form of what is called leveraged trading whereby you are able to put down a comparatively small amount of your own money on a stock market bet. Essentially it is a form of lending to someone in order for them to place a bigger bet. With margin trading you are able to borrow money from a broker to buy more shares. They will charge you interest on the loan and some administration fees. The issue with margin trading is that you can lose a lot more than you have.

Obviously it works both ways in that you can greatly increase your winnings and that is why it is attractive to investors. However, it is very high stakes gambling quite similar to gambling at the casino. One of the main issues with stock market margin trading is the scale and the size of the market, because it is a methodology of trading that applies to many different markets, derivatives, commodities, shares, and foreign exchange. And when the world's stock markets are built on margin trading, when the bets go the wrong way, the whole market can fall. It was margin trading that famously caused the Wall Street Crash of 1929, which then led to the Great Depression of the 1930's. It is very much a cause of the 2008 banking crisis and the subsequent recession.

Many feel that, as happened in the US after the crash with the passing of the Glass-Steagall Act in June 1933, there needs to be greater regulation and control to prevent the catastrophe of another banking collapse, and so protect the public from the hazards of this kind of gambling. Unfortunately this regulation was repealed in the US in the 1990's leading to massive growth in this market ever since.

It is interesting that it took a change in government – from Hoover, who was a great free marketer, to Franklin D. Roosevelt who was inaugurated in March 1933 – to enact these changes.

This is the aim of planned regulation which will 'ring fence' casino operations so if they fail they fail, and the public are not affected by it. Some feel this regulation needs to go a lot further to prevent the next great market collapse. Of course margin traders feel that the risk is worth it and it is a great way of making lots of money!

17. Market Regulation and Regulatory Arbitrage

There are various ways in which the stock market and banking sector are regulated. Within the Stock market there are rules and regulations as laid out by the London Stock Exchange, and there are various codes such as the Takeover Code. There is also the Financial Services Authority, the market and financial services regulator, which is there to monitor and enforce these governing regulations and principles. Within the banking sector there are codes of conduct, best practice and banking regulations such as Basel II and, most recently, the Vickers report. Many feel this is all too late, and that current regulation did not prevent the greatest financial collapse in history.

Arbitrage means playing one market off against the other. For example if different bookies are offering different odds on the same horse race it may be possible to place a certain combination of bets so that whatever the outcome you make money. In financial markets the same thing sometimes works. If foreign currency exchange rates in London are £5 = ¥1000, and in Tokyo they are ¥1000 = £6, you can convert ¥1000 to £6 in Tokyo and convert that £6 in London back to ¥1200, making ¥200 profit.

The term Regulatory Arbitrage refers to when very rich individuals, multinationals or banks seek to play off different national jurisdictions against each other, in order to get the best deal possible out of them, so undermining the authority of any particular sovereign state. An organisation called IOSCO (International Organisation of Securities Commissions) is supposed to act as a coalition of national regulators (in the same way as our national Financial Services Authority) to stop this happening in the Securities and Futures markets, but fails miserably.

More blatantly Regulatory Arbitrage refers to multinationals, billionaires and banks playing off individual countries to soften their regulations for financial advantage, which undermines all the other countries. e.g. Ireland charges Corporation Tax around 12.5% to encourage companies to locate there rather than elsewhere. The UK 'retaliates' with legislation for large multinationals which don't have to pay the same rates as smaller companies. In addition multinationals trade off between different governments to get the highest subsidies to locate on their territory, those governments claiming they have to do this in order to get any tax revenue at all. Multinationals also negotiate to exempt their outfits from national employment legislation (e.g. mining companies in the third world). Likewise many African countries have recently cut their higher tax rates to encourage location to their own country and not next door.

Note that the effect of this is often that governments will pre-empt the arbitrage by moving the tax burden from corporations to poorer people (ordinary citizens), and at the same time diminishing human rights legislation and workers rights.

Currently, government efforts to introduce legislation to deal with the recent financial crisis are being undermined by various corporations saying they will move their offices abroad if the government introduces legislation they don't like. Thus showing their main interest is in making money for themselves rather than the long-term good of the general economy.

18. Money Creation

Early money was created as credit to pay taxes to rulers or kings, and for trade. Money was a means of recording debts and exchanging value. Our banking system developed from goldsmiths storing gold on behalf of their depositors and issuing paper receipts which, over time, came to be used as money instead of gold itself.

The goldsmiths also lent money in return for interest and found they could get away with lending much more money in paper receipts than the gold in their vaults. Bankers became the wealthiest members of the community enabling them to buy political influence and wield great power.

In 1931 Britain abandoned the Gold Standard, since which time the government has been able to print money at will. However other than the fact that we no longer have money backed by gold, banking works exactly the same way today.

In addition private banks are able to increase the money supply by lending out money and at the same time creating an equal amount of debt (see the chapter on Fractional Reserve Banking). They are incentivised to do this because for every loan they create they can charge interest, and make profits for themselves, but without any concern for the possible damage to the wider economy, which has of course now been manifested in the current debt crisis. The current situation is that banknotes and coins represent only about 3% of the money in circulation, while the other 97% of the money we use today is in the form of loans created by the banks.

Supporters of the banking system say that it has been the means by which industrial development has been so successful. However others contend that reckless lending by the banks is an inevitable consequence of a financial system driven by profit at all costs, and an alternative banking and monetary system is essential to wrest power and wealth away from banking interests which precipitated the current crisis.

Further Reading:
http://www.positivemoney.org.uk

19. Peer to Peer Lending

Our financial system relies on the flow of money around the economy. This requires credit, and our current economic model uses a banking system, with private banks acting as financial intermediaries between sellers and buyers, asset owners and lenders, in order to guarantee payment. Banks provide a valuable function by putting their capital at risk to back their implicit guarantee, and in order to provide confidence in the event of the private banks themselves failing, we also have a centralised banking system, where the private banks are backed by the Government and the Central Bank (e.g. The Bank of England).

However in recent years this system of banking has got out of control, leading to the creation of huge bubbles (e.g. in property prices, commodity prices), ever more complex financial instruments and derivatives, an explosion in the amount of borrowing (by individuals, corporations and governments) which finally led to the credit crunch. This has left us with a legacy of unsustainable debt which the governments of the world are still trying, and failing, to sort out.

Some people have suggested that the solution to this is to eliminate the banking system entirely, and instead create a system of 'guarantee society' agreements whereby businesses and individuals may extend credit directly to each other (or 'Peer to Peer'), this credit being backed by a mutual guarantee. Borrowers pay a rate of interest (usually less than charged by commercial banks) and lenders receive a rate of interest (usually more than paid by commercial banks). The risk to lenders is managed by spreading their investment across many different borrowers, so the effect of defaults is minimized. Several such small-scale operations already exist including Zopa, Funding Circle and Ratesetter (interestingly, on a much bigger scale, this is similar to how VISA operates).

20. Polluter Pays

Polluter Pays is an approach to environmental management whereby the polluter is charged for the environmental pollution caused. It is seen as a way in which one can relate pollution directly to the polluter in cases where recycling may not recompense society proportionally. For example do the newspapers that are recycled actually become newsprint again? Or has the bottom fallen out of the market and do they in fact still just end up in landfill? Do the bottles that are recycled get re-used? Or are they crushed up and mainly go into aggregate for road-building?

Proponents say that making the polluter pay directly is easy to implement and easy for everyone to understand. No need for carbon credits or similar such complex financial schemes that can be subject to manipulation.

As an example airlines pollute, and whilst there are schemes such as the EU emissions trading scheme (ETS) designed to govern emissions, it is proposed that more effective control would be realized with a tax on aviation fuel which is in fact currently untaxed!

In the automotive industry motor manufacturers tell us how the performance of their new cars is much more environmentally friendly than that of the older cars, and it is true . . . except . . . the environmental cost of building a car is still very high. Similarly whilst end products might be seen to be environmentally neutral, there are many instances where the by-product of the production process could be potentially hazardous or poisonous and has to be safely disposed of.

Essentially this is a way of relating the pollution caused to the producer so that it encourages greater recycling and a reduction in environmental impact in the production process.

21. Quantitative Easing

This is a complicated way of describing the printing of money. If the government wants more money it can instruct the Bank of England to print money on the basis they will 'spend' it in the UK. It might seem strange but this is what Quantitative Easing (QE) is. This is how it works – The Bank of England increases the amount of money in its bank account. It doesn't actually print money, but simply increases the figures in its accounts. It then uses these funds to buy loan notes issued by the government (gilts) and other government debt instruments from the banks. This increases the banks cash reserves, the idea being that this money will find its way into the economy in what is referred to as the trickle down effect. Since 2009 when the program began, the Bank of England has injected £375bn into the economy via QE.

Supporters of QE maintain that it is having a positive effect on the economy and that these effects will be seen in due course. Some argue that QE has already prevented the economy from stagnating more quickly. Opponents suggest that QE is flawed because the trickle down effect is not happening and the banks are holding onto QE money in order to:

- Bolster their balance sheets
- Use as collateral for expensive short term lending
- Use as collateral for investment in the sovereign debt issued by distressed European economies
- Use as collateral to indulge in the kinds of casino trading that lead us into the 2008 banking crisis

Whilst it may not be filtering into society there is also a concern that QE may in fact lead to increases in inflation which is damaging to savers. Equally QE has the effect of suppressing interest rates. It can in fact be seen as a continuation of interest rate policy, now that interest rates are so close to zero it isn't possible to reduce them further. As such, it is doubly damaging to savers because it reduces the returns on their life savings. Effectively in real terms the value of their savings are becoming less.

22. Regressive Taxation

Regressive taxes are those that are applied at the same rate for everyone but affect you more if you earn less, because they represent a greater proportion of your income. So for example, we all pay Value Added Tax (VAT), which currently is 20%, and is the same for everyone. It applies to a broad section of goods and services including utilities, some foods, alcohol, housing goods, trades and professional services. So the less you earn the more you are paying in real terms.

For example if Jane earns £1000 per month and Frank earns £3000 per month, and they both buy a fridge for £500 + VAT, the VAT is £100 which is 10% of Jane's monthly income but only 3% of Frank's monthly income.

Fuel tax is the same because we all have to pay the same no matter how much we earn - this is something that George Osborne raised by 3p in his March 2012 budget, and the cost of fuel also affects everything else (goods, services etc). Essentially opting for regressive taxation means the poor pay more, and it is felt by many that it is hurting those that are least able to pay and is reducing consumer spending by the majority of the people in the country.

Consumer spending is a key driver of the economy representing approximately 60-70% of GDP. Without it the economy can easily spiral downwards. In addition it is considered as deeply unfair since the increase in regressive taxes are part of the austerity measures to reduce the national debt, half of which relates to the banking crisis of 2008. At the beginning of 2008 the national debt was £500billion.

On the 24th January 2012 it passed the £1 trillion mark. The interest bill alone is £47.6bn a year, which is the same as our annual budget for schools.

Others feel that the increases in these taxes are necessary for the very reason they are regressive i.e. because everyone has to pay them they therefore raise significant income for the treasury and are also very hard to evade. The alternative is to move to a more progressive tax system, where the more one earns the more one pays through graduated taxes such as income tax, or taxes on property like council tax which increases according to the value of the house. Additionally, the government could tax the banking industry rather than the population at large to raise funds to help pay off the national debt. In addition there are also other forms of taxation where the government moves from taxing income to taxing wealth or assets.

23. Separation of Retail and Investment Banking

When the financial crisis hit in 2008, the government was forced to spend vast amounts of taxpayers' money bailing out the banks. This was because the banks had mixed their high-risk investment banking operations ('casino' banking) with their lower risk retail banking operations (current accounts, mortgages etc). So when the high-risk stuff went wrong, it looked like it was going to drag everything else down with it as well, and possibly the entire economy. Thus the government was forced to intervene, at an estimated cost to the taxpayer of £456bn, which it is estimated has now risen to £1.3 trillion.

However it wasn't always this way. For many years banks were forced to keep their retail and investment banking operations separate, specifically to stop something like this happening. In America they introduced the Glass-Steagall Act in 1933, one of the main effects of which was to stop banks mixing their retail and investment banking operations. However from the 1960's onwards this act was steadily watered down, as banks successfully persuaded successive governments that the more freedom they were given the more money they could make. The act was completely repealed under Bill Clinton in 1999.

Over here in the UK investment and retail banking were similarly split, until in 1986 Margaret Thatcher instigated the so-called 'Big Bang', which served to deregulate financial markets and give banks much more freedom to do what they wanted. This in turn led to the mixing up of retail banking and investment banking operations.

Now governments on both sides of the Atlantic are backtracking and attempting to go back to the time when these two types of banking operations were separate. In American the Dodd-Frank act of 2010 is a wide ranging piece of financial legislation which includes something called the Volcker Rule, which forces banks to separate their retail and investment arms. In the UK the Vickers Report attempts to do the same thing, though it does not come into effect until 2019. Critics of both the Vickers report and the Volcker Rule argue that, under pressure from the banks, both pieces of legislation have been watered down (for example by being vague about what constitutes high-risk and low-risk investing, and giving the banks considerable leeway on how 'separate' these activities should be) and therefore the possibility of another financial crisis has not been averted.

24. Shorting stock

'Shorting' is a form of trading that enables people to make money when the price of the share or other type of financial security is going down. It is therefore useful in hedging one's bets and is something, as one can imagine, that 'hedge' funds do all the time.

Hedging your bets is to take a bet that may potentially offset losses made on bigger bets. It is believed to have originated from farming whereby when farmers planted their fields with one major crop, they would also plant a smaller field with another crop that would survive if the main crop failed, and they were separated by . . . a thorny hedge.

How it works is that you borrow someone else's shares, sell them, hope the price goes down, buy back at the lower price, give them back to the lender and pocket the difference. Evidence suggests that many more shares can be shorted for a particular company than actually exist, creating massive distortions in the market.

The issue with shorting is that it creates a market where a lot of people want a price to go down. Negative rumours can start to emerge about a business when in fact there is nothing wrong with it, but those rumours can negatively affect or even bankrupt the business as others refuse to trade with it. Even taking 'short' positions can send prices down – famously Norway started taking huge short positions on Iceland which precipitated Iceland's collapse.

Shorting tends to artificially distort markets and sends them downwards. This is particularly bad for economies that are struggling such as the distressed Eurozone economies and makes their recovery more difficult.

Some believe that shorting is a very useful way of mitigating against losses, and indeed most institutional pension funds will short to improve returns to their pension holders. Others believe there has to be control over shorting which can easily be subject to market abuse and be detrimental to business and the economy. In August 2011 France, Italy, Spain and Belgium banned short-selling of the shares in their banks and other financial companies. Often people who hold shares don't know they're being lent for shorting.

Shorting is, in effect, praying for catastrophe.

25. Tax Avoidance

Tax Avoidance is when companies and wealthy individuals reduce their tax bills by finding loopholes in legislation. It is a massive problem and is estimated to cost the UK taxpayer £69.9bn per year. (To put this in perspective it costs £50bn per year to service the government's debt, so if the government successfully clamped down on tax avoidance, debt wouldn't be such an issue, and it wouldn't have to pursue its programme of 'Austerity'.) The government does stop some tax avoidance, but there are other things it refuses to act on. Tax Avoidance takes many forms and some of the more outrageous examples include:

- **Non-Resident (non Res):** Many rich people spend over half the year out of the UK in order to claim they are 'non-resident' and so reduce their tax bill. Philip Green avoided £285m in tax recently by claiming his Top Shop empire is actually owned by his wife who lives in Monaco.

- **Non-Domiciled (non Dom):** Many rich people who live in this country claim the UK isn't actually their 'home' and so are not actually "domiciled" here. Being 'non-Dom' means they are not liable for tax on foreign earnings, and so they save tax by holding all their investments abroad. Over 100,000 people in the UK claim to be non-Dom.

- **Cosy Deals:** The Inland Revenue often 'negotiates' with people or companies over how much tax they should pay. In 2010 Goldman Sachs owed the government £30m tax plus £10m in interest. Goldman Sachs lobbied against it and after several expensive dinners David Hartnett, the then head of the Inland Revenue, agreed to let them off the £10m. He later resigned when it became public. The Parliamentary Select Committee estimates that over £25bn tax goes uncollected each year because of 'special' deals.

- **Flipping:** In the last parliament many MP's used the technique of 'Flipping'. As they were not required to pay capital gains tax on their main home, many MP's with two homes constantly changed the house they defined as their 'main' one in order to avoid paying capital gains tax completely. Hazel Blears for example 'flipped' her home 3 times in one year, and was able to avoid £13332 in tax.

- **Charitable Donations**: As donations to charity get tax relief, some rich people exploit this. For example they can set up personal investment schemes abroad, register them as charities, and then by paying all their savings into them, they can claim back large chunks of their income tax.

- **Being Paid Through Personal Companies**: High earners can significantly reduce their Income Tax by being paid through a private company. It recently came to light that at least 2000 highly-paid civil servants, instead of receiving the wages normally, were using this technique, at a cost to the taxpayer of £30m per year.

- **Barclays Bank** were recently caught out by the Inland Revenue trying to avoid £500m in tax by buying back their own debt at a discount through a series of front companies. Barclays has got 280 subsidiary companies registered in tax havens so is clearly very keen to do all it can to avoid paying tax. It needs the money as it paid £2.5bn in bonuses to its staff last year.

26. Tax Havens

A huge problem for the world economy today is the use of tax havens to minimise and sometimes completely avoid the payment of taxes. Multinational companies in particular are able to set up very complex arrangements, using subsidiaries based in tax havens, to move their profits around and so avoid paying tax in the countries where their profits are actually earned. There are lots of tax havens, but many of them are tiny countries with almost no public finances, which are typified by their willingness to apply minimal tax rates in order to lure large multinationals into setting up their head-offices offices there – places such as the Cayman Islands, The British Virgin Islands, The Dutch Antilles, and Luxembourg. Some of the ways companies use Tax Havens include:

Have Their Head Office in a Tax Haven – Non-UK companies that operate in the UK only have to pay tax on the profit they make in the UK. So if a UK company starts to make significant profits overseas, there is a strong incentive to 'move' their head office to a tax haven and so avoid paying any tax on their overseas earnings. In some cases they don't actually move their head office at all, but simply complete documents to re-register their company in the tax haven, even though they may in reality have few or no members of staff working there.

Transfer Pricing – By having subsidiaries in tax havens, companies can 'sell' goods from one subsidiary to another at a completely false price so as to shift their profits to the country with the lower tax rate. (For example despite selling £3.3bn of goods in the UK, Amazon pays no tax here because it 'moves' all those profits to Luxembourg, and then claims that it makes no profits from its UK operation at all. It is estimated that in reality Amazon makes annual profits of around £120m in the UK, and thus avoids payments to the UK taxpayer of about £30m per year).

Set Up Very Complex Arrangements – A spiders web of subsidiaries and cross ownerships in multi-jurisdictions make it very difficult for tax authorities to track what profit is made and where, and what the legal situation is for profits made, thus making it difficult for the tax authorities to calculate what the company actually owes.

Other problems with tax havens includes the levels of secrecy and complexity involved, enabling the laundering of much of the money from organised crime. It is estimated that over 50% of all world trade is channelled through tax havens, and it is estimated the UK loses £18.5bn in tax each year because of them.

There are things that can be done to address this, if only the authorities would act. Formulary Apportionment is a system of taxation which calculates a company's tax bill based on how much business is done in that country, irrespective of where their head office is based; Unitary Taxation forces a company to report 'total' profits regardless of where subsidiaries are based (thus negating Transfer Pricing); and mandatory country-by-country reporting would stop companies 'hiding' profits behind complex webs of subsidiaries.

Further Reading:
http://www.tackletaxhavens.com
http://www.taxjustice.net

27. Transparent Accounting

When companies talk about ‘transparency’ it is about ensuring that everyone can see what they are doing in terms of their finances. Over the years a number of standards have been put in place to ensure accounting transparency such as the International Financial Reporting Standards (IFRS). These are designed to make sure that companies are open about their financial affairs, and that they do not hide the facts when they are in financial difficulties. Equally it is to ensure that they are not guilty of tax evasion, and in some cases legal but aggressive tax avoidance that is not deemed to be in the national interest.

It has become apparent in recent months that many large companies have vastly reduced their tax bills by, for example, using highly complex offshore tax structures. Equally one of the main issues with transparency is the degree to which many of the banks were able to conceal the difficulties they were facing in the banking crisis, and the fact they were trading whilst actually insolvent, which is illegal.

Some people think it’s unfair that some of the biggest companies in the country and the banks, are avoiding paying their taxes whilst the general public generally has little choice but to pay taxes demanded of them, many of which have increased to pay off the debt from the banking crisis. Others feel that a business friendly tax environment encourages business to locate in the UK, which is good for the economy.