Funding the Future

We need ISA reform, but not of the sort the finance ind...

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There [was an article in the FT](#) yesterday that said:

> The UK's largest investment sites have urged the government to overhaul the British savings market in an attempt to channel money into domestic equities, which have suffered from record investor outflows.
>
> AJ Bell told the Financial Times it had sent a policy paper to the Labour government asking it to consider "radical" simplification of the Individual Savings Account market, as well as tax breaks for UK stocks, to encourage retail investors to buy domestic equities.

What the 'markets' want is a single ISA scheme now, with which I have no problem.

But I do have massive problems with the reasons why they want this. They want people with ISAs to buy lots more 'British' shares, by which they mean shares listed in the City of London, because there is no reason at all why such shares have anything at all to do with the UK, and many of them have literally almost no real trading link at all.

This plan has three goals:

* To send more money for the City to earn ill-gotten gains from.

* To boost the value of UK shares to, in turn, boost the payout of the executives of companies listed on the London Stock Exchange, some of whom are fund managers.

* To encourage UK investors to make poor and irrational investment decisions.

As the article notes, billions of funds are shifting from UK-listed shares into those listed on other markets. That may well be because that is where any value is to be found when all the London Stock Exchange, by and large, rewards are those companies best at financial engineering and not actually generating real profits.

And, as the article also notes:

> Research by HM Revenue & Customs shows roughly 3mn people have more than £20,000 in a cash product and nothing in a stocks and shares equivalent, meaning savers could be earning more while supporting UK equities if they channelled some of this cash into shares.

So, these so-called investment advisers want people to move their funds, which they rationally hold in cash because those doing so are, no doubt, appropriately risk averse and know their own investment objectives, into the wholly inappropriate for many people Ponzi-style scheme that is the London Stock Exchange, where absolutely no future value can be guaranteed - as every investment adviser is required to make clear by law.

I doubt that nothing done to ISAs will encourage more people to buy shares. Most people can spot a con trick when they see one.

So, the real question is what ISA reform is required. Unsurprisingly, I recommend the proposal made in my Taxing Wealth Report, in which I suggest:

This [Report] proposes that existing ISA savings arrangements should be scrapped because they provide almost no overall economic return to the country as a whole, very largely subsidise the savings of the already wealthy, and divert funds away from much more constructive use.

Green ISAs are proposed in place of existing ISA savings arrangements. These Green ISAs would have to be invested in either government-backed savings accounts or bonds or private sector equivalent accounts, all of which funds would be required to invest the proceeds of sums raised in:

* *The transition to net zero that this country requires.*
* *Social infrastructure, such as new housing.*
* *Related activities such as education, training and appropriate support services.*

The option of simply leaving cash in moribund bank accounts or of speculating funds on stock markets, which is how the £700 billion or more now saved in ISA accounts is currently used, would disappear over time as existing ISA account arrangements expired and new ones took their place. £70 billion a year goes into ISA accounts at present, the main appeal being their tax-free status.

The creation of a new source of capital for public investment from this source would, as a result, turn the current £3.7 billion (and rising) annual cost of subsidising such accounts from being lost money into a valuable source of funding for new investments that would in themselves generate new taxation revenues. At the very least, the entire cost of the tax subsidy for these accounts would be saved by the tax paid on that new investment (with the actual sum generated likely to be very much higher). As such, it is suggested that at least £3.7 billion of tax cost will be saved a year as a result of these changes.

We agree that ISAs need to be reformed. The choice is, do we reform them for the benefit of society, actual investment, and future generations, or to boost speculative opprtunities from which the City of London alone will ultimately gain? Which way will Labour jump?