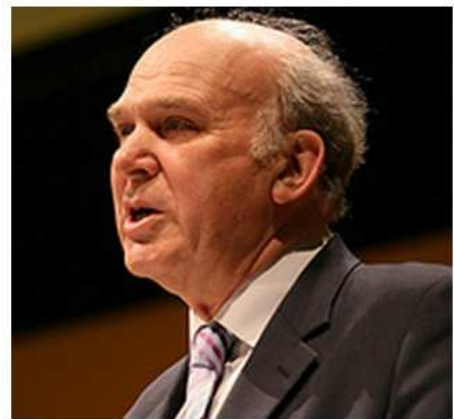




Liberal Democrat

Fairer Future Economic Recovery Plan



September 2008



Summary of the Plan

1. Action on the housing crisis – stop unnecessary repossessions and provide more social housing

- Allow families struggling with repayments to sell all or part of the equity in their house and rent it back from a housing association or private firm to help keep them in their home
- Introduce a statutory Code of Practice for mortgage lenders to ensure that repossession is only ever the last resort
- Allow councils and housing associations to borrow against their assets to buy up unsold properties and land from building companies in order to replenish the social housing stock

2. Action to put more money in people's pockets - tax cuts for people on low and middle incomes

- Cut basic income tax by 4p in the pound, paid for by upping taxes on pollution and closing tax loopholes used by the rich
- Get tough on unnecessary and wasteful government spending, and use some of the money saved to cut taxes even further for those on low and middle incomes

3. Action to limit the excesses of the City

- Firm up the policy of stopping destabilising short-selling of bank shares by hedge funds
- Require banks to hold more capital in periods of boom and less in recession, helping to prevent the boom and bust cycle characterised by extremes of irresponsible lending
- Decisive action to curb the bonus culture using regulation where necessary to stop large payments which destabilise the financial system by encouraging reckless risk-taking
- More effective regulation of those institutions, like hedge funds, that are not subject to the same degree of security and transparency as others.

4. Action to deliver future economic stability

- Include house prices in the considerations of the Bank of England when setting interest rates to manage inflation
- Independent monitoring of the Government's fiscal rules

5. Action to cut energy bills and fight fuel poverty

- Compel energy companies to re-invest the £9 billion profit they have made in kind from the Emissions Trading Scheme into cutting bills through -
 - The roll out of social tariffs to over two million vulnerable customers
 - Installation of smart meters, which show consumption costs
 - A £500 million a year rolling programme to make sure homes are properly insulated

6. Action to help people with debt problems

- Roll out a national network of free independent financial advice centres, to ensure that individuals with debt problems can seek assistance promptly and professionally
- Expand the social fund, increasing the amount of short term emergency affordable loans, to help low income families pay off high interest debt

7. Action to help people who lose their jobs

- Personalised help to suit jobseekers' individual needs
- Increase the cost of work permits for foreign workers, and direct the money to fund more training for low skilled and unemployed workers already in Britain

8. Action to deliver 'green-collar' jobs and energy independence

- Big investment in renewables, home insulation and railways will create thousands of jobs

9. Action to reinvigorate global trade

- Work within the EU to unlock the stalemate on agricultural trade between the rich and the developing world, and bring down prices worldwide



1. Action on the housing crisis – stop unnecessary repossessions and provide more social housing

House prices are falling. The housing market has virtually ground to a halt. The number of repossessions is rising sharply, and the number of people in serious mortgage arrears more sharply still.

Ministers should not try to turn back the tide of a housing market which must be allowed to fall to a more affordable level. But they should concern themselves urgently with the many thousands of families in danger of being cast out on the street.

Rapid action must be taken to ensure that banks only ever repossess as a last resort, and that there is a greater supply of social housing for people who do lose their homes, as well as for the more than one and a half million people already on social housing waiting lists.

Liberal Democrat action to minimise the number of home repossessions

- Introduce regulated Mortgage Rescue Schemes to allow families struggling with repayments to sell all or part of the equity in their house and rent it back from a housing association or private firm to help keep them in their home
- Introduce guidelines for the courts to ensure that they only ever allow repossessions as a last resort. Before a bank can apply to repossess a house, we will require:
 - free independent financial advice to be offered
 - the bank to prove that all other avenues other than repossession have been fully explored, including renegotiating the terms of the mortgage and offering the chance to enter into a shared equity agreement
- Protect vulnerable homeowners against rogue doorstep companies by regulating the private 'sale and leaseback' market as a financial service through the Financial Services Agency

Liberal Democrat action to deliver more affordable housing for rent

- Allow councils and housing associations to borrow against their assets to buy up unsold properties and land from building companies in order to replenish the social housing stock where appropriate
- For unavoidable repossessions, the lender will have to consider selling to a social landlord

For more information on these proposals see –

'A Response to the Housing and Mortgage Crisis', motion passed at Lib Dem conference, 16th Sept. 2008
<http://www.libdems.org.uk/home/liberal-democrats-approve-plans-to-tackle-mortgage-and-housing-crisis-551216:show>

2. Action to put more money in people's pockets - tax cuts for people on low and middle incomes

Across Britain families and individuals are struggling with rising bills, rising prices, and wages that aren't keeping up. Winter is closing in, and many people are now facing the awful choice between heating and eating. They need money in their pockets now.

Liberal Democrats will deliver substantial tax cuts for the majority of households to help people make ends meet. This will not only help people to get through these difficult times, but it will also help to encourage renewed consumer spending. Focusing our tax cuts on these groups will have the strongest economic effect as they are the ones whose spending is dropping most dramatically and who are least likely to lock away the extra money into savings.

The vast majority of households – those on low and middle incomes – will gain from our tax cuts. However the very wealthy will pay more.

**Liberal Democrat action to put more money in people's pockets**

- Cut basic income tax by 4p in the pound, paid for by upping taxes on pollution and closing tax loopholes used by the rich (specifically, equalising pensions relief for all workers and taxing capital gains as income, so that large capital gains are taxed at 40p)
- Get tough on unnecessary and wasteful government spending, to identify £20 billion of savings - from things like ID cards, industrial subsidies and wasteful IT projects – and use some of the money saved to cut taxes even further for those on low and middle incomes

For more information on these proposals see –

“Clegg: We need big - and fair - tax cuts”, article in The Independent, 13th September 2008

<http://www.libdems.org.uk/news/clegg-we-need-big-and-fair-tax-cuts-8285092:show>

Nick Clegg speech on taxation, 27th May 2008

<http://www.libdems.org.uk/home/time-to-question-tax-levels-8716:show>

Reducing the Burden – Proposals for Tax Reform, passed by Lib Dem conference, September 2007

<http://www.libdems.org.uk/home/reducing-the-burden-reform:show>

3. Action to limit the excesses of the City

As Northern Rock showed, and the financial whirlwind of September 2008 demonstrated beyond doubt, the existing model of regulation of Britain's financial sector is not working.

It is clear that financial success has bred excess; unearned rewards have fed greed; and overconfidence has led to folly. We cannot continue with a culture where bankers pocket big bonuses for taking reckless risks, but when things go wrong government and taxpayers have to step in to pick up the pieces. A system of nationalised losses and privatised profits is simply not acceptable.

Ministers have been extremely slow up until now in introducing new rules to protect depositors, prevent future excessive binge lending or stop damaging speculative activity by hedge funds.

Liberal Democrats would act urgently to put in place a wholly new approach to regulation: limiting, not encouraging, the excesses of the market.

Liberal Democrat action to limit the excesses of the City

- Firm up the policy of stopping destabilising short-selling of bank shares by hedge funds
- Require banks to hold more capital in periods of boom and less in recession. This will make cheap credit more available in a downturn and less available during a boom period, helping to smooth the boom and bust cycle characterised by extremes of irresponsible lending.
- Decisive action to curb the bonus culture which promotes short-termism over long term stability. Where necessary regulation should be used to stop large payments which destabilise the financial system by encouraging reckless risk-taking, particularly by company executives.
- More effective regulation of those institutions, like hedge funds, that are not subject to the same degree of security and transparency as others.
- Reform the current tripartite regulatory system to create a clearer line of responsibility in crisis situations. The Bank of England should have primary responsibility, ultimately accountable to Treasury ministers, with the Financial Services Authority as a freestanding agency within and subordinate to the governance structure of the Bank.
- Introduce depositor protection scheme which will ultimately be fully pre funded (as is the case in the USA) to ensure that there is never a run on a UK bank again.
- Follow the principle of government bail-outs of institutions only if there is a genuine systemic risk from a collapse. The authorities should aim to act as facilitators but not guarantors; if taxpayers' money must be involved, a rapid decision must be made on whether the public interest is best served by encouraging a private buyer or by nationalisation.

**For more information on these proposals see –**

'A New Deal for the City: Liberal Democrat Proposals', launched by Nick Clegg, 12th May 2008

<http://www.libdems.org.uk/home/liberal-democrats-launch-new-deal-for-the-city-18414:show>

Nick Clegg speech on the economic situation, Paris, 20th September 2008

<http://www.libdems.org.uk/home/government-must-guarantee-all-bank-deposits-to-protect-british-savers-clegg-11930846:show>

4. Action to deliver future economic stability

During Gordon Brown's 10 years as Chancellor Britain enjoyed a relatively stable economy. This was in large part thanks to the Government's adoption of the Liberal Democrat policy of making the Bank of England independent.

However this stability led to complacency. Gordon Brown believed his own rhetoric about ending 'boom and bust', and failed to heed the signs of oncoming problems. In particular, levels of personal debt which have grown to unsustainable heights, on the back of spiralling, and over-inflated, house prices. An economy based so heavily on debt was never going to be in a fit state to deal with global shocks like the credit crunch. Gordon Brown is now facing the consequences of his years of inaction.

The Liberal Democrats would act now to put in place the building blocks for Britain's future economic stability.

Liberal Democrat action to deliver future economic stability

- Asset prices, and house prices in particular, should be included in the considerations of the Bank of England when setting interest rates to manage inflation. At present the CPI index does not take account of house prices. This means that interest rates can be too low in a housing boom and too high in a period of decline
- Independent monitoring of the Government's fiscal rules. We would stop the Chancellor being chief examiner of his own exam papers and give to the independent National Audit Office the role of deciding whether the 'golden rule' and 'debt rule' have been met and whether corrective action is necessary
- No compromising of the Bank of England's independence by the Government

For more information on these proposals see –

Nick Clegg speech on the economy, 8th February 2008

<http://www.libdems.org.uk/home/nick-clegg-financial-discipline-and-tax-cuts-will-steer-britain-through-economic-crisis-8651:show>

'A New Deal for the City: Liberal Democrat Proposals', launched by Nick Clegg, 12th May 2008

<http://www.libdems.org.uk/home/liberal-democrats-launch-new-deal-for-the-city-18414:show>

5. Action to cut energy bills and fight fuel poverty

Energy bills are increasing far above the rate of inflation. The typical British household is now paying around £1,300 a year for their energy – up an astonishing 38 per cent since the start of the year. Millions of people will struggle to afford to heat their homes this winter. The elderly and the vulnerable will be hit hardest of all.

Meanwhile, the energy firms have received a multi-billion-pound windfall thanks to the giveaway of free permits to emit carbon dioxide under the European Union's Emissions Trading Scheme. Previous estimates have put the proceeds of that windfall at £9bn, although a letter to Nick Clegg from Ofgem this summer estimated the true figure could be even higher.

Ofgem estimate that 4.5 million households are now in fuel poverty, and the number is growing. The Government's response to fuel poverty is totally inadequate.



The Liberal Democrats would make the energy companies use their windfall profits to cut bills and help people to keep warm this winter.

Liberal Democrat action to reduce energy bills and fight fuel poverty

Compel energy companies to re-invest the £9 billion profit they have made in kind from the Emissions Trading Scheme into cutting bills through –

- Installation of smart meters, which display consumption costs, rather than conventional meters
- The roll out of social tariffs to over two million vulnerable customers
- A £500 million a year rolling programme to make sure homes are properly insulated

For more information on these proposals see –

‘Tackling Fuel Poverty’, launched by Nick Clegg, 28th July 2008

http://www.libdems.org.uk/assets/0000/8904/Tackling_Fuel_Poverty_2008.pdf

6. Action to help people with debt problems

Levels of personal debt in the UK are now at an all time high at a total of more than £1,400 billion – more than £50,000 for every household in the country. According to Legal and General, the number of people in the UK who spend more than they earn each month has risen to more than five million.

With credit card debt soaring, repossessions increasing and the results of irresponsible lending unravelling, action is vital to stop families sinking further into the red.

Liberal Democrat action to help people with debt problems

- Roll out a national network of free independent financial advice centres, using a combination of face-to-face and telephone service, to ensure that individuals with debt problems can seek assistance promptly and professionally. This would be co-funded 50:50 by the Government and the financial services industry
- Expand the social fund, increasing the amount of short term emergency affordable loans, to help low income families pay off high interest debt, and to help families who temporarily cannot afford essential goods

For more information on these proposals see –

‘A Generic National Financial Advice Service – A Liberal Democrat Proposal’, launched by Vince Cable and Danny Alexander, 2nd March 2008

<http://www.libdems.org.uk/assets/0000/8905/LiberalDemocratPlansforGFA.pdf>

7. Action to help people who lose their jobs

Unemployment in the UK has risen to its highest level for almost a decade – more than 1.7 million people – and the number of people claiming unemployment benefit is rising at its fastest rate since 1992. The TUC has predicted that the number of people out of work for at least a year could almost double by the end of next year, with total unemployment hitting two million.

The Liberal Democrats will provide the support job seekers need to get back into work.

Liberal Democrat action to help people into work

- New ‘First Steps’ agency as a one-stop shop for all benefits claims and in order to identify the help needed to get people into work
- Personalised help to suit jobseekers’ individual needs
- Increase the cost of work permits for foreign workers, and direct the money to fund more training for low skilled and unemployed workers already in Britain



- Allow benefits to run on for two weeks after entering employment to support people back into work.
- Ensure that work pays for those on lower incomes by uprating the minimum wage each year in line with the recommendations of the Low Pay Commission, and extending the adult rate of the minimum wage to all those aged 16 and above.

For more information on these proposals see –

'Freedom from Poverty, Opportunity for All (Poverty and Inequality Policy Paper), passed by Liberal Democrat conference, September 2007

<http://www.libdems.org.uk/policies/freedom-from-poverty-opportunity-for-all-all:show>

8. Action to deliver 'green-collar' jobs and energy independence

With unemployment rising, Liberal Democrat plans for an energy independent Britain by 2050 would make the UK a world leader in renewable technology and a net exporter of renewable energy to the rest of Europe, boosting the economy and creating new jobs.

Liberal Democrat action to deliver green-collar jobs and energy independence

- Introduce feed-in tariffs to encourage greater renewable energy use in the home
- Bring in "green mortgages" to fund energy-saving improvements to existing households, providing an incentive to invest
- Major investment in the railway network, funded through taxing lorries on motorways

For more information on these proposals see –

'Energy independence for the UK', launched 21st August 2008

http://www.libdems.org.uk/assets/0000/7676/Energy_Independence_for_the_UK.pdf

9. Action to reinvigorate global trade

Growing demands across the world for protectionism and the collapse of the Doha round of trade talks have put the continuing growth of global trade in jeopardy. This will contribute to higher prices for food, energy and commodities worldwide.

Liberal Democrat action to reinvigorate global trade

- Help kick start the aborted trade talks by working in the European Union to unlock the stalemate on agricultural trade between the rich and the developing world
- Seek to make world trade rules more friendly to the twin goals of development and the environment, including:
 - developed countries to proceed with the reductions in agricultural subsidies they had offered during the Doha trade negotiations, and
 - much greater investment in 'aid for trade' assistance to the poorest developing countries, helping them to open up their economies to international trade without suffering excessive disruption

For more information on these proposals see –

Nick Clegg speech on the economy, 8th February 2008

<http://www.libdems.org.uk/home/nick-clegg-financial-discipline-and-tax-cuts-will-steer-britain-through-economic-crisis-8651:show>

International Trade emergency motion, passed by Liberal Democrat conference, September 2008

<http://www.libdems.org.uk/conference/international-trade-conference-demands-action-2023292:show>