Idea for pain-free reduction of the UK DEFICIT by a compulsory savings scheme

IAYE – the Invest As You Earn, Get It All Back compulsory savings scheme (IAYE, GIAB)

(IAYE is a suggested provisional name; SAYE - Save As You Earn would have been better but already “taken”)

I recently (5/10) thought up a way in which the government can reduce the “bank-bailout” part of the UK deficit with the minimum of suffering to the taxpayer, and minimum popularity-loss to the government. In fact – it would *increase* government popularity. It seems such a great idea all round that one might suspect a major flaw somewhere - maybe a flawed premise? - but I cannot find one so far. If you can't either - then surely this idea is well worth consideration by the new government, before things "get set in stone".

The idea is that taxpayers should regularly pay an extra increment together with their income tax, but to go towards paying off the deficit - an increment that is fixed in ratio to the percentage of taxable earnings they pay as income tax. Also that though the PAYE or Tax Return mechanism should be used to collect these increments (for simplicity and practicality), the accumulated increments are clearly shown as separate figures, though on the same pay-slip or end-of-year slip, as e.g. "IAYE" totals. Thus the taxpayer knows exactly how much he/she has contributed to the IAYE scheme.

The **key difference** between the IAYE and the PAYE income tax - is that when RBS, or RBS Group and Lloyds Group for example get sold off, then one of the first recipients of funds from the sale of these shares are those who have paid IAYE increments. In this way the taxpayer eventually gets back the exact amount they have put in to the IAYE scheme. Furthermore - to make this more attractive to the taxpayer - they should get back on top of this an "interest" equal to the rate of inflation. Hence the GIAB "Get It All Back" part.

If the banks are broken up and parts sold off on different dates, then at each sell-off the taxpayer should get back a pro rata proportion of the total assets sold off until they have “got it all back”.

OK - the taxpayer loses the chance of investing this money in the open market - but the taxpayer will surely much prefer this scheme to that of losing money (effectively to the banks) with zero return by paying more National Insurance or VAT, or of losing out due to excessive cut-backs in public services which may also increase the numbers of unemployed.

I would ***not*** favour the addition of some real interest at maturity – such as a "terminal bonus" related to any interest the government get on the sale of their RBS shares. Reasons: 1. unfairness as richer people would get more interest, 2. it would encourage a greed motive instead of a more healthy savings (for retirement?) motive, 3. increased vested interest would encourage a reluctance to support restrictions on RBS investing further into unethical or environmentally damaging industries such as the Tar Sands or Vedanta mines.

This scheme is based on the assumptions that 1. the part of the UK deficit most under urgent consideration now is largely made up of the bank bailout money - and this part must be considered separately to the part accumulated pre-bailout due to over-spending etc, and 2. the government will eventually get most or all of this money back - if not with interest. This scheme could (or should) be restricted to being associated with those banks in which assumption 2 is highly likely - i.e. at least RBS and Lloyds. (I haven't investigated the Northern Rock scenario re this.)

A similar mechanism should be sorted out for those people whose income (sensu lato) is not by PAYE. In particular those ways in which rich people get richer should be subject to the equivalent of the IAYE payments by means of their Tax Return forms or whatever mechanism is most practicable.

Surely the above scheme of compulsory savings to help pay off the deficit is much less harmful to taxpayers - and to government popularity - than all those ideas currently being considered? In fact - even attractive!

For example - it would be an attractive replacement for increasing National Insurance – which was not originally designed to be misappropriated for paying off bank-bailouts in arrears.

The public will be quite rightly very averse to rises in National Insurance (and VAT) when they bear in mind that 1. the banks caused much of the deficit, 2. banks possess the bailout money and have had almost no restrictions on their use of this money, and 3. there is a much better and more honest and open alternative - this compulsory savings idea. And they will certainly get to hear of it!

Henry Adams, 11/5/10 (from idea thought up on 8/5), with 23/5/10 minor amendments

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