UKSA

Press Release

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Gordon Brown Demonstrates he is No Longer in Touch with Reality

In his speech to the Labour Party conference, Prime Minister Gordon Brown said "*not one British saver has lost a single penny*" when referring to the Banking Crisis. Either he has overlooked a simple fact, or like many other politicians, he has little understanding of the financial world.

The vast majority of people save for the long term by investment in pension schemes and in insurance products. Many people use ISAs (encouraged by tax relief from the Government) and a few more by direct investment in the stock market. Pension schemes and insurance funds are of course mainly invested in equities because it is known that over the long term they normally provide better returns than bonds or cash deposits, and some insurance against inflation. Among those investments will typically be shares in UK banks, which have represented a important part of the economy.

But savers in these vehicles have all lost a substantial amount of capital in the last two years, and have also been deprived of income. Starting with Northern Rock, where the FSA has already admitted massive failings in regulation, followed by Bradford & Bingley and the bail-out of Royal Bank of Scotland (RBS), the Government cannot possibly claim to have protected the savers who are called shareholders. The Government even interfered with the free market by waiving competition law and encouraging the merger of Lloyds TSB and HBOS, arguably much to the disadvantage of shareholders in the former company.

Regrettably this seems to be yet another public figure who is trying to differentiate between small savers who keep their money in a building society or bank deposit account and those alleged "speculators" who invest in the stock market. The distinction is academic and bears no relation to reality in the modern investment world.

Most stock market investors are long term savers, trying to build a nest-egg for their retirement or protect their assets. However, the current Government has consistently ignored the need to protect such "savers" by adequate and firm regulation. Even the smaller savers in deposit accounts have seen their income shrink, and their capital eroded by interest rates that are near zero and less than inflation. People retired on fixed incomes now live in fear of their savings being wiped out by inflation over the next few years.

The UK Shareholders Association (UKSA) deplores the attempt to put a spin on the facts that is simply untrue. All savers have lost out from the financial crisis in banks and the impact it has had on the wider economy. There is no concealing this truth.

Shareholders are not "the privileged few" as Gordon Brown puts in. Whether directly or indirectly, they invest in the business world on which we all rely, the profits from which are the only sustainable way of financing pensions without imposing a burden on the State.

The attached notes list some of the ways in which the Government has managed to damage long term investment.

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A complete recording of Gordon Brown's speech can be seen on this web page:
www.youtube.com/watch?v=gnVB6-qf_o8&feature=youtube_gdata
Approximately 5 minutes in, he says this: "*We nationalised Northern Rock. We took shares in British Banks. As a result not one British saver has lost a single penny. That was the change that we chose. A change that benefits the hard working majority and not the privileged few*".

About the UK Shareholders Association (UKSA)

UKSA is the leading independent organisation which represents the interests of private shareholders in the United Kingdom. We campaign to protect the rights of shareholders in public companies, and to promote improved standards of corporate governance. Our educational activities, regular regional meetings, company "analyst" meetings and the resources of our web site, help to inform the public on investment management. UKSA is a "not for profit" organisation which is financially supported primarily by its individual members.

Notes on the failure to understand and encourage long term investment

There are only two ways to finance pensions. They are investment in productive resources - which mainly means shares in companies - and taxes. So, apart from the State pension and the pensions of public sector employees, our financial security is heavily linked to how much we save and how much distributable profit the corporate sector generates. Political interference in the corporate sector is more likely to reduce distributable profit than anything else.

Britain's future depends on the profitablity of its companies. And on developing a savings culture rather than a debt culture. Which means encouraging long term investing. When Gordon Brown took office, we were promised prudence, prudence and more prudence. But what has happened to long term savings?

1. Removal of tax credits on dividends – penalised the poorest investors and also the pension savings of everyone.

2. A far more generous tax treatment of interest on company debt than dividends on equity shares, resulting in companies being advised to gear up to make their balance sheets more "efficient". But this vastly increases the risk – companies with big gearing go bust much more than those without.

3. Changes to capital gains tax which remove the previous incentive to hold shares for long periods.

4. Additional taxes on inflation: future inflation will not be taken into account when capital gains are assessed, so you can lose in real terms and still get taxed,

5. Changes in rapid succession to the taxation of personal pension savings.

6. A financial services authority which has protection of the finance industry as its primary objective instead of the protection of ordinary savers.

7. In consequence, a financial services industry which is permitted to serve its own interest at the expense of ordinary savers; the long term impact of expenses is little understood – until it is too late.

8. A system of corporate control which disenfranchises ordinary shareholders and savers, and which in consequence fails to put sufficient pressure on companies to aim for long term profitability. As a result, there is an unhealthy obsession with share prices and insufficient attention to dividend paying ability. This obsession played a large part in the excesses which led up to the crash.

Investment is encouraged when there is stability. This does not mean chopping and changing the whole tax structure, for example. Stability needs an element of cross party agreement to survive changes of Government. We would welcome an honest discussion of the problems, rather than the over-simplified sound bites which we are expected to be satisfied with.