JUSTIN'S COMMENTARY

Justin Urquhart Stewart is one of the most recognisable and trusted market commentators on television, radio and in the press. Originally trained as a lawyer he has observed the retail market industry for 30 years whilst in corporate banking and stockbroking, and has developed a unique understanding of the market's roles and benefits for the private investor.

Barking Banks and Tax

The Financial Transaction Tax

Well it has been described as 'insane' and 'ridiculous' by both the head of the London Stock Exchange, Xavier Rolet, and Jim O'Neil the highly respected chairman of Goldman Sachs Asset Management. This is the new idea developed from the old concepts of the Tobin tax, which was originally proposed by economist James Tobin and defined as 'a tax on currency transactions'. It was intended to put a penalty on short-term financial trading in currencies.

He originally proposed his currency transaction tax in 1972, shortly after the Bretton Woods system of monetary management ended in 1971. Before 1971, one of the chief features of the Bretton Woods system was an obligation for each country to adopt a monetary policy that maintained the exchange rate of its currency at a fixed value - plus or minus one percent. Then, in August 1971, United States President Richard Nixon announced that the US$ would no longer be convertible to gold, effectively ending the system. This action created the situation whereby the US$ became effectively the sole backing of currencies and a reserve currency for the member states of the Bretton Woods system, and this in turn led to the system collapsing in the face of increasing financial strain in that same year. In that context, Tobin suggested a new system for international currency stability, and proposed that such a system include an international charge on foreign exchange transactions. This would thus allow the authorities to have an income to pay for the increased regulation of the now proliferating foreign exchange trading markets.

So far so logical – however the US authorities threw it out. So the idea of such a financial transaction tax died at birth.

However, now with 11 EU members passing such legislation, it has been reborn but its effect passes over the borders of those signing up to it and covers far more than just the foreign exchange transactions. The UK is complaining that the tax has 'extraterritoriality' powers that will allow the 11 to collect taxes overseas on any Euro denominated trades in any other jurisdictions such as London, New York and Singapore for example. It's not just the UK - the US is set against it as well. Now watch out for the argument – the 11 think that it will raise €35bn but London will see it as a tax on its domestic business.

Of course we do have our own Financial Transaction Tax – Stamp Duty. This is a very old fashioned and regressive tax not just on property but also share purchases, and this effectively depresses expenditure on property as well as being a penalty on personal investment. It also excludes (illogically) the bookie spread-betters as well as the more covert dark pools of the High Frequency Traders. Time for some logical reform here – both in the 11 and in the UK.

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Anyone want a bank?

What a shambles. A few decades ago, the UK banking structure under the Bank of England was the envy of the world; now seemingly we can't give it away! Last week the failure of the Lloyds / Co-op deal was indicative of the situation. Here was a game changing opportunity for the Co-op to grow into a significant retail banking player, but when looking at the risks involved both in terms of business, capital as well as regulatory stringencies, they backed away.

Lloyds could now float this rump of branches and may get some reasonable value that way, but when you put this together with the failure of the RBS Santander branch deal as well, it shows that some strategic thinking about the structure of our domestic financial plumbing is needed.

As the Governor of the Bank of England pointed out recently, we should have acted more decisively on RBS at a far earlier time, but I would argue that this applies more broadly across the banking industry. Yes RBS needs surgery, but also we need to encourage more competition and supply. The regulators are taking a more constructive view to start ups and innovators, but that was of little comfort to the Co-op. Perhaps this failure is a catalyst for some initiative around local banking especially as many of those branches are in and around Berkshire and Hampshire.

Potentially they could look to try and emulate the fascinating initiative of the Cambridge & Counties bank where the Cambridgeshire County Council Pension Fund and Trinity Hall joined up to create a local dynamic bank. Why not the Berkshire and Basingstoke Better Bank?

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Some practical Infrastructure

Sitting in Salford Quays, you can only admire the workings of the mercantile Victorians when they had the imagination, initiative and zeal to build the Manchester Ship Canal in 1894, thus allowing international trade to be brought into the hub of Manchester with its integrated rail road and canal infrastructure. The rivalry between Liverpool and Manchester goes back a long way. In fact the 36 mile waterway was built to break the throttling control of the deep water port of Liverpool over the cotton trade of the Mancunian merchants. However, since 1972 the trade on the canal has dwindled, partly due to the dockers' strikes in days gone by, failing industry in the area and the constrictions in size of the ships capable of using the canal.

Now though it is starting to see a revival as companies such as Kellogg's, of cereal fame, have started floating their flakes on barges down to the feeder ship docked in Liverpool destined thereafter for their distribution hubs in Ireland and Spain. This apparently will cut out 85% of the road miles and save some 61 tonnes of CO_2.

So have these two great metropolitan rivals finally buried their differences? No probably not, but the two facilities are now for the first time owned by the same company, and their parochialism has been replaced by the practical thinking of Peel Ports.

Perhaps it is time then for another thought on other infrastructure usage and development. Rather than focussing on the high profile big ticket schemes like HS2, how about the linkage of smaller ideas which, whilst modest, may well have a disproportionately more positive impact in a far shorter time? A good example has been the Ordsall Curve or Chord which would finally allow trains to move from the northern Manchester terminus of Victoria (with trains from Leeds and Bradford) to the main Southern hub of Piccadilly (with trains to London). For £85m, a simple linkage would provide a tangible value really rather quickly. Just how many other somewhat unsexy but practical and valuable initiatives are there across the country for road, rail, air and canal which could really help the infrastructure without having to wait for billions to be spent on the forty year old train technology to get me to Birmingham ten minutes earlier?

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And finally.....
The United Nations says more people around the globe now have cell phones than lavatories.

About 6 billion of the planet's population of 7 billion have mobile phones, but only about 4.5 billion have access to basic sanitation. The biggest culprit appears to be India. Of its 1.2 billion citizens, about half have a mobile phone, but only about a third has a working loo.

And also finally..,.. I don't know what the Belgian for Robin Hood would be but it would seem tens of thousands of Euros in cash were thrown out of a speeding car by thieves attempting to make a quick getaway.

Apparently this occurred in the Flemish town of Zedelgem after the thieves stole a safe. They threw the safe out of the car to distract police officers. It broke open and passers-by grabbed the 50-, 100- and 200-Euro notes that were scattered.

One man said he had picked up two rolls of 5,000 Euros each only to have a police officer grab it back, reports the BBC's Matthew Price. Another said it was as if it was "raining money". The local prosecutor says it was "self service" as passers-by filled their pockets with the scattered cash.

While some have returned the money, a considerable sum is yet to be recovered. Anyone keeping the cash could face up to two years in jail, officials say. Pooh-Bah! It always rains Belgium – so what if it's money for a change.

Have a good week.

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