Written evidence submitted by Frank Taylor

TEMPORARY, SUSPENDED NO-FAULT INSOLVENCY … AND IDEA FOR ECONOMIC DEEP FREEZE

Dear Mr Stride,

I have been watching your virtual committee hearings regarding the impact of the pandemic on the economy with great interest. Thus I write to you with an idea not as my constituency MP but as Committee chair.

My idea is a simple one and am a little surprised that seemingly no one has thought of it before.

Realistically we are facing not merely a recession but a full blown slump, here and across the world, with a contraction of GDP not seen since the early 1930's. That means that many businesses from large corporations to single traders will be unable to pay their invoices and thus become technically insolvent through no fault of their own.

Now an advantage with insolvency is that outstanding invoices go into abeyance or become void until creditors are paid so much on the pound by the receiver.

Why not, therefore, introduce a form of suspended no fault insolvency whereby all payment of invoices are thus held in suspense? For example pubs have had their incomes reduced to zero or in the case of those who have organised a take-out service, to a small proportion of their normal income. They are thus insolvent. Such a business should then be able to declare temporary, no-fault insolvency, whereby its invoices go into abeyance. Because the insolvency is temporary and no-fault there would be no need for formal receivership. Nor would it affect future credit-worthiness.

In turn the breweries and a chain of other suppliers will not be getting their invoices paid and, again in turn, they will go into self declared temporary insolvency, working down the line of supply.

Thus this network of business can then be put into deep freeze whilst still being maintained in existence. This could apply to all from the largest corporations to the smallest single trader.

Furthermore if the self employed were able to make such a declaration on an online application made as simple as possible they could then receive a direct subsidy fixed at say 80% of average per capita income (as with employed workers) which from memory would be around £22,000 per annum. Naturally the temporary insolvency would suspend mortgage, council tax, utility and rental payments and so forth. Again, this would work down the supplier line.

At some stage consideration would have to be given as to how to taper down these measures as the economy recovers. (and I suggest to you that will require further shiploads of QE. Perhaps you might consider a latter day version of the Bradbury issue of 1914?). In a sense this will work like the Swiss WIR system (which I wonder why has never been introduced into this country?) but in reverse. After all, invoices are a tradeable asset.

I fear that if we let large numbers of otherwise viable businesses go to the wall, we may create a speculator's paradise. Where there are corpses there will be vultures and my suspicious mind wonders whether the prospect of buying up otherwise viable business at fire-sale prices, for themselves and certain of the clients, might lie behind the reason why banks are dragging their feet over government backed loans?

Thank you for your time and I hope you find some use for this missive,

Sincerely

Frank Taylor