Interest rates, savers and borrowers

Many people over 50 have money on deposit. They would like interest rates to go up. Some retired people think it is unfair that they have been prudent, not spent all they earned, and now find tiny returns on the cash they put by to supplement the pension.

Their children and grandchildren may see it differently. Lots of people in their twenties and thirties think house prices are too high and think they cannot afford to buy. This generation of twenty somethings has more graduates and higher wages than previous generations, but a lower percentage of home owners than their parents at the same stage.

So what is the right answer on interest rates? To keep them low for a bit longer. There is no great inflationery pressure to worry about.The UK government is pursuing a fiscal squeeze and keeping taxes very high, so higher rates as well would be damaging overall. It would redistribute a bit from young to old which we do not need to do.

Relieving the pain of higher taxes would also help. Take down the cost of buying a home by cutting Stamp Duty. Cut business rates which are worsening the pressures on traditional businesses. Upward only rent agreements for shops are being overthrown by market forces, by renegotiation and by bankruptcies and financial restructurings. Business rates remain obstinately high and rising.

These judgements are always a difficult balance between the interests of borrowers and lenders. Past gross mismanagement by Central Banks and the commercial banks they lead and control has made an extended period that favours lenders more of a necessity. Japan had a more spectacular boom and bust crash at the end of the 1989s and is still living with zero interest rates as a result. Japan also has no inflation.

During this period when long term borrowing costs are very low by historic standards, there is a good case for businesses and individuals to borrow more for worthwhile projects and investments. There is also still a good case for shifting borrowing longer where possible to take advantage of still relatively low long term rates. The UK is short of capital investment in a wide range of areas, and needs to press on with substantial new investment in the digital wave, to increase productivity to allow more better paid jobs and to replace future low cost jobs with technology.