Mortgages

Mortgage holders coming up to renewal of their loans face substantial increases in the amount of interest they will have to pay when they select from amongst the new terms on offer. This would have been true whoever was running the government, as the main cause of the rising rates is the action of the Bank of England. As both major parties claim the Bank is independent, interest rates are what they are as far as government is concerned. Neither the Chancellor nor the Shadow Chancellor wish to depart from Bank actions and advice.

Government needs to do what it can to promote growth and reduce tax rates to ease the squeeze now being created by a tough money policy. It should not expand borrowing, but seek better control over spending as the counterpart to ease the tax demands on mortgage holders and others. All the huge extra spending on lockdowns and covid treatment is now behind us. The good news is some tax cuts pay for themselves. Every time past governments cut Corporation tax rates the revenues from business went up. When the Thatcher government cut the top rates of tax on incomes the rich paid more and paid a bigger share of the total. If the government reversed the tax changes hitting the self employed it could stimulate more people to work for themselves, expanding the capacity of the economy. If the government raised the threshold for small businesses before they need to register for VAT there would be a surge of extra work taken on leading to more revenues from other taxes. If the government removed VAT from domestic fuel it would help directly in getting the inflation rate down, with beneficial effects on future government spending.

Were a government or the Opposition to propose higher taxes and more borrowing that could make the position worse. It might make the Bank want to force up interest rates more. The Bank is currently encouraging those operators in the markets that want to cut the price of UK government bonds by its gloomy tone. It is driving up state borrowing rates more. It would probably do even more of the same if it felt government policy was spending and borrowing too much. Today with no such fear the Bank still wants rates higher to curb inflation.

It is never easy recovering from a bad mistake. In 2021 the Bank of England confidently forecast 2% inflation for two years time. Now we have arrived inflation is four times that, a major forecasting error. Those who thought the Bank was creating too much money and buying up bonds at very high prices in 2021 were told we were wrong. When some challenged the inflation forecasts as prices started to climb the Bank sought to reassure by saying the inflation would be temporary. Last year and this the Bank changed its mind and its estimates, and has gone in for a long period of rising rates and credit tightening.

Today the Bank forecasts tell us inflation will come back down to below 2%. If they believe that why the need for yet more rate rises? If they do not believe it why are they not working urgently on their forecasting models to come up one that could have forecast what has happened in the last three years, giving it more chance of forecasting what happens next? Mortgage holders would like a less volatile policy, where inflation stays better anchored so rates vary less. Switzerland, Japan and China kept general inflation down in recent years despite the big rises in energy costs last year, showing there were other policies Central Banks could adopt to keep price rises under better control.