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.

Heathrow and noise

I held a further meeting with Heathrow management last week at Conservative conference. I stressed that there are still many complaints about noise levels and concentrations of flights, particularly with easterly winds. People remain unhappy with the changes which were made to the flying routes and Compton gate in 2016.

Heathrow promised me they are reviewing the concentration policy and will announce a formal consultation around the turn of the year. I will keep you posted and have renewed my representations against past changes and current practice. I want fewer flights over any one place, with quieter flying at greater heights. All this is ppossible with modern technology.

Beware the cold winds from Central Banks

The Bank of England has pursued an energetic monetary tightening since the spring of 2017. Two interest rate hikes,a withdrawal of credit facilities to commercial banks and a major FPC tightening on car loans, some mortgages and consumer credit have helped slow the economy markedly. This has reinforced the fiscal squeeze,with higher taxes and a lower deficit, which is also pushing the economy into slow growth.

In the USA the government in contrast is keen to promote growth. It has done so by tax cuts for all and some state spending increases. As a result the US economy has accelerated well. This week the Chairman of the Federal Reserve Board declared war on this policy by letting us know that there will be more interest rate rises to come to brake the economy’s progress.

Markets had been expecting a shallow rate cycle, with a peak official rate of around 3%. There is no undue inflationary pressure, and wages have been going nowhere in real terms despite the low levels of unemployment. The Fed now seem to be implying they think their current rate of 2.25% is “behind the curve” or too low. Markets were duly spooked. Longer term rates rose sharply, the cost of US government borrowing went to a new high for this cycle, and stockmarkets fell.

This icy blast will be felt around the world. There has been a general tendency to higher rates and monetary tightening all year, and that will now get worse.Most at risk are the badly run emerging economies with too much dollar and other foreign debt. We have seen big currency falls in places like Turkey, Argentina and Brazil, with falls by most currencies this year against a dollar buttressed by rising rates.

Central Banks should ease up a bit. Their ruinous policies caused the boom and bust in 2005-10. They have been rightly in atonement for their bad decision to deflate their credit bubble too quickly in 2008, keeping rates low and encouraging banks to rebuild damaged balance sheets to make the system more resilient. Moving too quickly to higher rates is a destabilising move which they should avoid. There is no “normal” higher rate they have to get to.

Debt is sustainable all the time the borrowers keep their jobs and all the time the interest charges stay around current levels. Pushing rates too high too quickly undermines both these conditions for sustainability.

Wokingham Town Centre re opens

It is good news that Wokingham Marketplace is now open again. People are welcome to come to enjoy the restaurants, cafes, street life and shops. It is good that the roads near the Town Hall are back in use and you can now get to the shops without detours and pavement restrictions. I look forward to the arrival of additional retailers to fill the new shops that are nearing completion on the old Rose Street car park site.

Do you like the new Town centre? I would welcome feedback for the Council on this matter. Do come and gave a look and see how good the shops, restaurants, cafes and facilities are.

The sad costs of death – Improving Tell Us Once.

Tell Us Once is a great idea. It looks as if the government wants to help the relatives of those who have just died, and to be efficient at the same time. I recently suggested it does not work out like that. Today I wish to explain a bit more of the details.

The first odd thing about Tell Us Once is someone registering a death with a Registrar is told about it at the end of the interview. Much of the data needed for Tell Us Once has been collected and accepted by the Registrar, but he or she does not then press a button to save all that in Tell Us Once format, nor help the relative with the Tell Us Once declaration. Instead the person is issued with a website address and a unique access code and told to go home and go through the whole registration process again on their own, telling the computer what they have just told the Registrar and answering some extra questions about whether the person who has died was receiving benefits and a pension. This makes it Tell Us Twice. It can also be difficult for the relative to do, as they may not know the financial details of the deceased. Surely the state, primed with the dead person's National Insurance number, name, address and tax identifier knows what money it is sending the person?

The second odd thing is that not all parts of the government sign up to Tell Us Once. So if, for example, the deceased had a few premium bonds Tell Us Once would not help the relatives as National Savings are not in the system. Why can't all parts of national and local government be in it?

The third odd thing is it may not work. The relative of the deceased may still get separate communications asking for information already supplied from the Tax authorities. Payments may still be made of pensions and benefits after the state knows the details of the death. Dead patients may stay on GP lists.

I have asked Ministers to look into this. I do so because I think grieving relatives deserve better. I have also done so because the current system is a waste of taxpayers money, sending money to the deceased and then going through a complex process to get it back.