

Why does the Bank of England have it in for young people?

Debt is a young person's game. In most free enterprise societies older people own most of the wealth. Young people borrow to get started as homeowners and business people. This happens naturally, as it takes time to save, to accumulate assets, to buy a home and to benefit from it going up in value. Most of us start out with no assets, receive no inheritance, and have to save for our old age as we work and earn. Even those who can draw on the bank of Mum and Dad usually need to borrow commercially as well to fulfil their ambitions.

It is the job of the banking system to lend the money older people save and deposit to their collective children and grandchildren who need it to buy homes, cars and other expensive assets, and to businesses who need it to increase capacity and to supply new goods and services.

Today the Bank of England is arguing that there is too much mortgage and car loan debt in our country, and this needs to be controlled. They are instructing the commercial banks to lend less. It is difficult to understand why.

The commercial banks now have much more cash and capital by way of reserves than they had during the banking crisis of the last decade. They are also more profitable again. These buffers can take care of any bad debts they do incur. Employment is expanding. As people get jobs so they can afford to borrow to buy a car or a home. The banks should be allowed to meet their aspirations. The invention of the 3 year car loan/lease allowed many more people to have a new car. The banks would be able to foreclose on the vehicle if someone fails to make the payments, so there is reasonable security.

Of course banks need to examine each loan application. The individual has to demonstrate they have the income claimed and show they are likely to keep a job. The bank lending money does need to make a judgement that the person concerned will not behave irresponsibly. Most people do take their debt obligations seriously.

Current levels of mortgage and car loans would only be unsustainable if the Bank decided once again as it has in the past to withdraw liquidity from the markets too quickly and push up interest rates too far too fast. It assures us this time it does not wish to do that. There is already considerable protection against rate rises, as many have chosen to take out fixed rate loans. In that case it should allow more young people to borrow to buy a home or a car. More mortgage and car loan debt when the economy is growing and more people have jobs is not something to worry about. Tomorrow I will describe how the Bank and government could do something that would make a real difference to reduce total UK debt that does not require squeezing the young.