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MONEY BOX

Presenter: PAUL LEWIS

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LEWIS: Hello. In today's programme, Gordon Brown wants the world's biggest countries to cut taxes globally. In the UK, he hints he'll concentrate tax changes on low income households. Bob Howard's been looking at protecting our finances against unemployment.

HOWARD: As thousands lose their jobs this week, how easy will it be to keep paying the bills?

KUMAR: I get calls from different credit card companies right now. They want me to pay them. I try to stall them as much as I can.

LEWIS: Tough new rules are planned on selling Payment Protection Insurance to cover loans. The cost of credit cards continues to rise despite interest rate cuts. And why do the people with the least money pay the most for their gas and electricity?

But first, as we've been hearing in the news, Gordon Brown is one of 20 world leaders in Washington this weekend to discuss the global economic crisis. He wants part of the solution to be coordinated tax cuts around the globe.

BROWN: What we have learned from the past about what actually works as an immediate fiscal stimulus - tax cuts - I think probably half, less than half year tax cuts a few months ago were spent, were saved; public works, the time it takes to get public works projects out - these are all the things that we've got to look at. But again I just say that the benefits of a fiscal stimulus, temporary as it's going to be, the benefits will be all that greater if other countries are part of it.

LEWIS: Robert Chote is Director of the Institute for Fiscal Studies. I asked him first why a global response is needed.

CHOTE: If you do them in one country alone, the danger is that people will spend the money on imports and that that will limit the boost that it gives to the domestic economy. So if you have many countries doing it at the same time, then that means that there's less danger as it were of the benefits of the fiscal boost leaking out overseas.

LEWIS: Without that global approach, are we in danger of a depression like the one following the 1929 Wall Street crash?

CHOTE: I think it's a recognition of the fact that we're in unusually difficult circumstances that you have even the Governor of the Bank of England and the International Monetary Fund accepting that in addition to steep cuts in interest rates that it might be sensible to do something on fiscal policy as well, so that we're you know deploying all the weapons available to us at once. Now that need not just be tax cuts, of course. There's public spending, which could be on capital investment or on social security benefits and tax credits, so it doesn't just need to be tax cuts.

LEWIS: We've got the pre-Budget report a week on Monday. What are you expecting there on tax cuts and on what you call fiscal policy?

CHOTE: The problem for the Government is that we're starting in a position in which the Government's sort of underlying borrowing is amongst the highest in the industrial world and we have a bigger public sector debt than most industrial countries. So you know the issue of how much can you safely add on top of the increase in borrowing that we're already seeing without spooking the financial markets will be very much on the Chancellor and the Prime Minister's mind. And an important issue there is if you do do a giveaway in the short-term, what can you say simultaneously to convince people that you're going to get the public finances back into good shape when the economy has stabilised?

LEWIS: And what *do* you expect to be given away in the short-term? What tax cuts are you looking for or expecting in the pre-Budget report?

CHOTE: Well I imagine that there will be a mix of spending and tax measures. There's a lot of emphasis at the moment politically on tax cuts, but I would be surprised if there is going to be a significant fiscal giveaway that it's all in that form. So we'll probably see some efforts by the Government to bring forward big capital spending projects. I would imagine that we might see some additional spending on social security benefits and tax credits. Then in terms of the tax changes, one issue I think that will be in the Government's mind is how can we do tax cuts in such a way that the money will be spent rather than saved? We'd like to see saving higher in the long-term, but in the short-term you don't want people to be saving a great deal more. That will weaken the economy. So that would point for example maybe to cuts in VAT in the short-term rather than to income tax.

LEWIS: But if you're going to raise benefits and you're going to raise tax credits, that helps people on lower incomes. But the important voters Labour's got to get are the middle classes, aren't they; and unless you give them significant cuts, they're not going to feel they've had much out of the Budget?

CHOTE: You're already going to have to spend some money on them to maintain the tax giveaway that was announced in May. So the increase in the personal allowance was you know aimed politically in part at helping compensate the people who lost out from the removal of the 10p rate, but it actually benefited a much wider range of middle income households than that and so I think as a minimum they'll leave that in place you know certainly in the short-term or maybe as a permanent change. And issues like sort of a cut in the VAT rate, if they were to go down that route, would again be something that would have a wide impact across the income distribution.

LEWIS: And what about the other parties? They are all coming out with tax cuts now. The Conservatives, who I suppose could be in government in a year or two, what are they planning?

CHOTE: Well the Conservatives so far seem to be focusing on some proposals on national insurance changes - the idea there being that if you cut payroll taxes, that will help keep employment up during the course of recession. It will make it less necessary for firms to shed labour. It's not quite clear that it's as self-financing as they claim, but they're stuck at the moment with their view that it's best to use interest rates in the short-term and only to use a big fiscal giveaway when that route has been exhausted.

LEWIS: So no big tax giveaway from the Conservatives. What about the Liberal Democrats?

CHOTE: Again, so far they're talking about redistributing rather than actually having a big increase in borrowing in the short-term, which is what we presume that Mr Brown is contemplating whether to do at the moment.

LEWIS: Robert Chote of the Institute for Fiscal Studies. And there's a longer version of that interview on our website, bbc.co.uk/moneybox.

It's been a grim week for jobs. On Wednesday, official figures showed that unemployment has reached an 11 year high at 1.8 million people and almost 20,000 job cuts were revealed at a dozen big employers, including BT and GlaxoSmithKline in the last few days. So what can we do to protect our finances against the worst effects of recession? Bob Howard reports.

HOWARD: I've come to a café in West London to meet Rahul Kumar, a 28 year old accountant who until two months ago thought he had a safe job. That was until he arrived at the office one day and logged onto his computer.

KUMAR: It was so surprising. I went to work. There was an email saying that you will be coming for the next three weeks and 1st October is going to be the last day. It was shocking. I straightaway started applying for new jobs, but unfortunately the financial sector is going down. So it was really, really a big blow.

HOWARD: He received a month's salary and had some savings, but with bills and credit card debts to pay off, he's struggling.

KUMAR: I did try to build up savings and I did put one insurance out to pay one loan. I get calls from different credit card companies right now. They want me to pay them. I try to stall them as much as I can, and obviously if they don't agree then I pay £10 or £20. I reckon I can live on my savings for another few months.

HOWARD: With this week's announcements of thousands more jobs to go, many employees will fear they may be next in line. So what should they do? Teresa Fritz from Which? says there are some basic assessments to carry out.

FRITZ: Have a look at your redundancy terms, so you know whether you would be due any money if you *were* made redundant. Secondly, have a look at your savings and think about how long you could manage without getting another job, so if it did take you a long time would you be able to cope, would you be able to pay your bills? If not, then that's the time to start considering getting some protection.

HOWARD: Protection means in practice insurance cover, but these sorts of products have been heavily criticised over the years and only this week the Competition Commission called for fundamental changes to the way policies like Payment Protection Insurance are sold. Nevertheless, Which?'s Teresa Fritz says there are some types of standalone unemployment cover which may be suitable.

FRITZ: Traditionally we've always been nervous of unemployment cover because it's normally sold as part of a payment protection plan. But there are some good policies out there that are called standalone policies, which means basically you can just buy a product which will cover you in the event that you're made redundant.

HOWARD: A typical policy would offer you a year's cover with payouts of about £1,000 a month for a monthly premium of around £30. But many of these standalone unemployment policies are now being withdrawn. Moneysupermarket.com estimates at least ten have disappeared in the last 6 months and for those policies still available it's essential to check the small print. Some ask you to state you're not aware of any circumstances which may result in you becoming unemployed - a tall order in today's climate. Insurance broker company British Insurance is more specific in saying it doesn't cover you for any redundancy which you knew to be impending at the start date. I asked the company's Managing Director Simon Burgess what this would mean in practice.

BURGESS: If one is working in the City, if one is working in construction or estate agency, in the mortgage business, there is an obvious risk of potential unemployment. However, providing someone hasn't been specifically informed that their job is at risk, then cover can be obtained, but more importantly a claim will be paid.

HOWARD: But that's only true once the initial exclusion period - normally around 3 months - is finished. No policies pay out if you're made redundant during this time. If you're not likely to benefit from this sort of cover and you've already been given notice of redundancy, you'll have to prioritise your debts. Frances Walker is from the Consumer Credit Counselling Service.

WALKER: The first thing you need to focus on is keeping a roof over your head and seeing how you can pay for essentials. You also need to register for jobseeker's allowance as soon as possible because you only get jobseeker's allowance from the date you register, not from the date you're made redundant. Also make sure that all your lenders, your mortgage company understand your situation. Phone them or send a letter to them.

HOWARD: Having lost his job six weeks ago, Rahul Kumar is well advanced in this process. An accountant by training, he's now willing to try most things to get back into work.

KUMAR: Most of the time I spend on the computer, Internet applying for jobs, but I've gone down a level. I'm looking for a driver's job even. I would probably work in a driving job for another year or so, but it's hard to convince the employers.

LEWIS: Rahul Kumar ending Bob Howard's report. And if you do take out insurance, read the small print carefully. It may stop you claiming.

The Government is to summon credit card providers to a meeting later this month to explain why the cost they charge to borrow money is rising despite big cuts in interest rates by the Bank of England. Figures from the financial services company Defaqto published this week show the average annual percentage rate on credit cards has risen since May to 17.6% despite the official bank rate falling to just 3%. Well Sandra Quinn is from APACS, the body that represents credit card companies. Sandra Quinn, interest rates falling; the rates charged by your members rising. How are they going to explain that to the Government?

QUINN: Well clearly the Government is focused on interest rates at the moment and wants to make sure that customers get the benefit of the changes in the base rate, and our issue around this is that the annual percentage rate of charge, the APR, *doesn't* relate to interest rates and in fact the legislation around APR's very clearly states that it represents the total charge for credit. And part of our issue is explaining that and it's not an easy issue explaining that to the Government.

LEWIS: No. And not easy particularly because in the US where some of your members also do credit cards, the average rate is between 9 and 11% and here it's nearly 18%. Are you less efficient in the UK or just make more profit?

QUINN: Well I think you need to look at the history of APR's in the UK. Over the last 10 years, APR's have been on a downward trend and that's been as a result of competition regardless of whether base rates during that period have gone up or down. Base rates used to be around 22%. They're now nearer 15%. That's an effect of competition and that will continue in the marketplace.

LEWIS: I mean I do recall APR's going up as base rates went up before they started coming down again. You're saying that's not right?

QUINN: Well there is no real relation between base rates and APR's, and the changes in APR's haven't been reflected because of the base rate. They've gone down when base rates have gone up and vice versa.

LEWIS: It still seems a huge margin though, doesn't it? If the bank rate is 3%, the official rate, and you're charging an average of 17.6, that's 14.5 percentage points higher. What do you do with all that money?

QUINN: Well I think the issue is around what is the APR about and how many people actually pay the APR. It's easy to talk about averages, but the majority of people, you know 54% of customers don't pay the APR at all. They're repaying their bill in full every month. You've got 70 million credit card accounts out there. Only half of those are active. So in fact a lot of the income that banks are receiving isn't income at all. They're managing accounts which people aren't using.

LEWIS: Well yes I can see that, and I can see that in a sense the people who pay it off in full every month are being subsidised by the other people because they're not paying *anything* for all the infrastructure. The ones who *do* pay interest are being subsidised. But when you see rates like Egg, for example, up from 7.9% to 12.9, that's actually a 63% rise in the cost of borrowing money on that card. It does seem out of kilter with what's going on.

QUINN: And I would say that at the same time as that company may be raising charges, there are other companies putting out new products in the marketplace. The key for customers is to understand what APR they're paying if they are paying interest every month, and shop around. You've got to remember that credit cards aren't like mortgages, they're not like loans. They're a product of choice. There's a lot of choice out there in the marketplace.

LEWIS: Well there is if you've got a good credit record, though of course the worse your credit record the higher the APR you're charged, isn't it?

QUINN: Yeah, but there has been a massive change, a sea change really in the credit card marketplace in the last 3, 4 years. What we've seen is that people understand APR's much more. They're making a higher level of repayments and they're taking out less credit, so there's a lot more comprehension now than there was 2, 3 years ago. As an industry, we're in a better place and talking to government about this.

LEWIS: Well I wish you luck with your meeting, Sandra. We'll no doubt hear what happens at it later this month. Sandra Quinn of APACS, thanks very much.

Tough restrictions on the sale of Payment Protection Insurance were announced this week by the Competition Commission. Payment Protection Insurance, or PPI, covers instalments on loans and mortgages or interest on credit cards when you fall ill or lose your job - or at least it covers some of that for a fixed period of time. PPI is usually sold when the loan or credit is arranged and research by the Financial Services Authority has found that it's often mis-sold with exclusions not explained. After nearly 2 years work, the Competition Commission has said it wants to stop the insurance being sold with the loan. Stephen Sklaroff is Director General of the Finance and Leasing Association whose members sell loans and PPI. He says that changes would be worse for the customers.

SKLAROFF: It's at the point of taking out new credit that customers are most likely to think to themselves how can I best protect myself against possible future events which will make it more difficult for me to pay off the loan, and I'm afraid that the result of this proposal will be that actually significantly fewer people will take out protection that they probably ought to in current economic circumstances and I think there's going to be more customer detriment from these proposals.

LEWIS: The problem is that the insurance sold with loans is just very expensive. There isn't competition and it's precisely that of course that the Competition Commission is trying to address - to give people two weeks to go and do their own searches and discover that what you were charging £25 or £30 a month for, they can get for £6.

SKLAROFF: Well the trouble is - and we've actually experimented with this in the industry - the trouble is when you actually go back to the customer after the two weeks or whatever it is, what you find is the vast majority of customers are not interested in buying the product at any price.

LEWIS: Well they may be right. It's their choice, isn't it?

SKLAROFF: Well our concern is that in the middle of a credit crunch and in the middle of economic circumstances where the unemployment figures are rising every day, this is exactly the *wrong* time to make it less easy for people to buy protection.

LEWIS: But why can't your members rather than selling a tied product from one provider offer their customers access to the whole market, so if there was a product for £6 a month, they could sell that?

SKLAROFF: Well, as I say, the evidence shows that you know the customer is much more likely to think through the issues of do they want to protect themselves …

LEWIS: No, I understand that, and I'm addressing that point. I'm saying …

SKLAROFF: … at the point of sale.

LEWIS: But what about price? Why not give them access to the whole market, so if there was a £6 product, they could buy that?

SKLAROFF: One of the issues about the product - and this goes back to it being a product that was frequently, is frequently sold alongside the credit - is that it is tailored to the credit. And, therefore, you know one of the things that we tried to get across to them was that they needed to understand that the two products were indeed sold alongside each other in order that the insurance and the terms of the insurance would fit with the terms of the loan. And what that means is that there is a natural fit between the insurance and the credit at the point of sale and of course that means that it's not quite the same as if you went out into the market and bought a generic product. The generic products are there, but what we've seen in the market is that they tend to account for a minority of total sales.

LEWIS: Do you accept you've made excess profits of £1.4 billion?

SKLAROFF: This figure of 1.4 billion is one that we've never seen substantiated. It was produced at an earlier stage in this investigation by the Commission, it was in one of their reports, but it seems to have been generated from a computer model and it's certainly not on the basis of actual statistics from the industry.

LEWIS: How much are your excess profits?

SKLAROFF: We don't have a number on this. And one of the other things I should just say on this is that however that number was generated, it was based on data which is getting on for 2 or 3 years old, and one of the points I've been making on this report from the Commission is that we really need to look at economic circumstances as they are now and I'm afraid these are remedies which do not fit with the credit crunch that we're now facing.

LEWIS: Stephen Sklaroff of the Finance and Leasing Association.

Last week, we revealed that thousands of Icesave customers hadn't received a crucial email from the Financial Services Compensation Scheme explaining the procedure for claiming back their money following the collapse of the Icelandic bank Landsbanki. Bob's got the latest.

HOWARD: Well pretty much all week we've been receiving emails from frustrated listeners who didn't get the email. The main reason seems to be because some Internet service providers have been blocking them as spam. As the week progressed, some relieved listeners then began contacting us to say that this first email had now finally arrived. This morning, I spoke to the Head of Claims at the Financial Services Compensation Scheme. He told me he believed only a few hundred customers had still not received the first email and they were working to sort the problem out. In the meantime, he said customers were starting to receive the second email, which starts the paying out process, and some people - he wouldn't say how many - had now got their money back. When the claims process was first announced last month, the vast majority of customers were supposed to get their money back by the end of November. The FSCS told me this morning that's still on track.

LEWIS: Okay, thanks for that Bob. And if you are having problems, or indeed if you've got your money, why not let us know? The details are on our website and you can get through to us in that way: bbc.co.uk/moneybox.

Consumer Focus, the new organisation representing consumer issues, says the energy companies are making £500 million a year extra from charging some low income customers the highest tariffs. In Britain, the cost of gas and electricity is highest for people using a pre-payment meter and they're often installed for customers who struggle to pay their bills, but then they find they're paying more for their energy even though they pay for it in advance. Live now to Ruth Davison at the National Housing Federation. It represents 5 million tenants and Ruth Davison has campaigned against the high cost of pre-payment deals. Ruth Davison, how much more are people paying?

DAVISON: Well the differential between the lowest tariffs and the highest is about £550 a year, which is absolutely incredible. The average income of people on pre-payment meters is £8,000, so this is almost the monthly income of somebody. It's a vast differential.

LEWIS: It is huge, but of course the retailers tell us that with a pre-payment meter there's a different, there's a more complex meter to fit and that does cost extra money.

DAVISON: *(sighs)* There's very little evidence that the meters cost vastly more. And let’s be clear about this. The people who pay for gas and electricity by pre-payment meter - and that’s 2.6 million in this country - they are the only people who pay upfront for their gas and electricity. They represent no risk at all to these companies and yet they’re the people who pay the most, £550 a year more.

LEWIS: And I said in my cue that it was people who got into difficulties with their bills who are given these meters. Is that completely right, or are there other people who get them as well?

DAVISON: Well there are other people. You know you’ll find pre-payment meters in student accommodation, for example. But, like I say, there are 2.6 million people in this country who have pre-payment meters. And at the minute because of the very difficult economic times there are 11,000 people, 11,000 gas customers and 11,000 electricity customers who are having forcibly meters installed in their homes at the moment every month, people who’ve got into debt.

LEWIS: And are these people so hard up that they’re actually letting the money run out and doing without gas and electricity, in a sense disconnecting themselves because they can’t afford it?

DAVISON: They are. We did some research just a couple of months ago that showed that a quarter of a million people a year were not topping up their pre-payment meters and basically choosing whether to heat their home or eat on any particular day because money was so tight. That can’t be right in Britain in the 21st century.

LEWIS: But looking at it from the point of view of the energy companies, I mean they’re not charities. If someone can’t afford their gas or electricity, has missed payments, maybe owe quite a lot of money, you can’t blame them for wanting to install a meter if it does make sure they get paid.

DAVISON: I think absolutely there are a couple of things here. You know they are companies and the Government needs to understand that. As companies, they have a legal duty to deliver for their shareholders and we accept that. But we’ve got the most liberalised market in Europe. There isn't any other country in Europe that doesn't regulate on price. And if companies have got a legal duty to deliver for their shareholders, our government has a moral duty to deliver for us and it should legislate to make sure that the most vulnerable in our society are not paying through the nose and deciding whether to heat or eat this winter.

LEWIS: So you would like pre-payment meters to charge the same as everyone else pays, in a word?

DAVISON: Yes, the same as people who are billed quarterly. Not the cheapest tariff, that's unrealistic, but people who are billed quarterly.

LEWIS: Ruth Davison of the National Housing Federation, thanks very much.

Well that's it for today. You can find out more from the BBC Action Line - 0800 044 044 - and of course our website, bbc.co.uk/moneybox, where you can listen to the items again, download, subscribe to the podcast, and have your say. I should have said earlier that the real Have Your Say this week is on tax cuts. Lots of you are already contacting us on all sorts of things, including the problems of savers as falling interest rates come in, we covered that problem last week. Vincent Duggleby's here on Monday with Money Box Live, this week taking your questions on divorce and separation. I'm back next weekend. Today the reporter was Bob Howard, producer Martin Bedford, and I'm Paul Lewis.