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MONEY BOX

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LEWIS: Hello. In today's programme the big, fat, Greek wedding. Opposites attract, but will there really be a match between the Athens rioters and the International Monetary Fund? And could the debt crisis in the southern euro zone spread to the UK? After that, I'll be talking to Vince Cable about Liberal Democrat plans for tax, benefits and the economy. Customers of one building society are told the best savings rates are not for them, unless they leave for 3 weeks. Here's one reaction.

PETER: I thought this was not treating customers correctly and I ended my conversation with the building society then.

LEWIS: So there. And are they tired or just not being clear? Three numbers that raised questions in Thursday's leaders' debate.

But first, Greek ministers and the International Monetary Fund are locked in talks this weekend trying to resolve a deal that will give Greece access to perhaps 120 billion euros to tide it over while it solves its chronic overspending. Greece is finding it harder and more expensive to borrow money from investors, made worse after its credit rating was downgraded this week. And Wesley Stephenson's been looking into these credit ratings. Wesley, how are they worked out?

STEPHENSON: Well simply they're based on the borrower's ability to repay their debts and repay them on time, so if a company or a country is seen as a good risk, it'll get a AAA rating. But as doubt creeps in about its ability to pay off the debt - as has happened with Greece and Spain and Portugal - this rating is reduced; and in Greece's case, Standard and Poor's, the credit agency, have now reduced its rating to BB+ or junk status, making it a very risky investment.

LEWIS: We hear these ratings - AAA, BB+. What lies between? What do they mean?

STEPHENSON: Well I mean here in the UK, for example, we've got a rating of AAA, which is the highest you can get. Now if we were to be downgraded a level, we'd drop to AA+. If we were to drop again, we'd be AA, and below that you get a AA-. Keep going and drop below BBB- and your debt becomes junk at that point.

LEWIS: Sounds like my essay marks. It would be easier, wouldn't it, if it just went from A to Z? Anyway, what effect does a low rating have?

STEPHENSON: Well this rating will determine how easy it is for countries to borrow and at what interest rate, as Martin Winn from Standard and Poor's explains.

WINN: Companies and governments request a credit rating. Instead of taking a loan from a bank, these entities often borrow money directly from investors by issuing bonds or notes, and those investors look to a credit rating to help inform them about their credit risk.

STEPHENSON: Now this puts the credit agencies like Standard and Poor's in a position of huge power, but this is something that Martin Winn says has been earned through their good track record.

WINN: We are providing an opinion about inherently unknowable future events. Certainly, if you look back at our track record, there is a very strong correlation over time between ratings and actual defaults. So our performance actually historically, in terms of providing a benchmark, if you like, of credit risk, is very strong.

LEWIS: Hmn, well that's what the agency says, isn't it Wes, but of course they did assess the investments that caused the credit crisis as AAA? Anyway, moving on from that. Greece is downgraded to junk by one agency, a shade above junk by two others. How much more expensive does that make borrowing?

STEPHENSON: Well, for example, on a 2 year loan Germany with their rating would pay around 0.8% on that loan. Britain would pay 1.2%. But Greece would pay a huge 12.7% interest at this time. Now this won't affect current borrowing, but it will affect any new debt. Now you might be thinking that it could be a cheap holiday destination this summer, but I'm afraid that won't be because of course they're in the euro zone and the exchange rate there is still high.

LEWIS: Thanks for that, Wesley. Well with us is Justin Urquhart Stewart. He's a director of Seven Investment Management. Justin, is it possible that a country *won't* repay its debt; that it will actually default on them and not repay the capital?

URQUHART STEWART: Oh yes, we've got various examples throughout history where that's occurred. You can go back to the days of King Philip of Spain defaulting, but more recently we've had obviously the Asian crisis (only a few years back in 97) where it ended up in fact with Russia defaulting. But Latin America over the past few years has also done so.

LEWIS: So it could happen and that's obviously what the talks are trying to avert this weekend?

URQUHART STEWART: Absolutely.

LEWIS: And how much notice is taken of the rating agencies? As I mentioned earlier, it was them that said these complicated collateralised debt obligations in the past were AAA, and in fact they were rubbish.

URQUHART STEWART: Well in most markets actually the credit rating agencies normally tell us yesterday's weather because actually it's the price in the market that tells us what's going on. You always have to question with these credit rating agencies particularly who's actually paying them because quite often they're rating various bonds and they're being paid by those people actually providing them.

LEWIS: So you think the price is much more a better indicator than the rating …

URQUHART STEWART: Look at the market.

LEWIS: … though of course they do interact with each other. Well also with us is Julian Callow, Chief European Economist at Barclays. Julian Callow, how likely is it that a deal will be done this weekend?

CALLOW: It looks very likely that a deal is going to be announced this weekend. What we still have to wait and see is whether the German Parliament, which is going to be voting on that, will actually approve it during the course of next week. But I would expect that to happen and, therefore, the assistance package should start flowing to Greece.

LEWIS: Yes because it's the International Monetary Fund and Europe …

CALLOW: That's right.

LEWIS: … that are both stepping in to help Greece, isn't it, because neither of them wants to see it go bust? None of us does.

CALLOW: Exactly.

LEWIS: But of course this package, when it's agreed, will come with not so much strings as sort of ligatures for Greece, won't it? They're going to have to really cut their public spending to get this money.

CALLOW: Well that's right. Greece has the largest budget deficit in Europe expressed as a proportion of GDP. It's about 14% of gross domestic product.

LEWIS: And ours is approaching that, isn't it?

CALLOW: Ours for last year was 11.5% of GDP, yes, so quite close. Greece really needs to be producing a budget surplus in order to give the markets confidence that it is not going to be defaulting on its debt. So that's an enormous amount of fiscal tightening in just a few years.

LEWIS: Yes and fiscal tightening of course means it's got to spend a lot less and indeed raise more, and it's not the world's best place for raising taxes.

CALLOW: Well that's right and that's why the investment community is very sceptical and effectively is actually pricing in the prospect that there will be some debt restructuring for Greece in the years ahead.

LEWIS: Now of course in the past when countries approach this kind of state, they can either devalue their currency or they can let inflation rise - both of which reduce the debt they owe. Greece can't do that because it's in the euro. Is that what's really making this crisis so important?

CALLOW: Absolutely. I think if you look at what financial markets are saying right now, there's a very clear distinction between countries like Greece on the one hand - and you could also add in Ireland and Portugal and Spain now - compared with a country like the UK. Because the UK is outside of the euro area, it does have much more flexibility over its ability to confront very large debts. The countries that are inside it, have got the very large government debts, are those that are going to have a particularly tough time in paying those off.

LEWIS: And Justin Urquhart Stewart, do you think Britain is in that strong position? Do you think we really can solve this problem, or is it all going to affect us as well?

URQUHART STEWART: Well this is going to affect us because we're having to obviously fund our way through it. The key issue of course is what happens actually next week with our General Election. Whoever wins has got to come out with a credible policy which the markets will actually see as something which is going to support the way we can actually run the economy. Luckily we have a safety valve called sterling, but merely devaluing your currency doesn't lead you to a path of riches.

LEWIS: No.

URQUHART STEWART: That just merely gets us out of a short-term problem.

LEWIS: The safety valve saves it for a while. And what about investors and people buying foreign currency and people buying houses with interest rates? I mean how is that going to affect us in this country?

URQUHART STEWART: Well it does affect us in terms of what's going to be happening just in terms of funding because more and more other countries trying to draw on this pool of international money means it's going to be more difficult for us to be able to say come along and draw as well. So it does create that sort of pressure. In terms of actual currency differentials, actually sterling and euro haven't been moving that far apart at the moment because I'm afraid sterling's not in very good shape either. It's the dollar that's the one that's looking stronger at the moment.

LEWIS: And Julian Callow, do you think we will resolve this crisis or do you think we might go the way of Greece in another 10 years time?

CALLOW: I think the UK will resolve it. The UK has an established history of confronting fiscal problems even though the scale of the problem that we're now confronted with is larger than in previous post-war episodes, I would say.

LEWIS: Julian Callow and Justin Urquhart Stewart, thanks very much.

Well now it's time for the third in our interviews with the men who would be chancellor. And this week Liberal Democrat Shadow Chancellor Vince Cable has come into the Money Box studio; and if neither Labour, nor Conservatives achieve a clear majority on Thursday, it is quite conceivable that he could be chancellor well maybe this time next weekend. Vince Cable, welcome. Vince, let's start with the deficit. How will you ensure that Britain begins that long climb out of its debt?

CABLE: Well we take the framework, which has already been set out by the government, that we need to get rid of this structural deficit currently estimated at about 70 billion.

LEWIS: This is the amount each year we spend more than we earn?

CABLE: More than we earn, which is not going to recover itself once the economy starts growing. It's a structural, built-in problem caused by the fact that a lot of the revenue base, particularly the financial services sector, has gone for a long time. So we've got to commit ourselves to removing that, and we've got to remove at least half of it within the next parliament. So we're talking about a half of 70 billion, though it could be more.

LEWIS: Yes.

CABLE: And the way we've approached this is to say that the only way to confront the public with this is to be as specific as possible about some of the things that need to be cut. So instead of relying on a general belief in improved efficiency and reducing waste, which of course we all want to see …

LEWIS: Well they do form part of your plans, to be fair.

CABLE: They don't form … We don't emphasise that. What we *do* emphasise are very specific cuts, and we made a list of 15 billion of which 10 billion go directly to reducing the deficit. And we think the issue about *how* you cut the deficit and being plausible about specifics is a crucial element in the story.

LEWIS: Yes. And that's been the big criticism of all the parties though, hasn't it? You say 10 billion towards this deficit of, you say, 60 billion a year. You're going to have to cut an awful lot more than you've set out. What are you going to cut? What will we wake up after a Liberal Democrat Chancellor has made an announcement, and say my goodness, I really liked that; it's not going to happen anymore?

CABLE: Well I think when you use the phrase "an awful lot more", I think we need to perhaps go into that.

LEWIS: Well the IFS says £51 billion of cuts is what you are going to have to …

CABLE: *(over)* Well yes, that's right. That argument with the FIS is at cross purposes because they're talking about two parliaments, and we cannot realistically and democratically commit ourselves to the second parliament …

LEWIS: Or with one anyway.

CABLE: No, no, their figures relate to two. And you know they're economists and they don't have to take into account the political parameters within which we operate. But we fully accept that even the 15 billion cuts, the 10 billion net doesn't go the whole way. Fully accept that. There are a whole lot of things which we do believe we are going to have to reform. Public sector pensions is one.

LEWIS: So you're going to cut public sector pensions?

CABLE: We're not going to cut existing public sector pensions.

LEWIS: But that's where the cost is, isn't it?

CABLE: No, the future cost lies in the basis of the entitlements that are built up, particularly at the top end of the income scale. I mean members of parliament have a scheme, for example, which is extraordinarily generous and relies on taxpayer support and that's true of people at the top end of the scale. What we want to do after the election - we haven't put a figure on this because you can't at this stage - is look at the whole basis about how public sector pensions operate in future, and that will be looking at contribution rates, at accruals, rates of retirement, whether you retire at average rather than final salary. That kind of reform is going to happen. And there are other big areas like defence contracts. We can't afford all these defence contracts that have been entered into, there are going to have to be some cancellations, but you've got to do that in a rational context of a strategic review. So those are where the further savings will come from. We can't put figures on them yet.

LEWIS: You mention savings, but of course one of the big changes which will use a huge amount of the money you're going to save is to improve taxes. You're going to raise the starting rate for income tax to £10,000 at a cost of I think £17 billion. That really is a very generous move at a time of cuts.

CABLE: No, it's not an across the board tax cut. In the jargon, it's tax neutral. We're proposing to raise taxes from some areas - partly environmental taxes, but mainly taxes from the relatively wealthy - and we want to use that to cut taxes on people on low and average pay. And the Institute of Fiscal Studies, which you've already cited, has carefully looked at that. They may agree or disagree with the particular items, but their overall assessment that we got it broadly right.

LEWIS: One of the areas you're going to raise tax though to help pay for that is cutting the capital gains tax allowance. We've had a number of emails from listeners about this. You're going to cut the allowance each year from £10,100 to £2,000 and raise the rate to 20 or 40%.

CABLE: Yes, that's right.

LEWIS: Won't that penalise small investors who sell shares and buy shares?

CABLE: Well there is an allowance that remains and of course people …

LEWIS: £2,000 it will be.

CABLE: … and people retain their existing of course income tax allowance. It will rise to £10,000. So small earners and small capital gains wouldn't be caught up in this. But the key point about that reform is that if you have a large differential between earned tax rates - 40, potentially 50 - and the capital gains tax rate, which is 18%, there's a massive invitation to avoid tax. That happens a great deal at the moment. And all we're suggesting is going back to the regime that existed, that was brought in by Mrs Thatcher and Nigel Lawson, which is to equalise the rates.

LEWIS: And moving back to your plan to raise tax allowances, Nick Clegg said a teaching assistant on £10,000 a year pays £1,000 in tax and national insurance. You'd stop the tax, but you wouldn't stop the national insurance, wouldn't you?

CABLE: That's correct.

LEWIS: They would still be paying nearly £400 in national insurance.

CABLE: That is correct, yes. In an ideal world, we …

LEWIS: *(over)* But don't you think that was slightly disingenuous to use that example, but then in fact they'll still be paying nearly half of what they're paying now?

CABLE: The manifesto and everything we've said has been absolutely clear. We're talking about income tax, yes.

LEWIS: Now you're also going to link the state pension to earnings. In fact last month earnings rose more slowly than prices, but that's your plan. When is that going to happen?

CABLE: Well that's something that could be introduced immediately. There is, I think, an acceptance amongst all the parties that the change that was introduced in 1983, Mrs Thatcher, was retrograde. It's actually hurt pensioners a great deal. And I think most seriously of all it's seriously undermined people's incentive to save for their own retirement because what happens under the means tested pension credit system is that you have very, very high marginal rates of tax in effect. It's a big disincentive. So putting state pensions on a secure long-term basis is essential. It doesn't actually cost a great deal in the short-run, but of course it is an important long-term reform and we think we could get on with this immediately.

LEWIS: And talking of incentives to save through pensions, you are going to scrap higher rate tax relief on pensions. I mean this is going to save about as much as Gordon Brown's tax grab did when he came into office, which we still get complaints about. You're going to take 5.4 billion out of pensions by scrapping that subsidy.

CABLE: Yes, we're talking about the top 10% of earners. The principle of removing top rate tax relief has already been accepted by this government at the very high end - I think over £100,000.

LEWIS: That's at the 50%, yes.

CABLE: That's right. And we think that it's right in principle that people should get tax relief on their pension contributions, but it should be at the standard rate. And, of course, those people on middle incomes would get the benefit of raising the tax threshold. They'd get £700 a year off. But, yes, they would lose higher rate tax relief.

LEWIS: Yes and of course they'd be paying tax when they retired on that pension.

CABLE: There are very, very few people who are paying higher rate taxation on their pensions alone. That's very unusual. There is no question here of double taxation except for a handful of people.

LEWIS: Vince Cable, we must stop there. Thanks very much. Vince Cable is the Liberal Democrat parliamentary candidate for Twickenham. There are seven other candidates. You can read details of them on the BBC website and you can hear and read transcripts of the interviews I did with George Osborne for the Conservatives and Alistair Darling for Labour and of course that interview at bbc.co.uk/moneybox.

Banks and building societies are desperate for our money, but they don't want to give us much in return for it. The latest trick is to allow only new money into the top paying accounts. Manchester Building Society limits its 2.66% top rate account to new customers. Money Box listener Peter already has money in the society and he asked if he could transfer his savings that are currently earning barely 1% across to the new account. He was given some interesting advice.

PETER: They told me that the only way I could open this new account was if I closed my old account, waited for 21 days, and then applied to open this new Premier Instant Issue 3. I thought this was not treating customers correctly and I ended my conversation with the building society then.

LEWIS: Well Manchester Building Society wouldn't do an interview, but a spokeswoman told us in an email:

MANCHESTER BUILDING SOCIETY EMAIL: From time to time, the society looks to increase its retail savings balances by offering new funds only savings accounts, although inevitably there have been some customers who are disappointed at the restriction in transferring existing balances across. Should the society allow existing customers to transfer their balances, the rate payable would have to be lower.

LEWIS: Well there are about a dozen accounts on the market where only new money is allowed and Manchester is possibly unique in saying money must be somewhere else - perhaps under the mattress - for a minimum period. I asked Michelle Slade of the comparison website Moneyfacts if this was all about attracting new customers.

SLADE: In these instances, yes a lot of these accounts are actually some of the top paying accounts. They're obviously paying a premium to attract new money and loyalty isn't being sort of rewarded for their existing customers.

LEWIS: That's just one of the tricks they use, isn't it - not giving the same rates to people who are existing customers? There are also other ways they try and lure you in with what have been called bait rates - a very attractive rate that lasts for a year and then it's slashed sometimes as little as half a percent or less.

SLADE: Yeah, there are a number of accounts out there at the moment that have sort of market leading rates, but actually the bonus that comes with the rate, a temporary bonus, is actually a large part of the rate. One of the ones that we've got is the AA Internet Extra Account. That account pays 2.8%, but includes a 2.3% bonus for 12 months.

LEWIS: So that would be half a percent after a year, which is a terrible rate.

SLADE: Well exactly. Equally Egg has their Egg savings account, which pays 2.5% but includes a 2% bonus for 12 months. So again that would drop to half a percent.

LEWIS: So really the message has to be if you're going to find the best rate, go for the bonuses but put a note in your diary.

SLADE: Yeah, I mean you do need to make sure that you remember to check these things because we're seeing a lot more of large bonuses or other restrictions on the account coming into play to get the best deals.

LEWIS: These accounts are often called Instant Access Accounts, aren't they, but even though they're called that, there can sometimes be penalties for taking your money out?

SLADE: There can be. I mean, Halifax has one of the best accounts on the market at the moment under that banner, but actually you only get one free withdrawal in a year and then actually you lose 30 days interest for any extra withdrawals that you make.

LEWIS: Do you think it's fair though to describe them as easy access accounts, which we tend to think of almost a bit like a current account - you can put money in, you can take it out, it's your money? But if you can't do that without losing interest, it really stops being an easy access account, doesn't it?

SLADE: It does, yeah, and there's a whole new wave of these type of accounts that have come onto the market since base rate has been at a record low. The building societies are trying to get people at a decent rate, but you are actually having to pay some sort of restriction as the trade off.

LEWIS: And, Michelle, we heard the inflation figures last week - 4.4%, the Retail Prices Index. Does this mean that index linked savings are becoming more attractive because they pay you a guarantee that it will be the inflation rate plus a bit more?

SLADE: Yeah, they are quite attractive, but a lot of the time it's only set on a certain date, so it's worth keeping an eye on. And most of the time you have to tie your money up for a period of time for having these accounts, so, obviously, if inflation falls in that time you could find yourself worse off. National Savings is the only one that is actually directly linked to inflation.

LEWIS: Michelle Slade of Moneyfacts.

Now on Thursday the leaders' debate moved onto the economy, and that means numbers and some of them were a bit surprising. For example, when Nick Clegg was criticised for wanting to cut child tax credit, he made this surprising statement.

CLEGG: Someone even on my salary, which is a really good MP's salary, could be entitled to the family component of tax credit.

LEWIS: Well can that really be true? Well only just. An MP's salary is £65,738 a year, and a family with that as their only income would not usually get any child tax credit. But there is a rule for children under one, which gives you more money, and that means somebody on an MP’s salary would get tax credit until their first baby’s birthday. I should say their baby’s first birthday. But they wouldn’t get much - less than £1 a week. And Nick Clegg doesn’t get it because his wife is a lawyer and between them, they earn far too much. The other big personal finance issue was inheritance tax and the Conservative plans for what Gordon Brown calls “this tax cut for millionaires.”

BROWN: What David is doing is giving 3,000 people, who are the richest people in the country, he’s going to give them £200,000 each a year.

LEWIS: Gordon Brown raised this tax change seven times on Thursday night and David Cameron responded once, saying this.

CAMERON: Inheritance tax should only be paid by the richest, by the millionaires. It shouldn’t be paid by people who’ve worked hard and done the right thing in their lives.

LEWIS: This policy was announced two and a half years ago when George Osborne told the Conservative Party conference that he would raise the threshold where inheritance tax begins from around £300,000 to £1 million. Labour responded to this move by allowing married couples to pass their allowance on when the first partner died, effectively doubling inheritance tax for the second to die to more than £600,000. But then the Conservatives matched that by saying their million pound allowance would also be able to pass on. No big announcement, just a letter from Party Chairman Theresa May to a financial adviser, so that raised the threshold for a couple to £2 million. Double millionaires, as Nick Clegg likes to call them. But of course taking the tax away from estates below one or two million pounds gives the biggest gains to those with estates above that level. Heirs of someone leaving say 5 million would gain £270,000 if they were single, £540,000 if they were the second to die in a couple - figures that no-one mentioned - though of course that will only happen during the next parliament if the Conservatives get an overall majority. And finally

Gordon Brown did make one mistake. Can you spot it here?

BROWN: Our 4 year deficit reduction plan includes a rise in the top rate of tax above £100,000, taking away pension tax reliefs for those above £100,000 at the higher rate and a national insurance rise.

LEWIS: Well that figure of £100,000 caused some flurries among those rich enough to pay the 50% top rate of tax this year and face losing higher rate tax relief on their pension contributions next April. In fact both those £100,000 figures should have been £150,000. So there's a slightly odd tax rise for those on incomes just above £100,000, but really both of them start at £150,000 and the Labour Party's admitted this was an error. There is no change in policy.

And a short piece of other extra news this week. Those who lost money when the Christmas hamper firm Farepak went bust are going to get some of their money back. Wesley?

STEPHENSON: Yes, that's right. 120,000 savers lost money when the Christmas saving club went into liquidation in 2006. Those savers have been told by liquidators that they'll get around 15 pence in the pound. Which may not sound like a lot, but it's more than the 5 pence that most were predicting.

LEWIS: Thank you very much for that, Wesley. That's it for today. Just time to say that if you want to know about the three awards that Money Box and I won this week for journalism, you can find it on our website, bbc.co.uk/moneybox, where you can do all the usual things. If you want to let us have comments on anything we've covered: moneybox@bbc.co.uk. Vincent Duggleby's here on Wednesday with Money Box Live taking questions on identity theft. At least we think it's him. I'm back next weekend. Today the reporter was Wesley Stephenson, the producer Penny Haslam, and I'm Paul Lewis.