THIS TRANSCRIPT IS ISSUED ON THE UNDERSTANDING THAT IT IS TAKEN FROM A LIVE PROGRAMME AS IT WAS BROADCAST. THE NATURE OF LIVE BROADCASTING MEANS THAT NEITHER THE BBC NOR THE PARTICIPANTS IN THE PROGRAMME CAN GUARANTEE THE ACCURACY OF THE INFORMATION HERE.

MONEY BOX

Presenter: PAUL LEWIS

TRANSMISSION: 24th APRIL 2010 12.00-12.30 RADIO 4

LEWIS: Hello. In today's programme, volcanic cash. Wesley Stephenson's been looking into compensation for flight delays. Wesley?

STEPHENSON: Yes, I've been speaking to Money Box listeners who've returned to the UK to find out what they're being told by insurance companies and how that differs from what those companies are telling us.

LEWIS: Up, up and away is this week's rising inflation figure. The harbinger of worse to come, or will it drift down later with the autumn leaves? Conservative George Osborne tells me what he would do if he becomes Chancellor of the Exchequer in 2 weeks time. And should you be washing Western investments right out of your hair?

ELLIOTT: There'll be demand for shampoo; there'll be demand for shampoo shops; there'll be demand for the logistics of shampoo; there'll be demand for the raw materials of shampoo, whatever that is.

LEWIS: Bulls in the china shop later. But we start with the financial fallout from the Icelandic volcano. As weary travellers make it back to the UK, their financial worries may be just beginning. Many have paid for hotels and meals while awaiting replacement flights. Others, impatient with delay, have found their own way back at their own expense. What can people expect to get back from airlines and insurers.

Wesley Stephenson's here. He's been hearing stories (as we heard) from Money Box listeners. But first, Wes, what should people have got from the airline?

STEPHENSON: Well if you were stuck and had a return flight with an airline leaving from Europe or an EU airline, then under European regulations the airline must care for you. This means they should pay reasonable costs for meals and accommodation. The airlines aren't happy about this, but following Ryanair's u-turn saying they will comply with these European regulations, it does look like the airlines will cover reasonable costs. But if you're flying with a non-European airline into Europe, those airlines aren't obliged to help at all.

LEWIS: So I suppose that's where insurance might come in. And we heard last week that some insurers are refusing to pay anything.

STEPHENSON: Well yes, that's right. I mean it's a bit of a lottery, depending on who your insurer is. Jan King is a teacher from Fleet in Hampshire. She got stuck in Barcelona and had to pay out around £500 for a hire car and a ferry back to the UK.

KING: I went to Lloyds TSB next because they said any other expenses would need to be claimed from my insurer, and they just said absolutely no, there are no circumstances in which I'm insured because it's a natural disaster. And thought I'd try again, on the following Monday, and I just got the same response - no, sorry, you're not insured.

STEPHENSON: Well we've put Jan's case to Lloyds and it's changed its position. It will now look at claims. Its customers can't claim from elsewhere. And other companies that have changed their minds in the last week include Greenbee, John Lewis's travel insurance arm and More Than.

LEWIS: So it seems people aren't getting a clear picture of what they can claim when they contact their insurers?

STEPHENSON: No, that's right. I mean, for example, Noel is another Money Box listener. He says his insurer, HSBC, have put a limit on his claim. He was stuck in Amsterdam, and he only went for a business meeting but was stuck for five days in the end. He came back via train and eventually managed to get on a freight ship across the channel.

NOEL: Having been told by them that they would pay me £25 for every 12 hours I was stuck there, £50 a day, up to £250 for five days. I said what about extra that it cost me to get back and they said well you wouldn't get both.

STEPHENSON: So that's what HSBC were telling him. I've contacted HSBC about Noel's case. Now they say they're not putting a limit on claims and will consider all reasonable claims. Tesco and Lloyds TSB say they haven't set a limit on claims either.

LEWIS: Well they haven't, but obviously some have. What sort of limits can you expect?

STEPHENSON: Well typically you'll get between £20 and £30 for every 12 hours that you're delayed, up to about a maximum of £200 to £300, but it's probably best to check what your policy says.

LEWIS: Well that's not going to cover hotels, is it? And are there still some companies, Wes, that aren't covering anything at all?

STEPHENSON: Well yes, Insure and Go, for example. They're not covering claims. Its underwriters have told us that it's not covering this event because it's a natural disaster. This is also true of Virgin Money. It says its policies don't cover this event. Also AXA say that their basic policyholders won't be covered either.

LEWIS: Well thanks, Wes. Well a few travellers' tales there and some confusion. Let's go live now to Manchester to talk to Nick Harris. He's Head of International

Travel Law at lawyers Simpson Millar. Nick Harris, airlines first. It should be clear, shouldn't it, but how easy will it be to get your money back from them?

HARRIS: I presently think that most airlines now have seen the fallout and they're assessing the situation, and they are indeed responding. For instance, EasyJet now has put details of how passengers should go about recovering their expenses.

LEWIS: But it's reasonable expenses, presumably? It's staying in a reasonably cheap hotel and buying reasonably cheap food?

HARRIS: This is going to be the battleground without a shadow of a doubt. What's reasonable to the consumer and what's reasonable to the airline, I feel will ultimately be poles apart.

LEWIS: Yes and that's going to cause a lot of arguments, I think. Now we heard from Wes that insurers are sometimes not paying out at all. In other cases, they're limiting their liability to £200 or £300. Some are making ex gratia payments when they say well we will cover it. More arguments? How can you make an insurer pay up? If it's not in your contract, presumably you can't?

HARRIS: Strictly speaking the insurance contracts aren't binding. So if, for instance, an insurer excludes acts of God or meteorological incidents, that's really the position. But I think the insurers are coming round to the situation and are reacting, as you just previously mentioned. My advice though would be to anyone to initially find out what their insurer's position is. If you're unhappy, then your insurance policy must contain a complaints procedure by law. Follow that, and if you're unhappy report the matter to the Financial Services Authority who regulate financial services.

LEWIS: The Financial Ombudsman Service I suppose could help, couldn't they?

HARRIS: Yeah ……….??

LEWIS: And if you are turned down by the airline *and* your insurer, you can go, can't you (under this Section 75 of the Consumer Credit Act) to your credit card provider? Is that only if the ticket cost more than £100?

HARRIS: Well I see that is generally the case. I'd be looking at this obviously as a lawyer from a different angle, and I would be trying to arrange a persuasive argument that the consequential expenses incurred by passengers did indeed form part of the contract for carriage.

LEWIS: So even if your ticket was a fiver and you had to stay in a hotel a couple of nights, that was more than £100, you think you could go to your credit card company?

HARRIS: I think it's a slim shot. But ultimately by analogy deposits are covered obviously by paying with a credit card with a balance paid later, so it's analogous.

LEWIS: That's an interesting point. Now obviously if you do want to pursue it and you eventually go to court, that's going to be expensive. How are people going to afford to try and enforce what you think may be their rights?

HARRIS: It's not going to be expensive. The small claims track is designed for laypeople, and I would urge anybody that's looking at taking that course to speak to their local county court. It's a fixed fee, it's low cost, and it's there for laypeople.

LEWIS: Nick Harris, thanks very much for talking to us.

Well it's time now to meet this week's man who would be chancellor. Last Saturday, Alistair Darling set out the Labour Party vision of the future for tax and the economy, and this week the Conservative Shadow Chancellor George Osborne came into our office to tell me what he would do if he becomes Chancellor of the Exchequer next month.

OSBORNE: I think your listeners are rightly concerned that they save through their lives and then they find that because interest rates are low- and they need to be low because the economy is so fragile - they don't get a proper reward. And this is not a problem you can reverse with a single policy or some silver bullet. It requires a number of things. Firstly you've got to sort out the state pension. And I think it's clear now we've got to link it to earnings, so that it's worthwhile …

LEWIS: *(over)* Yeah, but let's go back to savings though before we get onto pensions.

OSBORNE: *(over)* Well that is the absolute … Well it's very important because that is the bedrock because if you are not linking your pension to earnings - and the Conservatives have shown how we can pay for that with the changes to the state pension …

LEWIS: *(over)* But everyone's going to do that. Labour and the Liberal Democrats are both going to do that.

OSBORNE: But there is a very big difference in this election, which is Labour has absolutely no idea how they're going to pay for that proposal; whereas we have taken a sensible decision on the state pension age that enables us to commit absolutely to every pensioner in the country. We will re-link to earnings. And that means it becomes worthwhile for many people on modest and middle incomes to save and they don't find that any savings they have are means tested away.

LEWIS: But how will it affect means testing because the pension credit - the means tested element - is already linked to earnings? So if you link the state pension to earnings as well, they'll go up at the same rate, so it won't mean fewer people on means tested benefits.

OSBORNE: Well it will stop the rise in means testing. You then need to do some other things. I would get rid of the rule on compulsory annuitisation. We would scrap that requirement. We also have set ourselves an aspiration, which we don't claim to be able to achieve in one parliament, to reverse the effects of Gordon Brown's pensions rate.

LEWIS: Okay. A lot of people with savings of course are not on a pension. They're younger people. Let me ask you a specific tax incentive on saving, which many people have asked us about. Interest as it comes in on your savings account is automatically taxed at 20%. Could you scrap that tax? That would be a good tax reform measure that would make saving more worthwhile.

OSBORNE: Well I wish I could make that promise on this programme, but I can't make promises that I'm not sure of keeping. And my manifesto has some very specific promises which I've looked at the costings of. I know where the money's coming from. I'm not going to make specific promises I can't keep.

LEWIS: You mentioned what you call "compulsory annuitisation" - the fact that at 75 most people buy annuities. You don't actually have to, do you, because you can do draw down from that and get the sort of amount you can get from an annuity? So what would you actually do at that age?

OSBORNE: Actually still the practice that most people find - they have to either take an annuity or face a fairly penal tax regime.

LEWIS: So what would they be able to do under your …?

OSBORNE: *(over)* Well the requirement that we're looking at is that we would want people to make sure that they don't become a burden on the state, so they would have to protect the taxpayer against that. But of course …

LEWIS: So they'd have to have an income sufficiently big that they would make no claim on means tested benefits?

OSBORNE: They would have to have … We would want to protect the taxpayer from people being completely reckless and removing all their, getting rid of all their savings.

LEWIS: But for people with modest savings in their pension fund, they would still have to buy an annuity because otherwise they might be in that position, mightn't they?

OSBORNE: *(over)* Well provided they could satisfy us and the country that they would not be a burden on the taxpayer, they could then do with their savings and their pension what they want to do.

LEWIS: You mentioned raising the state pension age as part of paying for restoring the earnings link, and you're going to raise it for men to 66 from 2016 and for women from 2020. So 'work longer with the Tories', that's your slogan?

OSBORNE: Well to be frank, I think you know if Labour is re-elected, they'd have to do the same thing. They're just not being honest about it.

LEWIS: One of the things (despite needing to save money) you're going to spend money on is this married couples allowance, the transfer between them. Again that seems a strange thing to be promising. Your manifesto is promising tax cuts, whereas many independent commentators think really it'll be tax *rises* that you're introducing.

OSBORNE: Well there are certain tax rises which we've been unable to avoid - the new 50% tax rate.

OSBORNE: But they've already happened, haven't they?

OSBORNE: Well hold on, some have happened. The 50% tax rate came into effect at the beginning of this month and we've not made a promise that we can get rid of that. I regard it as a temporary feature of the tax system, but there's no promise to remove it at a specified date. But also, yes we believe in introducing a transferable married couples allowance and we believe this rewards commitment in our society. Most other

European countries have something akin to it, and I think it sends a signal from government that we support people who want to come together and stay together.

LEWIS: A third of the people who'll benefit are pensioners, aren't they? They're people who've been together all their lives. It's not going to encourage people to get married.

OSBORNE: I think by the way people who've been together all their lives and who are …

LEWIS: *(over)* So it's a reward for doing that?

OSBORNE: Well it's about saying something about our society. Look it's partly a social policy as well as an economic policy. It's a social policy of saying in this society we support commitment. And it's not just for married people, it's also for gay civil partners, and it's about saying we support commitment.

LEWIS: One final point I do want to ask you because it concerns a lot of our listeners. Care homes. You have these plans, which you announced last year, for a voluntary £8,000 premium to cover care cost fees; and if you pay that, it will guarantee a place in a care home for life. Why would people pay that given that many people can get it free anyway?

OSBORNE: Well this is principally for people who have assets over the threshold of I think £23,000 or thereabouts. You know they have a home or something like that and they don't want to find themselves in a situation where they're having to sell their home to pay for their care costs.

LEWIS: Yes, so it's an £8,000 premium, so you can leave your children the value of your home? It's nothing to do with care because you'd get exactly the same care even if you got it free.

OSBORNE: What you're doing is not having to take a gamble on how long you're going to be in this care home and what the costs of that are going to be and whether all your life savings - maybe tied up in a house or maybe in a bank account somewhere - all your life savings are eaten away on a lottery of how long you live in a care home. And again it's about supporting people who want to do the right thing. And you know there is a broad conservative principle here, which is we are on the side of people who work hard, save hard and want to leave something behind them.

LEWIS: But my experience of people who pay for their own care is that they want better care than they'd get free; but if you pay this premium you'll just get council care, won't you?

OSBORNE: I think you know we want to make sure that people are getting a decent standard of care. By the way, rich, poor, whether they've got resources or not, you know we want a good standard of care for people towards the end of their lives.

LEWIS: George Osborne. And there'll be a longer version of that interview on our website later today. George Osborne is the parliamentary candidate for Tatton. You can see the five other candidates for that constituency on the BBC election website. And you can hear Labour's plans on our website: bbc.co.uk/moneybox. And next week I'll be talking to Vince Cable for the Liberal Democrats.

And it wasn't just the volcano erupting this week. Inflation has reared its unwelcome head, taking economists and the Bank of England by surprise. The Retail Prices Index rose by 4.4% and the government's preferred measure (the Consumer Prices Index, which excludes mortgage payments, the arithmetic's done a bit differently), that rose by 3.4%. A long way from the heady days last year when the Retail Prices Index was negative for 8 months. So should we be worried or will the Consumer Prices Index soon head back towards its target of 2%, as the Bank of England believes? Well with me is economist Rosemary Radcliffe, an independent economist. Rosemary, a non-economist like me looks at the graph of inflation shooting up and thinks this is it, back to the 80s, high inflation ahead.

RADCLIFFE: I've got a lot of sympathy with the people who are on benefits whose benefits were set last September when inflation was very much lower and they're really feeling the pinch now. But I think it is important to look at why we've seen this hike in the CPI - up, as you say, to 3.4 from 3%. The expectations actually were for a little less than that at 3.2. But the main reasons I think were three. There was the continuing effect of the VAT rate going back up to 17.5%. It takes a little while for that to filter through to primal prices, and we're still seeing the effects of the weak pound last year feeding through. But most importantly perhaps, it's petrol prices and other fuel prices. Household gas bills, for example, fell in March last year. They're now flat, so that affects the index. And, ironically, air fares have actually taken an upward tilt too. So if you look at the components of the annual rise, the CPI transport component was actually 11% - highest since the series started - and that's mainly due to fuel prices.

LEWIS: So it's a blip? It's going to go down?

RADCLIFFE: I believe so, yes.

LEWIS: Okay. Let's bring in Liam Halligan. He's Chief Economist at Prosperity Capital Management. Liam Halligan, last November you told us it would be 3% by the end of the year and you were right. Do you think it's now got further to go?

HALLIGAN: I think it has, Paul, and it brings me absolutely no pleasure to say that. It strikes me that Rosemary's right - a continued fall in sterling against many other currencies will make our imports more expensive. That will continue to drive inflation. You've got oil prices firmly now above $80 a barrel. We've tripled the monetary base in this country in a year - historically unprecedented. Government borrowing's spiralling out of control. So for all those reasons, I think there's a lot more inflation in the pipeline. You know producer input inflation is now in double digits - 10.1% in March …

LEWIS: *(over)* Now that's the inflation for …

HALLIGAN: Output inflation is 5%

LEWIS: Yeah, that's the prices that people who make things actually are paying - producer input.

HALLIGAN: Which points to more inflation in the pipeline, unfortunately.

LEWIS: And you mention the rise in money. That's quantitative easing, as we call it - the £200 billion the government's created out of thin air.

HALLIGAN: That's right, which I think future historians will look back at that and wince. You know there's always a reason for inflation to go up every month. People always call it a blip. I've been called a nutter and worse for the last 2 years when I've been warning about higher UK inflation. But you know almost every single month in those last 2 years inflation has come in above the forecast of the so-called experts, and our creditors around the world now feel (with some justification, it seems to me) that the UK government and others have decided that if we can't get rid of our sovereign debts by taking the tough decisions that we should be taking, then we can try and control our sovereign debts in real terms by a dose of inflation for a few years. It's know in the trade as soft default, Paul. It's basically a tax on savings …

LEWIS: *(over)* Yes, inflation goes up and so …

HALLIGAN: … and is something that will cause our borrowing costs to rise.

LEWIS: Inflation … savings worth less. Rosemary Radcliffe, are you going to call Liam Halligan a nutter, or do you have some sympathy with his view?

RADCLIFFE: Oh I have an element of sympathy, but it's fairly modest, Paul, I think. I'm not so worried about the effects of quantitative easing. That money's largely gone into restoring the strength of the banks' balance sheets and not into the money supply. But in fact broad measure money has been growing pretty slowly. But

I think a lot depends …

LEWIS: *(over)* … but if you create £200 billion, if you print that much money, it must go into inflation?

RADCLIFFE: Well not necessarily, no. In my view, the factors that drive inflation are the relationship between demand on the one hand and capacity utilisation in the economy on the other. If you've got high demand and high capacity utilisation, then you've got inflationary pressure. And at present, of course, we've got a lot of spare capacity.

LEWIS: Liam Halligan?

HALLIGAN: Well words fail me, to be honest Paul …

LEWIS: They can't. You've got forty seconds.

HALLIGAN: … with all respect. If you create narrow money, then in the end the so-called credit multiplier kicks in and that narrow money is lent out by the banks on our fractional banking system and generates inflation.

LEWIS: Okay, I'm going to interrupt this technical argument now and ask you both a very simple question.

HALLIGAN: Well it isn't really that technical, is it?

LEWIS: Alright, but you've got ten seconds each. Liam, you first. What will inflation and interest rates be in a year's time?

HALLIGAN: Well I think base rates may stay put, but there'll be a big wedge, increasing wedge between base rates and the lending rates faced by firms and households …

LEWIS: And Rosemary?

HALLIGAN: I think we're looking at 4 or 5% inflation.

RADCLIFFE: Well I'm with the Bank of England on this one. They've had to write their third letter because inflation's above the target. First two times they said it would come down. They were right. I think they're going to be right this time. So my best bet is unless we see a major oil price hike or an increase in VAT or a collapse in the value of sterling - I suppose any of which could happen - my best bet would be about target by the end of the year.

LEWIS: Rosemary Radcliffe, Liam Halligan, thanks. Have your say on inflation. Our website, bbc.co.uk/moneybox.

Now we heard this week the UK economy is still growing very slowly, have a large deficit, a growing debt. China has the opposite: an income well in excess of spending, economy expected to grow. So is China the place to put your money? A question for Tom Elliott, global strategist JP Morgan Asset Management.

ELLIOTT: China's a very good bet for those with a long-term horizon and/or with an appetite for risk. If you're going to look at the share prices every morning and wonder if you should sell on the slightest dips, then China, along with emerging markets, probably isn't for you. But anybody who can sit back and take the dips and has a time horizon of perhaps 5 years plus, I do believe that emerging markets - specifically China - offers very good long-term possibilities.

LEWIS: So plan to leave your money in at least 5 years. And you also said an "appetite for risk". Now that's a phrase that advisers often use, but it does mean, doesn't it, that yes you might do very well, but your money is also at risk; you might do badly?

ELLIOTT: Emerging markets have a tendency to go up and down, to be more volatile than the developed markets. And as they progress, as they become more mature, we expect that volatility to become less, but it does mean that you need to have a good sense of your long-term investment horizon and to stick with it and not to panic when the going gets a bit tough.

LEWIS: One of the things we're expecting to happen in the next year (there's a lot of international pressure) is for the Chinese currency to be re-valued, to be put up in value - the opposite of devaluation, which some of the European countries are worrying about. What effect will that have on investments?

ELLIOTT: It'll make Chinese exporters suffer a little because obviously the price of their exports will go up relative say to the pound and to the dollar, and it should help develop the Chinese domestic consumer side of the economy, which is one of the long-term aims of the Chinese government. And it'll do this because imports will become cheaper. And I think from an investment perspective - i.e. on how to play this - there are two ways. One can look for a China fund that focuses on domestic demand growth - from the most humdrum things like take, for example, shampoo. There's going to be a huge increase in demand for shampoo and other personal products over the next 20, 30 years because that's what always happens as a country becomes richer. There'll be demand for shampoo; there'll be demand for shampoo shops; there'll be demand for the logistics of shampoo; there'll be demand for the raw materials of shampoo, whatever that is. You can play China indirectly by investing in raw material exporters in Australia, heavy engineering equipment companies in Germany and Britain, or luxury goods manufacturers in France. These will all benefit from a stronger renminbi because China will be able to import more of these goods. And some might see that as a safer way to play China than if you like putting your eggs directly into the Chinese basket.

LEWIS: And so just sum up, Tom, about who should put money into China, how much, and what should they be expecting?

ELLIOTT: Anybody with a view of less than 5 years, probably you shouldn't be in China or any of the other emerging markets. Arguably you shouldn't be in equities at all.

LEWIS: Tom Elliott of JP Morgan. Now I've been asked to make it clear that the Retail and Consumer Prices Index measure the *annual* rate of inflation and they rose *to* 4.4% and 3.4%, not *by* those amounts. That's it for today. You can find out more from our website: bbc.co.uk/moneybox. Among other things there, you can have your say on inflation. How's it affecting you? I'm back here on Wednesday with Money Box Live, this week taking your questions on how to complain. That was bumped last week by the volcano. I'm back with Money Box next weekend. Today the reporter was Wesley Stephenson, the producer Lesley McAlpine, and I'm Paul Lewis.