THE SPECTATOR

Savers are Britain's new underclass

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We are divided into two nations once more, says Ross Clark. Reckless borrowers are helped by government bail-outs, while those who have sacrificed to save are abandoned

While my remaining bank shares were plummeting last week I bought a copy of Socialist Worker to try to cheer myself up. At least somebody must be enjoying themselves, I reasoned, as I sat down to enjoy what I thought would be red-blooded demands for insurrection and the public execution of Sir Fred Goodwin. I cannot say how disappointed I was. I might just quote this less than revolutionary sentence from a leader:

At the very least, the government could insist on an end to the threat of repossession and debt collectors. Doing so would mean we would get something in return for billions of pounds of our money.

Could this be right: the vanguard of socialist thought demanding government support for the petty bourgeois in their struggle to keep up the mortgage repayments on their buy-to-lets? It was. The financial crisis, it would be easy to assume, ought to be springtime for revolutionary socialists. Instead, it has opened up a new crack in society. The real social and political battle in Britain is no longer between rich and poor, between flat cap and top hat; it is between financial roundheads and financial cavaliers. In the former camp we have savers, homeowners who have foregone holidays to reduce their mortgages, conservative businessmen, people who rent because they were unable or unwilling to borrow large sums at the height of the property boom. In the latter camp we have overmortgaged homeowners, buy-to-let investors, bankers who still have a job, estate agents, most large retailers, property developers and, it would seem, the Socialist Worker.

To use the English Civil War analogy, Vince Cable is your Cromwell, Gordon Brown your Charles I (oddly cast for a son of the manse), and George Osborne a frilly Vicar of Bray. But the relatively consensual Westminster debate does not do justice to the hard feelings between those left frothing by every bank bail-out, every reduction in interest rates, and those who squeal for more help, blaming miserly savers for worsening the recession.

Just as the Vietnam War was the first war of the television era, forcing the US military to fight a battle for public opinion which it never mastered, so the recession of 2009 is the first to be played out in the age of the internet. You didn't have to dig far this week to sense that the Roundheads are becoming mutinous. With the announcement of the second big bank bail-out, there were demands for the boards of the big banks to be jailed and calls for a mass go-slow on the nation's motorways to protest at the public debts being run up in the name of stimulating the economy. Meanwhile, no billions could be enough for the property companies and other businesses which were simultaneously responding to the bail-out by releasing statements to the effect that it was 'good as far as it goes'.

Broadly, the Roundheads' position is this: that it is a fundamental rule of capitalism that while risk pays rewards, those who get it wrong should pay for their errors. The government and the Bank of England, however, seem intent on saving the reckless and punishing the prudent. The government lifted not a finger to discourage the build-up of debt during the good times, yet now tries all it can to re-inflate the bubble. If a government is going to be laissez-faire on the way up, it should be laissez-faire on the way down, too. House prices and share prices should be allowed to fall to a sensible level, and the prudent rewarded through the opportunity of picking up cheap homes and shares. Any attempt to bail anyone out will just encourage reckless behaviour and lead to another speculative boom. As for deflation, so what if cash appreciates in value? It probably won't anyway: the government is following a hugely inflationary policy which is likely, sooner or later, to provoke hyperinflation.

The Cavaliers' position is this: yes, of course, it is terribly unfortunate that banks and other businesses are having to be bailed out and that taxpayers and savers are going to have to foot the bill, but the economic crisis is too serious to start trying to apportion blame. After a collapse of the banking system, the worst thing that could happen is general deflation. That would ruin businesses and individuals and lead to another Great Depression which would suit nobody. All serious people are Keynesians now: we must all hold our noses and pump money into the economy. Savers must grin and bear it. In any case, saving is a bit of an anti-social activity: in the longer run no country becomes rich by squirrelling money away like the man in Bible who wasted his talents. Risk-takers are heroes who need encouragement, even if they did get it a bit wrong this time around.

The new class divide began with a small crack in the early years of this century, between those who jumped on the bandwagon to purchase buy-to-let properties and those who resisted the temptation to make what appeared to be quick and easy profits. 'People were boasting at dinner parties about how much money they had made,' says Jonathan Davis, a financial adviser with Armstrong Davis, whose many appearances on radio and television have established him as one of the leading Roundheads. 'They would say things like "You're a fool if you are not borrowing money. You've got to speculate to accumulate." Economic realists like me who from 2005 advised people to stay out of the property market were laughed out of court.' At the same time, TV schedules bred a new genre in which glamorous blondes and wide-eyed chancers would brag about their latest property ventures.

For those unable or unwilling to borrow the large sums of money required at the height of the boom to buy even a small flat, the taunting became too much. In 2003 a group of frustrated would-be first-time buyers set up a website called housepricecrash.co.uk, predicting or even hoping to provoke a housing slump in order to wipe the smiles off the faces of their tormentors. Immediately, the website's forum revealed a vast constituency of people aggrieved by losing out on the housing boom. For years they had to put up with the agonising sight of the tarty blondes in the property sections making ever bigger profits. But when the property market did indeed crash, they finally got their chance to gloat.

'People who overstretched themselves to buy property over the past two or three years are still in denial,' says Brendan McLoughlin, whose internet company Futra bought the housepricecrash website in 2005. 'They read that house prices have gone down but they still think their home is worth the same as it was. I'm always having heated debates, even with my own mother. She has a couple of buy-to-lets which I kept trying to tell her to sell but she has clung onto. She sees property as an investment, and I see it as something people should buy to live in.'

The gloating has been all too much for Kirstie Allsopp, a heroine of the buy-to-let fraternity, who in April 2008 let loose upon them: 'There is a website called housepricecrash.com and I am their deadliest enemy,' she said. 'They all rent and have a vested interest and enjoyment in watching others suffer. That's sick. Schadenfreude is absolutely disgusting and a terrible trait.'

For some months the debate seemed to rest there: the Roundheads had won. But when, in October, the banking bail-outs began and the Bank of England followed the US Federal Reserve by slashing interest rates, a horrible prospect began to enter the heads of those who, either through wisdom or laziness, had managed to keep their money in cash through the boom years: is the government going to try to help bail out borrowers by stealing from savers? Suddenly, the boot was on the other foot: were the Cavaliers going to come out on top after all?

Since then, the government has done all it can to justify the Roundheads' fears. Virtually every week comes a new initiative to bail out homeowners in some way — homebuyers struggling with £400,000 mortgages can now apply for a two-year holiday on the repayments, underwritten by taxpayers. Interest rates have continued to plummet to the point at which many savings accounts now pay less than 1 per cent in interest. The next move, the Chancellor has acknowledged, may be to indulge in 'quantitative easing' — that's printing money, to you and me — a move previously associated with Mugabe's Zimbabwe. While homeowners and shareholders continue to nurse losses, savers now are also haemorrhaging wealth — with inflation still running at 4 per cent, there is a negative real interest rate of 3 per cent on most savings accounts.

Sensing an opening in what had been a taut political consensus over the banking crisis, the Conservatives finally broke free and proposed that taxes be cut on savings accounts. To judge by an often quoted statistic — that there are seven savers for every borrower — it might seem a smart move to take the side of the former. Actually, the electoral geometry is probably less clear-cut than that: are there really seven times as many savers as there are borrowers, or are there seven times as many savings accounts as there are loans? Even so: Cameron's initiative has chimed with a huge constituency and may well be the leading factor in his recovery to double-digit poll leads.

As for the borrowers, they have gained a new hero in the shape of Times columnist Anatole Kaletsky, who two days after Cameron's initiative penned a piece with the title 'Punish savers and make them spend money'. 'The next logical step, although it might be politically controversial,' he wrote, 'would be to do the opposite of what the Tories suggest. Instead of reducing taxes on interest payments, the government could tax all bank deposits and other risk-free savings ...the result would be more consumption and physical investment, less unemployment and faster recovery from the slump.'

The piece provoked an international uproar, not merely accusing Kaletsky of wanting to steal from the prudent to give to the feckless, but threatening a nuclear response. The blogs came alive with aggrieved savers threatening to withdraw their life savings and bury the money in the garden: you try to tax our savings, in other words, and we'll bring down the banks, Northern Rock-style, by queueing up round the corner for our money.

Kaletsky is unrepentant. 'Savers do feel under attack,' he says, 'but they are reluctant to believe that a large part of the problem is their own behaviour. If they saved less and started spending more the problem would go away.' I can't quote, in a family magazine, the response of the chief Roundhead, Jonathan Davis, to that; suffice to say that he doesn't believe it is the duty of those who were prudent during the boom years to bail out those who were not.

As for me, I'm with the Roundheads. I don't care what my house is worth — it is still the same house whatever. I can take my shattered share portfolio on the chin: it was my silly fault for buying the things. But if the government starts trying to erode my cash pile in order to try to bail out the sharp-suited spivs and tarty blondes who only 18 months ago were smugly boasting about the fortunes amassed on the back of what has turned out to be empires of debt, then I am going to fight tooth and claw. If this financial crisis does end with revolution I am going to be there with the savers, lobbing Molotov cocktails at the chancers who got us into this mess. I think I can guess, from their previous behavioural responses, which side is going to run out of petrol and bottles first.