What fun with Margaret, Lady Hodge [1]

Written by **Tim Worstall** [2] | Sunday 2 June 2013

Margaret, Lady Hodge, has been wibbling on about corporate taxation so much that it's a relief to hear her on another subject. Not that her wibbling gets any better, it's just a different set of things to disagree with her about. This particular outburst contains two classic political illogics [3]:

> Margaret Hodge, chairman of the PAC, lambasted the OFT?s regulatory efforts claiming it has ?never given a fine to any of the 72,000 firms in this market? and has ?very rarely revokes a company?s licence?, The PAC said the OFT spent just £11.5m regulating the market last year - ?or £1 for every £15,300 in the market, which is low by comparison with other regulators?, according to the report. The OFT?s ?investment in regulation is paltry?, said Ms Hodge. ?It could easily have increased its fees, especially to larger credit card companies who only pay a £1,075 fee, and used that income to raise its game as a regulator.?

The first is the complaint that no one has been driven out of business by the regulator. There are two possible reasons why this is: the first being that the regulator isn't trying. The second is that no one is actually breaking the law and thus the regulator has a reason to drive them out of the business. Note that the politician's response is to immediately assume the former reason. For as a politician one just knows that the capitalist bastards are indeed defrauding the good honest folk of the Kingdom. That people just voluntarily borrow and lend money at rates which they find mutually acceptable is not a thesis that can be permitted to cross the synapses.

The second is the assumption that the verity of regulation depends upon how much is spent upon such regulation. More is better here: it's again a classic political delusion. We cannot measure the output of most government activity so we measure instead the input. And thus more is better. By this logic we get the idea that if we spend vast amounts of money on aircraft carriers with no planes then the nation is better defended: look, we've spent lots of money, see?

But what is rather more amusing is the final call:

> Ms Hodge added: ?It would be a big step forward if consumers were given straightforward information on just how much loans are going to cost them. We would like to see the misleading APR rules ditched and replaced by a legally required statement of the Total Amount Repayable in cash.?

Lady Hodge is going to get into such trouble for that. For the entire capmaign against payday lenders depends upon that very manipulation of the APR. Here's Stella Creasy, a fellow Labour MP to La Hodge, with one of her oft repeated statistics [4].

> The legal loan sharks profiting from the austerity that Britain is currently experiencing. The Consumer Finance Association boasts that it has "intelligent financially-savvy consumers who are making critical, proactive and positive financial decisions every day to help them live within their means whilst coping with the varied challenges of the post-credit crunch era." The Citizens Advice Bureau tells a very different story. They deal with the fallout of a country where companies offering

> loans with rates of 4,000% cover every town centre and dominate internet and mobile phone advertising.

4,000 % eh? What outrage, such usury!

Except, of course, the APR comes from taking the interest rate and arrangement fee on a loan for one week and then multiplying by 52 and compounding. The actual cost of a £100 loan for a week is more like (and no, I'm not going to do the maths here) £100 for the loan, £20 arrangement fee and £10 in interest. Or for £200, £20 in arrangement fee, £20 in interest and the £200 of the loan. Please do note that these are only examples, not actual numbers.

Now, you or I might look at those numbers and think that £30 on £100 for 7 days is a bit steep. But then we've never been the single mother needing nappies and baby mush on a Friday after The Social has screwed up the benefits payments telling her to come back on Tuesday, have we? However, others in that situation might think that it's a price well worth paying. Which is why the industry exists at all of course.

Which is rather why I expect that call to do away with APR as a measurement to be a suggestion which is swiftly dropped. For to do away with it will rob the campaigners against voluntary association with their greatest weapon: the ability to use badly calculated and horrendous APRs as a scare tactic.

All of which I find most amusing. Lady Hodge manages, by some happenstance, to blunder into a good idea and it will almost certainly be the one she has to drop as a result of political pressure.

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