

Savers' lament

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The complex effects of low interest rates on consumption and investment.

Interest rates

When interest rates hit double digits in the late 1970s, house-builders sent planks of wood to the Federal Reserve [美國中央銀行] in protest. ... With rates stuck near zero, ... The retired complain of a “war on savings”.

Personal interest income

- Since 2008, personal interest income has plunged 30%, ... more than 4% of disposable income
- Raghuram Rajan, ... describes the Fed's policy as "expropriating responsible savers in favour of irresponsible banks", and thinks it should raise rates modestly.
- This challenges textbook **monetary policy**

Effects of lower rates

- Reduce the cost of capital, spurring investment
- Encouraging households to consume today rather than tomorrow
- Boost stock prices, helping spending through the wealth effect (income effect)
- Reduce the exchange rate, helping exports
- Redistribute income from creditors to debtors

Critics

- Business and households can't or don't want to borrow
- The retired and corporate pension sponsors must slash spending to cope with lost interest income
- Are the critics right?