Negative Interest Rates and the Impoverishing of America

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If you have seen bank advertisements for CD rates, or if you have called your local bank or broker lately, you know that interest rates are abysmal. As I write this, Ally Bank is touting their 2-year certificate of deposit at a rate of 1.78%—I guess that is supposed to be a good deal these days.

More important than interest rates on deposits, however, is something called the "real interest rate." This is the interest rate after considering rising prices. Price increases are usually measured by the government with a statistic called the Consumer Price Index (CPI). The real interest rate subtracts the CPI (or other measure of rising prices) from the actual interest rate. So if a bank gives me 1.5% interest on a 1-year CD and prices go up by 3% during that time, I have a real interest rate of -1.5% (that is a negative 1.5%).

Many economists believe (and I concur) that the CPI significantly understates the real rate of price increases in America—in fact, it is designed to do so. But even with the government's low CPI numbers, interest rates are still negative. Depending on whose numbers you believe, the real interest rate in America is somewhere between -1.25% and -7.00%.

Don't forget that consumers pay income tax on interest earned regardless of whether real interest rates are positive or negative. The result is that many Americans are paying income tax on a negative real interest rate! This discourages savings and investment, but even worse, it steals from our citizens.

Negative real interest rates hurt all savers, but these rates are especially damaging to the elderly and those on fixed incomes. It is no longer possible for senior citizens to live on the interest of their savings and investments. In fact, our negative interest rates result in a situation in which our seniors must rely on the depletion of their principle for all of their living expenses. These principle balances go very quickly in this situation.

Keep in mind that there can be no negative interest rates without inflation. Inflation is clearly the chief evil here. Rising prices, of course, are a hidden tax caused by the "printing" of money. This hidden tax steals our property because the value of our savings and investments (and even the value of the money in our wallets) is being taken away. This is a clear violation of property rights and is theft by any reasonable definition of the term.

This is significant when one considers that consumer interest rates and consumer prices are both largely controlled by Federal Reserve policies. It takes little more than a rudimentary understanding of economics to know that this combination is driving millions of Americans (especially senior citizens) into poverty. Can this really be an accident?

The consequences of this impoverishing of America are several. First, it increases our nation's dependence on government largesse. For example, senior citizens who are forced into accepting (and needing) more government assistance because their savings and investments have been depleted will be much less likely to vote for a reduction of our welfare state. I will admit that this is not 100% universal, but it is nearly universal. Not everyone who receives government transfer payments will automatically vote for big government or its continuance, but a substantial majority will. Anecdotally, we know that need and privation will cause people to vote for their self-interest instead of the best interest of society at large. Statistically, we know that increasing dependence on government aid results in an electorate that accepts and promotes big government.

Negative real interest rates hurt all savers

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A second consequence is that a poorer population has fewer resources to contribute to causes that work to put America back on sound footing. A poorer population is also less able to contribute to churches, to missions programs, to private charity, or to organizations that promote responsible government. These factors also result in increasing desire and "need" for government programs.

Third, negative interest rates reduce the incentive to save or invest. Why save my money if the principle and interest combined buys less next year than it does today? I am much better off by converting my shrinking dollar into goods and services now instead of delaying the purchase to a future time when these dollars will buy measurably less. This loss of purchasing power and the resultant decline of savings and investment reduce capital accumulation and compromise future productivity growth. Additionally, a population without savings is more vulnerable to any economic downturn. There is some persuasive economic opinion that tells us that economic cycles are made worse when savings are low.

Fourth, economic difficulty will result in more dual-income households—more mothers will go to work to make ends meet. This results in a reduction of family stability and the need for more third-party childcare. There are well-supported claims that "latchkey" children are more likely to join gangs and commit crime than their parent-supervised counterparts.

If someone wanted to expand the size and scope of government, increase dependence on public aid programs, reduce giving to churches and charities, reduce the resources of limited government organizations, destabilize the family, and create crime, there is no better strategy than to impoverish the people. Christians and other advocates of family values need to wake up and realize that our public economic issues are in fact moral issues and, equally important, they are "family values" issues.

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