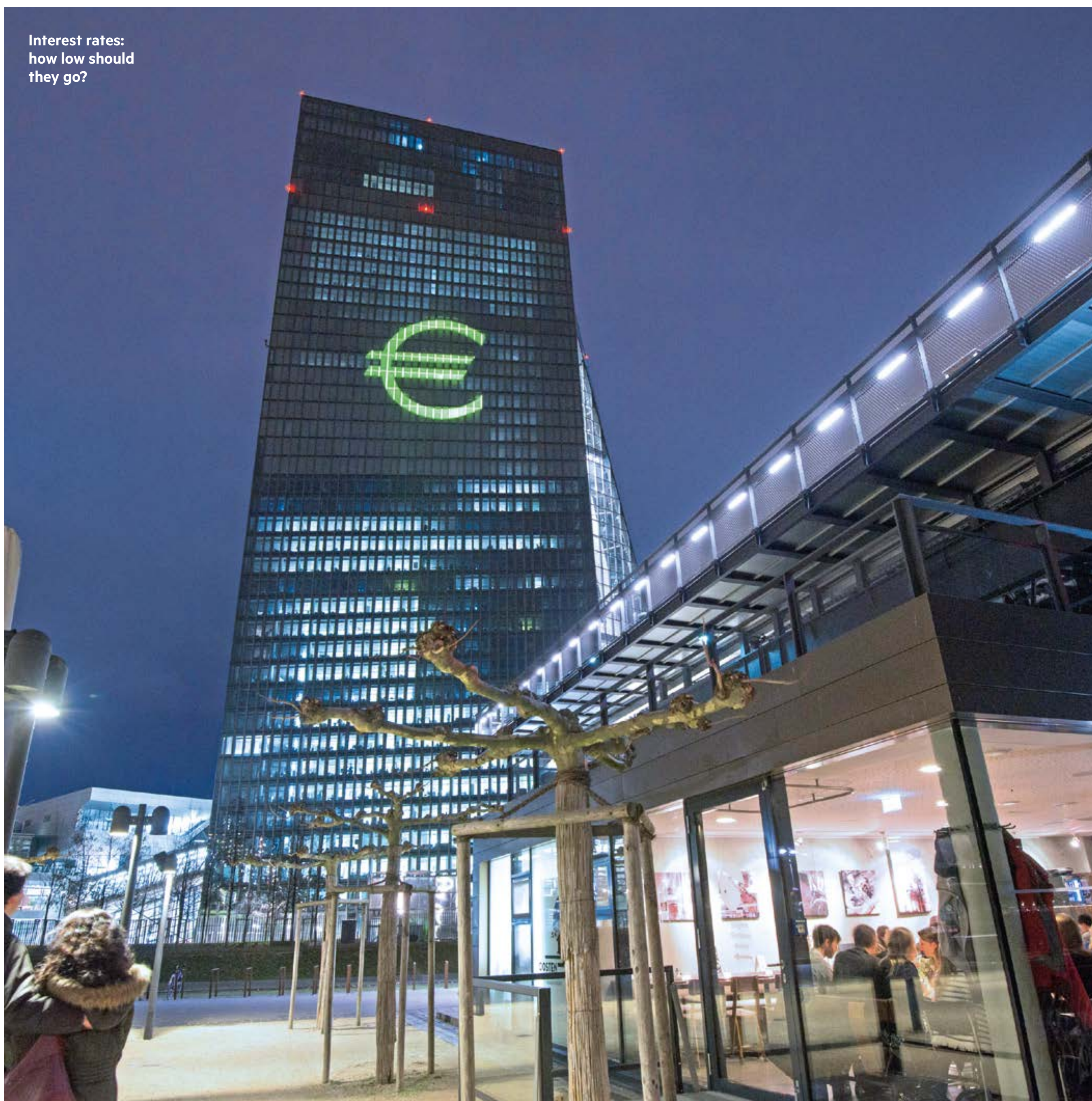


DEBATE
HEAD-TO-HEAD

Are negative interest rates dangerous?

Können Negativzinsen die Wirtschaft gefährden? VICKI SUSSENS hat zwei unterschiedliche Meinungen gehört.

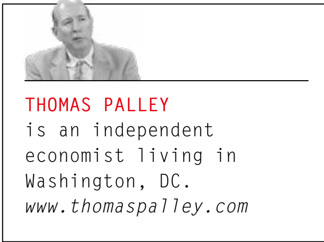
ADVANCED AUDIO US

Fotos: Getty Images, PR

YES

"One can have too much of a good thing"

Thomas Palley



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A negative interest rate policy (NIRP) appears revolutionary, but its justification rests on failed, pre-Keynesian "classical" economics. This claims that lower interest rates can always solve aggregate demand shortages and lead to full employment. Keynes discredited classical economics by showing that saving and investment might not respond, as assumed, to lower interest rates. Once all profitable investment opportunities have been undertaken, negative interest rates may encourage firms to buy back shares or raise credit for takeover activity. This creates financial fragility via debt-laden balance sheets, and reduces firms' financial capacity for future investment. Negative interest rates may also in fact increase savings if households try to compensate for lost interest income.

NIRP may generate financial disruption, too, which can reduce the supply of bank credit and increase its cost. Somebody must bear the cost of negative rates. If banks absorb it, that will reduce their profitability and they may reduce lending via raised credit standards. Alternatively, if banks decide they do not want to lose deposits — a valuable source of cheap, stable long-term finance — by introducing negative interest rates, they may instead pass the cost on to borrowers.

NIRP also undermines insurance companies and pension funds, which may then engage in risky yield-chasing. This makes them financially fragile and leads to asset bubbles. Internationally, NIRP encourages competitive devaluation "currency wars" that cause disruption to manufacturing. And it creates exchange rate uncertainty, which can lower global investment.

Lastly, there is the danger of a major contradiction. NIRP aims to increase house prices and equity prices, and so generate wealth effects that stimulate the economy. But if the policy is successful, future interest rates will rise. And this risks triggering a financial crisis as bubbles burst, house prices fall, and we see debt defaults.

In normal times, lower interest rates stimulate the economy, but one can have too much of a good thing. NIRP is pushing monetary policy into an area where it is likely to start doing harm.

NO

"Negative interest rates have proved useful"

Adam Posen

ADAM POSEN is president of the Peterson Institute for International Economics in Washington, DC. *https://piie.com*

Negative interest rates are just another monetary policy tool, good in some situations and not in others. Those fearing negative rates make the same mistake as those who opposed quantitative easing (QE). This was seen as "unconventional" and dangerous, but it worked pretty much as expected in reducing interest-rate spreads, encouraging riskier asset purchases, and lowering the currency. Negative rates are less universally applicable, but they have also proved to be predictable and useful in impact.

Economies such as those in Germany and Italy — where a large share of savers hold their assets in simple bank deposits and much of the corporate sector gets its financing from bank loans — will benefit less from negative rates. They are more likely to suffer the direct costs.

By contrast, in economies such as the US and Australia, where savers and companies are more flexibly financed, borrowers will move out of banks and into other forms of saving and financing. Where savers have more options, they tend to have more diversified assets, and so will be less resistant to negative rates. The same holds true for economies in which non-financial companies have greater choice and are less bank-dependent.

For example, savers in Switzerland are more likely to move their assets abroad than savers in Japan. Also, the exposure to international capital for the rest of Swiss business is much higher than for Japanese companies, and their adaptability is greater.

So it should surprise no one that Switzerland has had more political room to use negative rates than Japan, where the government is expected to protect citizens and businesses. One should expect a similar response in Germany or Italy to that in Japan, as the European Central Bank has discovered.

But if central banks protect savers from the impact of the negative rates, savers will have no incentive to move funds, and the impact of the policy will be minimal — as will the exchange rate impact of negative rates.

The Bank of England and the Federal Reserve have less reason to worry about negative interest rates. In both economies, households have more options and display more flexibility with respect to their savings than in Japan or much of the eurozone.

* This symbol marks standard US pronunciation.

aggregate demand [ˌægrɪgət di'mænd*] ➨ gesamtwirtschaftliche Nachfrage

asset bubble ['æset ˌbʌbᵊl] ➨ Spekulationsblase (**asset** ➨ Anlagewert)

asset purchase ['æset ˌpɜːtʃəs] ➨ Anlagekauf

balance sheet ['bæləns ʃiːt] ➨ Bilanz

corporate sector ['kɔːrpərət ˌsektᵊr*] ➨ Unternehmenssektor

debt default ['debt diˌfɔːlt] ➨ Schuldenausfall

debt-laden ['det ˌleɪdᵊn] ➨ verschuldet; *hier*: mit hohem Fremdkapitalanteil

deposit [di'pɑːzət*] ➨ Einlage

disruption [dɪs'rʌpʃᵊn] ➨ Störung, Verwerfungen

equity price ['ekwəti praɪs] ➨ Aktienkurs

exposure [ɪk'spoʊʒᵊr*] ➨ Ausgesetztsein

Federal Reserve [ˌfedərəl ri'zɜːv] ➨ US-Notenbank

house [haʊs] ➨ *hier*: Immobilien-

impact ['ɪmpækt] ➨ Wirkung

incentive [ɪn'sentɪv] ➨ Anreiz, Motivation

negative interest rate policy (NIRP) [ˌnegətɪv 'ɪntrəst reɪt ˌpɑːləsi*] ➨ Negativzinspolitik

predictable [pri'dɪktəbᵊl] ➨ prognostizierbar

quantitative easing (QE) [ˌkwɑːntəteɪtɪv 'iːzɪŋ*] ➨ monetäre Lockerung

resistant: be ~ to sth. [ri'zɪstənt] ➨ sich etw. widersetzen

shortage ['ʃɔːrtɪdʒ*] ➨ Mangel, Knappheit

spread [spred] ➨ Differenz, Spanne

takeover ['teɪkˌoʊvᵊr*] ➨ Übernahme

trigger sth. ['trɪgᵊr*] ➨ etw. auslösen

yield-chasing ['jiːᵊld ˌtʃeɪsɪŋ] ➨ Jagd nach Rendite