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Savers bear the risks

by Michael Heise

Last week in this column Holger Schmieding came to the defense of the ECB which was, in his view, coming in for excessive criticism. In view of the average rate of inflation in the *past*, he argued, the ECB had done a good job overall, with price stability being in the interest of savers and pensioners in Germany in particular. Of course, in this respect Schmieding is right. But what about the future stability of the financial markets, if the zero interest policy is to continue in the long term?

With its announcements and unconventional tools – OMT program and (targeted) long-term tenders – the ECB is already making a massive impact on pricing on the financial markets. One result of this policy is that the default risk of eurozone countries is again regarded as very low; France, Italy and Spain are currently able to finance themselves more cheaply than the United States – without, however, any improvement in their debt situation. The ECB hopes its policy will provide a boost to economic activity and drive up inflation expectations. However, this hope comes with several huge question marks. After all, monetary policy hardly ever provides an effective boost to economies in the throes of deleveraging. At the same time the wall of cheap money is driving up the risk appetite of financial investors in their hunt for returns and provides the undesirable incentive to take a more leisurely approach to sorting out bank and company balance sheets. Risk reduction progresses more haltingly, debts are carried over and investment remains low for years to come. Japan serves as a warning for this kind of adjustment to excessive monetary policy.

Significantly it was the Central Bank of Central Banks, the Bank for International Settlements in Basle, which cautioned against the buildup of new price bubbles and inevitable market corrections with consequences for the real economy, if the monetary policy of the major industrialized nations does not gradually begin to ease off. The fact that the banking system has again become more resilient, as the President of the US Fed Yellen points out, is certainly no reason to expose it to yet another prospective stress test.

And what does any of this have to do with savers? In the final instance, savers are the ones bearing the risks. Secure German government bonds or bank deposits hardly generate any return and for riskier investments appropriate risk premiums are no longer available either. No wonder that they are putting by less: even in Germany the savings rate is heading south, instead of saving for the long term, savers are mainly parking liquidity in the short term. And again the fate of Japan springs to mind: last year, the savings rate of private households likely dropped below zero there for the first time. This is a point we have not yet reached. But in Europe, too, long-term wealth and prosperity development is facing the double hurdle of low interest rates and insufficient willingness to save. It would be hard to argue that this is to the advantage of the economy.