

Fashionistas are constantly obsessing over the latest fashion trends. They scramble around, unceasingly searching for the next big trend that will take the world by storm. Sometimes, it seems like central bankers and other policy makers behave similarly. They are always endorsing new, revolutionary macroeconomic policy ideas that are sure to be the next big thing in combating recessions. Recently, negative interest rate policy has hit the stage as the newest fad in the macroeconomic sphere. Countries like Sweden, Denmark, and Japan have all introduced negative interest rates into their economies with dwindling levels of success. In 2014, the European Central Bank attempted to utilize negative interest rates in order to re-inflate the Eurozone. There was even some talk of the Federal Reserve experimenting with negative interest rates. Unsurprisingly, there is a healthy amount of debate over the actual usefulness of negative interest rates, and this paper will help explain the purpose and theory behind negative interest rates. It will ultimately conclude that negative interest rate policy is wholly unsuccessful, and is supported by Keynesian economists because they believe it will help them reach their desired economic outcomes.

The critiques offered against negative interest rate policy will be rooted in an understanding of the Austrian conception of the interest rate. In order for these critiques to be effective, there must first be a discussion on how the Austrians treat interest rates. Austrian economics is founded in the simple, observable fact that humans engage in purposeful action, applying their means according to their ideas to achieve their most highly valued ends. Within this sphere of human action comes the axiom of time preference, which says that humans will always prefer the same quantity of a good at an earlier date as opposed to a later date, *ceteris paribus*. The Austrian discussion of interest rates is founded out of time preference, and it is

through this discussion that the rational basis for critiquing negative interest rate policy is provided.

Mises called the “originary” interest rate a discount applied against future goods for present goods.¹ In the mind of any rational actor, a present good will be subjectively valued higher than the same good in the future, so the future good has a discount applied to it so that exchange can take place. Interest rates are most commonly applied when dealing with currency in transactions and loans. For example, if one person needs \$100 and is willing to give \$110 to someone in a year in exchange for the \$100 now, then the interest rate in this scenario is 10%. There are two important takeaways from this example. First, it must be established that this exchange is completely voluntary and is only able to happen because the lender would rather have more money at a later date. In other words, the lender has a lower time preference. When people have lower time preferences, they are more willing to save and invest instead of simply consume. Here, the lender is willing to part with his money in the present for the promise of more money in the future, which can be considered an investment.

Secondly, it’s very easy to see that the interest is completely determined by the subjective time preferences of the individuals. If the time preferences or subjective valuations of either the lender or borrower change, then the interest rate may very well be different. Let’s say that the lender in the above example refuses to lend \$100 in exchange for \$110 in a year. He tells the borrower that in order to part with his \$100 now, he requires \$120 in a year. If the borrower agrees to these terms, which he does for the sake of the example, then the interest rate has just been effectively increased to 20%. Both borrower and lender must agree to terms of the

¹ Polleit, “The Natural Rate”

exchange based on their subjective preferences, and the interest rate helps facilitate the exchange. If there are no preferences, there is no exchange, and if there is no exchange, then there can be no interest rate.

These are the basic building blocks of the Austrian theory of interest rates. It will be important to keep this analysis in mind as the focus shifts to the theory behind negative interest rate policy.

When macroeconomists write about enacting negative interest rate policy, they are not suggesting that every interest rate be negative in the entire economy. That would be utterly preposterous. In actuality, they are calling for the rate at which the central bank loans its reserves to other depository institutions to be dropped to a negative number. In the United States, this is known as the discount rate. In any event, by dropping this rate into the negative region, there would be a number of different effects in the economy. The negative interest rate basically acts like a tax, so now, any reserves held in the central bank by depository institutions will return a guaranteed loss.² Depository institutions have an incentive to pull their reserves from the central bank in order to avoid this guaranteed loss. On the flipside, the central bank is in essence providing a monetary incentive for depository institutions to borrow more money. At a negative rate, a depository institution can borrow reserves from the central bank and actually pay back less money in the future.³

Negative interest rate policy is most commonly prescribed by Keynesian economists, and they really only suggest it when the economy is in a massive downturn. Keynesian orthodoxy maintains that in order to get out of a recession, there must be an increase in aggregate demand

² Barron

³ Barron

in the economy, which occurs through increases in levels of government spending, investment, and disposable income/consumption.⁴ Just by looking at the basic premise of negative interest rate policy and the theoretical implications behind it, it is easy to see how a Keynesian might support this policy decision when factoring in what their ultimate conclusion is. Keynesians often prescribe a policy of low interest rates to be coupled with inflation, in order to get new money into the hands of entrepreneurs and consumers quickly so as to increase aggregate demand. The following critique of negative interest rate policy will demonstrate how Keynesians have used negative interest rates in failed attempts to increase the amount of investment and government spending in the economy.

Negative interest rates in the central bank naturally incentivize depository institutions to keep as little reserves as possible in the central bank and loan out these reserves instead. Why wouldn't such institutions give out more loans as opposed to taking a guaranteed loss at the central bank? An increase in the level of investment in the economy seems like a logical consequence as these depository institutions artificially lower their interest rates in order to incentivize more investments. But, there is an obvious problem. Depository institutions have no incentive to use negative interest rates when lending money. In contrast, those at the central bank really have the freedom to set whatever interest rate they so choose. If they set a negative discount rate and depository institutions borrow funds at that rate, then that is that. The central bank is not truly a private entity, so those in charge are not necessarily influenced by profit and loss nor do they utilize economic calculation. The private depository institutions, however, must use some form of economic calculation in order to function. These institutions, as large and as vital as they are, are able to fail and go out of business, which was evident during the 2008

⁴ Hollenbeck

financial disaster, when many banks on Wall Street filed for bankruptcy. It's hard to imagine that any privately owned bank generating under the profit and loss system would ever offer negative interest rates to their borrowers. The bank would literally be lending out valuable assets in exchange for fewer assets in return. Based on this analysis, it would appear that negative interest rates would not have much of an effect on the rest of the economy because entities motivated by profit and loss would not utilize them.

At some level, it seems that the government would have to use some variety of coercion to integrate negative interest rates into the economy. Prominent Keynesian economist, Greg Mankiw, offers an interesting method for the government to do just that. He suggests that in order for profit-driven entities to offer negative interest rates, the choice to simply hold on to money must be rendered less attractive.⁵ As a result, he explains one such way a government could hypothetically render the prospect of holding money unattractive. In Mankiw's example, the central bank of a country announces that in a year, a number between 1 and 9 will be drawn out of a hat.⁶ In addition, the central bank announces that the serial number of any currency ending in the number that is drawn will no longer be legal tender.⁷ This would assumptively wipe out a tenth of the currency in the country. Now, through government manipulation of the federal funds rate, the interest rate at a bank could be a negative value, and there would still be an increase in investment. With the knowledge that a tenth of the currency was about to disappear, banks would no longer hoard currency in this situation, but instead be incentivized to lend at extremely low, even negative rates.⁸ There would be actual opportunities for these banks to lend, because entrepreneurs and other businesspeople would be enticed to borrow at such low

⁵ Mankiw

⁶ Mankiw

⁷ Mankiw

⁸ Mankiw

rates. The borrowers would quickly turn around and invest in order to get money out of their hands because they would also know that a tenth of the currency was about to disappear.

Mankiw's thought is implausible on so many levels, but there is at least one shred of truth that can be taken from it: It would take a situation equally as crazy to see negative interest rates integrated into the economy. Mankiw recognizes this himself. He proposes his lottery example not as an actual solution, but as a hypothetical thought only. There is truly no way to actually put a plan like this into action. Mankiw's plan actually has numerous issues as well. The plan to actually destroy a tenth of the currency in the economy could not ever be a smooth enough process to actually be effective. It wouldn't even result in a uniform interest rate.⁹

Interestingly enough, John Maynard Keynes actually has a bit to say on this topic himself. Now, Keynes does not talk about negative interest rate policy directly, but he does mention one way to make hoarding money look less attractive. In his *General Theory*, Keynes praises the work of Silvio Gesell, a German merchant and economist who introduced the idea of "stamped money," a concept that compares to Mankiw's lottery proposal.¹⁰ Gesell theorized that in order for the stock of capital to grow in a country, the rate of interest would have to decrease.¹¹ The method he proposed for decreasing the interest rate was to create a system where, in order for legal currency to retain its value, the owner of the currency had to pay to have it stamped.¹² Gesell preceded Mankiw and all other proponents of negative interest rate policy in promoting a tax on holding money. In essence, a negative interest rate is simply that, a tax.

⁹ Murphy

¹⁰ Keynes, 315

¹¹ Keynes, 315

¹² Keynes, 315

Without a scenario put in place by the government to make the prospect of holding money less attractive, negative interest rates will not go farther than the federal funds rate. As has been stated above, no for-profit bank would have any reason to offer a negative interest rate to borrowers unless the currency was somehow toxic or in bad standing. That is why this paper includes Mankiw and Gesell's examples. Negative interest rates are so counterintuitive to normal economic phenomenon that a crazy scenario similar to those suggested by Mankiw and Gesell had to have taken place in order to do any kind of economic analysis examining negative interest rates in the economy.

In the accounts of both Mankiw and Gesell, the government plays a crucial part in the upholding of the lottery system and the enforcing of the stamped money, respectively. The government is constantly manipulating interest rates in order to bring about some desired purpose. According to Austrian Business Cycle Theory (ABCT), government manipulation of interest rates is the chief cause of the boom-bust cycle that most economies experience. The logic of ABCT is fairly straightforward, but it must be rehearsed in order to show how Keynesians use negative interest rates to spur greater levels of investment. The process begins as the government, through the power of a central bank, engages in arbitrary credit creation.¹³ The government's main focus is to lend these funds out to depository institutions, and in order to do that, the government lowers the federal funds rate to an artificially low value. As banks come to possess these created funds, they also seek to lend the funds by offering an artificially low interest rate.¹⁴ Borrowers are then incentivized to capitalize on this low interest rate and invest in the production structure. However, this interest rate has not been determined by time preference

¹³ Von Mises

¹⁴ Von Mises

and subjective valuations, but by a government entity.¹⁵ As a result, the investments that the entrepreneurs were enticed into based on the artificially low rates are not truly sustainable. As time goes on, these investments do not pan out because the initial economic calculation used by the entrepreneurs was faulty.¹⁶ These “malinvestments,” coupled with inflationary credit expansion and low interest rates, create the “bust,” during which the malinvestments are liquidated and the central bank enacts deflationary policy.¹⁷

Through this rehearsal of ABCT, it is evident that interest rates play a causal role in the boom-bust cycle. ABCT illustrates the desire of the government to lower interest rates in concordance with increased inflationary policy in order to increase spending and investment levels. As has been established earlier on, that is exactly what Keynesians prescribe to rise out of a period of recession. In fact, going back to Mankiw’s lottery example, he explains that even if some people decided to consume, rather than borrow and invest, at the -3% rate, then the economy would still benefit because aggregate demand would be increasing.¹⁸ Keynesians will always support artificially low interest rates because they help increase aggregate demand. Negative interest rates will not have a different effect from the artificial rates introduced by the central bank in the rehearsal of ABCT.

Clearly, Keynesian economists are all too eager to spend their way out of recessions. Austrian economists devote much of their efforts attempting to poke holes in Keynesian theories, especially those that prescribe inflation and artificially low interest rates. Austrians directly oppose Keynes and highlight voluntary saving as the key to a naturally successful economy. The

¹⁵ Von Mises

¹⁶ Von Mises

¹⁷ Von Mises

¹⁸ Mankiw

definition of voluntary saving is the simple decision to hold off on present consumption in exchange for future consumption. While Keynesians fear saving because it does not increase aggregate demand, Austrians note that an economy fueled by individuals with low time preferences is primed for continued success. The best way to explain this concept is by using a common Austrian thought experiment that features Robinson Crusoe on a desert island. Crusoe is stranded on this desert island, and it is determined that the only way for him to acquire sustenance is by catching fish in the surrounding ocean. By simply wading into the water and pursuing the fish with his bare hands, Crusoe is able to catch only one fish a day. This fish is able to feed him for a day, and so he is able to survive by repeating this process day after day. Eventually, Crusoe deduces that if he were to fashion some kind of capital good to aid him in catching fish, like a net or spear, he would be able to increase his fish-catching productivity. However, in order for him to construct this capital good, he will need to forego at least one day of catching fish with his bare hands. This means, of course, that he will be unable to eat for one whole day.

Faced with this crucial decision, Crusoe decides to fashion a spear, and as a result, foregoes a day of fishing. Once the spear is finished, he goes down to the water to fish like he always does, but by using the spear, he is able to triple his productivity and catch three fish. Not only has Crusoe increased his productivity, but he has also increased the capital structure on the deserted island by creating a capital good. Now, because he delayed his present consumption and gave up a day of food, Crusoe has more fish than ever before. He can accumulate capital if he continues to eat only one fish a day and continuing to fish as he normally does.¹⁹ Crusoe in this example is not coerced into saving, nor is he doing it because he feels compelled. He simply has

¹⁹ Sanchez

a lower time preference, and prefers to have more in the future as opposed to a lesser quantity in the present. His preference to save has increased the capital structure and has also helped his one-man economy produce more consumer goods.²⁰

In addition to the importance of voluntary saving, Austrian economists also realize how incredibly important interest rates are to the rest of the economy. Without the presence of government interference, interest rates are important indicators for entrepreneurs as they utilize economic calculation to determine the viability of different investment opportunities.

What kinds of economic phenomena would result from a structure of negative interest rates in an economy? Using ABCT and deductive reasoning, there seems to be a logical flow of events that would occur, even if negative interest rate policy itself isn't ideal. For this "thought experiment," it will be assumed that negative interest rates have been implemented in the United States. Negative interest rates would first have to be established by the Federal Reserve in the form of the federal funds rate. The government would also have to be committed to inflationary policy at this time, so the desire would be to get the newly created credit out of the Federal Reserve as quickly as possible. The beginning of this story is exactly the same as the one used to frame ABCT. It's important to point out that in order for negative interest rates to actually be embraced by businesses and entrepreneurs, there would need to be some type of scenario that played out that was similar to both Mankiw and Gesell's examples. This experiment will operate under the assumption that the government has proposed a lottery, just like Mankiw. Now, when the Federal Reserve rolls out a negative federal funds rate, for-profit banks and others will still have an incentive to lend and invest.

²⁰ Sanchez

So, depository institutions borrow money from the Federal Reserve, and due to the impending lottery, they seek to pass on the created credit to borrowers as quickly as possible. Logically, the banks will have to offer negative interest rates because borrowers also know that the lottery will wipe out a tenth of the currency in the country. Normally, there would be very few people willing to borrow money with that kind of event on the horizon, but by offering negative interest rates and essentially paying people to take out loans, the banks would be able to find takers for the new money. Once the new money got into the hands of private firms and entrepreneurs, there would be a couple options for them. They would be looking to use the money to consume or invest as quickly as possible. They could hoard the money and simply refuse to do anything with it, but this wouldn't be the most attractive option, considering that a tenth of the hoarded currency could lose its value.²¹ Some may decide to use the new money to consume more.²² The person with the propensity to consume still benefits from the transaction; they were basically paid to take out a loan and they now spend the money on physical assets to avoid having the currency at lottery time. There would also be an opportunity for firms and individuals to either invest their new funds or try to loan it out again.²³ For a Keynesian, the rise in consumption, investment and disposable income is great for the economy because it increases aggregate demand. Austrian economists have absolutely no desire to see aggregate demand increase, and as a result, do not propose negative interest rates as a viable solution.

Even though negative interest rates have been introduced into this boom-bust narrative, it is crucial to see that nothing has changed. Entrepreneurs are still misled into malinvestments and recessions are still prevalent. An economy subjected to negative interest rates will continue to be

²¹ Barron

²² Barron

²³ Barron

plagued by the boom-bust cycle. Negative interest rates cannot be the answer to sustain economic growth.

Japan has been in the midst of a dangerous set of economic affairs for a while. It was one of a handful of countries to try out some experiments with negative interest rates. The country's recent struggles will provide an excellent real-world example of the damage that can be done by Keynesian policies.

How did things in Japan get so bad so fast? The short answer: a foolish adherence to Keynesian orthodoxy. In the 80's, Japan was thriving. It was outperforming the United States in its production capacity, and on top of that, it was producing quality products.²⁴ At the turn of decade, Japan's prosperity began to take a turn of its own. Japanese businessmen flushed with cash sought to invest in American real estate and production processes.²⁵ In 1991, the country ran into some trouble after American real estate investments that were purchased at a premium by Japanese firms quickly lost their value during a recession.²⁶ Other malinvestments made by Japanese firms started to send the country into a mild recession, and unfortunately, they looked to combat the impending bust by taking up the Keynesian playbook.

After the Japanese turned to Keynesianism, the writing seemed to be on the wall, as it were. Japanese authorities encouraged Japanese citizens to spend and consume more, rather than save, to increase aggregate demand.²⁷ Before the government decided to implement negative interest rates, the country experienced interest rates at or near zero, and the government spent more money than it ever had before by taking on numerous public works and infrastructure

²⁴ Anderson

²⁵ Anderson

²⁶ Anderson

²⁷ Anderson

projects.²⁸ From 1986-1990, the country inflated the yen by 10.5% per year.²⁹ As the years have progressed, Japan has given very little indication that they will deviate from their die-hard course of inflationary policy. The country continues to perform money experiments, and in early 2016, officials announced the arrival of negative interest rates.³⁰ Policymakers in Japan just continue to make head-scratching decisions. Sadly, the country's economics misfortunes will not change without a turn from Keynesian orthodoxy and negative interest rates. As was discussed earlier, negative interest rates do nothing more than exacerbate the problems associated with artificially low interest rates and inflation.

The European Central Bank has also been experimenting with negative interest rates lately. In April 2016, the ECB decided to drop its rate to -0.4%. Before this, the ECB had dropped its rates into the negative region for the first time in June of 2014, marking the very first time that a major central bank had made their deposit rates negative in an attempt to spur spending and investment.³¹ Thorsten Polleit and Ryan McMacken both discuss the moves to the negatives region by the ECB. Of course, the ECB is operating under the assumption that negative rates will help induce greater levels of government spending, investment, and consumption, which will together increase aggregate demand. However, many of the depository institutions that lend from the ECB have attempted new methods of avoiding these negative rates. In essence, the negative rates really act as a penalty or tax levied on reserves held at the ECB, so the subsidiary banks actually have every incentive to avoid the rates in any way possible.

²⁸ Anderson

²⁹ Herbener

³⁰ Brown

³¹ Polleit, "The Next Step..."

In the case of the ECB specifically, subsidiary banks have been avoiding negative interest rates by purchasing government bonds.³² These bonds will hold their initial value better than the deposits at the ECB, and if the subsidiary banks would rather not lend the funds out to other banks and consumers, the bonds are a very interesting option. This idea of avoidance is consistent with any scenario in which the government levies a tax or penalty. For example, when taxes on American businesses and corporations were increased considerably in the early portion of the 2010's, more and more businesses began to move their operations overseas in order to get away from the taxes. No subsidiary bank that is motivated by profit and loss would simply sit back and take a guaranteed loss by leaving funds in the central bank.

Returning to the situation of the ECB, the increased demand for government bonds has driven up the price of these bonds and lowered the yield of the bonds. As a result, the return on many European government bonds has been driven into the negative region. For example, German government bonds had dropped to nearly -2.5% per annum in 2017.³³

In addition to the negative return on government bonds, the negative discount rate at the ECB also had an adverse effect on the profitability of the subsidiary banks that borrowed from the central bank. With the interest rates surrounding them so suppressed, the banks have struggled to be able to generate significant returns on the loans they have issued.³⁴ The banks have also experienced a period of higher costs because they are unable to deposit reserves in the ECB without sustaining a loss.³⁵ As the ECB continues to inflate its supply of artificially created credit, the discount rate will continue to be artificially dropped, so these costs will continue to

³² McMaken

³³ Polleit

³⁴ Polleit

³⁵ Polleit

remain high.³⁶ There is also the looming threat of a run on cash imposed on these subsidiary banks.³⁷ In addition to setting a negative discount rate, the ECB is also pressuring its subsidiary banks to offer negative interest rates on deposits and loans as part of its “monetary experiment.”³⁸ However, this pressure could result in disaster for the subsidiary banks. Just as the subsidiary banks choose to withdraw their funds from the ECB in order to avoid the “deposit penalty,” individual depositors would also prefer to avoid said penalty. If a majority of the depositors do decided to withdraw their funds in cash, there is a distinct possibility that bank runs could be a reality.

Examining the decisions made by the ECB offered some insight into some macroeconomic consequences associated with negative interest rate policy. The example of the ECB also highlighted some ways in which banks and individuals could hypothetically avoid the adverse effects of negative interest rates. In the following pages, these consequences and avoidance attempts will be explored in greater detail, and more Austrian critiques of negative interest rate policy will also be outlined.

There is so much that can be criticized when it comes to negative interest rate policy. Obviously, the Keynesian support behind the theory is extremely concerning, but there are even more basic critiques that can be made. One of the most glaringly obvious is that the theory is in clear contention with the Austrian theory of time preference. As was discussed earlier, any rational actor will prefer some quantity of a good sooner rather than later. This means that time preference is indeed positive, so interest rates, by extension, are also positive. That being said, just the concept of a negative interest rate is completely contrary to logic. The praxeological

³⁶ Polleit

³⁷ Polleit

³⁸ Polleit

account of human action and time preference is both logically and practically consistent with observable human behavior.

Thorsten Polleit treats this topic very well by explaining just how absurd a zero originary interest rate is. As he explains,

“If the originary interest rate was near-zero, it means that you prefer two apples available in, say, 1,000 years over one apple available today. A *truly* zero originary interest rate implies that the actor's planning horizon or “period of provision” is *infinitely* long, which is another way of saying that he would *never* act at all but would continually push the attainment of his goals into the future.”³⁹

Just from a basic standpoint of human action, an interest rate cannot be zero, nor can it be negative. Because time preference is always and everywhere positive, no rational actor would ever lend money with the promise that they would get just as much money, let alone less money in the future. It is completely illogical. If a zero interest rate appears to be completely counterintuitive to the theory of time preference, then it follows conceptually that a negative interest rate would also be rendered illogical.

If negative interest rates are truly so illogical, then why are governments around the world continuing to experiment with them? In short, government officials do not really take into consideration what is logical and what is not. Policymakers and elected officials care only about the desired effect the policy is intended to have. Because many policymakers are taking economic advice from Keynesian economists, these policymakers are also dedicated to increasing aggregate demand by any means possible. Such focus on the intended ends as opposed to the means necessary to attain the ends may help explain why the government treats interest rates as magical levers that can be used to induce or curtail spending.⁴⁰ Robert Murphy

³⁹ Polleit, “The Natural Rate of Interest...”

⁴⁰ Murphy

addresses this critique in a piece he writes in response to Mankiw's article that supports negative interest rates at the Federal Reserve. Murphy's entire critique is quite robust, and it's well worth it to discuss his reservations about negative interest rates.

The title of Murphy's piece, "The Nuttiness of Negative Interest Rates," really sums up his thoughts about Mankiw's analysis and the Keynesian consensus of negative interest rates as a whole. One of his big points intended to undercut Keynesian orthodoxy is that Keynesian economists are unable to pinpoint exactly why recessions take place. To illustrate this, Murphy points back to the sustained recession in the United States that followed the 2008 housing bubble collapse. He criticizes Mankiw, who seems to suggest that the recession just popped up because consumers simply started spending less.⁴¹ Mankiw completely disregards the fact that the recession persisted because the Federal Reserve artificially lowered its target rate to as low as 1% when new credit was created in the early 2000's. It was this artificially low rate that further incentivized people to invest in the housing market when it was actually unfeasible to do so.⁴² Based on ABCT, it is evident that the unstable investment boom that followed was at the very least intensified by these artificially low rates. However, whether Mankiw recognizes this or not, he still advocates for negative interest rates sponsored by the Fed. Mankiw is effectively advocating for a policy that had a large role in creating one of the worst recessions in the history of the United States and the world. If Mankiw truly understood the cause of recessions, he would not be pushing for negative interest rate policy.

One of Murphy's biggest criticisms is that the market does not need to be aided in any way in order for it to reach equilibrium. Mankiw seems to suggest that government intervention

⁴¹ Murphy

⁴² Murphy

through Federal Reserve policies is actually beneficial for the economy.⁴³ He goes further to suggest that the government can actually help increase the amount of savings in an economy by committing to inflationary policy.⁴⁴ Based on the Austrian concept of voluntary saving, as well as the numerous critiques of negative interest rates that have been posed, Mankiw's argument can be deemed false almost immediately. It has been established that negative interest rates encourage entrepreneurs to malinvest and increase consumption spending. In fact, there would actually be a disincentive to save money by depositing funds into an interest-generating account because the interest rates would be negative. Any person that attempted to save money in such a way would actually be taxed for keeping their money in that kind of bank account.

Paul-Martin Foss brings another important criticism to light when discussing negative interest rate policies. He is also under the impression that the push for negative interest rates is nothing but a concentrated effort on the part of Keynesian economists to increase levels of aggregate demand.⁴⁵ In his critique, he points out that when central banks issue negative interest rates, they are really just handing out free money.⁴⁶ In other words, borrowers are basically given a monetary incentive to give out loans because they are not required to pay back as much as they borrowed. Foss then ponders why so many economists support negative interest rate policy but are vehemently opposed to the idea of helicopter money, which is simply the idea of giving everyone a lump sum of money for nothing in return.⁴⁷ Economists have come to a consensus that just giving everyone a large lump sum of money will not help anything. Prices of and the demand for many goods would shoot up so high in this scenario as everyone's disposable income

⁴³ Mankiw

⁴⁴ Murphy

⁴⁵ Foss, "Dumb and Dumber..."

⁴⁶ Foss

⁴⁷ Foss

increased by so much.⁴⁸ In reality, there is not much of a difference between negative interest rates and helicopter money because in both cases, people are receiving free money. So then, why do economists support negative interest rates and not helicopter money?

Foss's aim in this article is to show that Keynesians who support negative interest rates are critically confused by the actual effectiveness of the policy. They fail to see that negative interest rates and helicopter money have similar negative consequences. Keynesians are not keen on helicopter money not because they disagree with the economics behind it, but because they think that giving out a larger sum at one time is a bad idea.⁴⁹ This just shows how very confused they are. Giving people free money, whether in the form of a negative interest rate or a large lump sum, is a terrible idea to boost an economy. However, a quote from former chairman of the Federal Reserve and prominent Keynesian, Ben Bernanke, epitomizes the Keynesian school's commitment to using any means necessary to aggregate demand.

"Like gold, U.S. dollars have value only to the extent that they are strictly limited in supply. But the U.S. government has a technology, called a printing press (or, today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes at essentially no cost. By increasing the number of U.S. dollars in circulation, or even by credibly threatening to do so, the U.S. government can also reduce the value of a dollar in terms of goods and services, which is equivalent to raising the prices in dollars of those goods and services. We conclude that, under a paper-money system, a determined government can always generate higher spending and hence positive inflation."⁵⁰

Bernanke ignorantly omits necessary components of economic growth, such as a robust capital structure, an efficient division of labor, and of course, voluntary saving. Instead, his words reveal quite clearly that he, along with other Keynesian economists, is more than willing to manipulate the money supply in order to achieve increases in aggregate demand. It is this

⁴⁸ Foss

⁴⁹ Foss

⁵⁰ Foss

foolish commitment to propping up aggregate demand that has led Keynesians to turn to negative interest rate, despite the unfavorable historical results.

Negative interest rates are not natural in a normally functioning economy. The natural interest rate, born out of the theory of time preference, is always and everywhere positive. It is only through the manipulation of the government that this rate can ever be forced into a negative region. Negative interest rate policy is supported by Keynesian economists in order to increase aggregate demand. Despite the fact that governments often cause recessions by artificially lowering interest rates in order to incentivize people to borrow newly created credit, Keynesians still hold up negative interest rates as a way to increase levels of spending and investment. However, negative interest rates do not fulfill the beneficial purposes they are intended to serve. In fact, empirical evidence continues to prove that negative interest rates are actually counterintuitive to economic prosperity. Many critiques have been offered by Austrian economists, who seek to show that negative interest rates are used as Keynesian policy tools and nothing more. Based on these Austrian critiques, it is clear that negative interest rate policy is unsound and should therefore not be implemented into an economy.

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