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Fed picking savers' pockets for $500M

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Ben Bernanke is trying a new “twist” on Robin Hood: Taking from Americans who have carefully stashed money away, in order to bail out debt-laden spenders.
That’s the fallout from the Federal Reserve’s zero interest-rate policy, and it has cost US households an estimated $500 million a year in personal interest income since the Fed slashed rates in 2008.
The Fed argues the historically low rates are needed to help underwater homeowners refinance their mortgages and revive the ailing economy. But critics say they’re hurting savers by robbing them of hundreds of millions of dollars in lost income.
“We’re punishing people who did the right thing,” says Christopher Whalen, an outspoken bank-industry analyst. “A lot of grandmas out there who put money away can’t survive, because their savings aren’t paying any interest.”
Retirees and other savers might not mind as much if the Fed’s strategy were working, but the low interest rates are discouraging banks from offering loans, because they’re loath to lock in such paltry rates.
The Fed “is saying savers should suck it up because they’ll be better off if the economy turns around,” says Mark Calabria, the director of financial-regulation studies at libertarian think tank the Cato Institute. “If that was really the case, people would look at it differently.
“If you add that up over the last several years, it’s probably two times the effect of what the stimulus was,” says Calabria. “And the effect is negative.”
The outcry over the massive transfer of wealth intensified recently after Bernanke pledged to not ratchet up rates for another two and a half years.
One harsh critic is Rep. Paul Ryan (R-Wis.), a name bandied about as a candidate for the Republican vice presidency, who calls the policy a bailout for debtors.
While the low rates have been a boon for those who can refinance, pay less on their mounds of household debt or get great financing on a new car, many Americans have been shut out.
“You hear about teaser rates, but most people can’t borrow at those rates,” says Whalen. “Banks are being cautious, and they’re not getting paid [enough interest] to take risks.”
Perhaps the biggest beneficiary of the zero interest rate policy — “zirp,” for short — is the federal government.
“The rates are facilitating deficit spending because of the cheaper cost of borrowing,” says Calabria. “What’s missing is that the policy is making it far less likely that banks will lend to the private sector.”