Countries Adopt Negative Interest Rates

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February 17, 2016

While the U.S. has recently raised interest rates for the first time since the 2008 recession, other countries around the globe are going in the opposite direction. Japan recently joined Switzerland, Sweden and Denmark in dropping its key interest rate below zero, into negative territory, as a means of stimulating economic activity.

The move toward sub-zero rates is the latest effort by governments to reverse a worldwide economic malaise, but so far hasn't had a significant impact. "Believe it or not, this is a scheme for getting market interest rates to eventually go higher," says George Selgin, economist with the Cato Institute. "But if the goal is to revive bank lending, and lending in general, which I think is what all this is ultimately about...there's a lot more that can be done besides messing with the interest rate on bank reserves."

Selgin sees the trend toward sub-zero rates as the latest example of governments tweaking, fiddling, and generally interfering in the private economy in the years since the Great Recession. "It's a classic case of shutting the barn door tight after the horses have bolted," he says. "And I think they should consider whether the pendulum has now swung too far in the direction of overregulation."

So far, there are no plans to drop U.S. interest rates into negative territory, but in recent testimony Federal Reserve Chair Janet Yellen didn't completely rule out the possibility. If it were to happen here, Selgin believes negative rates would actually harm those holding money in the banks. "We're the ones that (negative) return will be passed on to, not the banks themselves," he says. "So for savers it's very bad."