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Interest Free Debt!

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Imagine paying no interest on a mortgage . . . no interest on a car loan, no interest on a farm! Imagine the possibilities!

Now imagine you are a senior, and you don't need a mortgage, a car loan, or a farm. Instead, you have some money in the bank and you are hoping that your savings will grow because of interest. No interest on loans also means no interest on savings.

This is a bizarre idea. You might even think that it could not happen in the real world, but it is happening right now in Japan and a few European countries. The Governor of the Bank of Canada, Stephen Poloz, is also considering this possibility.

The idea is that if interest is low, people will get their money out of the bank and into the economy where it could do more good by stimulating the economy.[1]

So what would happen if we dropped interest rates to zero, or even into the negative zone? The already meagre interest that you receive in your savings account could dry up completely. You would be smarter to put cash in your drawer than keep it in a bank, where the negative interest rate will show up through higher service charges. Investment in companies would also be tricky as they could get almost-free money from the bank; why would they need shareholders? This is probably the most challenging aspect economically: investors who demand an eventual dividend are a greater incentive to business innovation than an interest-free bank loan. Loans, while interest-free, would probably not be completely free as banks charge fees and insurance on loans, but the whole idea of having shareholders could take a beating.

Whenever we look at economic issues, we have to look at the moral implications. God required that His people not charge exorbitant interest; zero interest would seem to make this irrelevant, but credit card companies and other short-term lenders still do engage in usury despite a backdrop of low interest rates. CHP policy would limit these practices.

On the other hand, CHP also has a policy for low to no-interest loans to municipalities for necessary infrastructure. This also seems redundant if interest rates were dropped. But CHP's policy is not about unlimited free money; it's smarter than that. CHP's policy would have the Bank of Canada create money for infrastructure loans, but then retire the money as it is repaid so that it would not cause inflation. This is important, and it should also raise the alarm on plans for negative interest rates.

Because banks are allowed to lend out more money than they have on hand, they could still make money through inflation even if interest were zero or negative.

High levels of consumer debt, which are already a problem, are perceived as being less problematic with low interest, and this trend would continue if rates keep dropping. Our economy may need incentive, but not to take on more debt! Ultimately, banks, which always seem to have the upper hand, could be victims of our irresponsible society that would continue to default on its obligations.

Getting back to inflation, if inflation increased (and there would be upward pressure) the result would be a de-valued dollar. This is already happening at a rate of 2-3% a year with our current practices. Couple that with savings accounts that earn no interest, and you have a recipe for the quick erosion of hard-earned savings.

So inflation and bigger debts would be the negative results of negative interest rates — what else? The real estate bubble would get fresh hot air. This sector of our economy, which least needs encouragement, would be pushed upward by cheap money. In the short time that Sweden has had negative rates, they have seen this happen.[2]

My advice? Despite a slow economy, the Bank of Canada should not lower interest rates into the negative.

Here's why: Economic problems are a result of moral problems. The scope of our current problems ultimately has less to do with interest rates and more to do with demographic imbalances. We have an aging population that increasingly pays less in taxes and requires more in health care costs etc. Cripplingly low birth rates in the West have meant that retiring baby-boomers are not being replaced by an equal number of younger taxpayers. Upcoming generations have been decimated by abortion, notoriously in China with its one-child policy, but also in Europe and North America. Canada's short-term fix (abortion) to a moral problem (promiscuity) shows in our economics. Even if our birth rate were to increase tomorrow, the next 20 or 30 years would still be difficult. If birth rates do not change, the decades ahead will be disastrous!

Let's start by acknowledging the root causes of our economic challenges and becoming more informed about our present situation. Then we can make better decisions about our future. That is what CHP is doing.

Join us[3] if you are not already a member and help us to inform, warn and guide our culture.

Footnotes

[1] business.financialpost.com/news/economy/how-canada-is-flirting-with-a-bizarro-world-of-negative-interest-rates

[2] business.financialpost.com/news/economy/canada-could-adopt-negative-interest-rates-within-the-next-two-years-citi-says

[3] www.chp.ca/get-involved

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