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Negative interest rates and their effect on humans

Author
Stefan Schneider
+49(69)910-31790
stefan-b.schneider@db.com

www.dbresearch.com

Deutsche Bank Research Management
Stefan Schneider

What should an honest and law-abiding German citizen think when their finance minister, a high-ranking representative of the state, is investigating whether he can protect them from the actions of another state body, the central bank? This is exactly what the Bavarian Prime Minister Söder is calling for: a ban on negative interest on bank deposits (up to a certain level), whose chances of realisation are now being examined by the Federal Ministry of Finance.

The public debate is dominated by rejection, which we share in principle. Such a ban would represent an encroachment on the freedom of contract under private law and, in general, this would be a massive market intervention and should therefore be taboo, one hears from some who suddenly rediscover their ordoliberal conscience. The affected savers might think differently. In addition, citizens will probably ask themselves to what extent is it still a functioning market where one actor absolutely dominates the supply in terms of both quantity (by more than tripling the size of its balance sheet) and price (by introducing negative deposit interest rates), thus completely unhinging the market. Even citizens less savvy in economic matters may ask themselves how it can be that they will now be charged a penalty tax for their urge to provide for the future, which up to now has had high moral value and which was put into their cradle through evolution and socialisation. For negative interest rates are nothing else.

From social psychology we know that such cognitive dissonances endanger our self-concept and threaten our self-esteem, but also that the attempt to reduce this dissonance often leads to errors of perception and thought. This can lead to resignation, one simply accepts the new situation and tries to make the best of it – a reaction that seems to dominate the financial markets with their rather short-term herd behaviour. With regard to citizens it seems to trigger a loss of confidence in state institutions, as a new Forsa survey again shows. There are certainly additional reasons for this. But one should ask oneself how the behaviour of citizens in general could change when the market, where the future is assessed, signals to them that a future orientation – at least in the form of savings formation – no longer pays off. Unsettled and orientation-seeking citizens could withdraw even more from social discourse or turn away from established parties and seek their fortune with those who lure them with simple explanations and solutions and perhaps serve their prejudices.

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In his book, “Sapiens” the historian Yuval Noah Harari describes modern society that was only made possible by the collective belief in a better future. This belief provided companies with the opportunity to finance their investments – which would only yield profit in future – by credit. Credit is provided by savers and banks, both confident that the future bigger pie of resources will allow for repayment. He describes a virtuous circle where confidence in the future enables more credit which triggers more growth and thereby boosts confidence further, in which the future bigger pie explains positive interest rates. Negative interest rates might convert this virtuous cycle into a vicious cycle. Concerns that the confidence in the future will be damaged by the disappearance of positive rates should, therefore, not be brushed off easily.

Yes, one can insinuate that given that I work for a bank my arguments are also pro domo. After all German banks have to pay €2.3 billion annually to the ECB, just because of the negative deposit rate of -0.4%.

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