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OP/ED | 12/12/2012 @ 9:02AM | 1,978 views

Ben Bernanke's War On Senior Citizens

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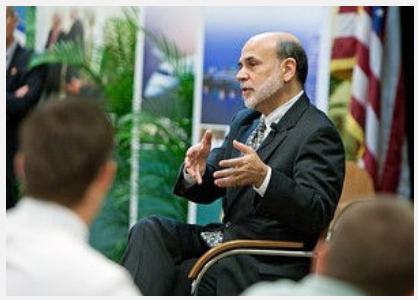

Federal Reserve System Chairman Ben Bernanke speaks to an economics class. (Image credit: Getty Images via @daylife)

Uncle Sam has been waging an undeclared war on seniors for the past decade. With interest rates at historic lows and with the Federal Reserve ("the Fed") poised to keep them artificially low for *years*, senior citizens will be left standing alone at the Great American Debt Dance.

To understand the miserable position seniors are in, some economic history is in order. According to the Census Bureau, from 1998 through 2005 the median senior citizen's net worth grew an average of 11 percent per year. Of course, home values were rising over this period, but if we subtract the growth in home prices, the median senior's net worth still grew by an average of 8 percent annually.

That party ended in 2005. From 2005 to 2010 (the last year for which data is available) the median senior's net worth declined an average of 2.8 percent per year—a particularly troubling situation for those who are retired and rely on their accumulated savings to live.

The decline in home values played a part, but only a part. From 2005 on, seniors saw their accumulation of wealth slow by between 12 percent and 14 percent annually, depending on whether one counts changes in home values. *Why have seniors' net worths taken such a staggering hit?* The answer is shockingly simple: By holding interest rates at or near zero for so long, the Fed has been forcing seniors to switch to riskier investments like stocks and mutual funds just to maintain their standards of living.

This switch has ultimately caused many seniors' traditional sources of investment income to dry up. Because they don't have many years in front of them to make up investment losses, seniors want to rely on safe investments like savings accounts, certificates of deposit (CDs), and U.S. savings bonds, all of which pay lower returns than more risky investments, like stocks and mutual funds, which reward investors for incurring risk.

And, these higher return investments expose seniors to risks from which they may not be able to recover given their ages. From 1998 to 2010, the median senior reduced his savings in U.S. savings bonds by an average of over 11 percent per year, but increased his savings in stocks and mutual funds by almost 8 percent per year.

So why is the Federal Reserve forcing seniors to take on more risk? One answer is the national debt. Decades of excessive government spending have left the U.S. government $16 trillion in debt. And, the size of the debt puts pressure on the Fed to keep interest rates low: At $16 trillion, Washington's debt is so large that just a one percentage point increase in interest rates could increase the government's annual interest expense by as much as the annual cost of the Iraq and Afghanistan wars combined.

Because the Federal Reserve answers to the government—the same government that must pay the interest on the debt it accrues—it is no wonder the Fed has declared that interest rates will remain at historic lows. This is the only way Washington can keep borrowing and spending at its staggering pace.

If the Federal Reserve allowed interest rates to return to their long-run average, the amount the government spends each year on interest on the debt would rise by $500 billion. That's equivalent to the entire economy of Ohio. To avoid this expense, the Fed must hold interest rates low. But in order to hold interest rates low, the Fed must increase the money supply, which leads to inflation. And inflation, by diminishing the purchasing power of our dollars, hits hardest those who rely on their savings and on fixed incomes to live: seniors.

Non-economists often ask why we should care about the government's debt. We should care because, in one way or another, we the taxpayers are going to pay for this debt. Our seniors have become the canaries in the coal mine. If we don't stop runaway debt, Uncle Sam's war on seniors will soon spread to become a war on all taxpayers.

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This article is available online at:
http://www.forbes.com/sites/realspin/2012/12/12/ben-bernankes-war-on-senior-citizens/