**We Need the Pain that Comes with More Saving**

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The endgame of monetary side manipulations is upon us. Since 2008, central banks have done what they thought was needed to bring the markets back from the pain they experienced during the crash. The problem, of course, is that these Keynesians and Monetarists placed the high level of stock markets as the goal of “policy” and confused booming asset levels with economic growth.

The enemy of prosperity, in the eyes of global economic policymakers, is the desire of the consumer to save and  businesses to refrain — even in the short term — from investment. As such, their “solution” was the very poison that has infected the Western world over the decades: more credit, lower costs of money, more push for “consumer demand.”

#### The Current Orthodoxy Is Failing

But “easy” monetary policy has merely led to debt-ridden economies and a bubble that is increasingly being exposed as a complete farce. January saw a market pullback tease that reminded investors that what was pushed up artificially can’t be sustained forever. Monetary policy, even if it goes to negative interest rate territory with a vengeance, isn’t going to be the miracle drug needed to provide a better economic foundation. Austrians have long known this. The mainstream is[just starting to publicly admit it](http://www.wsj.com/articles/negative-rates-wont-save-japans-economy-1454347656).

#### The Savings-Glut Myth

However, the right lessons are not being learned by either the economic policymakers or the financial pundits. In fact, the most dangerous economic fallacies still underlie their entire financial worldview. For instance, there is the ever-constant theme that there is a “glut of savings” and that low consumer demand is the chief villain that stands opposed to economic stabilization. Martin Wolf, writes in The Financial Times:

that the [global economy](http://www.ft.com/topics/themes/Global_Economy) is slowing durably. The OECD now forecasts growth of global output in 2016 “to be no higher than in 2015, itself the slowest pace in the past five years”. Behind this is a simple reality: the global savings glut — the tendency for desired savings to rise more than desired investment — is growing and so the “chronic demand deficiency syndrome” is worsening.

The proper economic way of thinking does not blame the economic pain on savings, nor does it desire an artificial, government-driven, attempt to coax people into consuming and “investing.” In fact, the economic reality of the situation is that savers are to be praised, not admonished; and that the refraining from consumption is the very means by which malinvestment can be most swiftly liquidated.

For the [Austrian-school thinkers](https://mises.org/library/economic-depressions-their-cause-and-cure), the collapsing of the bubble that results from people “hoarding” their money and refusing to purchase over-priced “assets” is the precondition for future economic growth. This is because [it is the bubble, not the bust, that is the problem](https://mises.org/library/why-we-need-recession). The bubble is the time of malinvestment and mismatch between consumer time preferences and resource allocation that results from the artificial expansion of the supply of money. It is the falsification of interest rates that encourages investment into areas that the economy is not prepared to handle. And while in the near term the bubble appears as prosperity and good times, it is actually the very seeds of destruction being sown. It is this piece of the boom-bust cycle that is destructive and impoverishing. The bust is merely the needed adjustment that gives society the wonderful opportunity to “start over” and do it right this time. Unfortunately, we never actually get to do things right, because the economic bureaucrats in our unfree-market system fear the bust more than the boom. They have it all backward!

#### How Saving Heals the Problems Caused by Bubbles

So then, the so-called “global savings glut,” has the economic role of encouraging the readjustment of capital asset prices back toward their proper levels. The refusal to participate in the bubble, it is true, is harmful for the overvalued stock market levels worldwide. But what the mainstream does not understand is that overvalued stock market levels is a result of the underlying rot in the system itself. The pain to be experienced in a collapse will surely shock an entire generation of unprepared retirees, especially those relying on pension levels which are tied closely to stock market performance in the near to medium term.

But if the economy is ever going to slough off generations of central bank-induced malinvestment, if the economy is ever going to shift to a proper and sustainable foundation of capital accumulation, if future generations are going to live in a truly prosperous world, the pain is unavoidable. Propping up the markets and encouraging misguided consumption and malinvestments will be the death blow to western civilization. Only near-term pain can allow long-term growth. Economic savings are the cure, and to be welcomed with open arms.