Dear Mr. Nader and Mr. Vidal:

Thank you for your recent letter. My colleagues and I are very well aware that many savers are frustrated by the very low returns their savings earn—and that this has caused hardship for some of them, particularly seniors on fixed incomes. These low returns, to be sure, are partly a reflection of the Federal Reserve’s monetary policy. But, more fundamentally, the low returns are caused by the continuing aftermath of the financial crisis and the severe recession that followed it. Thus, the fundamental remedy for low returns to savers is restoring the economy to prosperity so that it can support higher returns. That has been and continues to be our goal, in keeping with the objectives assigned to us by the Congress: maximum employment and price stability.

It may help to review a few basic facts. In 2007 and 2008, the world faced the most severe financial crisis since the Great Depression. The unemployment rate in the ensuing economic downturn climbed to 10 percent in the United States. In response, the Federal Reserve acted forcefully—reducing short-term interest rates to near zero and helping lower longer-term rates, including mortgage rates, to historically low levels. These lower borrowing costs for millions of American families and businesses helped support asset prices—including home prices and, as you note, stock prices. More importantly, by making large consumer purchases more affordable and encouraging businesses to invest, low interest rates supported the economic recovery and the creation of millions of jobs. Indeed, the most recently reported unemployment rate, 5 percent, underscores the progress we have seen. Americans generally have benefited, most particularly lower- and middle-income people affected disproportionately during the downturn.

Would savers have been better off if the Federal Reserve had not acted as forcefully as it did and had maintained a higher level of short-term interest rates, including rates paid to savers? I don’t believe so. Unemployment would have risen to even higher levels, home prices would have collapsed further, even more businesses and individuals would have faced bankruptcy and foreclosure, and the stock market would not have recovered. True, savers could have seen higher returns on their federally-insured deposits, but these returns would hardly have offset the
more dramatic declines they would have experienced in the value of their homes and retirement accounts. Many of these savers undoubtedly would have lost their jobs or pensions (or faced increased burdens from supporting unemployed children and grandchildren).

It remains critically important for all Americans, including savers, that monetary policy continues to foster economic expansion and stable prices. We all hope and expect that the economy will continue to expand, that the jobs market will continue to make progress, and that inflation will move toward our 2 percent price stability objective. If that is the case, my colleagues and I have indicated it will be appropriate to begin to normalize interest rates. Most of us expect the pace of that normalization to be gradual. An overly aggressive increase in rates would at most benefit savers only temporarily. Rather, it would undercut the economic expansion, necessitating a lasting return to low interest rates. Other countries have paid a heavy price for being forced to reverse course. Japan, where interest rates have remained near zero for most of the past 25 years, serves as a cautionary tale.

Let me close by assuring you that, as directed by the Congress, we focus squarely on policies that improve the lives of all Americans by fostering maximum employment and stable prices. That is the surest contribution we can make to promote the welfare of savers or any other group in society.

Sincerely,

Janet L. Yellen