MVAM Newsletter

'For the Future should we be looking to Austria's past??' November 2020

Austria is a little country with a big past. But we are not thinking of its connections to world wars or empires of the past. We are thinking of a celebrated monetary experiment.

In 1930's Austria unemployment was high, poverty pervasive. Drastic times called for drastic measures. Step up the newly elected mayor of a little town called Worgl. Michael Unterguggenberger had a long list of civic projects needed to be done but little money to do it. So instead of spending what money he had, he deposited the money in a bank and issued the town's own currency. The clever thing was that there was a 1% stamp duty to pay on the holder of the currency at the end of each month. Everyone who held the money therefore spent it quickly. The result of this fast circulating money was jobs were done; streets were paved. To this day the town has a bridge built in that period that bares the plaque "built with our own free money".

Worgl' s experiment was effectively an experiment in negative interest rates. Negative interest rates occur when savers pay interest rather than having it paid to them by a bank or a borrower. Think of that!! It is uncomfortable enough to think that your money just sits in the bank account earning nothing, but having it actually shrink!! It would be enough to change your savings habits wouldn't it?

History has examples of negative interest rates other than Worgl. Ancient Egypt and Medieval Europe were both periods where people were charged for holding assets. The record shows that during these times people spontaneously created buildings and artforms that last pretty much forever. We still visit them on our holidays…when we are allowed. If we are about to embark on a period of negative interest rates the monuments of the 21st century are likely to be more productive than the pyramids of old. Windfarms or floating cities or even new forests. With the cost of money being nothing, or indeed governments, banks, paying you to borrow money, we can afford to think much longer term about the returns we need on our investments. Oak trees rather than firs trees?

Despite these examples the jury is out on whether negative interest rates are a good thing for the economy but the impact on the stock market, at least for the short term is clearer. Company dividends will be about the only place where money could earn any sort of return. The recent strong stock market rally may well have been driven by the demise of Trump and news on a vaccine but the increasing acceptance of a move towards negative interest rates is beginning to affect investment perceptions. In the long run, for stock markets, it is always the economy that counts. But with stocks battered by the Covid crisis, and a rebound in economic activity in 2021 almost certain, the new future of interest rates is likely to see the stock market continuing its recent good form for some time to come…

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