When the Federal Reserve intervenes in the market for loanable funds, it is inherently picking winners and losers. Who is helped/hurt by extremely loose monetary policy? As a general rule borrowers are helped and savers are hurt. Let’s break those categories down further.

**Borrowers**

When the Federal Reserve expands the money supply, short term interest rates fall. This makes it cheaper for people to borrow money over the short run. In theory, it means that people might be more likely to put more debt on their credit cards (buy things they can’t afford) or buy a new car (preferably from Government Motors.) Businesses borrowing for new investment is cheaper, but only if it’s an investment that is quickly repaid. Nominal long term interest rates, all things being equal, will tend to increase as the newly expanded money supply is likely to cause long run inflation (or at least inflationary expectations.)

It shouldn’t be surprising, then, when businesses don’t rush out to spend a lot more money even when short term interest rates are low. New factories take years to pay off. In fact, business investment is so unresponsive to super-expansionary monetary policy that Federal Reserve executives themselves describe such policy as trying to push on a string.

Most home buyers take out loans for 30 years. Expansionary monetary policy that lowers short term interest rates won’t do much to lower a 30 year mortgage interest rate. While all borrowers are equal, some are more equal than others. The Federal Reserve, along with the federal government, has specifically targeted mortgage owners as a class of people they want to help. By buying up, or securitizing, mortgage backed assets, The Fed is actively intervening to make it cheaper to borrow money to buy a house. In this way, they move to direct capital in the US out of the building of new machines, tools, equipment, and factories, and into [really big homes for Americans](http://www.smh.com.au/national/home-truths-australia-trumps-us-when-it-comes-to-mcmansions-20091129-jyva.html).

**The Bankers**

Banks enjoy loose monetary policy because it lowers the cost to them of obtaining money to loan out. The Fed is practically giving away free money to banks that they can turn around and loan out at a positive interest rate. I’ve never met a banker who doesn’t want more deposits in their bank. Nor have I run across one that would prefer to pay high interest rates on CD’s and savings accounts in order to induce savings to their banks. Loose monetary policy is a banker’s paradise.

Because banks made so many bad loans, The Fed has decided to rig the economic system to help bankers make money more quickly than normal to help them restore their balance sheets. In this way the mortgage aid from The Fed can be viewed as less about people keeping “their” homes and more about shoring up bank’s balance sheets that are full of underwater loans. [The Fed’s appetite for making sure that bankers make money isn’t confined to US banks.](http://www.bloomberg.com/news/2011-04-01/foreign-banks-tapped-fed-s-lifeline-most-as-bernanke-kept-borrowers-secret.html)

If only we all had a friend like that. Overdo it partying the night before? No worries, Bob will show up to work for you in the morning and do your work until lunch. Can’t make it to work by lunch? Well, then he’ll just have to stay around until you make it in. Hopefully you’ll be back in gear for the weekend.

**The Savers**

Now for everyone’s favorite target: the savers. How dare people save for retirement, their kids’ college education, a new car, a even a new house! Clearly these people have too much money if they can afford to save some of it. Why should they be allowed to hold onto their money when other spendthrifts are out of money and *need* more? The WSJ today finally points out the [pitfall of easy monetary policy for savers](http://online.wsj.com/article/SB10001424052748703410604576216830941163492.html?mod=ITP_pageone_0).

Loose monetary policy means that The Fed creates a bunch of money to compete with the savers’ money so that they can’t earn a very good rate of return on their savings. Why should a bank pay me a 5% interest rate on a CD when they can get money from the Fed for ¼ of 1%? Obviously, they wouldn’t. Savers (and banks that didn’t make bad loans) should have been rewarded for being fiscally responsible, but instead The Fed has come in and punished them. That’s an odd policy for a country whose long run economic growth depends upon increasing its savings rate.

**Review**

Let’s review. The Fed’s easy money policy encourages consumption of things we can’t afford, misdirects investment from industry to housing, rewards irresponsible bankers and borrowers, makes it harder for people to responsibly save for college or retirement, and slows down long run economic growth by depressing overall US savings rates. It does make me wonder what they would do if they hated America. With friends like this, who needs enemies?