

## [Ros Altman is \(almost\) right on Quantitative Easing](#) [1]

Written by [Whig](#) [2] | Wednesday 22 February 2012



Ros Altman, Director General of Saga Group, upbraided the Times for praising QE in a letter yesterday. As Altman rightly argues, QE diminishes the incomes of pensioners and the savings of future pensioners: 'QE has permanently impoverished more than a million pensioners, and thousands more purchasers will receive reduced pensions each week'. Altman also points out that QE has a more subtle impact on the economy: 'pension liabilities and deficits rise when gilt yields fall, forcing companies to divert resources into their pension funds, rather than growing their businesses.'

She states that, as a result, 'QE transfers money from middle-class pensions to banks and borrowers, which will reduce long-term [economic] growth in our ageing population'. Altman is quite correct, even if QE is not also adding to more latently to inflation - which may well be the case, further adding to its redistributive effects. Of course, many borrowers are also 'middle class' pension savers. For instance, many people saving via pensions are simultaneously borrowing via mortgages who are being simultaneously punished and rewarded. Either way, class is not a relevant issue here, the issue is whether borrowers - including the government - should be given preferential treatment over savers.

There is a broader point, moreover, that the state is arbitrarily reallocating resources between different groups without the groups themselves, in many cases, and perhaps even the government being aware that it is doing so. Whilst explicit redistribution is problematical, this sort of redistribution is far more pernicious. The impoverishment of pensioners and creation of further disincentives to save throws them even further into reliance on the largesse of current and future taxpayers as well as being destructive of capital formation.

One might quite fairly observe, contra Altman, that pensioners have been unfairly benefitting for taxpayer-funded government borrowing in the form of interest and capital growth in gilts. Two wrongs, however, do not make a right. Further, pension funds are hardly to be blamed for investing in gilts as they present an artificially lower risk than other investments (although clearly not, in the case of some sovereign debt!), not to mention that pension funds are mandated into doing so. As well all are aware, or should be, government fiscal intervention diverts resources from productive areas of the economy and more efficient uses of scarce resources and thus crowds out economic growth. Hence we observe the stagnant, heavily indebted economies of Europe, the USA and Japan not to mention heavily-indebted developing nations with large fiscal burdens funded by inflationary monetary policies.

Unfortunately, Altman rather blots her copybook by arguing that 'the authorities should find ways to lend to small firms directly'. Picking of 'winners' by governments is notoriously unsuccessful and no way to grow

an economy. It also carries the risk of incurring further liabilities on the taxpayer if such firms are unviable. Further, Altman argues that government should 'harness pension fund assets to underwrite infrastructure projects.' This dangerous idea, which has recently been floated by the Chancellor, seems to present carte blanche to governments to 'invest' assets in their favoured white elephant schemes as no doubt HS2 will turn out to be. Pension funds should be left to decide which assets will bring returns, not have the state decide for them. If this latter idea takes root, we're all better off storing our savings as gold bars under the bed. In the final analysis, the state simply should not be in the business of interfering in how much credit is available in the economy; this has been tried and tested to destruction, or pretty near it. The real solution is to prevent government manipulation of supply and demand for savings, borrowing and credit-creation via the mechanisms of central banking and fiat currency.

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