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## Time Is Money

By Bob McTeer

*If you've got the money,  
honey, I've got the time.  
-- Lefty Frizzell*

We all know that time is money. When we are young, most of us have more time than money, and we're eager to exchange the former for the latter. As we reach a certain age -- as time becomes scarcer and more valuable to us and money more plentiful -- the opposite trade works better for us. We become more willing and better able to buy time with money.

Most of us value the certain present over the uncertain future, in other words we have what economists call a "positive time preference." But we differ on the degree of our positive time preference. Some of us must be compensated highly to forego present consumption for future consumption. Others of us are natural savers and can be bought off more cheaply. The trade-off is captured in the question of whether you'd rather have a fifth (of spirits) on the 4th of July or a quart -- a fourth -- on the 5th of July. Most Americans would

probably choose a fifth on the fourth; most Chinese would probably choose a fourth on the fifth. Other things equal, this means that interest rates would likely be higher in the U.S. than in China, at least on the 4th of July.

An equilibrium constellation of interest rates implies that those rates just balance out our varied time preferences. At the margin, the relevant interest rate just compensates the most reluctant saver for deferring consumption. At that level of rates, some of us are compensated more than necessary while others aren't compensated enough to get them to save. Of course, equilibrium rates will change as circumstances change. Bad news on the horizon, or just greater uncertainty about the future, will cause equilibrium rates to rise.

This is not to say that interest rates are the only determinant of saving, or even the most important. Income is probably more important, but we are assuming that income and other relevant factors remain

constant while we focus on interest rates.

The future has changed a lot recently. We have gone rather abruptly from a benign view of the future to a more uncertain view. The benign view generated low rates on average and little difference to reflect differing circumstances and outcomes. In other words, the spreads were small -- the spreads between government debt and private debt and the spreads faced by private debtors of different circumstances.

The spreads were probably too low before, although they did a lot of good for a lot of people. They will probably end up too high now and cause unnecessary pain. But they will settle down soon and reflect our collective view of the future and our willingness to embrace it. Markets aren't perfect. They are just better than all the alternatives.

***Mr. McTeer, former president of the Dallas Fed, is a fellow at the National Center for Policy Analysis.***