



Qua-nut-ative easing: Squirrelnomics made simple

We raised a bit of a laugh at a conference in Boston when I opened my panel discussion with the observation:

“Squirrels should be thankful they don’t have central bankers because if they did, come winter, they would have a lot of *notional* nuts and no *actual* nuts!”

It re-occurred to me when I read the statement, ‘*This time around, however, central bankers have little ability to act counter-cyclically*’, in an article¹.

If squirrels didn’t have this ability to act counter-cyclically, they would die in winter. It is imperative they gather nuts during summer.

This is an immutable law of life in most places on earth where temperatures plummet below zero in winter.

This principle extends to most areas of our life: relationships, health, finance... Just about everything. One needs a granary, a store, a credit upon which one can draw when the inevitable winter comes, albeit in different guises e.g. brownie points, influenza, 2008.

The Great Depression of 1929 exposed the governments as being woefully unprepared; their financial granary was empty. Keynesian economics then postulated that governments should borrow in order to spend to counteract these depressive forces until such time as prosperity returns upon which time they should restore their debtors and hopefully build up a nest egg to cushion the next inevitable downturn. They have embraced this notion fully – well almost... They just forgot the part about restoring the debtors afterwards!

Greenspan was the first central banker to come up with the novel thought:

“Central banks have an infinite notional money granary.”

Central banks come to the rescue of governments who have no granaries, who rely instead on the fact that central banks can bring money into existence.

Suddenly central banks are saying, “We don’t need to save, in fact we shouldn’t save! It is unpatriotic especially given that we have adopted consumerism (the ideology of growth for growth’s sake) as our central tenet of economic policy.”

And so since 1987, every real economy crisis is met with the opening of the spigots of the infinite central bank granary with predictable effects: the increase in nominal prices of assets; or in squirrel terms, an increase in the number of notional nuts.

In squirrel land this would have distorted squirrels’ view of the world.

“Why should we work so hard when there are so many notional nuts around?”

“Down with squirrel austerity! Don’t withhold our notional nuts! Only certain squirrels get notional nuts, others still have to work for them!”

Good point squirrels, but valid only if you hold the assumption that the nutritional value of notional and real nuts are the same!

¹ Rines, S. (2015). Easing the Night Away. *The National Interest*. Retrieved 10 November 2015, from <http://nationalinterest.org/feature/easing-the-night-away-14175>

Ditto the real economy. This illusion that the exponentially expanding supply of notional money and actual value is the same is only valid until the belief is shattered. And this normally occurs at the worst possible time, i.e. the onset of winter (for squirrels).

Squirrels find the nutritional value of notional nuts is decreasing exponentially and they have to eat more and more to sustain themselves.

Suddenly they realise there are not enough nuts to last the whole winter...

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