

The Economy's Natural Growth Rate. Never Knew No Miracle Of Policy That Didn't Go From A Blessing To A Curse. Never Knew No Monetary Solution. That Didn't End Up As Something Worse.

The economy has a natural rhythm, a natural metabolism, a natural rate of growth. These growth rates are determined broadly by the endowments of natural resources and the people, how many there are, how quickly they grow, their age distribution, and their intellect and enterprise, and the tools which were made by these people to make other things. To aid the transfer and storage of resources and capital, we introduced money, and with it a great deal of complexity. Yet behind the complexity of finance, the natural rhythms continue.

With time, highly intelligent people decided that they could alter the rhythm and the rate of economic activity. They sought to dampen the cycle and to increase the rate of growth. But in every dynamic system, exogenous forces ripple through the endogenous forces. Cycles are difficult to dampen, and what looks like success can be an accumulation of latent instability. Without acknowledging the long term natural growth rates of an economy, fiscal policy and monetary policy can be likened to pushing or pulling a cripple along, soon he stumbles, his feet are dragging on the floor and policy may need to bear the full weight of an inanimate body.

There are many analogies of where extraordinary analgesic measures are applied to artificially boost performance or delay demise. The concept of a bail in is an odd one. A corporation is capitalized with equity and debt. The priority of claim is well defined. Equity is first in line to take losses and profits. Debt is second in line for losses, and earns a fixed interest. Debt itself can be sliced into different layers, junior claims and senior claims. When a business becomes insolvent, equity takes first loss, then junior debt then senior debt. In the case of banks, for a host of reasons, depositors, who are senior unsecured creditors, are often bailed out. Where they are not bailed out, they are considered bailed in. A bail in is seen as an extraordinary event when in fact, in the absence of a bail out, the appropriate extraordinary event, a bail in is the normal course of assigning residual value to claims.

Much of modern medicine is to do with interfering with the course of nature to prolong and extend life beyond its natural limits. Consider the implications if in the limit we were able to prolong life indefinitely. The planet might struggle to support the population. Genetically modified foods have their advantages and side effects. For every action there are side effects. Not all bad it should be said. Examples abound where our solutions to existing problems only transform or transfer the problem spatially or temporally.