CAPITAL IS NOT A STRATEGY

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After years of central banks keeping interest rates low and pumping liquidity into financial markets, asset valuations are at historic highs. While entrepreneurs and venture-capital founders tell themselves that "capital is a strategy," bubble finance is no substitute for a business plan that can achieve positive cash flow.

CAMBRIDGE – Along with the rest of the world, entrepreneurs have spent the past dozen years living in an unprecedented financial environment. Responding first to the stubbornly slow recovery from the 2008 financial crisis, and then to the recession caused by COVID-19, major central banks have sustained an array of unconventional initiatives and asset-purchase programs collectively known as "quantitative easing" (QE).

The direct result has been a massive accumulation of financial reserves in central banks and throughout the financial system, and a reduction of nominal interest rates on risk-free financial assets to levels below the rate of inflation. Interest rates are thus negative in real terms (and even in nominal terms, in some cases).

Years of unconventional monetary policies have also had a secondary effect on investment behavior. Under the conditions that central