



Trade with the gifts God has given you.

Bend your minds to holy learning that you may escape the fretting moth of littleness of mind that would wear out your souls.

Brace your wills to action that they may not be the spoil of weak desires.

Train your hearts and lips to sing which gives courage to the soul.

Being buffeted by trials, learn to laugh.

Being reproved, give thanks.

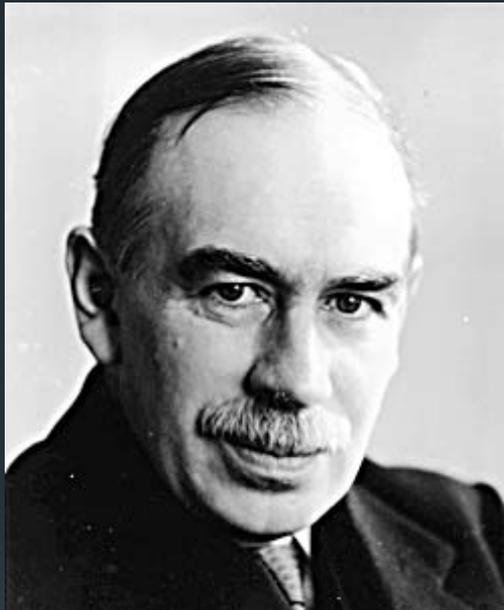
Having failed, determine to succeed.



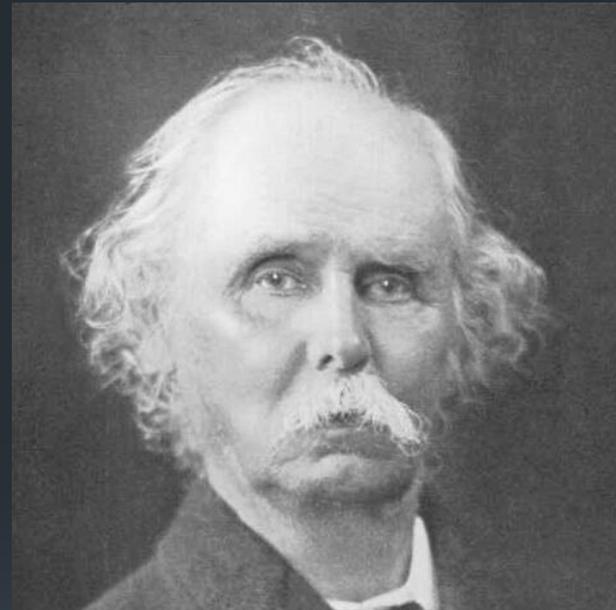
Keynes, the Pope and the IMF

Dr Mark Hayes

St Hilda Reader in Catholic Social Thought and Practice
Centre for Catholic Studies, Durham University



Maynard Keynes 1883-1946



Alfred Marshall 1842-1924



The fate of the usurers in Dante's *The Inferno*, by Botticelli



Pope Benedict XIV 1675-1758



Outline

- Debt vs equity
- Modern banking and deposit insurance
- The reform of the international monetary system



Debt vs. Equity

- Debt
 - A loan of money, a contract to repay a sum of money at a future date in return for the advance of -usually less- money now
- Equity
 - A share in a business enterprise or asset, whether direct , or indirect through a financial claim
- Securities
 - Transferable debts or shares



I was brought up to believe that the attitude of the Medieval Church to the rate of interest was inherently absurd, and that the subtle discussions aimed at distinguishing the return on money-loans from the return to active investment were merely jesuitical attempts to find a practical escape from a foolish theory.

(Keynes, The General Theory, pp. 351–352)



But I now read these discussions as an honest intellectual effort to keep separate what the classical theory has inextricably confused together, namely, the rate of interest and the marginal efficiency of capital.

(Keynes, The General Theory, pp. 351–352)



For it now seems clear that the disquisitions of the schoolmen were directed towards the elucidation of a formula which should allow the schedule of the marginal efficiency of capital to be high, whilst using rule and custom and the moral law to keep down the rate of interest.

(Keynes, The General Theory, pp. 351–352)



Provisions against usury are amongst the most ancient economic practices of which we have record. The destruction of the inducement to invest by an excessive liquidity-preference was the outstanding evil, the prime impediment to the growth of wealth, in the ancient and medieval worlds.

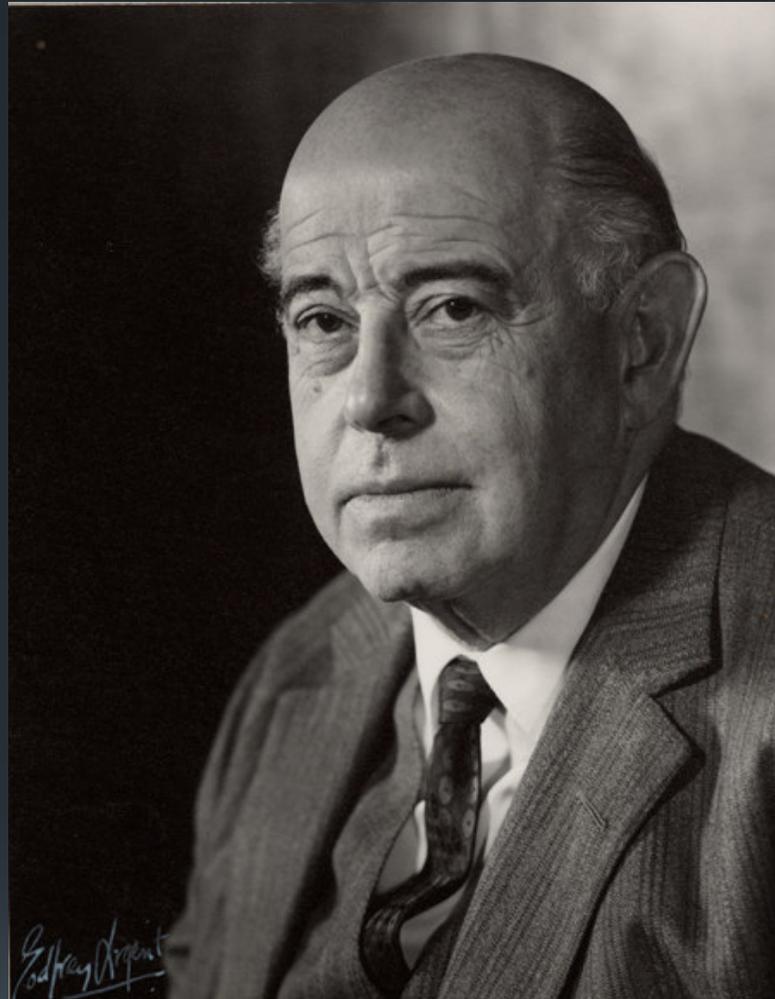
(Keynes, The General Theory, p. 351)



And naturally so, since certain of the risks and hazards of economic life diminish the marginal efficiency of capital whilst others serve to increase the preference for liquidity.

In a world, therefore, which no one reckoned to be safe, it was almost inevitable that the rate of interest, unless it was curbed by every instrument at the disposal of society, would rise too high to permit of an adequate inducement to invest.

(Keynes, The General Theory, p. 351)



Nicholas Kaldor 1908-1986



By uncertain knowledge, let me explain, I do not mean merely to distinguish what is known for certain from what is only probable. The game of roulette is not subject in this sense to uncertainty...Or, again, the expectation of life is only slightly uncertain. Even the weather is only moderately uncertain.

(Keynes, 1937, CWXIV, pp. 113-114)



The sense in which I am using the term is that in which the prospect of a European war is uncertain, or the price of copper and the rate of interest 20 years hence, or the obsolescence of a new invention, or the position of private wealth owners in the social system in 1970.

About these matters there is no scientific basis on which to form any calculable probability whatever. We simply do not know.

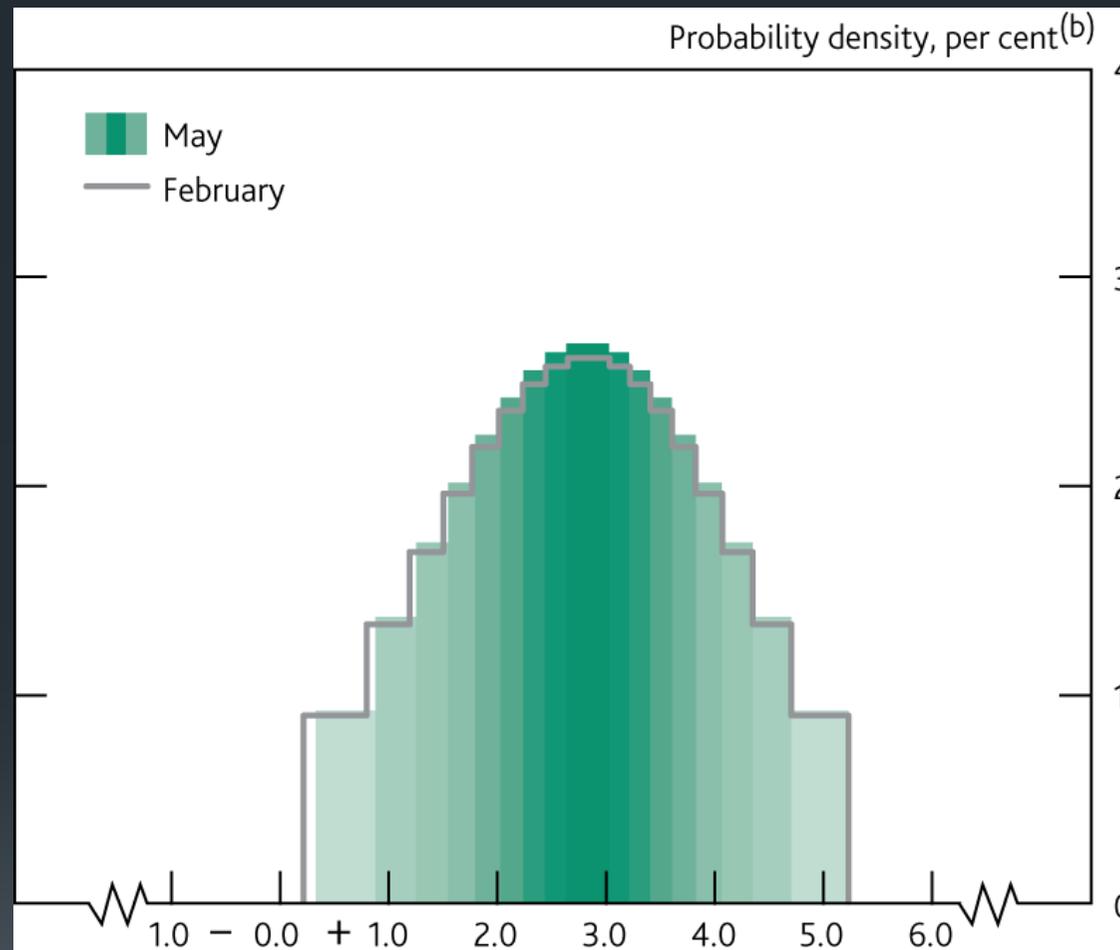
(Keynes, 1937, CWXIV, pp. 113-114)



We should not conclude that everything depends on waves of irrational psychology. On the contrary, the state of long-term expectation is often steady. Thus after giving full weight to the importance of the influence of short-period changes in the state of long-term expectation as distinct from changes in the rate of interest, we are still entitled to return to the latter as exercising, at any rate, in normal circumstances, a great, though not a decisive, influence on the rate of investment.

(Keynes, The General Theory, p. 162)

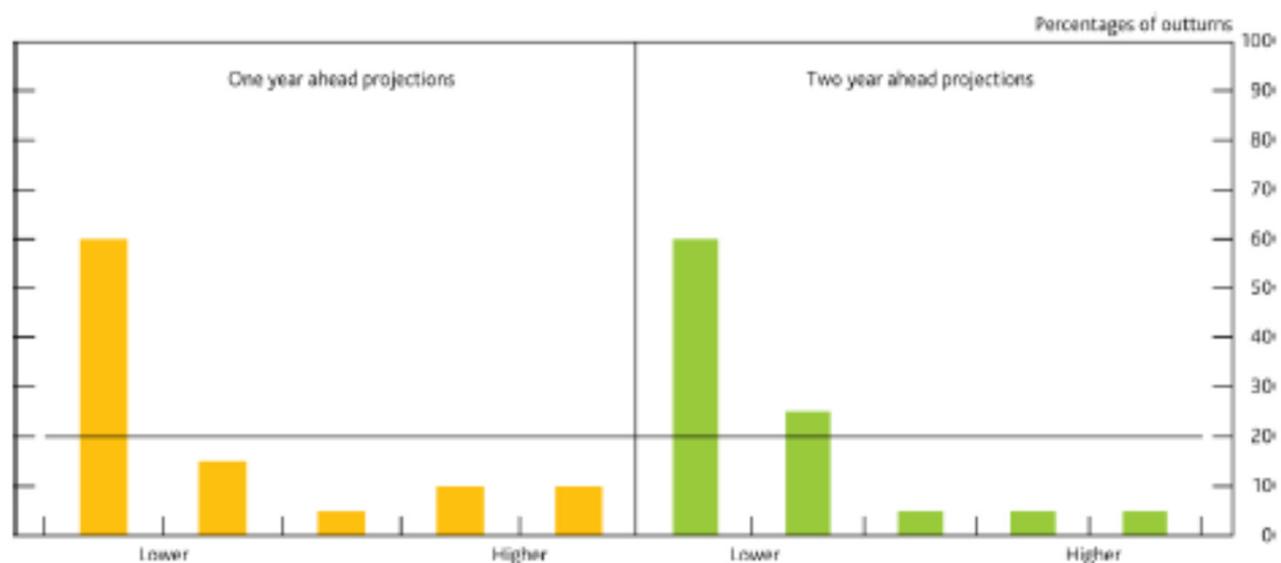
Chart 5.7 Projected probabilities of GDP growth in 2016 Q2 (central 90% of the distribution)^(a)



- (a) **Chart 5.7** represents the cross-section of the GDP growth fan chart in 2016 Q2 for the market interest rate projection. It has been conditioned on the assumption that the stock of purchased assets remains at £375 billion throughout the forecast period. The coloured bands in **Chart 5.7** have a similar interpretation to those on the fan charts. Like the fan charts, they portray the central 90% of the probability distribution. The grey outline represents the corresponding cross-section of the February 2014 *Inflation Report* fan chart, which was conditioned on market interest rates and the same assumption about the stock of purchased assets financed by the issuance of central bank reserves.
- (b) Average probability within each band; the figures on the y-axis indicate the probability of growth being within ± 0.05 percentage points of any given growth rate, specified to one decimal place. As the heights of identically coloured bars on either side of the central projection are the same, the ratio of the probability contained in the bars below the central projection, to the probability in the bars above it, is given by the ratio of the width of those bars.

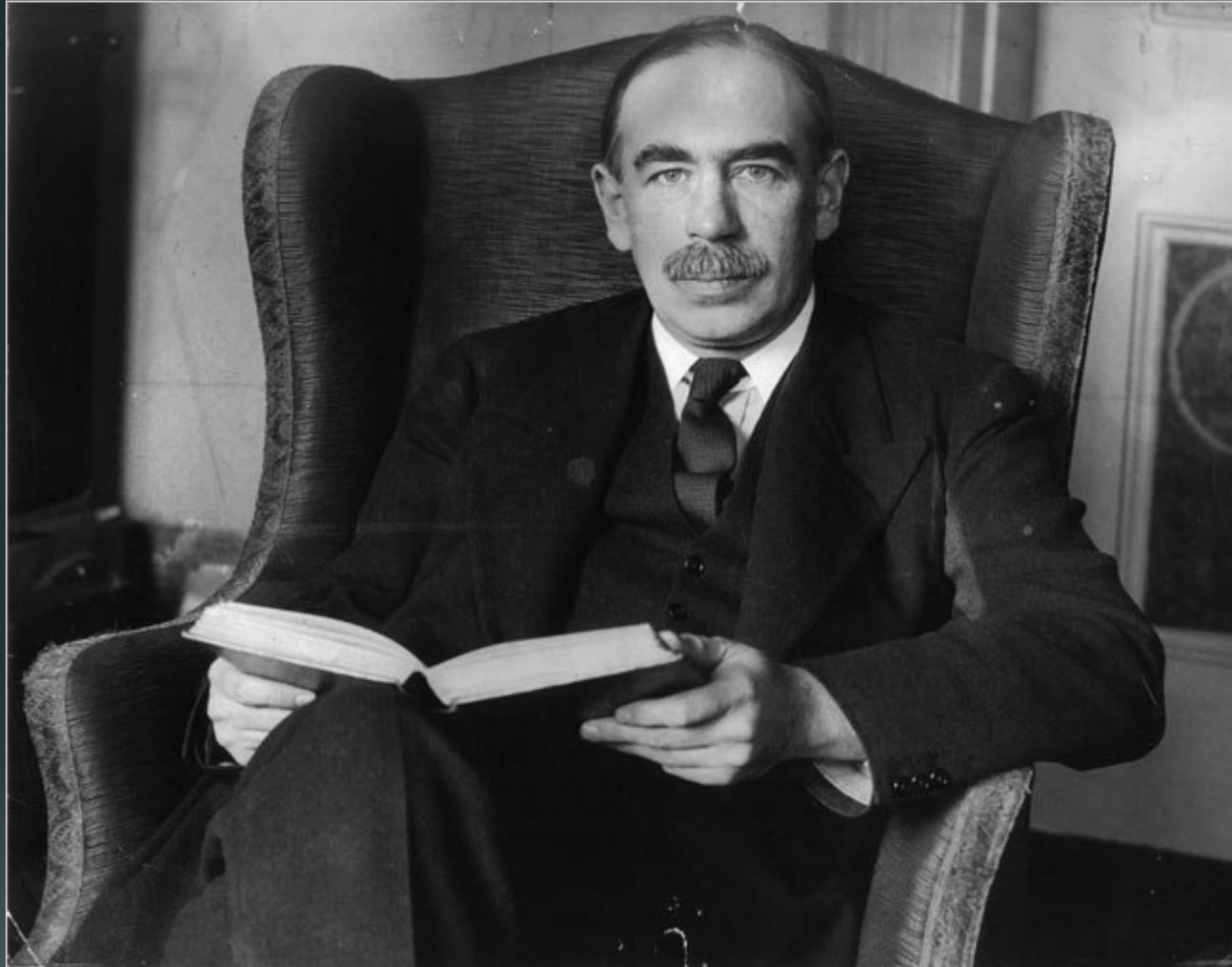


Chart 1: Distribution of GDP growth since August 2007 across quintiles of the distribution forecasted by the MPC^(a)



^(a) The center of forecasts made prior to 2011Q3 have been adjusted upward by 0.3pp to reflect backdated methodological changes in GDP measurement introduced in that quarter.

Stockton, D. (2012) Review of the Monetary Policy Committee's Forecasting Capability, London: Bank of England





Doyce and Clennam in *Little Dorrit* by Charles Dickens, BBC 2009



Originate to Distribute Business Model

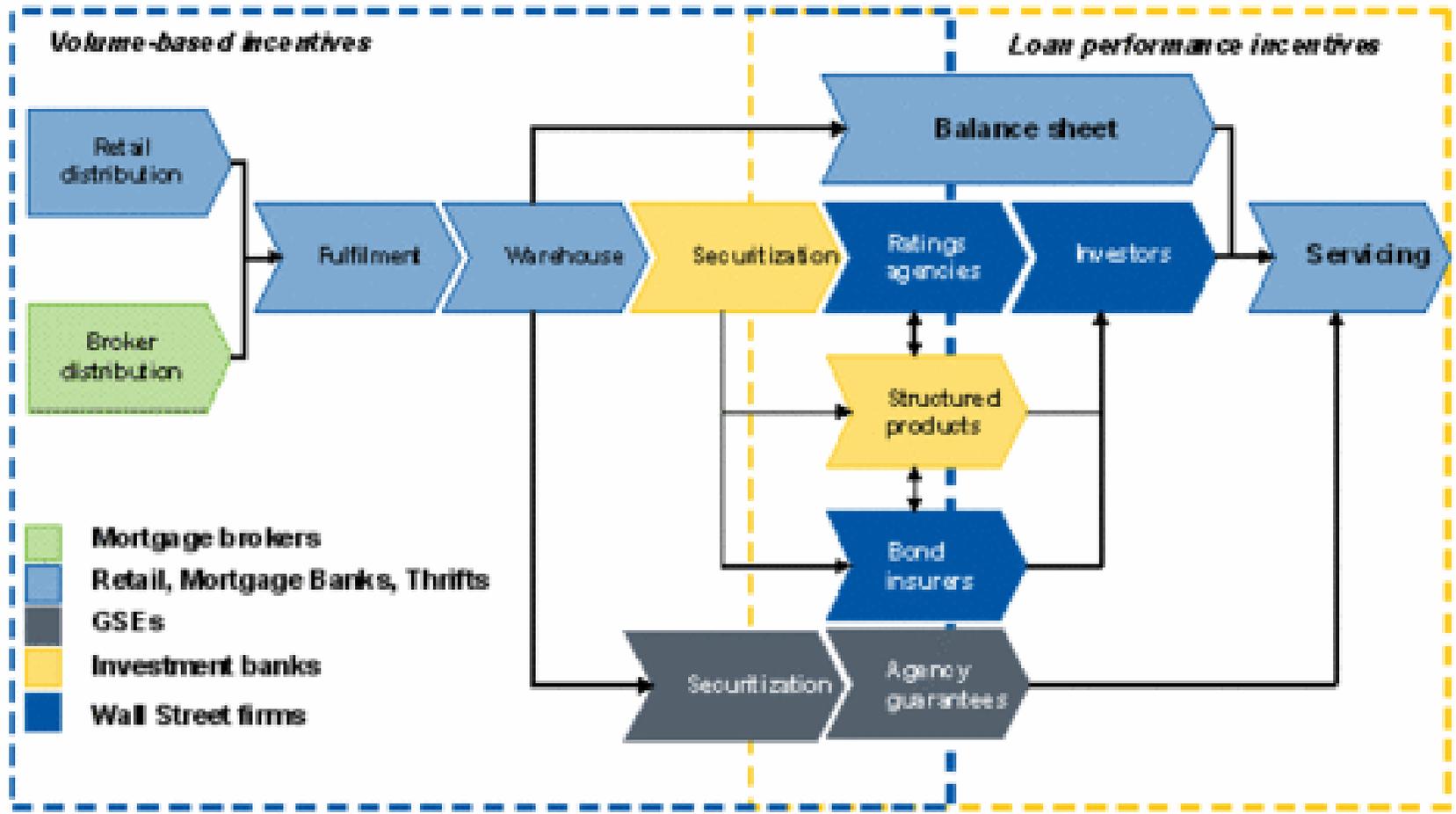


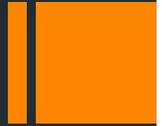




PHOTO: TIM GIDAL/MULTON ARCHIVE/GETTY IMAGES









In summary

- The difference between debt and equity hinges on the nature of time and our fear of the unknowable future
- Liquidity preference - the propensity to hoard - imposes a social cost yet commands a private rent in the absence of an ethical and legal prohibition
- Deposit insurance should be limited to state and utility banks paying little or no interest
- An international money that would promote global full employment would pay negative interest