Challenging the economic consensus about Keynes and MMT

Monday 27 July, 2020

A British investment
manager who predicted the 2007 credit crunch has warned that Keynesian economic policies followed by governments are in danger of deepening the global downturn.

David Kauders, an
investment manager, said the policy prescriptions derived from the 1930s no longer work. “Keynes was right at the time” said Kauders, “but after 75 years of post-1945 application, the result – rising interest payments by households and businesses – now neuters any benefit.”

His new book **The Financial System Limit: Radical thoughts about money**, shows that total debt (including all forms of personal and business borrowing) is now three times GDP (economic output) worldwide. Kauders estimates that one-fifth of economic output is devoted to interest.

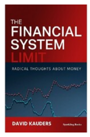
This neuters any
benefit from economic stimulus. Yet policy advice is now trying to make the debt-saturated global economy even more indebted.

The pandemic has
brought about a behavioural change. People now want to save instead of spend more.

Because all advanced
economies are dominated by consumption and services, when people choose to spend less and save more their national economy shrinks. Perfectly rational behaviour deepens the recession.

Professional
economists argue that interest is just a transfer payment from one group of people to another. They overlook the ever-rising interest payments that destroy those who have borrowed and make it harder to repay debt.

Media:



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The more debt that businesses and households take on, the nearer we come to the financial system limit. Cheap government borrowing is fine until it is passed to businesses and households at much higher interest rates.

But Kauders, whose book provides a radical new critique of dominant monetary and economic policies, said the resulting additional borrowing could take the world closer to its “financial system limit.”

This occurs when a country’s total debt – comprising government borrowing as well as corporate, banking and personal debt – becomes so large that the majority of its resources are used to repay the loan and not for anything else.

Kauders also observes that Modern Monetary Theory describes how governments manipulate the financial and economic system, but makes no allowance for the rising waste of interest payments. “MMT explains how the system works. This does not make it right.”

Kauders’ own projections are based on logic and thought rather than obsolescent assumptions about how the world ought to work. He said: “A case study of a defaulting country in the book, showed that default occurred when 38% of economic output was spent on interest. The pandemic has already pushed interest costs up and economic output down. Few economists seem to appreciate the limits to interest cost.”

The Financial System Limit

ISBN 9781907230776 is published by Sparkling Books as an e-book, price USD 6.99. The book is non-technical, intended for all to read. More information at www.sparklingbooks.com/limit.html

About the author

David Kauders FRSA is an investment manager and also contributes occasional articles to the UK financial press. His previous books are The Greatest Crash: How contradictory policies are sinking the global economy (2011) and Understanding Brexit Options: What future for Britain? (2016)

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