

Radical Reforms for Raising & Spending Money

Dr. Asad Zaman

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PIDE & FES

GFC 2008 is similar to GD '29

- ▶ Creation of FED 1913
- ▶ Massive expansion of Debt
- ▶ Roaring 20's
- ▶ Stock Market Collapse
- ▶ Banking Collapse
- ▶ Money Supply shrinks
- ▶ Reagan-Thatcher de-regulation
- ▶ Repeal of Glass Steagall
- ▶ Financial Modernization Act
- ▶ Massive expansion
- ▶ Crash of 2007-8



Post GD 29, Economists Learned

- ▶ Dangers of Private Money Creation
- ▶ Created Chicago Plan = 100% reserve banking
- ▶ Discussed Debt–Deflation
- ▶ Failure of Equilibrium Theories
- ▶ No anchoring of investments & prices
- ▶ Crucial role of expectations
- ▶ Non–predictability of past – Black Swans

WE DID NOT LEARN any of this in grad school.
EVIDENCE of suppression of dangerous
knowledge

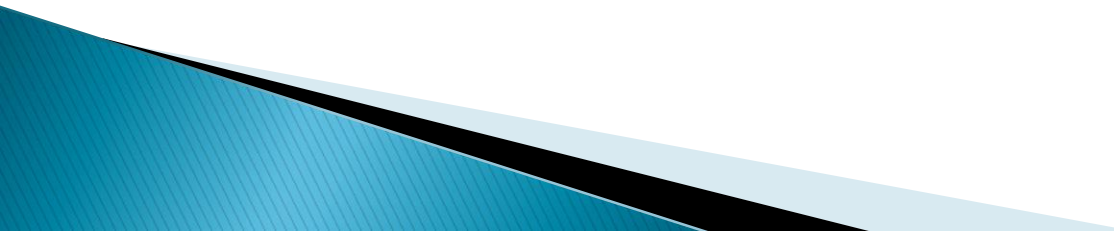


Keys to Growth

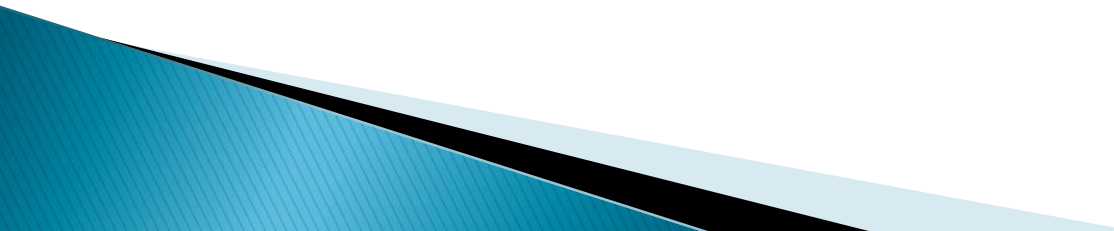
- ▶ Generate Revenue (by taxes, or other means)
- ▶ Spend it Wisely

Iceland Plan for Monetary Reform

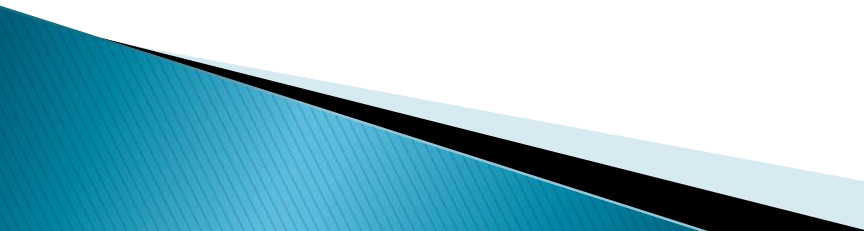
Sovereign Money:

- ▶ Huge amount of revenue goes to private banks for DOING NOTHING.
 - ▶ State has sole privilege of Money Creation
 - ▶ No interest payments on domestic debt
 - ▶ Seigniorage revenues
 - ▶ Community based banks
 - ▶ Self-liquidating loans
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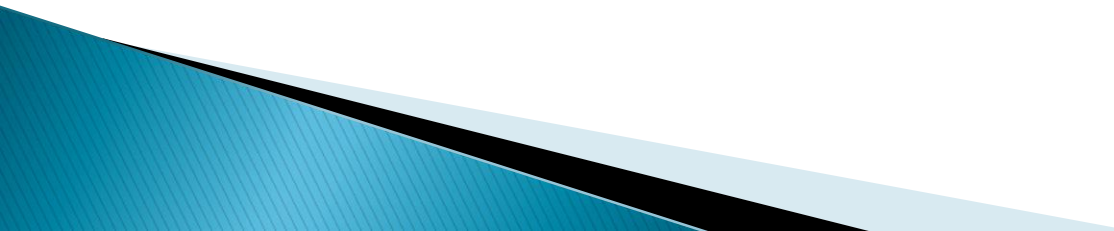
Investment Failures

- ▶ Secular–Stagnation \leftrightarrow rise of Financial Sect
 - ▶ Investments in Land, Stocks, Speculation
 - ▶ **INSTEAD** of productive.
 - ▶ Keynes: investment done by casino.
 - ▶ Euthanasia of the Rentier Class
 - ▶ Banning of **INTEREST**
 - ▶ Replacement by Musharka.
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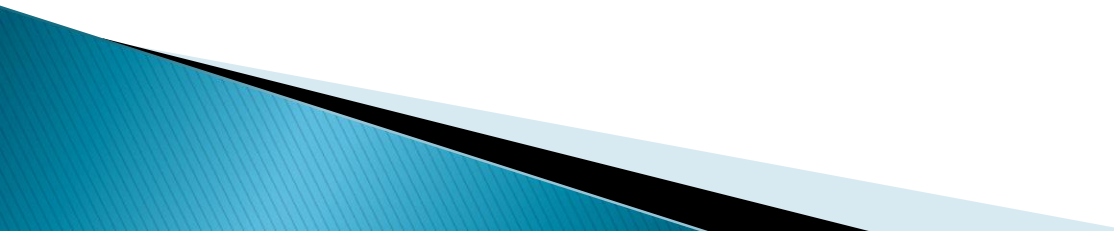
Short Run Solution:

- ▶ DON'T Sell Treasury Bills
 - ▶ INSTEAD, borrow directly from banks
 - ▶ FORCE explicit payment of Deposit Insurance.
 - ▶ This will prevent crowding out.
 - ▶ Release funds for Private Investment.
 - ▶ REWARD productive investment. Use Musharka instead of Interest.
 - ▶ PENALIZE or prohibit financial sector investments
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LR Solution: Sovereign Money

- ▶ Key problem: 90% of money is created as interest bearing debt.
 - ▶ Banks want to encourage spread of debt.
 - ▶ This becomes easy to do in booms.
 - ▶ Crises create non-repayable debt
 - ▶ Debt–Deflation–Unemployment Productivity Loss.
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Advantages of Sovereign Money

- ▶ Stability of Economic Environment (No Minsky Business Cycles)
 - ▶ Dramatic Reduction in Debt – both private and public.
 - ▶ Effective Keynesian Monetary Policy
 - ▶ Reduced need for distortionary taxation.
 - ▶ Increase in State Revenue/Seignorage
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Spending Wisely

- ▶ On essential consumption (investing in humans)
 - ▶ On real & productive investments.
 - ▶ Using communities & waqf for social sector spending.
 - ▶ Using Musharka for profitable investments
 - ▶ Bay Salam, Istisna for additional credit creation.
 - ▶ Local, Community Based Banks – German model
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