Radical Reforms for Raising & Spending Money

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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
Investment Failures

- Secular–Stagnation ↔ 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.
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
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
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
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