

New Financial Model (Paper -2)

(Infinite Cycle of Consumption)

Abstract: This paper series proposes a New Financial Model for the economies across the globe to solve the economic problems they face. New Financial Model proposes two new things: New Financial Tool and New Pension System. New Financial Tool will help authorities (central banks, governments, corporates etc.) manage aggregate demand, come out of the low growth period and maintain economic growth/employment in the high-interest rate period as well while fighting inflation/stagflation, keeping the financial stability, Thus will ensure the sustainable economic growth. New & Universal Pension System will ensure Old age security.

Paper-1: talks about the concepts of consumption and saving behavior of individuals in history and present. It mentions the present solutions to handle the low/high growth period and also discusses various topics from Keynesian Economics to come to the central point for the new financial model.

Paper-2: New Financial Model. Following are the features of the New Financial Model:

- **New Financial Model:** Consumers' focus will be more on consumption rather than saving.
- **New Financial Tool** for Authorities (Central Banks, Governments)
- **New Income Equation:** Replacing the present one $\Rightarrow \text{Income} = \text{Consumption} + \text{Saving}$.
- **Solution** to come out of a **low growth period** (recession/economic depression/economic crisis).
- **Solution** of maintaining growth and generating employment **during high interest rate period** while fighting inflation and keeping financial stability of the economic unit.
- Rule out direct Government spending/intervention during crisis. (*i.e. Keynesian Economics*)
- **Benefits to Government:** Multifold increase in tax collection, Less Fiscal pressure etc.
- **Benefits to Entrepreneurs:** Infinite cycle of consumption, more consumption: more profits.
- **New Pension System.**

JEL Codes:-E, P

Resham Singh

Research Analyst (Certified)

Contact No. +919855379014

Email Id: resham.research@gmail.com

Correspondence Address: H.No.2938A Sector20C, Chandigarh.

Rights and Permissions



This work (Paper-2: New Financial Model) is licensed under the Creative Commons Attribution Noncommercial – No derivatives 4.0 International. To view a copy of this license, visit <https://creativecommons.org/licenses/by-nc-nd/4.0/>. All the Rights of this paper series, “New Financial Model” belong to me and my family.

Index: New Financial Model (Paper -2)

Chapter No.	Title	Page. No
	<u>Preface</u>	3
1 st	<u>Introduction</u>	4-5
2 nd	<u>Midst an economic slump</u>	6-9
3 rd	<u>The Times of High Interest Rate</u>	10-11
4 th	<u>Saving, its role and importance</u>	12-13
5 th	<u>Accumulate the facts</u>	14-15
6 th	<u>New Financial Model</u>	16-19
7 th	<u>New financial tool</u>	20-23
8 th	<u>Free products to consumers</u>	24-25
9 th	<u>New Financial Model and Low growth period</u>	26-30
10 th	<u>Relief from Stagflation</u>	31-34
11 th	<u>Benefits to Government: Tax collection spring</u>	35-36
12 th	<u>Benefits to Entrepreneurs/Corporate world</u>	37-38
13 th	<u>New Universal Pension System</u> (Abolition of Present Pension System)	39-41
14 th	<u>New Financial Model: Summary</u>	42-49
15 th	<u>Fee Structure: New Financial Model</u>	50-51

Preface ----- [Index](#)

When you start walking from a point around a circle and then go on; you will come to that same point again whether it takes a short time or a long time. **Similarly, when you explore any science, you come to a point that the end goal of every science is the “welfare of humans” and the same is also of Economics and New Financial Model.**

My perception is that, In today’s technologically advanced and rule-based world, two things are important for the “Welfare of Humans” apart from many others: first is a **Source of Income** (Employment, Profits, etc.) at a young age and the second is **Old age security** (Income for subsistence and healthcare *needs*) to ensure a decent standard of living after retirement. Individuals having a source of income at a young age and security in old age can follow their goals independently, can support their families and parents and can **make a happy & prosperous society together.**

Source of Income: Presently, the manufacturing and service sectors (combined 80-90% of GDP) lead the economic engine in contrast to ancient times where agriculture was the chief driver and dependency on nature was direct. Today a large number of individuals work in the private and public sector, **so the Source of income will depend upon employment generation in the economic unit.** Employment (Source of Income) can be full or at the highest level in the economic unit when there is a good balance between market forces (demand and supply) and conducive environment for economic growth.

“New Financial Model” will help in maintaining the balance between market forces (demand and supply) through New Financial Tool along with present monetary & fiscal tools in low/high growth periods while fighting inflation, stagflation, and keeping financial stability. It will ensure sustainable economic growth, which will generate employment (source of income) for the youth.

Security in Old age: In old age when our body doesn’t allow us to work biologically, then we need finances for subsistence and healthcare needs after retirement. In the present financial model, Different countries have different approaches and programs for old age security, mostly Governments ensure Security in old age through pensions and a good healthcare system. The Present pension system is either a contributory one (voluntary or non-voluntary) where individuals contribute/save for their retirement life or one where governments support older people through various schemes. The First way is not a universal one and the second way puts a fiscal burden on the government.

“New Financial Model” is going to propose a new pension system so that every older person has a decent living standard and sufficient financial support for subsistence & health care needs. The New Pension Model will be a universal one and will not put any financial burden on the state.

I am very hopeful that the “New Financial Model” will solve the economic problems which the countries around the globe are facing and ensure the “Welfare of humans” by providing sustainable economic growth (employment generation) and surety of old age security.

Introduction

Entrepreneurs will produce and invest as long as they see profit in the business.

Consumers will consume when there is a need and utility for any good.

In a free market economy, Entrepreneur supply goods & services, and consumer demands that. This cycle of demand and supply runs the engine of an economic system.

Economics started its journey as a subject formally with Adam Smith's publication of the book "An Inquiry into the Nature and Causes of the Wealth of Nations" in 1776. From that time to the present time, Economics made much progress with Mercantilism, classical, neoclassical, Marxism, Keynesian, Neo-Keynesian, Monetarists, and various other schools of thought, handling various problems like Great Depression, recessions, currency crisis, fixed-to-float currency regime, inflation, stag inflation, etc. during periods of boom-bursts, wars: two world wars and many regional, civil wars, revolutions, movements, pandemics like Covid-19, etc.

In any economic unit, the most important thing is the management of resources available at any given time. How the available resources are being managed and what is the planning for long term growth.

At the Macro level, when talking about the management of resources, two entities come into play: Free markets and State. Around the globe, a question that is much debated in economics is: Are the free markets efficient, self-regulating & sustainable, and should the government control, intervene, or not in the demand and supply affairs at the time of imbalance? The Way of management of resources changed with time in history. Starting from monarchy (totally state-controlled) to a democratic system (elected government, the rise of capitalism system) and from mercantilism (the idea of trade surplus at the national level) to classical, neoclassical economics also can say **LAISSEZ-FAIRE** economics (Adam smith: invisible hand, free markets, David Ricardo: labor theory of value, theory of comparative advantage, Malthus: Malthusian Trap, Alfred Marshall: Principal of Economics, Marginal utility, demand-supply curve representing general equilibrium), Marxism (Socialism, state control) Keynesian Economics (General Theory of Employment, Interest and Money, government intervention), monetarist (role of central banks, free economy, Milton Friedman, Chicago school of economics, quantity theory of money), etc.

We have the first point (a question) for our paper: Are free markets efficient, self-regulating & sustainable and should the government control, intervene or not in the demand and supply affairs at the time of imbalance?

Let's bring key points from my first paper on New Financial Model, that

Technology to harness the available resources in an economic unit plays a very important role. As Technology changes (Neolithic revolution, Industrial revolution, Internet Revolution and The so called fourth revolution), the mode of production changes drastically. So, In the long run it is technology and its reach (supply side) that determines the economic growth of an economic unit. In the long run, the focus of the management of an economic unit must be on the innovation and adoption of efficient technologies so that productivity (output) can be increased.

When the technology is static (static period) in an economic unit, it is the **aggregate demand** that determines the economic growth in an economic unit and the focus must be on increasing the aggregate demand to generate economic growth.

Suppose that an economic unit is going through a recession or low growth period, It won't be possible to innovate a new technology (for increasing the productivity of the economic unit) to come out of a recession in a very short span. It is the aggregate demand that can help to come out of recession or low growth period.

From the above, we have second point (an essence) for our paper: Who determines the economic growth of an economic unit? In the long run its **technology** and in the short run, its **aggregate demand**.

Now we have two points. The first is a question: Are the free markets efficient, self regulating & sustainable and should the government control, intervene or not in the demand and supply affairs at the time of imbalance? The Second is the essence: Who determines the economic growth of an economic unit? And the end goal is: "Welfare of people".

-----1st Chapter ends

Midst an economic slump

When any economic crisis hits, authorities have to take short term measures to handle it and normalize the economy. From our second point (an essence): **In the short run, its Aggregate demand that determines the growth in an economic unit.**

Aggregate demand (by expenditure side) = Consumption (by individuals and households) + Capital Investment (by private firms) + Government spending (by government) + Net exports (exports-imports: consumption by the outside world).

According to classical economists, Markets are self-regulating and in any economic crisis, market forces will themselves adjust demand & supply and attain a new equilibrium having full employment. They emphasized free markets and no/less government intervention in the markets.

British economist John Maynard Keynes challenged classical theories. Keynesian school emerged during the great depression of 1929. According to Keynesian economics, during any economic crisis or low growth period **aggregate demand stays well below its potential** because private consumption (C) and consumption from firms (I) go down and **at this time government (G) Should intervene, spend more to generate the demand and increase employment.** Moneyspent by the government will have a multiplier effect on the economic unit, will restart the demand-supply cycle, bring confidence back in the economy and push the aggregate demand towards its potential level. Similarly during the high inflationary period, the government must decrease its spending to bring down aggregate demand.

Now let's examine the situation. Suppose a global economic crisis hit the door and interest rates are already at low: Economy went into recession, unemployment is on rise and aggregate demand is on downslide.

Aggregate demand (by expenditure side) = Consumption (by individuals and households) + Capital Investment (by private firms) + Government spending (by government) + Net exports (exports-imports: consumption by the outside world).

Now to bring growth in the economy in the short run, let's take every component of aggregate demand (by expenditure side) one by one. (Table.1. Below)

S. N	Component. Name	Trend	Can increase or not
1.	Private Consumption (by individuals and households) C	On decrease due to rise in unemployment, decrease in income (wage adjustment: at low)	Can increase by lowering interest rates. => Monetary policy by the central bank: Through Conventional or Unconventional methods (Quantitative easing). Considering interest rates are already low, No room for increase.

S. No	Component Name	Trend	Can increase or not
2.	Capital Investment (by private firms) I	On decrease	Can increase by lowering interest rates. But cannot increase in a short span, as firms must see future long term demand and need confidence for investment. If interest rates are already low, no room for increase.
3.	Government Spending G, Tax cuts (fiscal tools)	Depends upon market type and authorities: Government and Central Bank.	Option available. Can increase/decrease spending. Depends upon market type and Authorities: Government and Central Bank.
4.	Net Exports (X-IM)	Can be Positive/negative or stable.	Cannot increase. If a closed economy: then exports are zero. If open economy: then the global economic crisis will hit every economy leaving no room for exports. Also sudden rise in exports is difficult in an economic unit because it depends upon many things: like competitiveness (which cannot be increased suddenly), labor markets, tax regime etc.

From the above table: **We have two options available to increase the aggregate demand in the short run when the global economic crisis hits the economy.**

1. First is to lower the interest rates (short term: normal monetary policy and Long term: Unconventional monetary policy - Quantitative easing) and
2. Second is government spending G, Tax cuts (fiscal policy tools)

Governments around the globe use a mix of fiscal and monetary policy to spur aggregate demand and increase economic activity amidst any economic crisis or low growth period.

From the Great depression 1929 to present time: Keynesian Economics stays in the mainstream and the role of government is seen as important during any economic crisis depression, recession and low or high growth period. Keynesian economics dominated from the great depression 1929 to the great recession of 2008 and recently corona virus recession.

What if the first option is available to a limited extent or not available at all? Then we are only left with the second option of using fiscal policy. Since the Financial crisis of 2008, interest rates in the major developed countries are already very low, leaving very little room for decrease.

Covid-19 Pandemic in 2020 created an economic disaster and sent the global economy into recession. Governments announced major stimulus programs and ran huge fiscal deficits to help the economies. As interest rates were already very low in the major developed economies, fiscal policy and unconventional monetary policy have been used extensively to save the economies.

Let's take real world example of Japan's economy: Japan's government tried both options from the 2000's till time, but failed to expand the economy.

First option: Interest rates have been nearly zero or negative **since the Asian financial crisis 1997**. Japan's government used quantitative easing aggressively from 2001 to inflate the economy and bring economic growth but failed to make any change.

Second option: Japan's government spending in on uptrend: continually in fiscal deficit, having highest public debt among developed nations. Leaving no room for further government spending

Both options are not helping the economy. As Abenomics (Monetary easing, fiscal stimulus and structural reforms) economic policies (From 2012 to 2020) have not made much difference, newly elected Prime Minister Kishida Fumio (from 2021) called for a wage increase to the corporate sector to create a growth cycle and distribution of wealth.

Tools from the New Financial Model can be an option which the authorities can consider for implementation.

Government spending at the time of imbalance: Justification?

Government spending is like giving from one hand and taking from the other.

Government doesn't earn anything itself like an individual (income) or entrepreneur (profit): But through taxes (direct & indirect), borrowing (from central bank: public or markets: private), Excise & Custom duties, Fees for public sector services, from public sector units etc.)

Increasing government spending means:

- Government would need more resources which can be raised majorly through increasing taxes or borrowing. Increasing taxes will decrease private consumption & entrepreneur's profits. **Borrowing means debt needs to be repaid along with the interest in the long term.**
- Increasing government spending means increasing the role of government. That means: increasing the size of government (Big Government): Increasing bureaucratic control. This could decrease the overall economic productivity.

- Consumers and Entrepreneurs have self-interests and think for their own benefit before consuming and investing. Government itself has no self-interest (apart from the one which can be political). Government won't think that way before making any decision for spending as an individual or entrepreneur will. So the government's spending won't be that productive.

New Financial Model View on Government spending: Government should be small and play the role of a regulator which facilitates consumption and investment activity. Demand and supply affairs in an economic unit must be left to the market forces. Adam Smith's Invisible hand works well. Every individual, and organization work for their own benefits. Self-interest and freedom of production & consumption act in the best interest of the economic unit.

It's the consumer who is the best buyer and it's the entrepreneur who is the best seller.

At production level: There must be complete *Laissez-Faire*; the government has no business being in business.

The New Financial Model will provide another tool to central banks & governments to increase private consumption and capital investment in the short term apart from interest rates, hence increasing the aggregate demand.

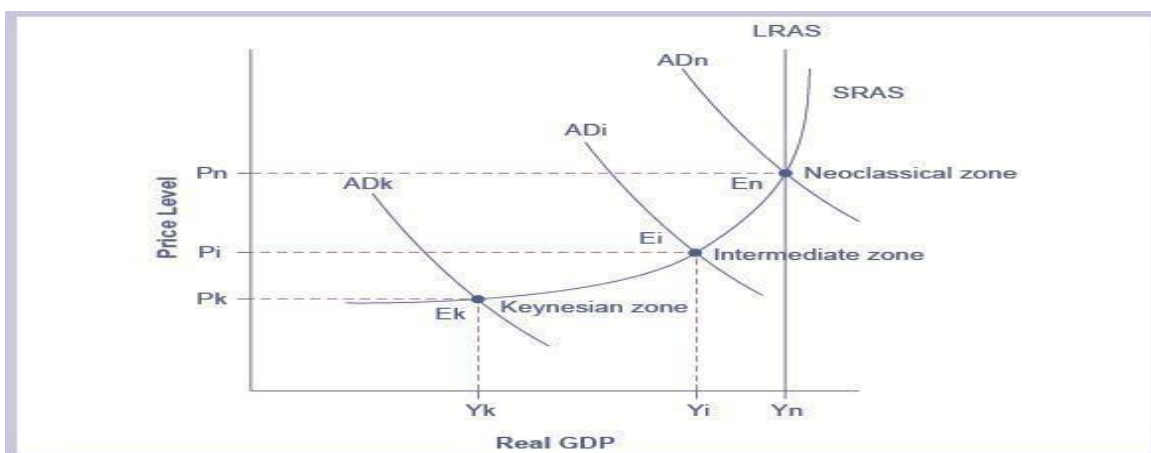
So authorities (Government and central bank) should use the second option (that is fiscal policy) as a last resort. **It should use the first option and New Financial tool (to be introduced)** which will actually promote consumption and investment in the economy.

.....2nd Chapter ends.

The Times of High Interest Rate

In an economic system, Central banks increase the interest rates for the following reasons:

1. For Price Stability: Central banks increase interest rates in response to the inflationary period and decrease them in response to deflation basically to affect the demand in the economic system.
2. To provide financial stability: For example to save bank runs etc.
3. To stabilize exchange rates: to support/depreciate the local currency against others, to handle BOP balance of payment crisis (Currency crisis), to support forex reserves.
4. Others.



Above is the Aggregate demand and supply model (image: by OpenStax Link)

The Goal of the government in the economic system is to attain an equilibrium level between demand-supply (AD/AS) where there is full employment. In the short run, Effective demand can be increased by using various monetary tools like increasing the quantity of money, and lowering the interest rates up to a level until full employment is achieved. Government intervention through fiscal policies also plays an important role in the short run in bridging the recessionary and inflationary gap as recommended by Keynes.

When the full employment level is attained (low unemployment level), a further increase in demand increases the prices and generates inflation. Here the central bank increases the interest rates to stem inflation when inflation rises above the central bank's target range and uses open market operations (OMOs) to suck out the excess liquidity from the economic system.

Effects of High interest rates:

- Moderate economic growth in the economic system.

- Decreases the aggregate demand, so lowers the inflation: due to more saving by individuals because of incentive to save than to spend and less disposable income.
- Increase in borrowing costs: Decrease in investment or private investment due to interest rates being more than the MEC: marginal efficiency of capital.
- Rise in government's borrowing costs & Rise in unemployment.

So Generally, Economy experiences a fall in investment and consumption during the high interest rate period.

Let us discuss two important cases in the below table:

Table.2. Central bank's decision to increase interest rates.		
Case	Reason	Action
1.	For Price Stability	<p>Action to increase the interest rates is because of demand side inflation which is generated by low interest rates and excess liquidity.</p> <p>Here the Important thing is that, In this case the central bank is willing to sacrifice the economic growth, so to say moderation in demand and output levels.</p>
2.	To provide Financial Stability	<p>Action is for the financial and exchange rates stability.</p> <p>In this case, the central bank's intention is not to sacrifice economic growth. It wants economic growth, wants demand to stay and attain equilibrium with the supply side to attain full employment (low unemployment levels).</p> <p>Want the Employment generation in the economy.</p>
	To stabilize exchange rates & Other reasons.	
	Stag inflation	

Now the question is, **are the authorities in the economic system willing to sacrifice economic growth and employment?** In the first case, authorities are willing to moderate the economic growth due to demand side inflation, but not in the second case. A reason for the first case is demand side inflation which is the result of low interest rates and excess liquidity in the markets.

In the second case, where the interest rate increase is for financial stability and exchange rate stability, economic growth and employment are equally important.

In the present financial model, an increase in interest rate reduces the investment and consumption in the economic system. So moderation or reduction in economic growth and employment is obvious.

This problem can be solved by the New Financial Model, in which specific sectors can be targeted for growth and employment even during the high interest rate period.

-----3rd Chapter ends

Saving, its role and importance

Saving is basically, excess of income over consumption or you can also say part of income not consumed currently for projected future expenditure (deferred Consumption).

As discussed in first paper, Income equation in Ancient Times

$$I (\text{income: food in this context}) = C (\text{consumption}) \text{-----} (1)$$

Ancient humans used to consume or spend (expenditure) their whole income (food). The Habit of saving which today directly affects the induced consumption was not developed in ancient humans initially. This habit developed in them with time when they learned about the ways of storage. After the habit of saving got developed, equation becomes

$$I (\text{Income}) = C (\text{Consumption}) + S (\text{Saving}) \text{-----}(2)$$

$$\text{So, } S (\text{Saving}) = I (\text{Income}) - C (\text{Consumption}) \text{-----}(3)$$

Saving (excess of income over consumption or projected future expenditure) directly affects the present level of consumption (induced consumption).

$$\Rightarrow \text{Income} = \text{Autonomous Consumption} + \text{Induced Consumption} + \text{Saving}$$

$$\Rightarrow \text{So, Induced Consumption} = \text{Income} - (\text{Autonomous Consumption} + \text{Saving}) \text{-----}(3)$$

From equation (3), the Level of induced consumption depends upon disposable income and savings, as autonomous consumption does not change much in the short run.

Disposable Income depends upon the individual's profession, the level of economic activity in an economic unit, price levels (inflation) and the tax structure. Saving involves the human's mind perception of the present and future.

On the one hand, the level of saving is excess of income over consumption and on other hand, the Level of saving for a human depends upon his emotional mind's projection of future needs & desires. Someone is saving by projecting his future needs like retirement life, married life, education, children's education, parent's care, medical expenses, children's marriage etc. and someone is saving as having a desire to have a brand new car, a motorcycle, a good built house or bungalow, for a foreign tour, for entertainment etc. [From 2nd part of the 1st paper, for more please read it]

Saving has two important aspects.

- **One is Gross capital formation** [as saving = investment, saved money is used by

Various components of an economic unit. For example, banks lend the saved money to corporates which helps in overall capital formation and the economic growth of an economic unit. Harrod-Domar model, More the saving => More Investment => More capital stock => high economic growth.]

Income Equation For consumer

$S \text{ (Saving)} = I \text{ (Income)} - C \text{ (Consumption)}$ (From equation (3))

Income Equation For investor

$\text{Income} = \text{Output} = \text{Consumption} + \text{Investment}$ ----- (4)

By putting the value of income from equation (4) in equation (3)

Saving = Investment----- (5)

- **Another is projected future expenditure i.e. future needs & desires** (if an individual will save less then how he will plan for his retirement life, his & his family member's future medical expenses and education. An individual is desirous of buying a brand new car, building a new house, or going on a foreign tour. How will he plan that if his savings will be less?)

From equation (5), as we have seen saving = investment.

Now the question is which type of saving is most important for being used as an investment. Is it part of income (saving) held in cash, savings account, fixed deposit, money markets, capital markets, bonds, saving schemes or in other types? Simply saying, short term or long term saving is good for being used as an investment.

Short-term saving can be called anytime by the holder and being consumed. But long term saving is most appropriate for being used as an investment: as it won't be called for withdrawal in the short term. So institutions (Banks, Bond issuers, pension funds etc.) can lend this money or invest this money for the long term. **So, Long term saving is most important for being used as an investment.**

Important points from this part:

- In the current financial model (personal & for firms), the **option of saving gives a choice to an individual/firm to save a part of income for the future and not to consume it currently.**

This directly reduces the consumption level in the economy, so decreases the aggregate demand in the short run.

- **It's Long term saving which is most important for being used as an investment.**

4th Chapter ends.

Accumulate the Facts

Before we go to the New Financial Model, let's accumulate the facts from the discussion so far.

From 1st Part: Two points first is the question: Are the free markets efficient, self-regulating & sustainable and should the government control, intervene or not in the demand and supply affairs at the time of imbalance? Second is the essence: what determines the economic growth of an economic unit. And the end goal is: "Welfare of people".

Who determines the economic growth of an economic unit? In the long run its **technology** and in the short run, **its aggregate demand**.

From 2nd Part: When an economic slump comes, how to increase aggregate demand in the short run.

Two options are available to increase the aggregate demand in the short run considering the global economic crisis hit the economy.

1. First is to lower the interest rates (short term: normal monetary policy and Long term: Unconventional monetary policy - Quantitative easing) and
2. Second is government spending G (and other fiscal policy tools)

Authorities (Government and central bank) should use the second option (that is fiscal policy) as a last resort. **It should use the first option and New Financial tool (to be introduced)** which will actually promote consumption and investment in the economy.

From 3rd Part: Two important cases for the Central bank's decision to increase interest rates.

In the first case, authorities are willing to moderate the economic growth due to demand side inflation, but not in the second case. A reason for the first case is demand side inflation which is the result of low interest rates and excess liquidity in the markets.

In the second case, where the interest rate increase is for financial stability and exchange rate stability, economic growth and employment are equally important.

In the present financial model, an increase in interest rate reduces the investment and consumption in the economic system. So moderation or reduction in economic growth and employment is obvious. This problem can be solved by the New Financial Model, in which specific sectors can be targeted for growth and employment even during the high interest rate period.

From 4th Part: Important points from this part

- In the current financial model (personal & for firms), the **option of saving gives a choice**

to an individual/firm to save a part of income for the future and not to consume it currently.

This directly reduces the consumption level in the economy, so decreases the aggregate demand in the short run.

- **It's Long term saving which is most important for being used as an investment.**

From the above facts, it's clear that monetary policy plays an important role during an economic slump and high growth period (inflationary times). But, there are cases when monetary policy fails to do much. In an economic slump or low growth period, it fails to increase aggregate demand (Japan's case) and tight monetary (high interest rates) reduces the aggregate demand, investment and employment as well which is not acceptable in all cases. Government should use fiscal policy as a last resort.

Now, suppose we want to affect (increase/decrease) the aggregate demand in the short run considering current tools are not working at all.

Income = Consumption + Saving (=Investment)

Can we encourage the individual to reduce their savings and consume as much as possible in the short run to increase the aggregate demand?

But saving = investment. We know that it's long term savings that is good and will be available for investment, not the short term.

So we can affect (decrease/increase) short term saving to increase/decrease the aggregate demand.

This is what we are going to do in the “**New financial Model**”.

In the New financial Model, we will affect short term savings and encourage individuals/firms to save less in the short run and focus on consumption. So increase/decrease the aggregate demand in the short run.

5th Chapter ends.

New Financial Model

New Financial Model proposes to introduce the **concept of future money**. “Future money” is basically a monetary incentive on consumption to encourage consumption in the short run. **Presently**, entrepreneurs/distributors use a number of strategies (discounts, advertisements, festival sales, other schemes & programs) to encourage consumption of their products in the short run. FM money will become another option to encourage consumption in the short run and will provide a number of benefits to all the components of the economic unit.

This model will benefit the economy from both sides: Increasing consumption on the one side and Investment on the other. Through the concept of future money, it will increase the consumption by discouraging short term savings and build the long term savings which will be available for investment.

Concept of Future Money

Important things for the economic unit implementing the concept:

- Every consumer will have a **unique Consumer number** (or other centralized numbers from government authority).
- Every consumer will have a **future money account** (FM account with monetary authority, bank as regulated by laws)
- There will be a **Future Money Council** in the economic unit made by the authorities.
- FM Council will decide the **future money rate (FM rate)** and number of years (n)
- Value of Future money, FM rate, Number of years **can be zero to maximum** depending upon various things (Range decided by FM council, market forces, economic situation etc.)

How it will work: Consumers will get a monetary incentive **on buying the final goods**. When a consumer having a **unique consumer number** will purchase final goods, future money (monetary incentive) will be deposited in his FM account automatically.

The Amount of Future Money will depend upon the **FM rate** (% of final goods price), minimum-maximum limit/range of which will be decided by the FM council, market forces etc.

For example 1: I say 5% is FM rate and the rate of final good is \$100. So acc. to this, **\$5 will be** my future money and will be deposited in my future money account.

An Important thing in this concept is that this Future Money will not be available to consumers immediately but after the **N** number of years or time decided by the FM council, market forces.

- **Who will deposit the Future money?**

It is the seller/entrepreneur/distributor/government who is going to deposit the Future Money in the consumer's account to give incentive to the consumer for the consumption of final goods. It is up to seller/entrepreneur/government to give incentives or not (if no minimum limit is set by regulating authorities)

Won't the "Future Money" hit the seller's margins and reduce their profits if he has to deposit 5% of goods price in the consumer's FM account. But this is not the case. (More in Chapter 11th)

Let's see example.1 again.

Final Goods Price: \$100, FM rate: 5%, N (number of years): 30 years

My Future Money will be = \$5

Now this \$5 will be available to me after 30 years, not today. Amount which entrepreneur will deposit in the consumer's FM account will depend upon N (number of years) and prevailing interest rates. See the amount entrepreneur have to deposit in the FM account from the below table:

Table.3.			
Future Money	N (number of years)	Interest rates	Present Money to be deposited in the FM account
\$5	15	3%	\$2.41
\$5	15	6%	\$2.09
\$5	30	3%	\$2.06
\$5	15	5%	\$2.4
\$5	15	10%	\$1.2
\$5	30	5%	\$1.16
\$5	20	4%	\$2.28

Points from the above table

- Entrepreneurs don't have to deposit the entire amount of Future Money but the present value of FM, which will be calculated from the below formula

$$\text{Future Money} = \text{Present Money} * (1 + \text{FM } \%)^N$$

$$\text{So, Present Money} = \text{Future Money} / (1 + \text{FM } \%)^N$$

- Future Money will not be available to consumers immediately but after the number of years.
- Also, we can analyze the table that doubling the time has more impact on the present value than doubling the interest rates.

Changes in Income Equation

New financial model will make a very important change in the income equation.

Income Equation presently:

$$\text{➤ Income} = \text{Consumption} + \text{Saving} \text{ ----- (a)}$$

Income Equation in the New Financial Model:

Consumption in the new financial model: As we have seen, in the new financial model consumer will get the future money as an incentive on the consumption of final goods.

$$\begin{aligned} \text{➤ Consumption (C)} &= \text{Consumption (C)} + \text{Present value of Future Money} \\ \text{➤ } C &= C + C * (\text{FM rate}/(1+r)^N) \\ \text{➤ } C &= C (1 + (\text{FM rate}/(1+r)^N)) \text{ ----- (b)} \end{aligned}$$

Put value of C from equation (b) in equation (a)

$$\text{➤ Income} = C (1 + (\text{FM rate}/(1+r)^N)) + \text{Saving} \text{ ----- (c) \{for consumer\}}$$

So, above is the income equation for consumer in the new financial model. Here $(1 + (\text{FM rate}/(1+r)^N))$ is **consumption multiplier**, whose value depends upon the FM rate, number of years and interest rates.

Let's take an example.2

Income = \$100, C = \$80, Saving = \$20, FM rate = 5%, N = 30 years and rate of interest r = 3%

Put values in Present income equation (a) > Income (\$100) = Consumption (\$80) + Saving (\$20)

Now put the values in New Financial Model's income equation (c):

$$\text{Income (\$100)} = \$80 (1 + 0.05 / (1+0.03)^{30}) + \$20$$

$$\text{Income (\$100)} = \$80 (1.0206) + \$20$$

$$\text{Income (\$100)} = \$81.65 + \$20$$

$$\text{Income (\$100)} = \$ 101.65$$

Isn't it amazing, because of consumption multiplier in the new financial model, Income of \$100 will add \$101.65 in the economic unit.

$$\text{Income} = \text{Output} = \$101.65$$

For investors, Income equation in Present financial Model:

- **Income = Consumption + Investment**

For investors, Income equation in new financial model

- $\text{Income} = \text{Consumption} + \text{Present value of Future Money} + \text{Saving}$
- $\text{Income} = \text{Consumption} + \text{Investment}$
- Here the $\text{Investment} = \text{saving} + \text{Present value of future Money}$.

Let's see example.2 for investors

Present income equation (a) > Income (\$100) = Consumption (\$80) + **Investment (\$20)**

Now put the values in New Financial Model's income equation (c):

$$\text{Income} = \text{Consumption} + \text{Present value of Future Money} + \text{Saving}$$

$$\text{Income } (\$100) = \$80 + \$80 * (0.05 / (1+0.03)^{30})) + \$20$$

$$\text{Income } (\$100) = \$80 + 1.65 + \$20$$

$$\text{Income } (\$100) = \$80 + \$21.65$$

Here investment = \$21.65

In the new financial model because future money saved for long term, present value of money available for investment = \$21.65 more than \$20 which was available in the present model

So, we have derived an income equation in the new financial model for both consumer and investor and seen from example 2, that because of the consumption multiplier, more value is being added on both sides: consumption as well as investment in the economic unit.

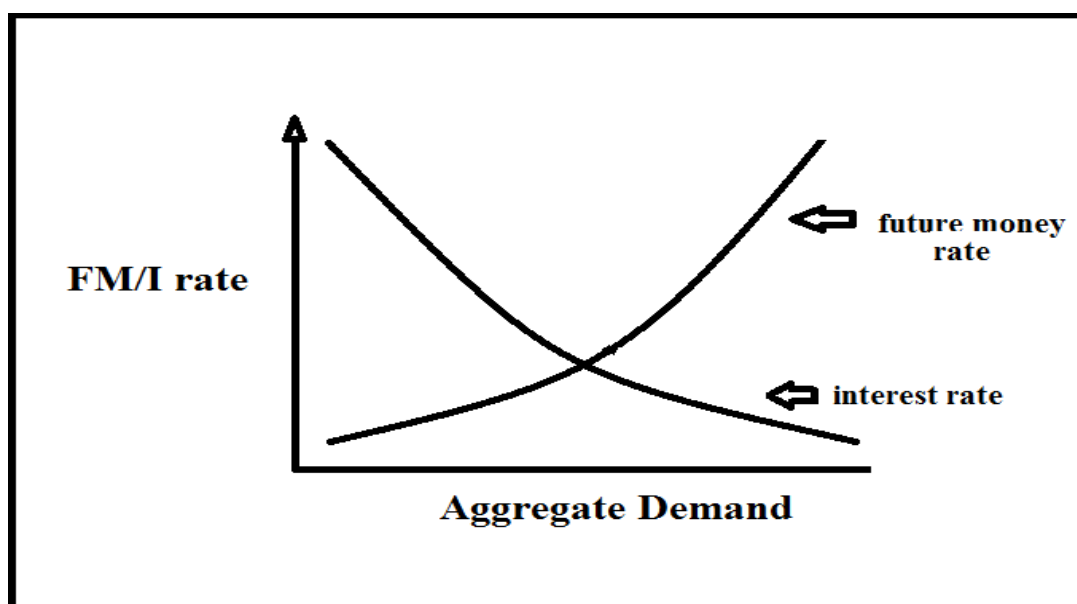
----- **6th Chapter ends.**

Future Money Rate (FM rate) as new financial tool

New financial model proposes **to use FM rate** as a new financial tool to affect the aggregate demand in the short run and manage the economy.

FM rate is a % of final goods price which will be given to the consumer as an incentive (Future Money) for consumption. It's FM rate that decides the FM amount.

- Generally, FM rate and interest rates move in opposite directions, meaning to say inversely proportional. High the interest rates: lower the FM rate **and** lower the interest rates: higher the FM rate. **However, exceptions** can be there where both interest rate and FM rate can be low or high. It depends upon the economic situation and how the monetary authority wants to use the tools. (See the Diagram below for a general case)



- **It's FM rate** that decides the FM amount.
- And **its interest rate and the number of years N** that decides money to be deposited in the consumer's account presently (Present value of Future Money). Higher the interest rates and the number of years, lower the money to be deposited in the customer's FM account & vice versa.

FM rate (new financial tool) and The times high interest rate

Recall the 3rd part: **The Times of high interest rate**. In the present financial model, an increase in interest rate reduces the investment and consumption in the economic system. So moderation or reduction in economic growth and employment is obvious.

Let's draw the table from the 3rd part showing **two important cases** where the central bank makes the decision to increase the interest rates.

Table.2. Central bank's decision to increase interest rates.		
Case	Reason	Action
1.	For Price Stability	<p>Action to increase the interest rates is because of demand-side inflation which is generated by low interest rates and excess liquidity.</p> <p>Here the Important thing is that In this case, the central bank is willing to sacrifice the economic growth, so to say moderation in demand and output levels.</p>
2.	To provide Financial Stability	<p>Action is for the financial and exchange rates stability.</p> <p>In this case, the central bank's intention is not to sacrifice economic growth. It wants economic growth, wants demand to stay and attain equilibrium with the supply side to attain full employment (low unemployment levels).</p>
	To stabilize exchange rates & Other reasons.	
	Stag inflation	Want the Employment generation in the economy.

These are two important cases: In the first case, authorities are willing to moderate the economic growth due to demand side inflation, but not in the second case. A reason for the first case is demand side inflation which is the result of low interest rates and excess liquidity in the markets. **In the second case, where the interest rate increase is for financial stability and exchange rate stability, economic growth and employment is equally important.**

New Financial Model's approach in the above two cases:

- **1st case** where the decision to increase interest rate is for price stability or to control demand side inflation: The *Central bank can increase the interest rates while decreasing or keeping the FM rate low (low as much as zero), which means giving no incentive to the consumer to buy the final goods.* Here the central bank is willing to sacrifice economic growth to cool the heated economy due to excess liquidity.
- **2nd case:** where the decision to increase the interest rates is for financial, exchange rate stability and to fight the stag inflation, **economic growth and employment are equally important in this case.**

Here the New Financial Model can solve the problem. Central banks can increase the interest rates for desired targets but along with that can use the FM rate as a tool to increase economic growth and generate employment. **How? Let's see**

While increasing the interest rates, central banks can also increase the FM rate (exceptional case) to give the consumer an incentive for consumption.

Important thing is that the present value of Future Money to be deposited by seller/entrepreneur won't change much. There will be no extra burden on entrepreneurs of an increase in the FM rate because an increase in interest rates will negate the increase in FM rate. See the below example:

Example: Let's assume car's price: \$100

FM rate	So, Future Money	N: Years	Interest rates	Present value of FM to be deposited in FM account
5%	\$5	30	5%	1.16
10%	\$10	30	10%	0.57

Aren't you surprised?

When we double the FM rate and interest rate, the present value of FM to be deposited in the FM account decreases significantly rather than increases.

So the consumer can be incentivized (as double Future Money deposited in his FM account), and the entrepreneur is happy as his things will be sold and he has to give less incentive (less present value to be deposited in FM account).

This is how, the new financial model will solve this problem, giving economic growth and employment even during high interest rate periods. Central banks can also use this approach even in the 1st case, here the specific sectors can be incentivized which are not responsible for the inflation and can add more employment than the others. I would suggest that concerned authorities should target the housing sector: because it can add much value to the economic unit.

Isn't the new financial model a win-win for the economy during this period?

Wait a minute.

Question.1. what about the investment part? We have increased the consumption by increasing the FM rate but high interest rates will decrease the investments as well because of high borrowing rates. What's the saying here?

Firstly when we are talking about the second 2nd case, demand won't shoot up by increasing the FM rate but will stay normal and importantly won't decrease much with increasing interest rates.

Secondly, a) Entrepreneurs/Corporates make investments for a longer prospective (bigger picture) and look at future demand & its sustainability. So investment by entrepreneurs is not a short term decision. **b)** For investment, borrowing (debt) is not the only way. Money can be raised from shareholders by expanding equity/by partnering etc. **c)** All entrepreneurs don't have to borrow for investments; there can be reserves/savings for utilization.

An important thing for the New Financial Model: Debt/borrowing should be done at a fixed interest rate at the time of the purchase of any final good. Why? An Explanation will be later.

Use of FM rate in 1st case (where interest rate increase to control the demand side inflation)

- FM rate can be used not only in the 2nd case but also in the 1st case as well when authorities want growth to stay and maintain employment. Here specific sectors can be targeted which are not producing inflation.
- **Soft Landing:** FM rate can be used when the central banks want to avoid a recession while increasing the interest rates.
- FM rate can also be zero to give no incentive if tackling the demand side inflation.

So this is how, the new financial Model is going to increase employment and give economic growth even during the high interest rate period.

There is a more interesting angle in the new financial model where consumers are getting the products free of cost. How is that possible? Let's see in the next chapter.

.....-7th Chapter ends.

Free Products to Consumer (Another side of New Financial Model during high interest rate period)

Let us continue the discussion from the last part, in the period of high interest rates, how to increase/maintain economic growth and support employment.

- In the previous part, we said that it is FM rate that decides the value of Future Money. We then calculated the present value of Future Money to be deposited in the consumer's FM account for the given interest rate and N number of years.
- **In this part, we say that FM rate decides the present value of Future Money not the value of Future Money.**

Let me take an example **and discuss two cases:**

There is consumer **A**. He wants to buy a house. House Price: \$10, 00,000.

Case1. Interest rates increased from 3% to 6% and then to 12%. FM rate increased from 5% to 10% and then to 20%. N = 30 years.

FM rate	So, Future Money	N: Years	Interest rates	Present value of FM to be deposited in FM account
5%	\$50,000	30	3%	20599.34
10%	\$100,000	30	6%	17411.01
20%	\$200,000	30	12%	6675.58

Consumer will obviously think to buy here when he is going to get an incentive of 20% as Future Money. In this case, FM rate decides the value of Future Money.

2nd Second Case: It is the most lucrative offer for the consumer and going to add a new angle in the new financial model.

Here the realtor says: He offers a free house to the consumer. Won't the consumer buy? Yes. But how's that possible? Let's see the table below:

FM rate	Present value of FM to be deposited in FM account	N: Years	Interest rates	Future Money (\$)	Price of House
3.338%	\$33,378	30	12%	1000000	1000000
17.411%	\$174,110	30	6%	1000000	1000000
41.199%	\$411,987	30	3%	1000000	1000000

In the above case: Future Money is equal to the price of a house today. And the realtor says he is offering the house free to the consumer. Won't the consumer buy? Answer is 100% yes.

An Important difference in the 2nd case is that here FM rate gives the present value of Future Money not the value of Future Money like in the 1st case. See the FM rate as a **discount rate** offered by the entrepreneur on his product. This discount will not be given instantly but will be deposited in the FM account.

- Take here FM rate as a discount rate decided by entrepreneurs, not by FM council.
- Mathematical expression **to calculate FM rate to offer the product free of cost means:**
Goods price = Future Money.

$$\text{FM rate} = 1 / ((1+r)^N). \text{ \{Here } r \text{ is rate of interest and } N \text{ is number of years. \}}$$

- Higher the interest rates, less is FM rate (discount) needed. More suitable for the entrepreneur.

Now let's see both cases:

S.No	1 st case	2 nd case
1.	It is FM rate that decides the value of Future Money.	Here the FM rate decides the present value of Future Money.
2.	Its maximum limit is decided by the FM council. (also can be on the entrepreneur, will discuss it later)	Here the FM rate is like a discount rate, Which is on the entrepreneur to decide. Here no intervention of FM council but can intervene if needed to tame inflation.
3.	It cannot be inflationary.	It will be very inflationary.
4.	It will maintain the aggregate demand during the high interest rate period and hence the employment as well.	It can increase the aggregate demand sharply and so the employment as well.
5.	FM council's control. Decides the FM rate or its maximum range. (Also can be left on market forces.)	Here the FM rate depends on market forces. (FM council can set maximum range of present value as % of goods price to be deposited in the FM account)

As we have seen, there are two values which FM rate can decide: one is Future Money and the other is the present value of Future Money. **During the high-interest rates, managing authorities (Central bank, FM council, and government) can decide how to use FM rate as a tool to fulfill its goals. Authorities can sit the minimum-maximum range for both Future Money and for the present value of Future Money to be deposited in the FM account to manage the economic unit well during the high-interest rate period.**

As discussed, this is the how new financial Model is going to increase/maintain employment and give economic growth even during the high-interest rate period. Let's **move to a low growth period.**

-----8th Chapter ends.

New Financial Model and Low growth period

Recalling the 2nd part, when any economic crisis hits, authorities have to take short term measures to handle it and normalize the economy. From our second point (an essence) of 1st part: **In the short run, its Aggregate demand that determines the growth in an economic unit.**

Aggregate demand (by expenditure side) = Consumption (by individuals and households) + Capital Investment (by private firms) + Government spending (by government) + Net exports (exports-imports: consumption by the outside world).

In the Present Financial Model: We have two options available (see table in the 2nd part) to increase the aggregate demand in the short run when the global economic crisis hits the economy.

1. First is to decrease the interest rates (short term: normal monetary policy and Long term: Unconventional monetary policy - Quantitative easing) and
2. Second is government spending G, tax cuts etc. (fiscal policy tools)

What if interest rates are already very low and only left with the option of using fiscal policy: government intervention? What if government intervention is not preferred by the economic unit due to adherence to a free market economy?

FM rate (New financial tool: another option)

In the new financial model, **FM rate** is another option to deal with the low growth period/recession/depression and increase the aggregate demand by incentivizing the consumer to consume. In this model following are the three options available to handle the depression/recession/low growth period. Let us discuss them:

- **First case: Increasing Minimum-Maximum limit of FM rate** (can consider increasing or decreasing interest rates looking at the response at aggregate demand level).
- **Second Case:** Allowing withdrawal of Future money.
- **Third case (Zero interest rate case), Government Money GM: Role of government.** (When interest rates are already zero or nearly zero)

Let's discuss the cases one by one.

1. First case: Increasing Minimum-Maximum limit of FM rate (can consider decreasing or increasing interest rates looking at response of aggregate demand).

In a low growth period/recession: 1st step authorities should do is to increase the minimum-maximum limit of FM rate and keep the interest rates as it is. Increased FM rate will attract the consumer for consumption and stable interest rates will keep the present value of Future Money lower.

Table 9.1 showing increasing FM rate increases the Future Money, Consider Product's Final Price = \$1,00,0000					
FM rate	Future Money	N	Interest Rates	Present Value of Money	Discount rate
5%	\$50,000	30	3%	20599.34	2.06%
6%	\$60,000	30	3%	24719.21	2.47%
7%	\$70,000	30	3%	28839.07	2.88%
8%	\$80,000	30	3%	32958.94	3.30%
9%	\$90,000	30	3%	37078.81	3.71%
10%	\$100,000	30	3%	41198.68	4.12%

Depending upon the response of aggregate demand and the severity of the economic crisis, authorities can consider decreasing/increasing interest rates.

2. Second Case: Allowing withdrawal of Future Money.

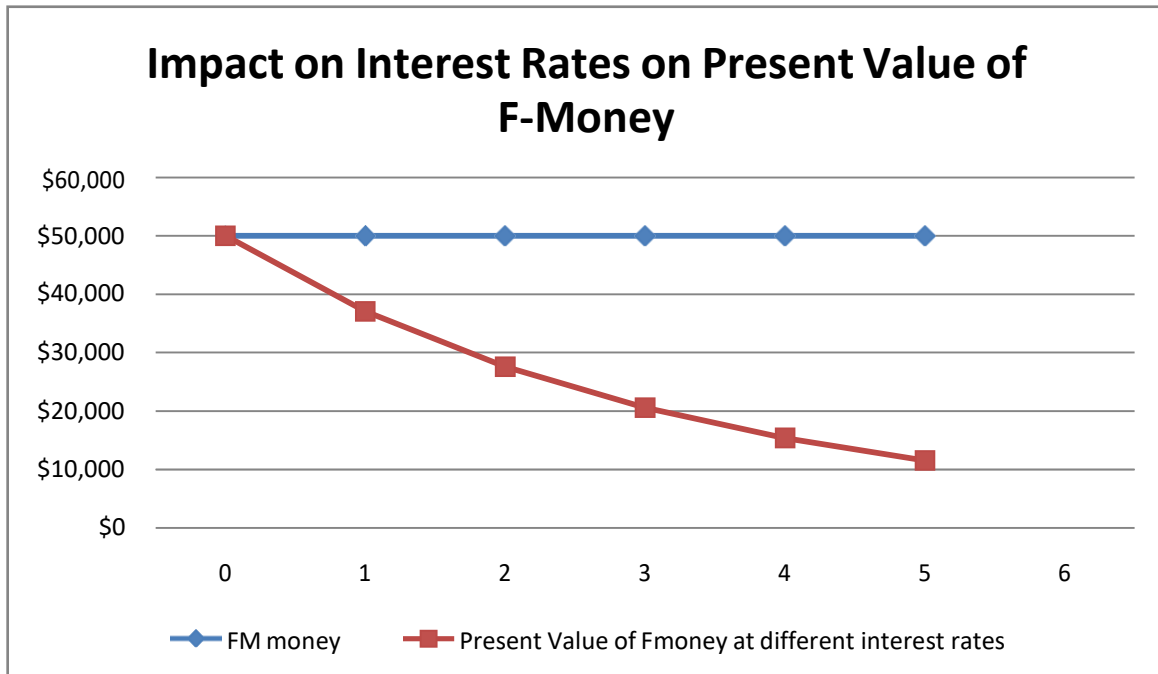
Another step which the authorities can do is to allow the withdrawal of Future Money, so that consumers can have more funds for consumption. Premature withdrawal can be full, half or of % of total Future Money as decided by the authorities. Value of Future Money must be according to the number of years N it's been in the FM account and acc. To what interest rate it has been deposited.

But the important thing here is that: Authorities should allow the withdrawal of Future Money only for the purpose of consumption and for the purchase of final goods. They must not give the money in the hands of the consumer: which they hold or save.

3. Third case: (Zero interest rate case), Government Money: Role of government. (When interest rates are decreasing, already zero or nearly zero)

- Interest rates play an important role in deciding the present value of Future Money or Future Money itself. Interest rates and present value of Future Money are inversely proportional. Decreasing interest rates increases the present value of Future Money to be deposited in the FM account.
- If the interest rates are zero or near zero, the value of Future Money and the present value of Future Money will be the same (shown in the table and chart below).

Table 9.2 showing impact of interest rates on present value of F-Money, Consider Goods = \$1,00,0000				
FM rate	Future Money	N	Interest Rates	Present Value of Money
5%	\$50,000	30	0%	50000.00
5%	\$50,000	30	1%	37096.15
5%	\$50,000	30	2%	27603.54
5%	\$50,000	30	3%	20599.34
5%	\$50,000	30	4%	15415.93
5%	\$50,000	30	5%	11568.87



- So at zero interest rate, for sellers there is no difference between giving an immediate discount of 5% (FM rate) and depositing the money in FM account which will be available to consumers after N number of years.
- But depositing money in FM accounts is beneficial for the economic unit, as this money will be available for **investment part in the economy**, as this money will be available for lending. So must be deposited in the FM accounts only.

If there is need to increase the aggregate demand more, Authorities can decrease the interest rates along with the increasing FM rate and can make use of both tools interest rates and FM rates.

Table 9.3 showing increasing FM rate and decreasing interest rates, Consider Product's Final Price = \$1,00,000					
FM rate	Future Money	N	Interest Rates	Present Value of Money	Discount rate
5%	\$50,000	30	5%	11568.87	1.16%
6%	\$60,000	30	4%	18499.12	1.85%
7%	\$70,000	30	3%	28839.07	2.88%
8%	\$80,000	30	2%	44165.67	4.42%
9%	\$90,000	30	1%	66773.06	6.68%
10%	\$100,000	30	0%	100000.00	10.00%

- Here, we are assuming that the seller shares up to the maximum limit of FM rate. However, sharing from the seller's side is voluntary.

When the interest rates are nearly zero or zero (like in Japan, UK, Euro zone area, after 2008 in many developed countries interest rates are very low), the value of present value of Future Money becomes high then the seller may not go to the maximum limit of FM rate to provide the incentive: **here government can play the role in increasing the aggregate demand.**

But there is a difference between how the government plays a role in the present model (acc. to. Keynesian Economics) and how it should be in the new financial model.

Keynesian economics supported government intervention during low growth period/recession/depression: Increasing government spending when other components of aggregate demand don't spend much, Active fiscal support, supported running fiscal deficit.

New financial model recommends that the government should play a role in increasing the spending of other components, not increasing spending itself and coming into business, which will increase its role and its size. Cutting income taxes, giving monetary support through welfare schemes will give money in the hands of consumers and entrepreneurs, but then it will depend upon the consumer whether to consume or not and on the entrepreneur whether to invest or not.

- Government should incentivize the spending of consumers (the first component of aggregate demand) and when there will be demand from consumers, entrepreneurs will invest automatically to increase production.
- When the interest rates are near zero or zero, then the consumer can borrow the money for consumption and the entrepreneur can borrow the money for investment. Government/authorities should only incentivize the consumer for consumption.

Let's see how the government can play a role and incentivize consumption in the new financial model:

Government Money: Government Money is part of/share of/multiple of the present value of Future Money which the government will share (pay from indirect taxes collected from consumer) with the seller when the interest rates are zero or near zero and FM rate is high.

- It's a contribution from the government side similar to the government's contribution in pension funds, retirement funds, employee pension schemes, and various insurance schemes where all shareholders contribute.
- GM is a multiplier which tells the share of the government mathematically. Value of GM can be 0, 0.5, 1, 2.....

Let's see the table below

Table 9.3 showing Government contribution in Future Money, Consider Product's Final Price = \$10,00,000						
					When Value of GM = 0.5	
FM rate	Future Money	N	Interest Rates	Present Value of Money	Then Government contribution	And Contribution of Seller
5%	\$50,000	30	1%	37096.15	18548.07	18548.07
5%	\$50,000	30	0%	50000.00	25000.00	25000.00
10%	\$100,000	30	1%	74192.29	37096.15	37096.15
10%	\$100,000	30	0%	100000.00	50000.00	50000.00

Here the government and seller share the contribution equally: That is 50%-50% of the present value of Future Money. Value of GM = 0.5

Table 9.4 showing Government contribution in Future Money,

Consider Product's Final Price = \$1,00,0000							
					Value of GM = 1		Value of Future Money = 2* Previous FM
FM rate	Future Money	N	Interest Rates	Present Value of Money	Government contribution	Total Contribution	
5%	\$50,000	30	1%	37096.15	37096.15	74192.29	\$100000
5%	\$50,000	30	0%	50000.00	50000.00	100000.00	\$100000
10%	\$100,000	30	1%	74192.29	74192.29	148384.58	\$200000
10%	\$100,000	30	0%	100000.00	100000.00	200000.00	\$200000

Table 9.4, Here the government shares the same amount of present value of Future Money as the seller: That is 100% - 100%. Value of GM = 1.

This makes Future Money double (2*Future Money): very lucrative for consumers for consumption.

Like this government can play a role in the New financial model. The Government will incentivize consumption and increase the aggregate demand in the economic unit.

- Government will contribute only when the consumer will consume. Not like the present model: where the government gives money directly to consumers/investors and leaves it to them whether to consume/invest or not.
- **Value of the government's contribution will not be a burden:** as the government **will get the tax on the sale of final goods** from consumers (indirect tax: consumption tax, GST etc. different names in different countries) and **will get taxes from entrepreneurs on sales (through corporate tax)**. Net will be a zero sum game for the government but economic recovery and employment generation will be more important during times of recession/depression/low growth period.
- For the government, there is no need to incentivize every sector. Incentives can be given in the housing sector, in sectors which generates more employment, which generate less inflation. Long term beneficial sectors for the economy: like Electric vehicles (EVs), Clean/green energy sectors etc.
- The Government can decide to contribute a % percentage of its consumption taxes (indirect taxes collected on the consumption of final goods) depending upon the economic situation.
- The Government will play the role of the regulator which will only help the demand and supply forces to run the economy.

This is how the NEW FINANCIAL MODEL can increase the aggregate demand during economic crisis, depression, recession, and low growth period.

9th Chapter ends.

Relief from Stagflation

Stagflation is not a phenomenon that occurs every year or frequently; it is rather an exceptional phenomenon that occurs once in decades due to supply side disruptions or due to wrong monetary and fiscal policies.

Stagflation is a combination of high inflation, high unemployment and slow economic growth, which appeared in the 1970's and 1980's (Great Inflation period), started due to wrong fiscal-monetary policies and then intensified with **supply side shocks** like the 1973 oil crisis (oil embargo by OPEC: quadrupling of oil prices) and 1979 energy crisis (Iranian revolution, Iran-Iraq war).

Keynesian economics, which was dominating the economic space post the world war era and whose central point was the management of aggregate demand, failed to give answers and provide any solution. Milton Friedman and Edmund Phelps warned against over reliability on the Phillips curve assumption which governments and central banks were showing to achieve full employment. Inverse correlation between unemployment and inflation got distorted because both unemployment and inflation were rising in the 1980s. Neo-Keynesian theory categorized inflation into two categories: demand side inflation and cost push inflation (due to supply shocks).

Central banks accepted Monetarist school's Milton Friedman's famous saying "Inflation is always and everywhere a monetary phenomenon". The Stagflation period (1965-1982) came to an end with the Federal Reserve under Paul Volcker following tight monetary policy and increased interest rates very high to tame inflation.

Governments and Central banks which were focusing on policies for full employment in the economy post war era, their policy-making views changed after the stagflation and central banks started prioritizing "Price Stability" in the monetary policies decisions, setting targets of inflation and other monetary aggregates.

Concern about stagflation is rising again. Global economy was just recovering from Covid-19 pandemic and its supply shocks (semiconductor shortage, availability of labor, disruption in goods and services etc.), now the Russia-Ukraine war has hit the door and created a global food and energy crisis. Food and energy prices are hitting record highs and posing a threat to global economic growth. Inflation is hitting historic highs around the globe and central banks started increasing interest rates. Sri Lanka is facing its worst crisis since its independence with no forex reserve to buy oil, food etc. Indonesia has banned palm oil exports, India has banned wheat exports, and European countries are thinking of reviving coal based thermal plants. The Path of global economic growth looks very uncertain in the short term.

Now, what are the tools available in the present financial model to tackle stagflation? According to me, till the resolution or alternative of the problem of supply side inflation (say Russia Ukraine war here) **only and only solution** which authorities have in the present financial model is increase in interest rates to control the inflation. That's what most of the central banks are doing nowadays (interest rate increase) even at the cost of economic growth except the one: Japanese central bank. Ha.

In short, there is no short term solution or relief from stagflation (rising prices and unemployment) for individuals in the present financial model.

Relief from stagflation in New Financial Model

As said above, **till the resolution or alternative of the problem of supply side inflation there is no end to the problem.** But there are a number of measures which can give short term relief in the new financial model. Following are measures which authorities can take to give relief to individuals from stagflation along with present monetary and fiscal tools:

1. **Allowing withdrawal of Future Money:** Authorities can allow the withdrawal of Future Money, so that consumers can have more funds (apart from income) in the face of rising prices. Premature withdrawal can be full, half or of % of total Future Money as decided by the authorities. Value of Future Money must be according to the number of years N it's been in the FM account and acc. To what interest rate it has been deposited.

But the important thing here is that: Authorities should allow the withdrawal of Future Money only for the purpose of consumption and for the purchase of final goods. They must not give the money in the hands of the consumer: which they hold or save.

2. **Allowing use/withdrawal of future money for the purchase of targeted goods and services:** Suppose due to any event, say war/pandemic/embargo/conflict/etc., a global food/energy/commodity crisis arises. At that time Authorities can allow the withdrawal and use of Future Money for the purchase of those particular items whose price has increased due to supply side shocks.

For example, oil prices increased globally due to supply side shocks. Now the Authorities can allow the withdrawal and use of Future Money for the purchase of oil linked items whose price has increased due to supply side shock.

This is how individuals can get some relief in the new financial model and inflation can be controlled.

3. **Second case from Chapter 7th (repeat):** where the decision to increase the interest rates is for financial, exchange rate stability and to fight the stag inflation, **economic growth and employment are also equally important.**

Here the New Financial Model can solve the problem. Central banks can increase the interest rates for desired targets say to bring down inflation but along with that they can

use the FM rate as a tool to increase economic growth and generate employment. **How?**
Let's see

While increasing the interest rates to tame inflation, central banks can also increase the FM rate (exceptional case) to give the consumer an incentive for consumption.

Important thing is that the present value of Future Money to be deposited by the seller/entrepreneur won't change much. There will be no extra burden on the entrepreneurs of increasing the FM rate because an increase in interest rates will negate the increase in FM rate. See the below example:

Example: Let's assume car's price: \$100

FM rate	So, Future Money	N: Years	Interest rates	Present value of FM to be deposited in FM account
5%	\$5	30	5%	1.16
10%	\$10	30	10%	0.57

Aren't you surprised?

When we double the FM rate and interest rate, the present value of FM to be deposited in the FM account decreases significantly rather than increases.

So the consumer can be incentivized (as double Future Money deposited in his FM account), and the entrepreneur is happy as his things will be sold and he has to give less incentive (less present value to be deposited in the FM account).

This is how a new financial model will solve this problem, giving economic growth and employment even during high interest rate periods. Here the specific sectors can be incentivized which are not responsible for the inflation and can add more employment than the others. I would suggest that concerned authorities should target the housing sector: because it can add much value to the economic unit.

See the complete case in Chapter 7 for more and for discussion on investment during high interest rate periods.

- FM rate can be used to target specific sectors which are not producing inflation.
- **Soft Landing:** FM rate can be used when the central banks want to avoid a recession while increasing the interest rates.
- FM rate can also be zero to give no incentive if tackling the demand side inflation.

So this is how “New Financial Model” is going to increase employment and give economic growth even during the high interest rate period to fight stagflation.

There is a more interesting angle in the new financial model where consumers are getting the products free of cost. How is that possible? Read the 8th chapter for the details.

- 4. Others:** According to me, the New Financial Model is an innovative one. Authorities can find a many solutions from it with the time to tackle stagflation.

10th Chapter ends.

Benefits to Government: Tax Collection spring

We have discussed the New financial Model: Concept of Future Money, New financial tool: FM rate and how it will help the economic unit during high and low growth periods.

So far, it seems only the consumer is reaping the fruits: consuming the things he needs and also getting incentives on the consumption.

Let's see how the new financial model will help the Government whose goal is the "Welfare of its People". Following are benefits to the government from the implementation of new financial model:

Tax Collection Spring: Most important benefit to the government will be the multifold rise in tax collection.

- Increase in consumption => increase in aggregate demand => more sale/purchase of goods and services, so more tax collection to the government.
- With the implementation of the New financial Model: there will be data of every single sale/purchase of small to big final goods/services through **Unique customer numbers**. Billing of every sale/purchase will become a necessity and the consumer will himself be interested in getting the bill for every purchase because he will get the incentive. With every transaction coming in white: there will be no invasion of taxes and the government's taxes will rise multifold.

In most countries specially developing ones, billing of purchase/sale of goods (in many industries) is not compulsory. Consumers/Sellers are themselves not interested in billing as they have to pay taxes on the transaction. In the New financial model, every transaction will be recorded.

New Financial Tool: Every Government's goal is the welfare of its people. The Government will have a new financial tool which it can use in normal/ low/high growth periods to increase the country's economic growth.

Small and efficient government: As in the new financial model, the government's role is to help market forces (demand and supply) work independently by incentivizing consumption; its size will be small. So it will be able to work efficiently as a regulator, to achieve the goals of economic growth and generating employment etc.

No burden of Providing Pensions and Old age security: In "New Financial Model", governments don't have to contribute/pay for **Pensions and Old age security** as this model will introduce "New Pension System". See it in detail in next Chapter 13th.

More Focus on Necessary work/sectors/things: It's not that with the implementation of new financial model, the government's role will end. There are necessary works/sectors/things where

government action is necessary because private interests won't be much interested in these.

1. Education, Healthcare, Defense etc. sectors where governments have to act actively.
2. Improving and strengthening the judicial system: so that speedy justice can be delivered.
3. Making efficient Labor market laws: beneficial to both employer and employee, stopping/reducing exploitation by either.
4. Making the consumer grievance redressal system strong and efficient for speedy resolution.
5. Checking the Monopolies and Cartelization of firms.
6. Removing poverty.
7. Bridging the gap between rural-urban and poor-rich.
8. Environmental protection, to deal with climate change in the long run.
9. Promoting clean/green energy. **For example, Government can promote electric vehicles/other technologies by incentivizing (providing Future Money on buying) in the New financial Model.**
10. Promoting research and development.
11. Promote investment in new technologies.
12. Etc.

11th Chapter ends.

Benefits to Entrepreneurs/Corporate world

Let's turn our face towards the other big force of free markets that is supply side. Entrepreneurs invest/produce to get the return on investment/to make profits. They make the system productive, efficient, organized, and invest in new technologies/ideas to increase their profit margins. Only things they need: Regular demand for their products, cheap availability of capital and free market environment and fewer government controls. Following are the most important benefits to the entrepreneur world from New Financial Model implementation:

Infinite cycle of consumption: With the new financial model, new financial tool will be available not only to the authorities but also to the entrepreneurs.

- It will create an infinite cycle of consumption. Where consumers can be incentivized both by entrepreneurs and authorities for consumption.
- New Financial tool can be used in low/high growth periods along with other financial tools to increase the aggregate demand. The use of FM rate by entrepreneurs is voluntary and they can use it in difficult times to increase the consumption of their products.

End of Duplicity: Another problem for entrepreneurs is the duplicity of their products in the market. Bad elements in society duplicate the products to seek profit. It is harmful to the entrepreneur, the consumer as well as the government. Entrepreneur will lose the profit; the consumer will get the low quality product which can even play with his life and the government will lose the tax.

With the implementation of New financial Model: there will be data of every single sale/purchase of small to big final goods/services through **Unique customer numbers**. Billing of every sale/purchase will become a necessity and the consumer will himself be interested in getting the bill for every purchase because he will get the incentive. With every transaction coming in the record and this data will be available to all the stakeholders: Entrepreneurs will know who bought their product and whether the sale and purchase of their products are equal according to data, Government will know whether the person who bought had paid tax or not and consumers will know how much incentive has come in their FM account. **From this angle, it's a win-win model for all: Entrepreneurs, consumers, and the government.**

Free Market environment/less government intervention: New financial model will strengthen the free markets system, as it emphasized: the government's role only in encouraging the demand and supply forces of free markets by incentivizing consumption and making the money available for investment, Smaller and efficient government playing the role of regulator.

Long term capital: Incentives are given by the entrepreneurs (& government) in the form of Future money, which will be saved in the FM accounts for longer periods, so it will ultimately be lent and available to entrepreneurs for investment purposes.

No burden of contribution for Pensions and Old age security of Employees: In some

countries, companies (employers) have to contribute to the pension schemes of employees. In “New Financial Model”, companies (employers) don’t have to contribute as this model will introduce “New Pension System”. See it in detail in next Chapter 13th.

Others: Above are the main benefits. There will be a number of other benefits as well.

Important Question: Why will the entrepreneurs pay the incentive and won’t it decrease their profit margins?

Answer to the above question can be very short: New financial model or depositing Future money (paying incentive) won’t decrease the margins of entrepreneurs.

1. Entrepreneurs don’t have to deposit the entire amount of Future Money but the present value of FM. See chapter 6th for more detail on future money concept.
2. As the New financial model will decrease the role of government there will be less need for resources to the government which means tax cuts. If entrepreneurs will have to deposit Future money (pay incentive) their tax liability will also decrease equally. Also, they don’t have to contribute to the pension and old age security of employees. So it will be direct buying and selling between the consumer and seller and the government’s role will be only as a regulator.

In short, the “New Financial Model” or depositing Future money (paying incentive) won’t decrease the margins of entrepreneurs.

-----12th Chapter ends.

New Universal Pension System (Abolition of Present Pension System)

In the present financial model, nearly **every country has various pension schemes** for old age/after retirement. There are various forms of pension schemes: for employees, for organized sectors, for unorganized sectors, for every citizen having mandatory & non-mandatory contribution and voluntary & compulsory participation.

These pension schemes are part of the government's social welfare schemes. In some countries, Pension expenditure and social expenditure form a considerable part of the government's total expenditure and % of GDP.

Table. 13.1. Showing Pension Spending as % of GDP in major OECD countries		
Country	Year	% of GDP
Italy	2017	15.64
Greece	2017	15.488
France	2018	13.596
Spain	2017	10.903
Poland	2017	10.571
Germany	2017	10.202
Japan	2017	9.358
OECD-Total	2017	7.692
Turkey	2017	7.36
USA	2017	7.077
UK	2017	5.629
New Zealand	2018	4.968
Canada	2017	4.807
Australia	2017	3.993

Table. 13.2. Showing Social Spending as % of GDP in major OECD countries		
Country	Year	% of GDP
France	2018	31.077
Finland	2018	29.275
Italy	2018	27.768
Austria	2018	26.914
Sweden	2018	25.79
Germany	2018	25.34
Greece	2018	24.13
Japan	2017	22.32
UK	2018	20.291
OECD – Total	2018	19.809
New Zealand	2018	19.389
Hungary	2018	18.81
USA	2018	18.19
Canada	2018	17.985

Above tables 13.1 & 13.2 shows how pension and social spending form a significant part % of the GDP of major OECD countries.

In developing countries, for example in China pension spending is around 5% of GDP and in India; it's around 2-3%. In developing countries, pension spending is quite low compared to developed countries.

The Pension system is important, as it provides security after retirement/ in old age when our body doesn't allow us to work biologically. **But present pension system has many**

Problems/issues: are mentioned below:

1. Present Pension Model is either a contributory one (voluntary or non-voluntary) where individuals/employers contribute for their/employees retirement life or the one where governments support older people through various schemes. First way is not a universal one and the second way puts a fiscal burden on the government. **The Biggest problem of this system is that it is not universal in nature.**
2. In the present pension system: there are three participants (can be one or two or all three: vary from country to country and pension schemes).
3. Three participants: Consumer (employee), Entrepreneur (employer) and Government. Contribution from participants depends upon pension schemes. In some schemes, all three participants, in some first two, in some first and third and in some schemes only the third one that is government, take the whole burden.
4. When an employee (a consumer) contributes (nearly 10% of salary in some pension schemes): it reduces the present spending of that consumer. **So reduces the aggregate demand.**
5. When an employer (an entrepreneur) contributes: it reduces his profit margins. **So decreases the capital investment.**
6. **When the government contributes: it increases the burden (fiscal pressure) on the government.** For the contribution, governments have to increase the revenue (taxes/borrowing/fiscal deficit etc.). It increases the welfare schemes of the government. So increases government intervention in free markets.
7. Contributed money goes in the pension funds. These pension funds invest the contributed money acc. To the pension schemes: in fixed deposits, in bonds, in debt market, in capital market, Stocks, venture funds etc. These funds appoint a team of experts for the management of funds. In some countries, these pension funds have huge money under their management that they have become the dominant investment player in the markets.
8. Though Investment from pension funds helps the economic unit, **it lacks self-interest. True spirit of investment/ to seek profits which the entrepreneurs represent.**

So in the present financial model, present pension system:

- **Reduces private consumption: that means reduces the aggregate demand.**
- **Reduces the profit margins of entrepreneurs: that means reduces the capital investment.**
- **Increases the burden on government: means fiscal pressure.** Governments have to increase the revenue (taxes/borrowing/fiscal deficit etc.)
- **Whatever demand created/investment done by pension funds does not represent the true spirit and lacks the self-interest.**

New financial model proposes to abandon this inefficient pension system and introduce a more productive one which will represent the forces of a free market economy.

New Pension System

As we have seen, the “New Financial Model” introduces the **concept of Future Money** and the

New financial tool: FM rate. Future Money is an incentive that consumer receives on consumption and is given by the entrepreneurs (voluntarily)/governments/others to increase the consumption. (Please read chapter 6th of New Financial Model for detail)

- This Future Money is not available to consumers immediately but after N no. of years.
- We have seen that in the examples: we have taken $N = 30$.
- FM council can decide the value of N: it can be any value, can be less than 30 or more.

Every individual is a consumer and over the number of years of consumption: Every consumer will build a significant amount of **Future Money** or we can say FM corpus.

New Financial model proposes to use this Future money corpus as a pension corpus for the consumer. It must be available to the consumer in old age/after retirement. Authorities can set the rules of its redemption: through an annuity, monthly payments, portion of withdrawal in certain cases or premature withdrawal in emergency times (like economic recessions/depression/low growth period/in Covid-19 type times etc.) **to increase the aggregated demand in the short run.**

To build the FM corpus for every individual's pension, the government can set the rules for minimum FM contribution (a small %: say 1%) from all three participants (consumer, seller, and government) on the consumption of final goods. For example, Governments can decide to contribute a small % of consumption tax collected from every individual (indirect taxes collected on the consumption of final goods) in the FM account of consumer upon the consumption of final goods by that consumer, to build the corpus for the pension.

Following are the benefits of the New Pension System:

- **Universal Participation around the Globe:** Every individual is a consumer whether he/she is an employee or not, in the public or private sector, in the organized or unorganized sector etc. So every individual will consume: build the FM corpus for him. From this FM corpus, he will be able to get a pension in old age. So participation in the "New Pension System" will be universal in the economic units which are going to implement new financial model.
- **More Consumption:** No employee, no individual (consumer) will have to contribute to the pension schemes. So all the income will be available for consumption.
- **More investment:** No entrepreneur will have to contribute. So more profit margins, more money available, and more capital investment.
- **No burden on Government:** No contribution/No burden on the government. No need to raise more resources through taxes/borrowing, don't run fiscal deficits. Government just has to play the role of an efficient regulator in implementing the new pension system and new financial model.
- **Welfare of People:** As pensions will be available to each consumer, it will create a welfare state.
- **Free Markets:** More consumption and investment through free market forces. **Etc.**

This is how the New financial model will establish a new pension system: which will be more productive and good for every participant & for the whole economic unit. Using the FM corpus as Pension corpus is a proposal, however the authorities can consider the N number of years acc.

to the economic situation.

.....13th Chapter ends.

New Financial Model: Summary

Below is the summary of the New Financial Model.

1. End Goal of this Model: Like every science, End goal of this economic paper series is “Welfare of Humans”. Two things are very important for the “Welfare of Humans”: first is a **Source of Income** (Employment, Profits, etc.) at a young age and the second is **Old age security** (Income for subsistence and healthcare *needs*) after retirement. Individuals having a source of income at a young age and security in old age can follow their goals independently, can support their families and parents and can **make a happy & prosperous society together**.

Two new things from New Financial Model: first is New Financial Tool: **Future Money rate** and second is **New & Universal Pension System**. Future Money rate will ensure the sustainable economic growth which is important for the employment generation and will give the first important thing that is Source of Income. And second thing “New & universal pension system” will ensure the second important thing that is Old age security. [Read Preface for Detail](#).

2. Key Facts:

A. In the short run it is aggregate demand that determines the growth in the economic unit (Key point from Introductory Paper). So authorities use available monetary and fiscal tools to increase/maintain the aggregate demand in the economic unit with price stability. More the consumption, more the aggregate demand: So more economic growth and employment generation.

B. In the current financial model (personal & for firms), the option of saving gives a choice to an individual/firm to save a part of income for the future and not to consume it currently. This directly reduces the consumption level in the economy, so decreases the aggregate demand in the short run. Saving: Short term & Long Term. Short-term saving can be called anytime by the holder and being consumed. But long term saving is most appropriate for being used as an investment: as it won't be called for withdrawal in the short term. So institutions (Banks, Bond issuers, pension funds etc.) can lend this money or invest this money for the long term. **So, Long term saving is most important for being used as an investment.**

In the New financial Model, we will affect short term savings and encourage individuals/firms to save less in the short run and focus on consumption. So increase/decrease the aggregate demand in the short run.

3. New Financial Model (Chapter 6th): New Financial Model proposes to introduce the concept of future money. “Future money” is basically a monetary incentive on consumption to encourage consumption in the short run. Presently, entrepreneurs/distributors use a number of strategies (discounts, advertisements, festival sales, other schemes & programs) to encourage consumption of their products in the short run. FM money will become another option to encourage consumption in the short run and will provide a number of benefits to all the components of the

economic unit. This model will benefit the economy from both sides: Increasing consumption on the one side and Investment on the other. Through the concept of future money, it will increase the consumption by discouraging short term savings and build the long term savings which will be available for investment.

Concept of Future Money

Important things for the economic unit implementing the concept:

- Every consumer will have a **unique Consumer number** (or other centralized numbers from government authority).
- Every consumer will have a **future money account** (FM account with monetary authority, bank as regulated by laws)
- There will be a **Future Money Council** in the economic unit made by the authorities.
- FM Council will decide the **future money rate (FM rate)** and number of years (n). **(Entrepreneurs can themselves decide as well if council/authorities allow)**
- Value of Future money, FM rate, Number of years **can be zero to maximum** depending upon various things (Range decided by FM council, market forces, economic situation.)

How it will work: Consumers will get a monetary incentive **on buying the final goods**. When a consumer having a **unique consumer number** will purchase final goods, future money (monetary incentive) will be deposited in his FM account automatically. The Amount of Future Money will depend upon the **FM rate** (% of final goods price), minimum-maximum limit/range of which will be decided by the FM council, market forces etc.

For example 1: I say 5% is FM rate and the rate of final good is \$100. So acc. to this, **\$5 will be** my future money and will be deposited in my future money account. **An Important thing in this concept is that** this Future Money will not be available to consumers immediately but after the N number of years or time decided by the FM council, market forces.

Who will deposit the Future money?

It is the seller/entrepreneur/distributor/Government who is going to deposit the Future Money in the consumer's account to give incentive to the consumer for the consumption of final goods. **It is up to seller/entrepreneur to give incentives or not (if no minimum limit is set by regulating authorities)**

Won't the "Future Money" hit the seller's margins and reduce their profits if he has to deposit 5% of goods price in the consumer's FM account. But this is not the case. (More in Chapter 11th)

Let's see example.1 again. Final Goods Price: \$100, FM rate: 5%, N (number of years): 30 years.

My Future Money will be = \$5

Now this \$5 will be available to me after 30 years, not today. Amount which entrepreneur will deposit in the consumer's FM account will depend upon N (number of years) and prevailing interest rates. See the amount entrepreneur have to deposit in the FM account from below table:

Table.3.			
Future Money	N (number of years)	Interest rates	Present Money to be deposited in the FM account
\$5	15	3%	\$2.41
\$5	15	6%	\$2.09
\$5	30	3%	\$2.06
\$5	15	5%	\$2.4
\$5	15	10%	\$1.2
\$5	30	5%	\$1.16
\$5	20	4%	\$2.28

Points from the above table: A. Entrepreneurs don't have to deposit the entire amount of Future Money but the present value of FM, which will be calculated from the below formula:

$$\text{Future Money} = \text{Present Money} * (1 + \text{FM} \%)^N, \text{ So } \text{Present Money} = \text{Future Money} / (1 + \text{FM} \%)^N$$

B. Future Money will not be available to consumers immediately but after the number of years. Please read chapter 6th for detail.

4. New Financial Tool (Chapter 7th): New financial model proposes to use **FM rate** as a new financial tool to affect the aggregate demand in the short run and manage the economy. It can be used along with the interest rates during the low growth and high interest rate period to affect consumption.

FM rate is a % of final goods price which will be given to the consumer as an incentive (Future Money) for consumption. Generally its FM rate that decides the FM amount and in some cases, it determines the present value of Future Money as well. Please read chapter 7th for detail.

5. New Pension System (Chapter 13th): As we have seen, the "New Financial Model" introduces the **concept of Future Money** and the new financial tool FM rate.

- This Future Money is not available to consumers immediately but after N no. of years.
- You can see in the examples: we have taken N = 30.
- FM council can decide the value of N: it can be any value, can be less than 30 or more.

Over the number of years of consumption: Every consumer will build a significant amount of **Future Money** or we can say FM corpus.

New Financial model proposes to use this Future money corpus as a pension corpus for the consumer. It must be available to the consumer in old age/after retirement. Authorities can set the rules of its redemption: through an annuity, monthly payments, portion of withdrawal in certain cases or premature withdrawal in emergency times (like economic recessions/depression/low growth period/in Covid-19 type times etc.) **to increase the aggregated demand in the short run.**

To build the FM corpus for every individual's pension, the government can set the rules for minimum FM contribution (a small %: say 1%) from all three participants (consumer, seller, and government) on the consumption of final goods. For example, Governments can decide to contribute a small % of consumption tax collected from every individual (indirect taxes collected on the consumption of final goods) in the FM account of consumer upon the consumption of final goods by that consumer, to build the corpus for the pension.

Following are the benefits of the New Pension System:

- **Universal Participation around the Globe:** Every individual is a consumer whether he/she is an employee or not, in the public or private sector, in the organized or unorganized sector etc. So every individual will consume: build the FM corpus for him. From this FM corpus, he will be able to get a pension in old age. So participation in the “New Pension System” will be universal in the economic units which are going to implement new financial model.
- **More Consumption:** No employee, no individual (consumer) will have to contribute to the pension schemes. So all the income will be available for consumption.
- **More investment:** No entrepreneur will have to contribute. So more profit margins, more money available, and more capital investment.
- **No burden on Government:** No contribution/No burden on the government. No need to raise more resources through taxes/borrowing, don't run fiscal deficits. Government just has to play the role of an efficient regulator in implementing the new pension system and new financial model.
- **Welfare of People:** As pensions will be available to each consumer, it will create a welfare state.
- **Free Markets:** More consumption and investment through free market forces. **Etc.**

This is how the “New Financial Model” will establish a new pension system: which will be more productive and good for every participant & for the whole economic unit. Using the FM corpus as Pension corpus is a proposal, however the authorities can consider the N number of years acc. to the economic situation. Please read the chapter 13th for details.

6. New Income Equation (Chapter 6th): New Financial Model will make the changes in the present income equation and introduce a consumption multiplier.

Income (food) = Consumption {in Ancient times}

Income = Consumption + saving {for consumer: in present financial model}

Income = Consumption + Investment {for investor: in present financial model}

In New financial Model: income equation:

$$\text{Income} = C (1 + (\text{FM rate}/(1+r)^N)) + \text{Saving} \text{ \{for consumer\}}$$

$$\text{Income} = \text{Consumption} + \text{Present value of Future Money} + \text{saving} \text{ \{for investors\}}$$

Here the Investment = saving + Present value of future Money.

7. Handling the low growth period (Chapter 9th): In this model following are the three options available to handle the depression/recession/low growth period.

- **First case: Increasing Minimum-Maximum limit of FM rate** (can consider increasing or decreasing interest rates looking at the response at aggregate demand level).
- **Second Case:** Allowing withdrawal of Future money.
- **Third case (Zero interest rate case), Government Money GM: Role of government.** (When interest rates are already zero or nearly zero)

Please read the chapter 9th for details.

8. In the Times of High interest rate (Chapter 7th & 8th): New Financial Model's approach in the two cases where central banks increase the interest rates:

1st case where the central bank's decision to increase interest rate is for price stability or to control demand side inflation: *The Central bank can increase the interest rates while decreasing or keeping the FM rate low (low as much as zero), which means giving no incentive to the consumer to buy the final goods.* Here the central bank is willing to sacrifice economic growth to cool the heated economy due to excess liquidity.

2nd case: where the decision to increase the interest rates is for financial, exchange rate stability and to fight the stag inflation, **economic growth and employment are equally important in this case.** Here the New Financial Model can solve the problem. Central banks can increase the interest rates for desired targets but along with that can use the FM rate as a tool to increase economic growth and generate employment. **How? Let's see**

While increasing the interest rates, central banks can also increase the FM rate (exceptional case) to give the consumer an incentive for consumption. **Important thing is that the present value of Future Money to be deposited by seller/entrepreneur won't change much.** There will be no extra burden on entrepreneurs of an increase in the FM rate because an increase in interest rates will negate the increase in FM rate. See the below example: Example: Let's assume car's price: \$100

FM rate	So, Future Money	N: Years	Interest rates	Present value of FM to be deposited in FM account
5%	\$5	30	5%	1.16
10%	\$10	30	10%	0.57

Aren't you surprised? When we double the FM rate and interest rate, **the present value of FM to be deposited in the FM account decreases significantly rather than increases**. So the consumer can be incentivized (as double Future Money deposited in his FM account), and the entrepreneur is happy as his things will be sold and he has to give less incentive (less present value to be deposited in FM account).

Please read the chapter 7th for details. Also to know how consumers can get free products: Please read the chapter 8th in detail.

9. Relief from Stagflation (Chapter 10th): As discussed in 10th chapter, **till the resolution or alternative of the problem of supply side inflation there is no end to the problem**. But there are a number of measures which can give short term relief in the new financial model. Following are measures which authorities can take to give relief to individuals from stagflation along with present monetary and fiscal tools:

- **Allowing withdrawal of Future Money**
- **Allowing use/withdrawal of future money for the purchase of targeted goods and services:**
- **Second case from Chapter 7th (repeat):** where the decision to increase the interest rates is for financial, exchange rate stability and to fight the stag inflation, **economic growth and employment are also equally important**.

Please read the chapter 10th for detail.

10. Benefits to Government (Chapter 11th): Following are benefits to the government from the implementation of new financial model:

A. Tax Collection Spring: Most important benefit to the government will be the multifold rise in tax collection. Increase in consumption => increase in aggregate demand => more sale/purchase of goods and services, so more tax collection to the government.

With the implementation of the “New Financial Model”: there will be data of every single sale/purchase of small to big final goods/services through **unique customer numbers**. Billing of every sale/purchase will become a necessity and the consumer will himself be interested in getting the bill for every purchase because he will get the incentive. With every transaction coming in white: there will be no invasion of taxes and the government's taxes will rise multifold. In most countries specially developing ones, billing of purchase/sale of goods (in many industries) is not compulsory. Consumers/Sellers are themselves not interested in billing as they have to pay taxes on the transaction. In the New financial model, every transaction will be recorded.

B. New Financial Tool: Every The Government will have a new financial tool which it can use in normal/ low/high growth periods to increase the country's economic growth.

C. Small and efficient government: As in the new financial model, the government's role is to help market forces (demand and supply) work independently by incentivizing consumption; its size will be small. So it will be able to work efficiently as a regulator, to achieve the goals of economic growth and generating employment etc.

D. No burden of Providing Pensions and Old age security: In “New Financial Model”, governments don't have to contribute/pay for **Pensions and Old age security** as this model will introduce “New Pension System”.

Please read the 11th chapter for the detail.

11. Benefits to entrepreneurs (Chapter 12th): - Following are the most important benefits to the entrepreneur world from New Financial Model implementation:

A. Infinite cycle of consumption: With the new financial model, new financial tool will be available not only to the authorities but also to the entrepreneurs.

It will create an infinite cycle of consumption, where consumers can be incentivized both by entrepreneurs and authorities for consumption. New Financial tool can be used in low/high growth periods along with other financial tools to increase the aggregate demand. The use of FM rate by entrepreneurs is voluntary and they can use it in difficult times to increase the consumption of their products.

B. End of Duplicity: Another problem for entrepreneurs is the duplicity of their products in the market. Bad elements in society duplicate the products to seek profit. It is harmful to the entrepreneur, the consumer as well as the government. Entrepreneur will lose the profit; the consumer will get the low quality product which can even play with his life and the government will lose the tax.

With the implementation of New financial Model: there will be data of every single sale/purchase of small to big final goods/services through **Unique customer numbers**. Billing of every sale/purchase will become a necessity and the consumer will himself be interested in getting the bill for every purchase because he will get the incentive. With every transaction coming in the record and this data will be available to all the stakeholders: Entrepreneurs will know who bought their product and whether the sale and purchase of their products are equal according to data, Government will know whether the person who bought had paid tax or not and consumers will know how much incentive has come in their FM account. **From this angle, it's a win-win model for all: Entrepreneurs, consumers, and the government.**

C. Free Market environment/less government intervention: New financial model will strengthen the free markets system, as it emphasized: the government's role only in encouraging the demand and supply forces of free markets by incentivizing consumption and making the money available for investment, Smaller and efficient government playing the role of regulator.

D. Long term capital: Incentives are given by the entrepreneurs (& government) in the form of Future money, which will be saved in the FM accounts for longer periods, so it will ultimately be

lent and available to entrepreneurs for investment purposes.

E. No burden of contribution for Pensions and Old age security of Employees: In some countries, companies (employers) have to contribute to the pension schemes of employees. In “New Financial Model”, companies (employers) don’t have to contribute as this model will introduce “New Pension System”.

F. Others: Above are the main benefits. There will be a number of other benefits as well.

Please read the 12th chapter for the detail.

12. Fee Structure (Chapter 15th): Please read the 15th chapter for the details.

Above is the Summary of “New Financial Model”.

14th Chapter ends

Fee Structure for using New Financial Model

As we have discussed the New Financial Model, I am very positive that it will help the economies around the globe to solve the economic problems which they are facing, help in maintaining economic growth during low growth/high interest rate periods while fighting inflation/stagflation and achieving goals of price stability & full employment. Most importantly it proposes to introduce the “New Pension System” which is a universal one; I think it will be a revolutionary step towards ensuring “Welfare of Human.”

I invite the interested countries/organizations/companies/media organizations, persons/other parties for the discussion on the “New Financial Model”.

I have set a fee for the countries/companies/organizations (profit-nonprofit)/individuals/others, who are interested in the implementation of the new financial model; they should contact me, sign an agreement and pay the fee for it. The Fee table is available below:

For interested countries (at government level), fee is according to GNI income per capita group (by World Bank)

S.No	Countries (Governments)	Fees
1	For India	2 Crore Indian Rupee
2	High Income group Countries	5 Million Dollars
3	Upper Middle Income group Countries	3 Million Dollars
4	Lower Middle Income group Countries	2 Million Dollars
5	Low Income Group Countries	0.5 Million Dollars
Countries (Governments) can request for the negotiations. Fee will definitely be reduced on facts.		

For Organization/Companies/individuals (anywhere in the world), fee is according to below table:

S.No	Income range	Fees
1	More than \$50 billion	5 Million Dollars
2	From \$10 to \$50 billion	3 Million Dollars
3	From \$1 to \$10 billion	2 Million Dollars
4	From \$50 million to \$1 billion	1 Million Dollars
5	Below \$50 million	Contact for the fees details.
However, organizations/Companies/Business Groups can request for the negotiations. Fee will definitely be reduced on facts.		

I sincerely request countries/organizations/Companies/Business Groups to sign the agreement with me before the implementation of the new financial model, to avoid legal consequences.

Again At last, I invite the interested countries/organizations/companies/media organizations, persons/other parties for the discussion on the “New Financial Model”. I hope this model will be reviewed carefully, implemented and it will achieve the goal of “Welfare of Humans”.

Thanks & Regards

Resham Singh

Research Analyst (Certified)

Contact No. +919855379014

<https://reshamsingh.org/>

Email Id: resham.research@gmail.com; contact@reshamsingh.org

Correspondence Address: H.No.2938A Sector20C, Chandigarh.

Note: There can be grammatical mistakes in the paper.

All the Rights of this paper series, “New Financial Model” belong to me and my family.

Revised on 15th Feb 2023

Revised on 7th March 2024: Project Website Link updated to <https://newfinancialmodel.com> from existing <https://www.thenewfinancialmodel.com>

Revised on 3rd Feb 2025: Updated New Universal Pension System wordings

Revised on 8th March 2025: Revised NFM Fees for Indian Government, 2 Crore from Free of cost. NFM Model was free from 2022 to March 2025

Rights and Permissions



This work (Paper-2: New Financial Model) is licensed under the Creative Commons Attribution Noncommercial – No derivatives 4.0 International.

To view a copy of this license, visit <https://creativecommons.org/licenses/by-nc-nd/4.0/>.
