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New Financial Model (Paper -2)

(Infinite Cycle of Consumption)

Abstract: This paper series proposes a New Financial Model for the economies across the globe tosolve 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, 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 => Income = Consumption + 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.***

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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 types are 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.

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.

<u>This model will benefit the economy from both sides: Increasing consumption on the one side and Investment on the other.</u> 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/Others 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:

Future Money = Present Money * (1+ FM %) ^N**, So Present Money** = Future Money/ (1+ 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 aggregate 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.

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:

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

Income = Consumption + Present value of Future Money + saving **{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".

Above is the Summary of "New Financial Model". Download the detailed paper from the website https://newfinancialmodel.com/paper2.html

....**14th Chapter ends**

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