**[Modern money & inflation](https://www.dawn.com/news/1720438/modern-money-inflation)**

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MILTON Friedman was a powerful magician. His words charmed people into believing that night was day, against the evidence of their own eyes. Friedman’s maxim that “inflation is everywhere and always a monetary phenomenon” is widely believed by economists, even though it is abundantly obvious that the costs of production, especially energy costs, play a major role in creating inflation.

Today, inflation is soaring around the globe. Economists under the spell of Milton Friedman search for, and find, monetary causes. Central banks around the world pursued vastly expansionary monetary policies to combat the great recession which followed the global financial crisis of 2007. To the great surprise of many top-ranked economists, there was no inflationary impact. Emboldened by this experience, central banks again poured money into a stuttering economy during the era of the Covid-19 pandemic. Again, inflation did not respond. But now, after the end of all this monetary expansion, high inflation has suddenly hit. Since Friedmanites believe that inflation must have monetary causes, they are forced to think that the 15 years of monetary expansion since 2008 suddenly caused soaring inflation in 2022.

If we open our eyes to events around the globe, we can find much more obvious sources for the current inflation. The Covid crisis led to the collapse of global supply chains. As global economies recovered, and demand increased to pre-Covid levels, producers found it necessary to turn to alternative, more expensive, suppliers.

The United States’ intensifying trade wars with China have increased costs of production in both countries. Soaring energy prices in Europe due to the war in Ukraine have crippled industry and led to massive price increases. The United States, Europe and China are the three largest economies which produce more than 60 per cent of global output. None of these factors have anything to do with the money supply or interest rates.

Job guarantee programmes have been successful in many countries.

A policy lesson for Pakistan would be to place maximum priority on developing indigenous alternatives for energy production. Not only would this counter imported inflation, it would also combat climate change which has had a disastrous impact in the form of floods.

We will conclude this article by discussing some simple economic theory, which continues to baffle the Friedmanites. Milton Friedman’s views are based on a very simple idea of classical economics. Given a fixed amount of goods, if we double the amount of money in the economy, then prices will also double.

Keynes observed that this did not hold during the Great Depression, when production levels were very low relative to what they could have been. He noted that pouring money into the economy would lead to increased production. If we double the goods and double the money, then no inflation would result.

Friedmanites (monetarists) reject this basic Keynesian idea. They argue that the inflow of money does not lead to increased production, and so inflation will result from the increased money supply. Empirical experience strongly supports Keynes against Friedman. In contrast to monetarists, modern monetary theory (MMT) builds upon, and sharpens, this Keynesian insight, as we discuss below.

Historical experience showed that the expansion of money supply by the central bank did not necessarily reach the sectors of the economy where there was high unemployment. Instead, the money might flow into those sectors operating at full capacity and cause inflation, contrary to Keynesian views. This phen­o­menon was termed ‘stagflation’ — un­­e­mployment toge­th­­er with inflation. MMT suggests that mo­­n­ey should be targe­ted at unemploym­ent, to prevent this from happening.

The key policy recommendation of MMT is a job guarantee programme. The most valuable unemployed resource in an economy is the labour. If we spend money on providing a productive job to an unemployed labourer, then the increase in money will automatically be offset by the increase in production. More money combined with more output will not lead to inflation.

Job guarantee programmes have been successfully tried in Argentina, India, Sweden, Ethiopia, China, Tunisia and many other countries. Crafting an effective job guarantee programme requires ensuring that the central bank-created money goes to productive labour, not to idle consumers who will increase demand without increasing production. Our youth is the most valuable resource that Pakistan has. The most important challenge facing our policymakers is to apply MMT to provide all of them with productive jobs.

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