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Expansionary monetary policy: Not a bad idea

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THE EXPANSIONARY MONETARY POLICY COULD LOWER THE RATE OF INFLATION AND COSTS OF LIVING FROM GREATER SUPPLIES AND MORE COMPETITION

The purpose of monetary policy is to enhance the economic growth, GDP, GNP per capita, employment creation, equitable distribution of employment and national income between poor and rich, man and woman, old and young, geographical regions in the North-South and East-West areas of the country and tribal people in the hilly area with a broad national objective of poverty alleviation and achieving a good life and living.

Another objective is to maintain the balance of trade (BOT) and balance of payment (BOP). The above objectives can be achieved through an expansionary monetary policy in a coordinated manner.

The specific objective of monetary policy is to control credit and inflation. The present problem in Bangladesh is high inflation or too much to pay for goods and services which are considered as necessities in life.

This high inflation is not totally due to the increase of money supply. For example, a less than double digit inflation is not something to be really worried about. The main causes of inflation in some setting is not only increased money supply. The main cause may be market failure to control the market syndicates or unexpected collusion between large and small sellers. This is a big reality in our situation.

In addition, the inflation often gets complicated due to a lack of coordination between fiscal and monetary policies. It is the prime responsibility of government to intervene in this kind of market failure by breaking the business syndicates of all kinds and all sizes and by breaking the collusive attitude of middle-men, brokers, commission agents and their ill-effects on the market system.

Another problem is the recent world depression and its effect of low saving, low-investment, disinvestment, non-viable investment and withdrawal from business, etc. Investments in Bangladesh have been sluggish recently due to infrastructural problems such as gas, electricity, road-communication, road-jams, etc.

Our indigenous technology and hardworking people in Bangladesh are good enough to push up the growth rate of goods and services in both industry, agriculture and service sectors. But we have been unable to reach the growth rate of goods and services due to the potential disruption, lack of industrial infrastructure, dishonest activities, syndicated and collusive operations in the markets. The collusive activities are creating an artificial crisis of goods and services and stoking inflation.

Higher supply of goods and services and their fair distribution and increasing the market competition can bring-down the prices of goods and services to an acceptable level.

Instead, we can see higher prices of goods and services and inflation due to market failure and lack of efficient market intervention by the government.

The government has the habit of adopting contractionary monetary policy in particular to control credit and inflation. But we should not restrict the monetary expansion severely. We should take an expansionary monetary policy to reasonable extent for the optimum utilization of our indigenous technology, abundant man power and land resources along with the further development of industrial infrastructure.

The growth and development of our economy and supply of goods and services through an expansionary monetary policy in coordination with fiscal policy need to be pursued.

From expansionary monetary policy, we can have a further devaluation. But that will not be bad because we will expand our export sector by making our goods and services relatively cheaper to foreigners. We will earn more foreign exchange. Our national economic objective of a favorable balance of trade (BOT) or balance of payment (BOP) would be achieved.

Share market in Bangladesh has been suffering from gambling practice, where demand of market share is always more than supply, which leads to an excess demand in the share market. This has to be straightened out by employment of honest, sincere and efficient officials in the stock markets. In addition, we must have a close watch on their activities and not to give them an opportunity of committing any kind of corruption.

Let us not be scared of inflation from increased money supply. Our government must try to improve the law and order situation, strengthen anti-corruption activities and the judiciary, eliminate the market syndicates and collusive behaviour in business.

The expansionary monetary policy and the increased inflation will be compensated by higher productivity, higher production and larger supply of goods and services This in turn could actually lower the rate of inflation and costs of living from greater supplies and more competition.

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