

Thinking paper essay

[Finance](#), [Financial Analysis](#)



Money multipliers are important for achieving stability in the long run. It could only effectively control excessive commercial bank lending. Banks must lend only less than the maximum permitted by the reserves.

And, the fiscal and monetary policy must be aimed at a proper fixing of the reserve level of a commercial bank vis-à-vis the central bank reserves. It means that banks must not be maintaining reserves lower to the regulated level. The growth in excess reserves must be reversed through withdrawals by the central bank. There must be a cap on executive pay and bonuses as it is necessary to ensure labor flexibility. It is a matter of ensuring free competition among the executives. If there is no cap, it would lead to a wage asymmetry and cause the self-perpetuation by the current stratum of managers.

The argument that a cap on bonus would lead to exodus of top staff cannot be a long term phenomenon. Compared with the competitive disadvantage and increased risks, even top staff exodus would not do much harm although it is highly unlikely. It is necessary for the fiscal and monetary policy to be expansionary as it is necessary for preventing the deepening of the current recession. If the financial markets are stabilized for long term, there is a risk of inflation with expansionist policy.

But, at present, the current economic situation is far from being stable and signs of recovery are not really apparent. Without some levels of active state intervention, especially when the vulnerability is greater, price stability cannot be achieved. Moreover, fiscal sustainability too is dependent upon an effective monetary and fiscal policy. The point is that without regulation there can be no de-regulation.