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World Debt Lecture 2007

GLOBAL DEBT CRISIS- AN ISLAMIC PERSPECTIVE

University of Birmingham

15th May 2007

BY

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SCHEME OF THE PRESENTATION

1. NATURE OF THE PROBLEM
2. DEBT CRISIS: THE DEVELOPING WORLD
3. WHY'S OF THE DEBT CRISIS
4. DEBT SCENARIO: DEVELOPED COUNTRIES
5. ROOTS OF THE CRISIS
6. AN ISLAMIC PERSPECTIVE
7. SOLUTIONS OR PALLIATIVES?
8. TOWARDS A NEW STRATEGY

I

NATURE OF THE PROBLEM

“CREDIT” – A GENUINE NEED OF ANY ECONOMY

- 1.1 CREDIT IS A **FINANCIAL FACILITY** WHICH ENABLES ONE (PERSON, BUSINESS, GOVERNMENT) TO BORROW IN-KIND OR MONEY TO MEET CONSUMPTION OR INVESTMENT NEEDS WITH A COMMITMENT TO PAY BACK OVER AN EXTENDED TIME PERIOD. THUS, IT REPRESENTS AN **ARRANGEMENT / SYSTEM** BY WHICH GOODS OR SERVICES ARE PROVIDED IN RETURN FOR **DEFERRED RATHER THAN IMMEDIATE PAYMENT**.
- 1.2 “DEBT” MEANS AN AMOUNT OF MONEY OWED BY A PERSON, FIRM OR GOVERNMENT (BORROWER) TO A LENDER.
- 1.3 “INTERNATIONAL DEBT” MEANS THE MONEY OWED TO THE INTERNATIONAL COMMUNITY (OFFICIAL OR PRIVATE) BY BORROWING COUNTRIES / ENTERPRISES.

1.4 “DEBT BURDEN” SIGNIFIES THE TOTAL COST OF SERVICING DEBT.

1.5 “DEBT CRISIS” SIGNALS A SITUATION CHARACTERISED BY *INABILITY* OR *UNWILLINGNESS* OF MAJOR DEBTORS TO *SERVICE THEIR DEBT*, OR WIDESPREAD FEAR OF *DEFAULT*.

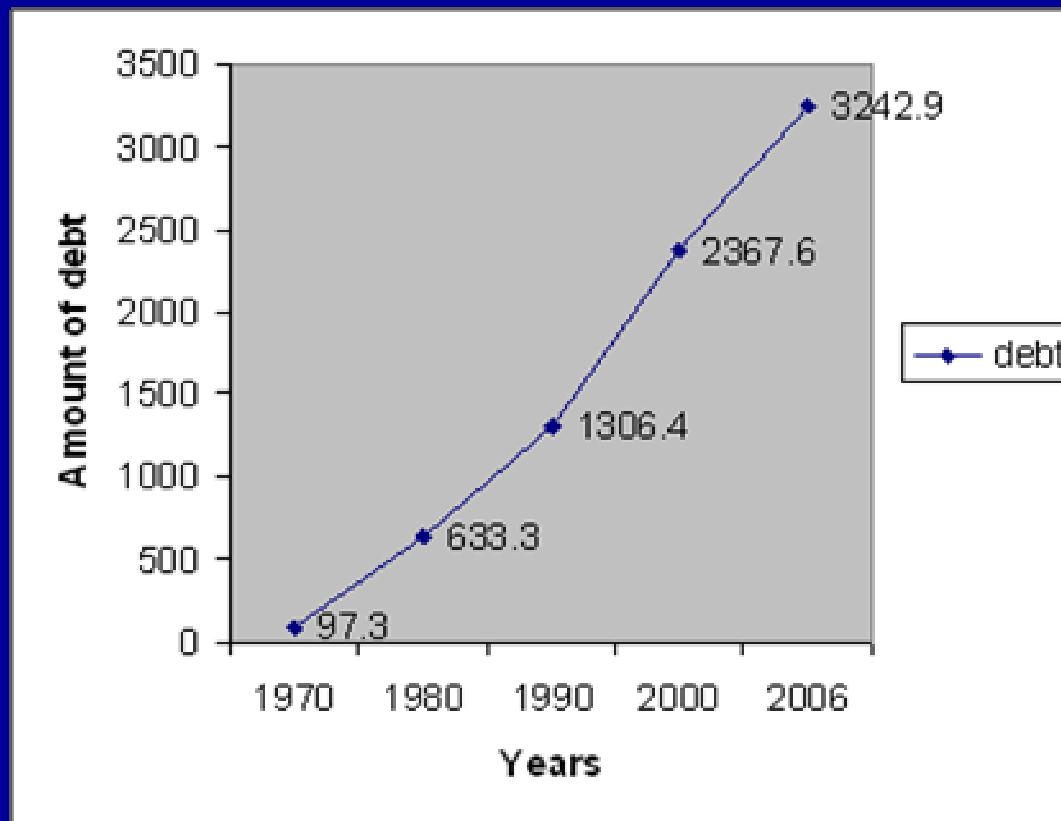
1.6 LOANS ARE GOOD AS LONG AS THEY ARE ABSORBED IN A MANNER THAT ENSURES BORROWERS’ *CAPACITY TO PAY THEM BACK*. DEBTS BECOME A BURDEN WHEN THEY FAIL TO INCREASE THE BORROWERS’ *ABILITY TO SERVICE THEIR DEBT*.

1.7 THE FUNDAMENTAL CAUSE OF THE GLOBAL DEBT CRISIS, PARTICULARLY THE ONE IN WHICH THE THIRD WORLD COUNTRIES ARE CAUGHT, IS ***EXCESSIVE OR UNPRODUCTIVE*** DOMESTIC ABSORPTION OF FOREIGN LOANS WITH THE RESULT THAT CONSUMPTION ROSE, LEAKAGES APPEARED, SAVINGS DECLINED, CREATING A SAVING-INVESTMENT GAP, AGGRAVATED BY HIGHER LEVELS OF IMPORTS AND SLUGGISH PERFORMANCE OF EXPORTS, THEREBY WIDENING THE IMPORT-EXPORT GAP.

1.8 MORE BORROWING WAS UNDERTAKEN TO MEET THESE TWO GAPS (SAVING-INVESTMENT AND IMPORT-EXPORT GAPS) WHICH LED TO MONETARY EXPANSION, INFLATIONARY PRESSURES, LOWER REAL WAGES, DECLINE IN THE EXTERNAL VALUE OF THE CURRENCY, IRRATIONAL CONTROLS, DISTORTIONS IN THE ALLOCATION OF RESOURCES, CAPITAL FLIGHT, STILL MORE BORROWING AND FINALLY DEFAULT SYNDROME.

II DEBT CRISIS: THE DEVELOPING WORLD

2.1 **DEVELOPING COUNTRIES** TODAY OWE OVER US\$3.242 TRILLION TO THE RICH COUNTRIES OF THE WORLD. THIS SCENARIO HAS UNFOLDED OVER THE LAST HALF A CENTURY. TOTAL INDEBTEDNESS IN 1970 WAS US\$ 97 BILLION. IN 2006 IT HAD SNOWBALLED TO US\$ 3.242 TRILLION. THIS IS SO DESPITE THE GRUESOME FACT THAT THE INDEBTED COUNTRIES IN THE UNDER DEVELOPED WORLD DURING THE LAST 2 DECADES PAID TO NORTHERN CREDITORS OVER US\$1.5 TRILLION.



(US\$ in billions)

- 2.2 DEBT SERVICING IN 2006 HAS JUMPED TO US\$665.2 BILLION, EVEN HIGHER THAN THE TOTAL AMOUNT OF DEBT OWED BY ALL THE DEVELOPING COUNTRIES OF THE WORLD IN 1980 (i.e. US\$633.3 BILLION).
- 2.3 FIVE DECADES OF AID-CENTERED AND DEBT-BASED STRATEGIES HAVE, BY AND LARGE, FAILED TO BRING ABOUT ECONOMIC DEVELOPMENT AND SOCIO-ECONOMIC WELL-BEING IN MOST OF THE DEVELOPING COUNTRIES. IN FACT IN QUITE A FEW OF THEM, SOCIO-ECONOMIC CONDITIONS HAVE DETERIORATED. INTEGRATION WITH THE WORLD ECONOMY HAS LED TO THEIR IMPOVERISHMENT AND DEPENDENCE ON THE RICHER COUNTRIES — HISTORY IS WITNESSING THE EMERGENCE OF A NEO-COLONIAL, HEGEMONISTIC AND INTERVENTIONIST GLOBAL ECONOMIC ORDER.

2.4 SOME GLIMPSES:

AFRICA

•“THE POST INDEPENDENCE INTEGRATION OF THE AFRICAN ECONOMIES INTO THE WESTERN CONTROLLED GLOBAL ECONOMY HAS PROVED TO BE DEVASTATING TO THE CONTINENT’S DEVELOPMENT EFFORTS. WHEN AFRICAN COUNTRIES WERE FREED FROM COLONIALISM IN THE 1960s, WESTERN CAPITALIST POWERS STRUGGLED HARD TO ENSURE THEIR ECONOMIC DEPENDENCE ON THE WEST AFRICAN STATES SLID INTO GREATER ECONOMIC PROBLEMS AS THEY BEGAN TO ADOPT EXTERNALLY GENERATED ECONOMIC POLICIES THAT HAVE LITTLE OR NO RELEVANCE TO THEIR SITUATIONTHE STRUCTURAL ADJUSTMENT PROGRAMME FORMULATED BY THE WORLD BANK AND THE IMF, TO SAY THE LEAST, HAS NOT LED TO IMPROVEMENT IN THE LIVING STANDARD OF THE PEOPLE. THE CONDITIONALITIES OF THE PROGRAMME, LIKE CURRENCY DEVALUATION, FOR EXAMPLE, HAVE HAD A CRIPPLING EFFECT ON THE LARGE POPULATIONS OF THOSE AFRICAN STATES IMPLEMENTING THE PROGRAMME. MOHSIN KHAN FOUND THAT THE PROGRAMME NEGATIVELY AFFECTS GROWTH RATES IMMEDIATELY AFTER IT IS ADOPTED.”

—— VICTOR OGUEJEFOR OKAFOR AND SHERIFFDEN TELLA, “*ECONOMIC DEVELOPMENT AND THE PROSPECT FOR ECONOMIC SECURITY IN AFRICA*”, IN ADABAYO OYEBADE AND ABIODUN ALAO, “*AFRICA AFTER THE COLD WAR : THE CHANGING PERSPECTIVES OF THE SECURITY*” AFRICA WORLD PRESS, TRENTO, 1998, p.p. 24-25.

•“UNLESS FUNDAMENTAL REFORMS TAKE PLACE IN THE INTERNATIONAL INVESTMENT, TRADE AND FINANCIAL SYSTEM, THE LOW-INCOME COUNTRIES OF AFRICA WILL NEVER BE ABLE TO RETAIN THEIR SAVINGS AND USE THEM TO REDUCE POVERTY. AGENCIES, SUCH AS UNDP, UNCTAD, THE MILLENIUM COMMISSION AND THE WORLD BANK SHOULD USE THEIR COLLECTIVE EXPERTISE TO CALCULATE THE ACTUAL AMOUNT OF MONEY LEAVING THE COUNTRY AND THE COSTS INCURRED BY POOR PEOPLE DUE TO THE EXISTING INTERNATIONAL FINANCIAL, TRADE AND INVESTEMENT SYSTEM”

—— *“OWNING THE LOAN — POOR COUNTRIES AND THE MDG’S”, Christian Aid, April 2004, p.9.*

- AFRICA RECEIVED U.S. \$ 540 BILLION IN LOANS FROM 1970 TO 2002. IT PAID BACK U.S. \$ 550 BILLION. YET BECAUSE OF ARREARS, ACCUMULATED INTEREST AND PENALTIES, AFRICA STILL OWED U.S. \$ 295 BILLION IN 2002.

— UNCTAD, *ECONOMIC DEVELOPMENT IN AFRICA: DEBT SUSTAINABILITY: OASIS OR MIRAGE?* UNITED NATIONS, NEW YORK 2004.

- “SINCE 1996, THE GOVERNMENTS OF THE WORLD’S POOREST 66 COUNTRIES HAVE PAID A TOTAL OF MORE THAN U.S. \$ 230 BILLION BETWEEN THEM TO SERVICE THEIR DEBT. IN 1996 MOST OF THE WORLD’S POOREST COUNTRIES WERE IN DEBT CRISIS. THIS IS STILL THE CASE FOR MANY OF THEM AND THE CONTINUING REFUSAL OF THE DEVELOPED COUNTRIES TO DEAL WITH THE SITUATION REMAINS A SCANDAL. A DECADE ON, WE HAVE DATA FOR 41 LOW-INCOME COUNTRIES THAT STILL DO NOT FULFILL CREDITORS CONDITIONS FOR HIPC DEBT RELIEF... 23 ARE PAYING MORE ON DEBT SERVICING NOW AS A PERCENTAGE OF GROSS NATIONAL INCOME (GNI) THAN THEY WERE IN 1996, AND FOR ANOTHER EIGHT COUNTRIES PAYMENTS HAVE DECREASED BY LESS THAN 25 PER CENT.”

——— “ENOUGH IS ENOUGH : THE DEBT REPUDIATION OPTION”, CHRISTIAN AID, JAN 2007, P.9

NIGERIA

DEBT WITH THE PARIS CLUB ONLY: 1965-2003.

TOTAL DEBT RECEIVED :	US \$ 13.5 BILLION
DEBT-SERVICING PAYMENTS:	US \$ 42 BILLION
DEBT OUTSTANDING:	US \$ 25 BILLION

- Source: World Bank, World Development Indicators 2005

PHILIPPINES

DEBT IN 1995:	US \$ 28.5 BILLION
PAID DURING 1995-2004:	US \$ 48 BILLION
DEBT OUTSTANDING 2004	US \$ 35.5 BILLION

DEBT SERVICING PAYMENTS 1995:	US \$ 4.25 BILLION
DEBT SERVICING PAYMENTS 2004:	US \$ 7 BILLION

— WORLD BANK, *WORLD DEVELOPMENT INDICATORS 2005*, QUOTED IN *ENOUGH IS ENOUGH*, P. 11

HAITI

- ONCE KNOWN AS THE JEWEL OF THE ANTILLES, HAITI USED TO BE ONE OF THE RICHEST COLONIES IN THE WORLD. SOME ECONOMISTS ESTIMATE THAT IN THE 1750s THE CARIBBEAN COUNTRY PROVIDED AS MUCH AS 50 PER CENT OF FRANCE'S GROSS NATIONAL PRODUCT. THE FRENCH IMPORTED SUGAR, COFFEE, COCOA, TOBACCO, COTTON, INDIGO DYE AND OTHER EXOTIC PRODUCTS TO BE REFINED AND PACKAGED IN FRANCE AND SOLD ALL OVER EUROPE.
- TODAY IT IS THE POOREST COUNTRY IN THE WESTERN HEMISPHERE AND ONE OF THE POOREST COUNTRIES IN THE DEVELOPING WORLD, GROWING AT AN AVERAGE OF MINUS THREE PER CENT BETWEEN 1990 AND 2002. APPROXIMATELY HALF OF THE POPULATION IS ILLITERATE AND AVERAGE LIFE EXPECTANCY IS LESS THAN 50 YEARS.

- HAITI SPENT MORE MONEY SERVICING ITS DEBT DURING THE 1990S THAN ON EDUCATION IN 2004/5. DEBT SERVICE MADE UP 22 PER CENT OF GOVERNMENT EXPENDITURE.

- IN 1838 FRANCE RECOGNISED HAITI'S INDEPENDENCE, HAVING PRESSURED THE NEW REPUBLIC INTO AGREEING TO PAY FRANCE 90 MILLION FRANCS, AS COMPENSATION FOR THE FINANCIAL LOSSES SUFFERED BY THE COLONISTS. OVER THE NEXT FEW DECADES HAITI WAS FORCED TO BORROW 70 MILLION FRANCS TO PAY THE COMPENSATION AND GAIN INTERNATIONAL RECOGNITION.

- IN TOTAL HAITI SPENT THE EQUIVALENT OF OVER US\$21 BILLION DOLLARS IN TODAY'S MONEY IN PAYING FOR ITS INDEPENDENCE. PAYMENTS CONTINUED FOR ALMOST A CENTURY.

FAILED LOANS

TANZANIA :

—WORLD BANK'S LOAN TO DEVELOP
CASHEW-NUT INDUSTRY:
JAPAN'S LOAN FOR MACHINERY:
ITALY'S LOAN:

US\$45 MILLION
US\$661 MILLION
US\$203 MILLION

PLANTS NOT YET FULLY OPERATIONAL.
DEBTS BEING PAID — NO HIPC RELIEF

PHILIPPINES:

- BAATAN NUCLEAR POWER PLANT 1975 (MARCOS PERIOD). COST: US\$2.3 BILLION (\$100 MILLION KICKBACKS).
- PROJECT HAS FAILED. HAS NOT PRODUCED A SINGLE WATT OF ENERGY.
- YET PHILIPPINE IS PAYING BACK THIS LOAN WITH INTEREST US\$200,000 PER DAY AND WILL CONTINUE TO PAY TILL 2018.
- 150 SUCH OTHER FAILED LOANS IN 1990. ONLY SIX FRAUDULENT LOANS COSTED PHILIPPINES US\$4.6 BILLION

source-WHAT ABOUT US? DEBT AND THE COUNTRIES THE G8 LEFT BEHIND, Christian Aid, SEPTEMBER 2005, P.9

2.5

**DEBT IS A TIME BOMB
DEVELOPING COUNTRIES
ALSO FOR WORLD ECONOMY AND SECURITY**

III

WHY'S OF THE DEBT CRISIS

- 3.1 LEGACY OF COLONIAL RULE
- 3.2 FLAWED DEVELOPMENT STRATEGIES BASED ON CAPITALIST GROWTH MODELS NOT RELEVANT TO THIRD WORLD DEVELOPMENT
- 3.3 COLD WAR – THE POLITICAL DIMENSION
- 3.4 FAILURE OF THIRLD WORLD COUNTRIES TO SET THEIR OWN HOUSE IN ORDER:
 - 3.4.1 FALSE PRIORITIES: IGNORING LOCAL NEEDS AND CULTURAL AND HISTORICAL FACTORS
 - 3.4.2 DEPENDENCE ON OUTSIDE SOURCES AND ADVICE
 - 3.4.3 NEGLECT OF INDIGENOUS RESOURCE-MOBILIZATION
 - 3.4.4 DESPOTIC REGIMES — NON-PARTICIPATORY MODEL
 - 3.4.5 CORRUPTION
 - 3.4.6 INCOMPETENCE
 - 3.4.7 LACK OF ACCOUNTABILITY

3.5 EXTERNAL SHOCKS

- 3.5.1 OIL PRICES
- 3.5.2 COMMODITY PRICES – ADVERSE TERMS OF TRADE
- 3.5.3 EXCHANGE RATE INSTABILITY – FREQUENT DEVALUATIONS
- 3.5.4 UNREGULATED GLOBALISATION
- 3.5.5 DEVASTATION CAUSED BY ROGUE CAPITAL MOVEMENTS

3.6 RESPONSIBILITY OF THE LENDERS

- 3.6.1 AGGRESSIVE MARKETING
- 3.6.2 IMPOSED POLICIES
- 3.6.3 EXPLOITATIVE MODEL

3.6.3.1 ODIIOUS LOANS

PHILIPPINES

PRESIDENT MARCOS SWINDLED US\$5 – US\$13BILLION, ALMOST 30% OF THE TOTAL DEBT OF PHILIPPINES.

BRAZIL

MILITARY JUNTA (1964-1985) GIVEN LOANS WORTH US\$100 BILLION
1980'S DEBT SERVICING US\$48 BILLION
OUTSTANDING DEBT 1985 US\$140 BILLION

INDONESIA

GEN. SUHARTO (31 YEARS) MORE THAN US\$100 BILLION LENT.
ATLEAST 1/3 FLEECE OUT

ARGENTINA

MILITARY JUNTA (1976 – 1983) FOREIGN DEBT
1976 US\$ 8 BILLION
1983 US\$ 46 BILLION

KENYA

PRESIDENT DANIEL ARAP MOI (1978 – 2002)
REPORTEDLY TRANSFERRED US\$4 BILLION TO PERSONAL
ACCOUNTS ABROAD.

NIGERIA

RULERS REPORTED TO HAVE TRANSFERRED TO PERSONAL ACCOUNTS ABROAD US\$ 14 BILLION BETWEEN 1983 – 1998

ZAIRI (DEMOCRATIC REPUBLIC OF CONGO)

1980 TOTAL DEBT US\$5 BILLION

IMF REPRESENTATIVE (ERWIN BLUMENTHAL) WARNED IN 1980: 'NO PROSPECT FOR ZAIRI'S CREDITORS TO GET THEIR MONEY BACK IN ANY FORESEEABLE FUTURE'. YET MILITARY RULER MOBUTU SEKO WAS GIVEN US\$8 BILLION TILL HIS REMOVAL IN 1998.

TOTAL DEBT WHEN MOBUTU OVERTHROWN (1998) US\$13 BILLION

ESTIMATED AMOUNT: 20% OF TOTAL THIRD WORLD DEBT IS ODIUS - THAT IS OVER US\$600 BILLION

3.6.3.2 HIGH INTEREST RATES

3.6.3.3 TRADE RESTRICTION / PROTECTION CAUSING ANNUAL
LOSS OF US\$ 700 BILLION TO THIRD WORLD COUNTRIES

3.6.3.4 SUBSIDIES TO AGRICULTURE IN THE DEVELOPED
WORLD: US\$360 BILLION PER YEAR

3.6.3.5 EASY MONEY, COSTLY CREDIT

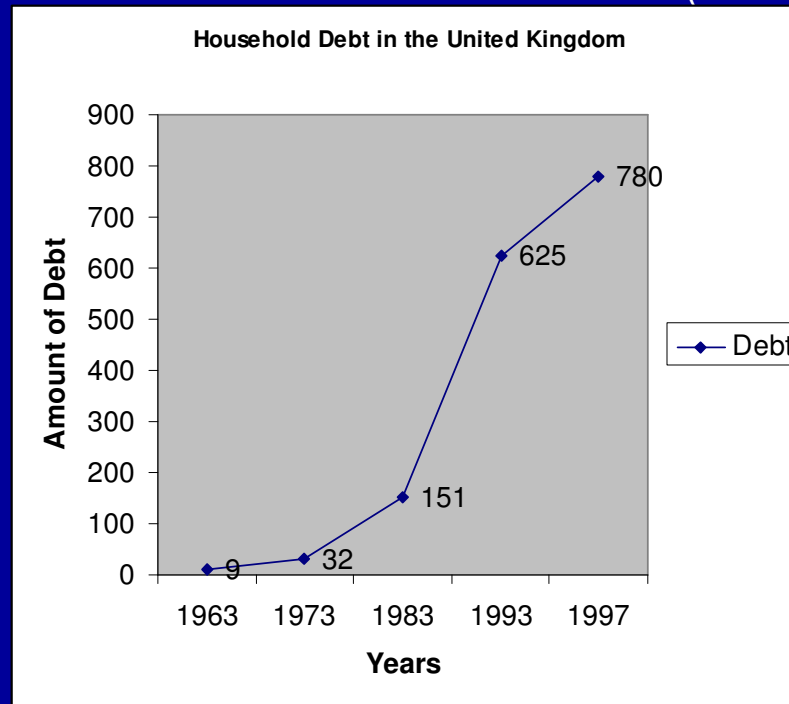
3.6.3.6 GLOBALIZATION AND LIBERALIZATION AS ARM OF
POLITICO-ECONOMIC DOMINATION AND PENETRATION

IV DEBT SCENARIO: DEVELOPED COUNTRIES

4.1 HOUSEHOLD DEBT IN THE UNITED KINGDOM

1963	£9.0 BILLION
1973	£32.0 BILLION
1983	£151.0 BILLION
1993	£625.0 BILLION
1997	£780.0 BILLION

(£ in billions)



— (MICHAL ROWBOTHAM, *THE GRIP OF DEATH: A STUDY OF MODERN MONEY, DEBT SLAVERY AND DESTRUCTIVE ECONOMICS*, JOHN CARPENTER LONDON p.13)

4.2 “IN 2006, U.K. INDIVIDUALS AND HOUSEHOLDS OWED £1,174 BILLION, ALMOST EXACTLY EQUAL TO TOTAL U.K. INCOME OR GDP.

IN OTHER WORDS, EVERY UK'S ADULT OWED ON AVERAGE £25,200 MORE THAN MEDIAN ANNUAL EARNINGS WHICH IN 2004/ 05 WERE ONLY £22,900. (NATIONAL STATISTICS TIME SERIES DATA).

A 2006 SURVEY, FOR DEBT CONSULTANTS FOUND THAT ABOUT 1 in 20 YOUNG PEOPLE IN THE U.K. — MORE THAN 200,000 18-24 YEAR OLDS — OWED AT LEAST £10,000. (*BBC NEWS*, 17 APRIL 2006). THE NUMBER OF 18-24 YEAR OLDS SEEKING ADVICE ON HOW TO MANAGE DEBT HAD DOUBLED SINCE 2002”.

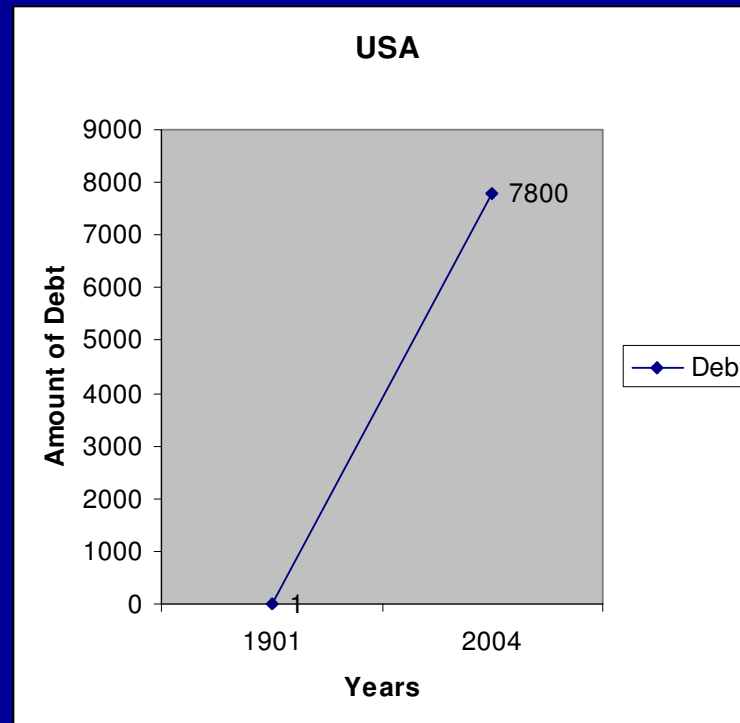
(ANN PETTIFOR, *THE COMING FIRST WORLD DEBT CRISIS*, Palgrave, 2006, p.97)

4.3 UNITED STATES OF AMERICA

- TOTAL NATIONAL DEBT AT THE BEGINNING OF THE 20TH CENTURY WAS REPORTED TO BE ONLY US\$ 1 BILLION.
- IN THE YEAR 2004 IT HAD SOARED TO US\$ 7.8 TRILLION. THAT IS GOVERNMENT DEBT ONLY. TOTAL NON FINANCIAL MARKET DEBT STOOD AT US\$ 23 TRILLION IN 2004.
- FOREIGN INDEBTEDNESS OF THE ONLY SUPER POWER WAS US\$ 3.3 TRILLION IN 2004, UP FROM ROUGHLY ZERO IN 1987.

(KEVIN PHILLIPS, *AMERICAN THEOCRACY: THE PERIL AND POLITICS OF RADICAL RELIGION, OIL, AND BORROWED MONEY IN THE 21ST CENTURY*, PENGUIN BOOKS, 2006, P.272-273).

US\$BILLION



V

ROOTS OF THE CRISIS

5.1 THIRLD WORLD COUNTRIES HAVE NOT ALWAYS BEEN POOR. THEY WERE AT PAR OR A LITTLE AHEAD OF THE COUNTRIES OF EUROPE AND AMERICA BEFORE THE ADVENT OF COLONIAL RULE. THEIR PRESENT PLIGHT HAS BEEN CAUSED, ALONG WITH THEIR OWN FAILURES, AS A RESULT OF FOREIGN RULE AND THE STRATEGY OF EUROPEAN IMPERIALISM:

- (a) TO TRANSFER RESOURCES FROM THE COLONIES TO THE EMPIRE
- (b) TO MAKE COLONIES DEPENDENT ON CENTRE
- (c) TO DESTROY THEIR SOCIO-ECONOMIC AND IDEOLOGICAL INFRASTRUCTURE
- (d) TO PROMOTE AMONG THEM A CULTURE OF IMITATION AND SUBSERVIENCE.
- (e) TO TRANSPLANT, IMPOSE AND MANIPULATE ECONOMIC AND POLITICAL SYSTEMS, INSTITUTIONS AND POLICIES;
and
- (f) COLLUSION BETWEEN GLOBAL POWERS, INTERNATIONAL FINANCIAL INSTITUTIONS AND INDIGENOUS RULERS / PLAYERS

5.2 RELATIVE SHARES OF WORLD MANUFACTURING OUTPUT

Region	Country	Years				
		1750	1800	1830	1860	1900
Europe		23.2	28.1	34.2	53.2	62.0
	(Russia)	(5.0)	(5.6)	(5.6)	(7.0)	(8.8)
	(U.K)	(1.9)	(4.3)	(9.5)	(19.9)	(18.5)
USA		0.1	0.8	2.4	7.2	23.6
Third World		73.0	67.7	60.5	36.6	11.0
	(India/Pakistan)	(24.5)	(19.7)	(17.6)	(8.6)	(1.7)

— Source: PAUL KENNEDY *The Rise and Fall of Great Powers*, Random House, New York, 1987.

5.3 Per Capita Levels of Industrialization (1750-1900)

(Relative to UK in 1900 = 100)

Region	Country	Years				
		1750	1800	1830	1860	1900
Europe		8	8	11	16	35
	(Russia)	(6)	(6)	(7)	(8)	(15)
	(U.K)	(10)	(16)	(25)	(64)	(100)
USA		4	9	14	21	69
Third World		7	6	6	4	2
	(India/Pakistan)	(7)	(6)	(6)	(3)	(1)

— Source: PAUL KENNEDY *The Rise and Fall of Great Powers*, Random House, New York, 1987, p. 149.

5.4 THE PRESENT POSITION IS THAT THE TWENTY TWO DEVELOPED COUNTRIES OF THE WORLD HAVE 87 PERCENT OF WORLD GDP WHILE THE REMAINING 160 COUNTRIES HAVE TO LIVE ON ONLY 13 PER CENT OF WORLD GDP. INEQUALITIES BETWEEN THE DEVELOPED AND DEVELOPING COUNTRIES AS WELL AS WITHIN THESE COUNTRIES ARE INCREASING, MAKING THE RICH RICHER AND THE POOR POORER. THE WORLD IS BECOMING MORE UNJUST AND EXPLOITATIVE.

5.5 INCREASE IN GLOBAL INEQUALITY

“AN EXAMINATION OF INTERNATIONAL INEQUALITY USING ABSOLUTE RATHER THAN RELATIVE MEASURES OF INEQUALITY REVEALS A STEADY INCREASE OVER THE LONG RUN, AS WELL AS IN RECENT DECADES.....”.

“.... INTERNATIONAL INEQUALITY WAS ESSENTIALLY NEGLIGIBLE AT THE TURN OF THE NINETEENTH CENTURY ACCOUNTING FOR ROUGHLY 12 PER CENT OF GLOBAL INEQUALITY, BUT IT INCREASED VERY RAPIDLY UNTIL WORLD WAR II, AND THEN CONTINUED TO INCREASE BUT AT A MUCH SLOWER PACE.... IN SUMMARY, WHILE THE WORLD GOT RICHER, INCOME INEQUALITY RELATIVE AND ABSOLUTE, INTERNATIONAL AND GLOBAL, INCREASED TREMENDOUSLY OVER A LONG PERIOD OF TIME (1820-1992)”

— (WORLD DEVELOPMENT REPORT 2006, EQUALITY AND DEVELOPMENT, THE WORLD BANK, 2006, P.64-65)

5.6 THE RICHEST 1% OF PEOPLE IN THE WORLD RECEIVE AS MUCH AS 57% AT THE BOTTOM. THAT IS LESS THAN 50 MILLION OF RICH PEOPLE IN THE HIGH INCOME COUNTRIES RECEIVE AS MUCH AS 2.7 BILLION POOR PEOPLE IN THE WORLD.

THE TOP 10% OF THE US AGGREGATE INCOME IS EQUAL TO THE TOTAL INCOME OF THE POOREST 43% OF THE WORLD. I.e THE INCOME OF 25 MILLION PEOPLE IN AMERICA IS EQUAL TO THE TOTAL INCOME OF 2 BILLION POOR PEOPLE IN THE WORLD.

IT MAY BE INSTRUCTIVE TO RECALL THAT THE TOTAL US FOREIGN AID TO THE WORLD IS 0.2% OF ITS GDP.

AVERAGE INCOME DIFFERENTIAL BETWEEN THE RICH AND THE POOR COUNTRIES OF THE WORLD WAS 1:78 IN 1988, 1:114 IN 1993 AND 1:140 IN 2006.

RECENTLY A NUMBER OF FUND MANAGERS ARE REPORTED TO HAVE RECEIVED AN ANNUAL TAKE HOME INCOME OF US\$1 BILLION EACH THIS YEAR.

5.7 HALF OF THE HUMAN RACE IS LIVING TODAY ON LESS THAN US\$2 PER DAY, THAT IS OVER 3 BILLION PEOPLE.

AROUND 1 BILLION HAVE TO SURVIVE ON LESS THAT US\$1 A DAY.

AROUND 800 MILLION ARE REPORTED TO BE SUFFERING FROM MALNUTRITION AND HAUNTED BY THREATS OF STARVATION.

MILLIONS ARE SUFFERING FROM CURABLE DISEASES AND THOUSANDS ARE DYING EVERYDAY BECAUSE OF LACK OF MEDICAL CARE.

ALMOST 1/5TH OF HUMANITY IS SUFFERING FROM THE AGONY OF A LIVING DEATH.

5.8 THE CAPITALIST ECONOMIC SYSTEM DEVELOPED DURING THE LAST THREE CENTURIES HAS PLAYED A VERY IMPORTANT ROLE IN THIS TRANSFORMATION. TWO KEY ELEMENTS OF THIS FINANCIAL SYSTEM HAD A DECISIVE INFLUENCE:

- (a) INTEREST AS A MAJOR INSTRUMENT OF FINANCIAL INTERMEDIATION AND
- (b) THE POWER OF BANKS TO CREATE CREDIT

THE RESULT IS THAT COINS / CURRENCY ISSUED ON BEHALF OF THE STATE IS HARDLY 3% OF THE TOTAL MONEY IN CIRCULATION. ALMOST 97% IS THE CREATION OF THE BANKING AND THE FINANCIAL SECTOR. IT IS BANK MONEY THAT IS RESPONSIBLE FOR THE FINANCIAL PREDICAMENT OF MANKIND.

5.9

TO SUM UP, WE ARE ALL IN THE GRIP OF DEBT SLAVERY
PREDOMINANTLY PRODUCED BY THE FINANCIAL SYSTEM'S
POWER TO CREATE CREDIT.

J.C. STAMP, A FORMER PRESIDENT OF THE BANK OF ENGLAND
(1920) IS REPORTED TO HAVE CONFESSED "THE MODERN BANKING
SYSTEM MANUFACTURES MONEY OUT OF NOTHING. THE
PROCESS IS PERHAPS THE MOST ASTOUNDING PIECE OF
SLEIGH-OF-HAND THAT WAS EVER INVENTED. BANKING WAS
CONCEIVED IN INEQUITY AND BORN IN SINBUT IF YOU WANT TO
CONTINUE TO BE SLAVES OF BANKERS AND PAY THE COST OF
YOUR OWN SLAVERY, THEN LET THE BANKERS CONTINUE TO
CREATE MONEY AND CONTROL CREDIT".

- QUOTED IN ANN PETTEFOR, *THE COMING FIRST WORLD DEBT CRISIS*, PALGRAVE
MACMILLION 2006, P. 65)

5.10 WHY DO PEOPLE BORROW? – INDIVIDUALS, ENTERPRISES AND STATES.

- 5.10.1 NATURAL INCAPACITY TO SUPPORT ONESELF
- 5.10.2 INCOME / RESOURCES INSUFFICIENT TO MEET TOTAL NEEDS.
- 5.10.3 IDEALLY, INCOME AND EXPENDITURE ARE IN BALANCE. LOANS ARE REQUIRED TO MEET EXTRAORDINARY / TEMPORARY NEEDS. HOWEVER DEBT BURDEN DEPENDS ON THE CAPACITY TO REPAY IN FUTURE (TIME GIVEN FOR LOAN). THE NEED ARISES OUT OF A LIQUIDITY DEFICIENCY AT A CERTAIN POINT IN TIME.
- 5.10.4 SEEKING EXTRA RESOURCES TO AUGMENT INCOME, AND PRODUCTION, BUSINESS EXPANSION ETC WITH THE PRIMARY OBJECTIVE THAT THERE IS A PRODUCTIVE USE OF RESOURCES TO ENHANCE INCOME / PRODUCTION.
- 5.10.5 LIVING BEYOND MEANS – BOTH IN CASE OF INDIVIDUALS AND COUNTRIES.
- 5.10.6 ARE LOANS BASED ON INTEREST THE MOST EFFICIENT AND JUST RESOURCE TO MEET THESE NEEDS? THIS IS THE CENTRAL ISSUE.

VI ISLAMIC PERSPECTIVE

- 6.1 FOUNDING ECONOMIC AND FINANCIAL DEALINGS ON MORAL VALUES AND GUIDELINES FOR CONSUMPTION, PRODUCTION, EXCHANGE AND STATE ACTIVITIES.
- 6.2 PRIVATE PROPERTY, FREEDOM OF ENTERPRISE AND MARKET MECHANISM, WITH:
- MORAL FILTER, AT INDIVIDUAL AND SOCIETAL LEVELS.
 - CIVIL SOCIETY, SUPPORT MECHANISMS, WAKF, AND ALTRUISTIC (NON-PROFIT SECTOR).
 - SUPPORTIVE, REGULATORY AND CORRECTIVE ROLE OF THE STATE.

- 6.3 ABOLITION OF INTEREST/ USURY.
- 6.4 EQUITY-BASED, RISK-SHARING AND STAKE HOLDING ECONOMY AS AGAINST DEBT-BASED ECONOMY.
- 6.5 ***USEFUL*** CONSUMPTION AND PRODUCTION.
- 6.6 DISTRIBUTIVE JUSTICE.
- 6.7 MONETARY DISCIPLINE AND PRICE STABILITY.
- 6.8 EFFICIENCY WITH EQUITY AND WELL-BEING FOR ALL.
- 6.9 SELF-RELIANCE.

6.10 RIBA IN THE QUR'AN

- 6.10.1 BELIEVERS, TAKE NOT DOUBLED AND REDOUBLED INTEREST, AND FEAR GOD SO THAT YOU MAY PROSPER. FEAR THE FIRE WHICH HAS BEEN PREPARED FOR THOSE WHO REJECT FAITH, AND OBEY GOD AND THE PROPHET SO THAT YOU MAY RECEIVE MERCY. (SURAH AL-IMRAN, VERSE 130-132)
- 6.10.2 THAT WHICH YOU GIVE AS INTEREST TO INCREASE THE PEOPLES' WEALTH INCREASES NOT WITH GOD; BUT THAT WHICH YOU GIVE IN CHARITY, SEEKING THE GOODWILL OF GOD, MULTIPLIES MANIFOLD. (SURAH AL-RUM, VERSE 39)

- 6.10.3 THOSE WHO BENEFIT FROM THE INTEREST SHALL BE RAISED LIKE THOSE HAVE BEEN DRIVEN TO MADNESS BY THE TOUCH OF THE DEVIL; THIS IS BECAUSE THEY SAY; “TRADE IS LIKE INTEREST” WHILE GOD HAS PERMITTED TRADE AND FORBIDDEN INTEREST. HENCE THOSE WHO HAVE RECEIVED THE ADMONITION FROM THEIR LORD AND RESIST, MAY HAVE WHAT HAS ALREADY PASSED, THEIR CASE BEING ENTRUSTED TO GOD; BUT THOSE WHO REVERT SHALL BE THE INHABITANTS OF THE FIRE AND ABIDE THEREIN FOR EVER. (SURAH AL-BAQARAH, VERSE 275)
- 6.10.4 GOD DEPRIVES INTEREST OF ALL BLESSINGS BUT BLESSES CHARITY; HE LOVES NOT THE UNGRATEFUL SINNER. (SURAH AL-BAQARAH, VERSE 276)
- 6.10.5 THOSE WHO BELIEVE, PERFORM GOOD DEEDS, ESTABLISH PRAYER AND PAY THE ZAKAT, THEIR REWARD IS WITH THEIR LORD; NEITHER SHOULD THEY HAVE ANY FEAR, NOR SHALL THEY GRIEVE. (SURAH AL-BAQARAH, VERSE 277)

6.10.6 O BELIEVERS, FEAR GOD, AND GIVE UP THE INTEREST THAT REMAINS OUTSTANDING IF YOU ARE BELIEVERS. (SURAH AL-BAQARAH, VERSE 278)

6.10.7 IF YOU DO NOT DO SO, THEN BE SURE OF BEING AT WAR WITH GOD AND HIS MESSENGER. BUT, IF YOU REPENT, YOU CAN HAVE YOUR PRINCIPAL. NEITHER SHOULD YOU COMMIT INJUSTICE NOR SHOULD YOU BE SUBJECTED TO IT. (SURAH AL-BAQARAH, VERSE 279)

6.10.8 IF THE DEBTOR IS IN DIFFICULTY, LET HIM HAVE RESPITE UNTIL IT IS EASIER, BUT IF YOU FOREGO OUT OF CHARITY, IT IS BETTER FOR YOU IF YOU REALIZE. (SURAH AL-BAQARAH, VERSE 280)

VII SOLUTIONS OR PALLIATIVES?

- 7.1 DEBT CRISIS IS A TEMPORARY PHENOMENON, CAUSED PRIMARILY BY LIQUIDITY DEFICIT.
- TEMPORARY RELIEF
 - DEBT RESTRUCTURING
 - MORE LOANS
- 7.2 CAUSES ARE MORE FUNDAMENTAL:
NEED FOR
- CHANGE OF ECONOMIC POLICIES AND OPERATIONS
 - STRUCTURAL REFORMS
 - POLICY INTERVENTIONS, MONITORING AND CONSULTANCY
- 7.3 SOLVENCY ISSUE:
- DEBT REDUCTION
 - DEBT REMISSION
 - DEBT MANAGEMENT

7.4 FAILURE OF ALL THREE STRATEGIES:

“HOWEVER, IN THE END, LITTLE OF THE MONEY BORROWED BENEFITED THE POOR. ACROSS THE RANGE, ABOUT A FIFTH OF IT WENT ON ARMS, OFTEN TO SHORE UP OPPRESSIVE REGIMES. MANY GOVERNMENTS STARTED LARGE-SCALE DEVELOPMENT PROJECTS, SOME OF WHICH PROVED OF LITTLE VALUE. ALL TOO OFTEN THE MONEY FOUND ITS WAY INTO PRIVATE BANK ACCOUNTS IN RICH COUNTRIES. THE POOR WERE THE LOSERS.”

— (ANN PETTIFOR, *THE COMING FIRST WORLD DEBT CRISIS*, P.111)

VIII

TOWARDS A NEW STRATEGY

- 8.1 DEBT PROBLEM CANNOT BE SOLVED IN ISOLATION. A NEW COMPREHENSIVE APPROACH AND A BROAD-BASED POLICY PACKAGE IS NEEDED.

- 8.2 REQUIRE A NEW PARADIGM AS AN ANCHOR FOR A NEW STRATEGY —

THERE IS A NEED FOR EQUITY-BASED, HUMAN -CENTRED, SOCIO-ECONOMIC DEVELOPMENT.

8.3 HOW TO GET OUT OF THE CRISIS

RADICAL SOLUTIONS NEEDED

- 8.3.1 ILLEGITIMATE AND ODIIOUS LOANS TO BE SCRAPPED – OVER US \$600 BILLION AT LEAST 20% OF TOTAL DEBTS.
- 8.3.2 PENALTIES AND EXHORBITANT INTEREST RATES INADMISSIBLE.
- 8.3.3 NEED FOR PROPRIETY AUDIT OF ALL DEBTS.
- 8.3.4 RECLASSIFICATION OF DEBTOR COUNTRIES ACCORDING TO THEIR OBJECTIVE SITUATION KEEPING IN VIEW THEIR SOLVENCY, CAPACITY TO PAY BACK AND HUMAN AND ECONOMIC DEVELOPMENT NEEDS.

8.3.5 HIPCS' SCHEME HAS NOT DELIVERED – A MORE SYMPATHETIC AND REALISTIC APPROACH NEEDED. HARDLY 20 COUNTRIES HAVE BENEFITED FROM HAVING THEIR DEBT BURDEN REDUCED

ie AROUND US\$50 BILLION DEBT REDUCTION IN A GLOBAL SITUATION WHERE THE MOUNTAIN OF DEBT HAS ALREADY EXCEEDED US\$3.24 TRILLION.

8.3.6 DEBT MORATORIUM – AT LEAST 5 YEARS.

8.3.7 INTERNATIONAL ARBITRATION MECHANISM WITH ADEQUATE PARTICIPATION FROM DEVELOPING COUNTRIES.

8.3.8 RESCHEDULING AND RESTRUCTURING OF ALL DEBTS IN THE LIGHT OF AGREED PRINCIPLES ENSURING THE RETURN OF ONLY GENUINE LOANS IN THE LIGHT OF THE CAPACITY TO REPAY THE DEBTORS.

- 8.3.9 INTERNATIONAL FINANCIAL INFRASTRUCTURE: NEED FOR REVIEW AND REORGANISATION INCLUDING DEMOCRATISATION OF INTERNATIONAL, FINANCIAL AND ECONOMIC INSTITUTIONS.
- 8.3.10 DEVELOPMENT OF AN EQUITABLE REGULATORY MECHANISM FOR THE MOVEMENT OF INTERNATIONAL FINANCE AND CONTROL ON FREE MOVEMENT OF ROGUE CAPITAL.
- 8.3.11 OPENING OF MARKETS OF DEVELOPED COUNTRIES FOR PRODUCTS OF DEVELOPING COUNTRIES.
- 8.3.12 RESOLVING THE ISSUE OF SUBSIDIES, BOTH IN THE DEVELOPED AND DEVELOPING COUNTRIES.
- 8.3.13 ISSUE OF LABOUR MOBILITY.

- 8.3.14 ESTABLISHMENT OF A GLOBAL FUND FOR FINANCIAL SUPPORT TO THE MORE NEEDY COUNTRIES.
- 8.3.15 SOUTH-SOUTH CO-OPERATION.
- 8.3.16 REGIONAL ECONOMIC INTEGRATION.
- 8.3.17 SELF RELIANCE – DOMESTIC RESOURCE MOBILIZATION.
- 8.3.18 DEFAULT OPTION – COLLECTIVE BARGAINING AND ACTION.

8.4 NEW ECONOMIC WORLD ORDER

8.4.1 ETHICS IN INTERNATIONAL ECONOMIC RELATIONS.

8.4.2 GLOBALIZATION: INTEGRATION WITH JUSTICE BALANCED DEVELOPMENT AND HUMAN WELL BEING. FOCUS TO SHIFT TO:

- (a) NEEDS BASED SYSTEM
- (b) CREATION OF EMPLOYMENT OPPORTUNITY FOR ALL
- (c) DISTRIBUTIVE JUSTICE
- (d) HUMAN DEVELOPMENT
- (e) REGIONAL EQUITY
- (f) APPROPRIATE TECHNOLOGY
- (g) RESEARCH AND INNOVATION TO ACHIEVE INDIGINISATION OF THE GROWTH PROCESS

8.4.3 ENVIRONMENTAL DIMENSIONS.

8.4.4 NEW SECURITY PARADIGM:

- (a) POLITICAL STABILITY
- (b) ECONOMIC SECURITY
- (c) HUMAN WELFARE
- (d) NEW MECHANISMS FOR CONFLICT RESOLUTION

8.4.5 GLOBAL HARMONY- INSTEAD OF CLASH OF CIVILIZATIONS, PURSUIT OF CIVILISATIONAL DIALOGUE, POLITICO-ECONOMIC COOPERATION AND HEALTHY COMPETITION.

8.4.6 NON-HEGEMONISTIC WORLD ORDER – BASED ON AUTHENTIC PLURALISM.

8.4.7 COLLECTIVE STRUGGLE FOR HUMAN RIGHTS, ECONOMIC JUSTICE, PEACEFUL CO-EXISTENCE AND A WORLD ORDER BASED ON EQUITY AND RULE OF LAW:

- (a) COUNTER-VEILING POWER OF THE PEOPLE
- (b) STRENGTHENING GRASSROOT MOVEMENTS ALL OVER THE WORLD, PARTICULARLY IN THE WEST
- (c) RESEARCH AND COMMUNICATION: PROMOTING AWAKENING OF THE REAL ISSUES AT ALL LEVELS
- (d) GROUP ACTION TO INFLUENCE POLICY MAKERS, AND
- (e) POLITICAL PRESSURE AND PEACEFUL COLLECTIVE ACTION

THANK YOU