

Article

Towards a Just Monetary and Economic System (*)

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Executive Summary. The paper draws attention and opens the debate on major societal issues that concern not only Muslims but human societies, at large, because of their profound implications, afflictions, and their present and future transitive dimensions. The paper discusses two major issues that have attracted a great deal of attention in the recent past: wealth and income disparities, and global indebtedness. Four remedies have stressed upon and/or proposed to eradicate and/or lessen some of the burdens of these problems have been thoroughly examined. These are:

1. - Stripping commercial banks of their power to create money out of thin air (i.e., *Ex Nihilo*). Thus, reviving financial reform in line with the spirit of the call for the “*Establishment of a National Bank [in England]*” in the 1820s by the renowned British economist David Ricardo (1772-1823). The Bank of England was a private commercial entity at that time.
2. - Prohibiting of ‘harmful’ speculation activities in financial and economic transactions and/or imposing hefty taxes on transactions relating to such activities. The implementation of such a policy requires and clear-cut distinction between the ‘harmful’ and ‘non-harmful’ speculative activities in financial and non-financial markets.
3. - Levying adequate and fair taxes on the wealthiest upper class at the global scene. Calls for such a policy is on rise in the past few years. For instance, “Speakers at the European Development Days summit in Brussels, [in 2017], said that *a just tax system* should be “at the heart” of the development debate, and that more transparency is needed to ensure that companies pay their fair share. Tax avoidance schemes used by multinational companies, such as moving profits to tax havens, result in global losses of around \$650 billion a year in tax receipts — with developing countries losing \$200 billion, according to a study from the International Monetary Fund”, (Edwards, 2017; Crivello *et al.*, 2015, p. 21)
4. - Establishing a neutral legislative and tax regimes for different modes of financing. Thus, providing ‘*a level playing field*’ for equity and debt modes of financing due to the current biasness of the tax regimes to debt-based financing instruments as it has been documented in various studies carried out by the IMF, the European Commission, and other international prominent bodies.

Keywords: monetary system; economic order; wealth and income inequalities; indebtedness; money creation; David Ricardo; tax biasness

JEL Classification: E11; Q51; Q82

1. Introduction

There is no disagreement that today's world suffers from multiple and diverse problems and crises that require handling and exchanging views from different perspectives and backgrounds, including among other economists, sociologists, historians, decision

(*) Due to time constraint and to keep the text as close as possible to the original that has been translated by the SAMA Islamic finance team the author did not update major figures and statistics. Moreover, the catastrophic developments that engulfed the world during and in the aftermath of COVID-19 have exacerbated the level of the two major issues that the study investigates. Thus, the call for opening an honest and transparent debate on these and the like are more pressing than ever before at the global, regional, and local levels.

makers and other stakeholders. At the forefront of this is the research and educational institutions because of their prestige, the responsibility and role entrusted to them that no one else can play, by highlighting these problems and dilemmas and proposing appropriate solutions - as much as possible- because these problems threaten the stability of societies and impede their economic advancement and developmental progress. Among those problems is what this paper is exposing as illustrative examples.

However, at the level of various activities related to Islamic economics and finance, we were preoccupied with other than those facts - as it seemed to the researcher -; We have been preoccupied with issues that can be considered "peripheral" because their impact is still limited and/or because their importance comes at a later stage to dilemmas that greatly affect people's living and social reality. By that, I mean the recent remarkable interest in cryptocurrencies and what was in the circle of similar technical developments and developments. Whereas a third of this year's first twelve (12) dialogues dealt with topics covering issues related to these developments. Even raising these issues avoids addressing profound questions such as: Why did these transactions appear that want to bypass the role of the central mediator? Be it a public or private institution? What is the most important technical novelty element in these developments? And why were some of those coins allowed to work, while others still found "reluctance"; Facebook's currency "LIBRA" - for example -? I do not want to jump to take a position in this direction or that regarding these developments, neither do I have the right to confiscate the freedom of others to investigate what suits their scientific interests. The focal point I am stressing on is simple and straight and it is directed to what might be termed as 'the scientific community of Islamic economics and finance (SCIE&F)' at large to draw their attention to some of the dire consequences of the discussed issues that have deep inflections at the local as well as global levels. More importantly, these matters have been dwelling around for some time without any concrete diagnosis let alone proper remedies.

And if we leave aside the "our scientific Wednesday dialogue" and move on to other scientific meetings and events, we can hardly find a mention, let alone in-depth action plan that contribute to lessening, at the very least of the afflictions of these chronic malaises. I say that we can hardly by examining a good number of events that were held this year (2019) at the global, regional, or even local level, except for the last session of the International Islamic Fiqh Academy (the twenty-fourth session (24) that was held in Dubai in Rabi' al-Awwal 1441 AH (November 2019)). It dealt with two important economic issues: inflation and food security for Islamic countries.

From this point of departure and based on previous rationales, this dialogue comes to open the door for serious and deep discussion of some of these afflictions to be among the top research agenda of the SCIE&F, and an ongoing subject for debate at various levels and events. These issues are related to the embodiment of a major existential and fundamental holistic matter; It is the justice with which Allah sent the Messengers, and sent down books with them to embody a present reality that people live in and casts its shadow on them; {We have already sent Our Messengers with clear evidence and sent down with them the Scripture and the balance that the people may maintain [their affairs] in justice}. [Al-Hadid:25]. Indeed, it is inevitable for humanity to get rid of the ills and effects of these problems, and the like, except by establishing justice in all fields and at all levels; including the financial and economic aspects because of their influential role in the living reality of individuals, societies, and countries, as evidenced by human experience in the past and present.

At the end of this introduction, I must confess that the discussion is preliminary, and the proposals are not that 'radical' from what have been debated for quite some time among some conventional and Muslim economists. The main rationale for adopting such an approach is the fact that these problems are deeply rooted in two major systems: the financial and fiscal regimes. The impacts of which have been felt all around the globe for a while, and in the aftermath of the American financial crisis of 2007-2009 in particular. Thus, calling for a fundamental reform may not be feasible at this stage. Therefore, the

wisdom provided by the juristic, ethical and *Shari'ah* maxim 'committing the lesser of two harms or If two harms conflict, take into account the greatest harm by committing the lesser of them' can help in this regard.

2. Wealth and Income Disparities

The issue of wealth and income disparity between rich and poor countries on the one hand, and between the rich and poor within most countries, regardless of their level of economic development, has become one of the biggest problems that threaten the stability of international societies, not only at the economic and financial level, but also at social and political levels as well. In the latest reports issued by the British Charity Oxfam (Oxfam, 2017; 2018; 2019a), it is noted that this phenomenon is exacerbating over time. This made the world almost divided into two classes with no middle ground: extreme wealth 'elite upper-class' and 'bottom extreme' poverty class. Estimates of 2018 showed that the wealth of the first category increased by 900 billion dollars (2.5 billion dollars per day) in that year, and that 26 rich people owned the equivalent to the wealth of nearly 4 (3.8) billion people of the poor, and that the percentage of income taxes paid by the poor far exceeds that which the rich pay on their wealth; That is, the poor pay the "price" of being poor because of the "biased" tax policies in many countries. In a recent study, the International Monetary Fund has confirmed (Gbohouni, et al., 2019: 8-11) this general trend of rising levels of inequality over time at the level of one of the important global economic blocs; The bloc of the Organization for Economic Cooperation and Development (OECD).

On the other hand, the latest report issued by the Swiss Credit Corporation (Credit Suisse) indicates that the distribution of wealth worldwide is highly concentrated in few countries, led by the United States of America; as 40% of the "millionaires" in the world come therefrom, and that 40% of the world's richest class (the 1% class, or billionaires) also belong to this country and that their number at global level is higher than ever. Also, the gap between the rich and the poor is increasing; as 10% of the world's wealthy own 82% of the world's total wealth, and the 1% class owns 45% of the total global wealth, and that the total wealth of the world's wealthy is estimated at \$360.6 trillion in mid-2019 (Credit Suisse, 2019: 2); That is approximately five (5) times global production (5 times world GDP). This situation, as these and other reports indicate, requires the development of effective economic and social policies, such as the quality of education and its availability to all (Oxfam, 2019b) at the level of each country, and coordination at global level between countries to mitigate this disparity and its effects. Here, a central question, that should be addressed, arises; which is: What is the relationship between the exacerbation of this phenomenon and its spread at global level with the activity of the financial sector in general and the money-generation process carried out by banks in particular?

A study by the OECD (Cournède, et al., 2015: 7-8; OECD, 2015: 1) indicates that the occurrence of the financial crisis (2007-2008) led to deep questions about the role of the financial sector and its impact on economic activity. Among the issues on which the discussion focused is the question of the expansion of credit activity in the fifty years preceding the crisis. This expansion, as the study concludes, has contributed to the fragility of the financial system, and the emergence of "unhealthy" economic and social phenomena, including the phenomenon of disparity in the levels of income and wealth in the OECD countries. A study by Kamhof and others confirms; Economists of the International Monetary Fund (Kumhof et al., 2014) that the expansion of credit through the leverage mechanism that precedes the occurrence of crises contributes significantly to the misdistribution of wealth between the rich and the poor. Also, a study by Maghrebi and Mirakhor (Maghrebi and Mirakhor, 2015: 97-98) suggests that financial products based on usurious debt contracts contribute to this as well. Herold (2018: 23; 51) confirms that the existing financial system contributes significantly to the spread of the phenomenon of wealth disparity because most of the money in circulation in contemporary economies is generated as debts by private financial institutions, namely commercial banks. Over almost a quarter of a

century ago, the British economist Michael Rowbotham, in his semantic book¹, posed a serious and thought-provoking question, about the spread of the phenomenon of public and private debt at global level between states and individuals; poor and rich; “... *If all nations of the world are in debt, who are they in debt to? Rationally, where there is a debtor, there should be someone else who is a creditor. If every nation is in debt, who, precisely, owes whom?*” He answers that the existing financial system is mainly responsible for this situation; “the financial system used by all national economies worldwide is actually founded upon debt”, (Rowbotham, 1998: 1-9), through financing contracts and services based on usurious interests, as is well known to those who have studied the evolution and practices of the financial system thoroughly and profoundly.

This state of the prevailing financial system fuels the phenomenon of income and wealth disparity through various channels. One of them is the provision of credit facilities to some of the vulnerable segments of societies. Most of the borrowers have basic needs such as housing, cars, and other durable goods from middle-income earners or those in the bottom class of society. These vulnerable segments cannot afford to meet these basic needs with their own financial resources, so they resort to financial institutions that impose high interest rates on them, and mortgage the assets they acquired against those funds. In the event of a deficit, debts accumulate, and they lose the real assets - the home or the car - this is the fact of the 2007-2008 crisis as documented in many studies and research². As for the dealing of financial institutions with the rich and the solvent, it follows a different logic. This was confirmed, for instance, by a study by the OECD (Cournède, et al., 2015: 7-9; OECD, 2015: 1) which indicated that high-income earners benefit from financing and credit facilities more than the poor, and that the average salary granted to workers in the financial sector, holders of senior positions in particular, exceeds those granted to workers holding the same qualification and experience in other sectors in the Organization for Economic Co-operation and Development countries. Thus, we find that the financial system contributes to an unfair distribution of wealth. The rich get richer, and the poor get poorer!!

The significant impact of financial sector activity in increasing the gap between the wealthy and other classes of society is reinforced by the Oxfam report issued in 2015 indicating that one of the most important areas through which the 1% elite of the world's wealthy achieved this “ultra” wealth is: Financial Activities, Pharmaceutical Products, and Health Care (Oxfam, 2015). The statement of Oxfam report is supported by the analysis carried out by New Scientist magazine in 2011 on the control of 147 private companies, primarily commercial banks, over the asset management and revenues of 43,000 transnational corporations, which means controlling the major pillars of the global economy. The analysis indicated that this limited number of institutions accounts for 40% of the assets of these companies, and 60% of their revenues, (New Scientist, 2011).

At the end of this ‘snapshot’ it is worth noting that more comprehensive and compelling data on the issue of income and wealth disparities have been provided by the ‘The World Wealth and Income Database’ an initiative of the ‘World Inequality Lab’ through

¹ ‘*The Grip of Death: A Study of Modern Money, Debt Slavery, and Destructive Economics*’.

² The striking facts that have evolved over the years since the appearance of this statement indicate that this is what happens in many societies, not only developing but developed and emerging ones as well for example the British society; as the Unfair Debt Group, an initiative of the New Economy Foundation, notes, “The price paid for being poor has become too expensive. Millions of people are living in an endless debt spiral... A look at what credit cards do provides an overview of it... As nearly four (4) million people who use these cards are constantly in debt, which makes it cost them to build up two and a half pounds (2.5 pounds) for every borrowed (1) pound sterling. On some cards, the annual percentage rate (APR) is as high as 80%, for other sections of society [who find a way out to meet their subsistence needs only by this means or worse (payday and/or predatory lending)]”, (New Economics Foundation, 2019).

the publication of regular reports and other research projects about various aspects of inequality since its instigation in 2011 and publication of its first comprehensive report in 2018. Interest readers can consult the web page of the lab.

3. Global Indebtedness³

Indebtedness is no longer confined to the poor, the needy, or indigent countries. Rather it has become a global phenomenon encompassing almost, all human societies and governments, regardless of the levels of the state of their different economies. In fact, debt has turned to be acting like a 'drug' that various economic actors; be it governments, corporations, households, or individuals, cannot refrain from. Governments are so dependent on debt to meet the afflictions of the financial crisis, pandemics, and social welfare commitments. Strikingly, debt has even turned out to be used as the 'magic tool' of mainstream policies for paying 'old debts and/or debt servicing' through the 'issuance' of new debts. If we borrow a simple definition of 'debt addiction' as "someone who ... uses debt as a crutch for solving their financial ... problems without any plan for living differently or getting out of debt" (Botkin, 2022), then the behavior of economic agents; including governments, in modern economies can be described, with caution, as 'debt addiction' or as 'trapped in debt' for the very least. For this reason, the level of indebtedness has reached historical records.

This situation has left the world economy evolving through debt waves over the past few decades. According to the World bank "the global economy has experienced four waves of debt accumulation over the past fifty years. The first three ended with financial crises in many emerging market and developing economies one after the other. During the current wave, which started in 2010, the increase in debt in these economies has already been larger, faster, and more broad-based than in the previous three waves", (WB, 2019, p. 5).

The latest statistics revealed by various international and regional sources indicate that the level of global indebtedness has reached a historical record in the aftermath of the American financial crisis (2007-2008). That level stood at "...an all-time high of roughly 230 percent of global GDP in 2018", (WB, 2019, p. 5; Stubbington, 2019). A figure appeared in the September 25th, 2019, issue of the Financial Times newspaper displaying the progression of the median debt-to-GDP ratio for a sample of twelve (12) industrial countries⁴ and it shows that the median reached record levels during wars, extraordinary events, and in the wake of financial crises. Data in the figure covers a period of more than 140 years (1870-2018). The data shows, for instance, that the level of the public debt reached record levels; approaching the 80% of GDP threshold, after it was at a level close to 40% during the years of the financial crisis of 2007-2009, (Stubbington, 2019). That means that the level of government debts has doubled within a very short period. In contrast to that, the years preceding financial crises, as documented by many studies, witnesses a marked rise in private debt, mainly in the household sector, due to the high demand for borrowing and credit due to abundance of 'cheap money' resulting from zero-bound rates of interest of 'easy monetary policy', (Mian et al., 2014; Cournède, et al., 2015: 7; OECD, 2015: 1). These studies indicated that the rate of credit growth granted by banks and other financial institutions to the OECD countries during the past fifty years exceeded three times the growth rate of economic activity.

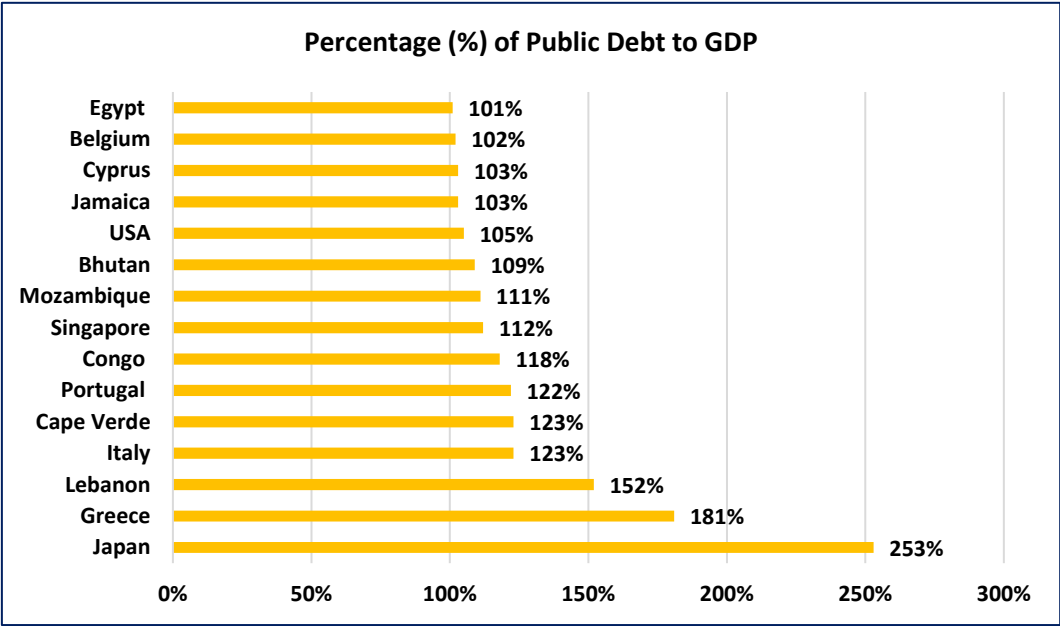
This stalemate confirms that the effects of financial crises are highly considerable due to the cost they cause because of directing financial resources from the very needy public

³ It covers borrowing by governments, businesses, and households.

⁴ These are: the United States of America, the Netherlands, Japan, Germany, France, Britain, Italy, Australia, Canada, Spain, Switzerland, and Sweden.

services to the containment, not the cure, of the dire consequences of these catastrophes⁵. Thus, stranding economic growth and burdening the balance sheets of countries. The stalemate really requires serious consideration to identify the main causes of these disasters to develop radical solutions to address them. That's because the traditional policies followed are no longer represent a panacea to mitigate the effects thereof.

If we look at more details at the level of each country, we find, according to the latest available statistics, that the debt-to-GDP ratio is high in many countries with varying economic levels; advanced, emerging and developing economics according to the indicator of public or government debt to GDP ratio, or as referred to in short as (Debt to GDP Ratio) in the economic literature, as shown in Figure (1)⁶.



Source: World Population Review, June 2019

Figure (1) - The 15 most indebted countries in the world as of June 2019.

On the other hand, the latest report, November 2019, issued by the Institute of International Finance (IIF), (Durden, 2019; Jones, 2019), indicated that the global debt amounted to 250 trillion Dollars, and that it is expected to reach to the level of 255 trillion Dollars by end of the year, with an increase of 12 trillion Dollars, over the debts of last year (2018); That is, the level of such debt will be slightly three times higher than the 3.3 (330%) of world GDP. This means that each of the world's population (7.7 billion) owes

⁵ Some sources (Oxenford, 2018) estimate that what financial institutions alone lost in this crisis amounted to 2 trillion dollars, and that what the global economy lost due to the recession caused by the crisis amounts to 10 trillion dollars; That is about 15% of the nominal value of world production.

⁶ Two years later, in 2021, the countries with the highest global debt levels compared to GDP were Japan (257%), Sudan (210%), Greece (207%), Eritrea (175%) and Cape Verde (161%), according to data published by Visual Capitalist. (WEF, 2022). These facts prove that the escalation of the debt burden is not going to 'lessen' let alone disappear from global scene. With the ignition of the Russia-Ukraine war since 2014 have added to the global financial strains, thus making the world even worse contributing to a state of 'living in dangerous times' as described by the IMF (Gaspar and Pazarbasioglu, 2022) more severe. Affected by the 'extreme uncertainty' that the world is going through governments have been forced to 'stick' back to the policy of the 'debt orthodoxy' and this will lead to 'mountains' of debt accumulation leaving monetary and fiscal officials with legacy that will have very long term effects for many years, if not decades to come.

the equivalent of about \$32,500. Such increase in the level of global indebtedness is driven by an increase of 7.5 trillion Dollars in the first half of this year (2019). The United States and China account for more than 60 percent of this increase, while emerging markets debt is at a high record; \$71.4 trillion, which is equivalent to 220 percent of the GDP of these countries. It is expected, according to estimates by the Institute of International Finance, that government debt alone will exceed \$70 trillion this year ([Mahmoud, 2019](#); [Durden, 2019](#); [Jones, 2019](#)).

At the sectoral level of debt distribution, Government, Corporate and Individuals, we find that government debt witnessed the largest increase in the first half of the year, increasing by 5.1 percentage points, followed by debt of non-financial companies, increasing by one percentage point. Moreover, given that government-owned companies currently account for more than half of non-financial corporate debt in emerging markets, country-related borrowing has been the most important driver of global debt over the past 10 years. This was expected because governments had intervened greatly through financial stimulus programs and bailouts, and through monetary policies that gave “free or almost free” money to financial institutions through the zero-interest rate (ZIRP), in order to prevent the world from falling into depression. However, these policies lead to this phenomenon, indebtedness, and other economic and social phenomena that have a material long-term impact.

On the other hand, estimates made by Michael Hartnett, a financial analyst at Bank of America (formerly Bank of America Merrill Lynch), indicate that government debt increased by \$30 trillion, and that of non-financial corporations increased by \$25 trillion, while household debts increased by \$9 trillion, and the debts of financial corporations increased by \$2 trillion since the collapse of Lehman Brothers Bank in September 2008. Meanwhile, the value of Global Bond Markets increased from \$87 trillion in 2009 to more than \$115 trillion now ([Durden, 2019](#); [Jones, 2019](#)).

The big problem and the main question that arises in such situations: Will these debts be paid or disposed of, just as what happened in the post-World War II period in some countries? Impossible!! ([Stubbington, 2019](#)), but it will be “swallowed”, so to speak, ([Al-Suwailem, 2013, p. 74](#)) by increasing the money supply, migrating its impact, and postponing its bubble burst with higher levels of inflation as a logical result of the long-established complex monetary and financial policies⁷. In some cases, inflation is a “hidden”⁸ tax that is paid mainly by people with limited incomes because governments avoid imposing taxes directly because of the effects taxes had on their popularity in countries that are governed by democratic regimes. This means that the purchasing power of the average citizen is constantly declining due to the decrease in the purchasing power of **fiat money** by Central Banks and ‘*Ex-Nihilo money*’ created by commercial banks.

Another question, of no less important than the previous one, is: Does the level of indebtedness that the world has reached represent a “bubble” that could burst at any moment? Many parties and persons ([Mahmoud, 2019](#); [Elliott, 2018](#); [Gaspar and Jaramillo, 2018](#); [Ning, 2018](#)) began to pose this question and express concern and scenarios about the development of its levels to historically unprecedented volumes; “Is the situation now, more than ten years after the 2007-2008 crisis, safer than it was before the disaster?” This was the title of a study issued by the International Monetary Fund in 2018 ([IMF, 2018](#)). It is certain that the global economy is not in a comfortable position, and that the policies

⁷ And that is exactly what the world has embarked upon three years after the delivery of the paper in 2019. As we all know, since the beginning of 2022 almost, all countries of the world are suffering from high inflation rates. The Russia-Ukraine war has attributed to this, but the policies adopted to absorb some the repercussions of the 2008-2009 financial crisis and the afflictions of COVID-19 have contributed to this too.

⁸ Some economists, like Milton Friedman, one of the most important theorists of “radical” liberal economics in modern times, believe that inflation may be an “effective form of tax” in some economic conditions ([Pettinger, 2018](#)).

that were taken to contain the remnants of that crisis and the subsequent setbacks at the level of the European Union countries, and what happened, and still happening, regarding the currencies of some countries, such as Turkey and Venezuela, are all indications that the global economy is in the way of a crisis in the foreseeable future. Such crisis will be more severe than the one the global economy witnessed more than ten years ago.

In such a scenario the '*follow the debt*' rule coined by the Economist magazine in the wake of the dire afflictions caused by the several financial and monetary crises that took place in the turbulent decade of 1990s ([The Economist, 2000](#)) may prove to be a very useful guide in keeping vigilant in 'dangerous and extreme uncertainty' times that the world is going through.

4. Some Proposed Remedy Policies

Dealing with solutions, as the case is regarding diagnosis, is complex and convoluted. Accordingly, it requires investigation and listing of all the proposals put forward in this section with an objective study to determine the benefits and harms; that is, a careful balance between the interests and harms of these proposals, because they are made by humans, and no human proposal is bias-free, rather, "whims," as Jalal Amin exposed in his thought-provoking book in 2014⁹. However, that does not prevent us from discussing some of the proposals to treat and/or mitigate the problems we encountered. On this occasion, we will discuss four proposals:

1. Stripping commercial banks of their power to create money and making money circulating in the economy in any form (banknotes, electronic, encrypted, or virtual) a sovereign issue and/or imposing a full reserve ratio (100% reserve) on deposit-taking institutions (mainly commercial banks); that is, the right to issue and administer money is subject to the supervision of a public authority. The authority of the *Imam* - according to the jurisprudential expression, (because it is disliked for anyone other than the Imam to mint [mint or issue] money) or that "it is not valid to mint *dirhams* except in the minting house under the permission of the *Sultan* (= the ruler); because if people are permitted to do so, they will commit major sins"¹⁰ as quoted from Imam Ahmad, may Allah have mercy upon his soul, ([Muhammad, 1993: 387-390](#); [Afr, 1994: 117-118](#); [Al-Sabhani, 2017: 212](#)). Here arise jurisprudential issues that have not been studied and scrutinized on a council level, i.e. reputable *Fiqh* councils, according to the studies and decisions the researcher has reviewed: What is the precept on '*ex-Nihilo*' money created by banks? Is it legally evaluated and funded¹¹ in terms of scrutiny and jurisprudence, not in terms of being a reality that has been implemented? Since it is issued by hidden mechanisms and in a way that is not based on fair economic basis? And that it was imposed on people without realizing its dimensions and effects in the Western World; the developing world, including the countries of our Islamic world, imported the same, expecting to achieve results other than those it produced, and still produces, in the countries in which it grew and flourished? It is a paradox that will be carefully considered, with utmost objectivity and impartiality, to investigate the roots and causes of its emergence, while tracing the attempts being made to uncover its truth and suggesting alternatives that can replace it; that is because most of the broad money circulated in contemporary economies is created

⁹ "Philosophy of Economics: An Inquiry into the Biases of Economists and the Non-Scientific Foundations of Economics".

¹⁰ It came in the Kuwaiti *Fiqh* Encyclopedia: "The right to issue money is for the *Imam* alone, and he must authorize someone who performs this function to be distinguished from fraudulent transactions ... and it is not permissible for anyone other than the imam to mint money, because this is negligence of him." Source: Quoted From the comprehensive encyclopedia: <http://islamport.com/w/fqh/Web/3441/14597.htm>, entry date: 08/12/2019.

¹¹ It is a question that was mentioned in the decisions of the International Islamic Fiqh Academy in its last session (24) in Dubai as one of the important questions in the study of the coming of cryptocurrencies.

by private commercial banks. This is clearly shown by the statistics and figures issued by central banks. For example, according to the latest report issued by the Saudi Arabian Monetary Agency, we find that the ratio of cash circulated outside banks (M0)¹² to the money supply or broad money (M3) in the Kingdom represents only (10%) (SAMA, 2019: 4-5). The situation is not much different in other countries¹³. This means that the "Returns of Issuance" of the money created benefits the private businesses. This is what many economists, Muslims, and non-Muslims, consider to be an unfair course of action against society, because money in respect of origin and formation is a social institution, the issue of societal or general acceptance in defining money as common in textbooks and other books as well. Al-Jarhi (1981: 24-25) states in this regard: "In terms of justice, we find that the fractional reserve system actually gives commercial banks the right to issue money in the form of derivative deposits, and lend it to people at an interest rate, while the money itself is a social institution that all individuals participate in creating by way of general acceptance thereof.

Therefore, it is clearly unjust to give commercial banks the right to sell same." Some Muslim economists (Al-Sabhani, 2017: 206) considered the disposition of these returns by private institutions as "*Kasb Ghalloul* (i.e. booty theft)" , if the "Ban" proposal, which is highly recommended in the current circumstances, cannot be implemented; Rather, for reasons that we cannot delve into now, then we can at least resort to other solutions, including directing some, I mean some, not all, as some Muslim economists believe, with their views of divergence and difference in perspective (Chapra, 1984: 21; Chapra, 1990: 212; Afr, 1994: 117-120) - which is a matter of gradualism and establishing an argument against "those who refuse" to carry out such a procedure, the returns achieved from the created money towards charitable and social matters; that is, to benefit the public interest. One of the proposed partial solutions is to allow other institutions like endowment banks or charitable banks, as suggested by some Muslim economists and jurisprudents and give them the same advantages as commercial banks (accepting deposits and creating money), and subjecting them to the same regulations and control systems, while giving them tax exemptions (an advantage) because they are institutions that do not aim to get profit for the owners, but rather for the target groups of endowment and charitable projects.

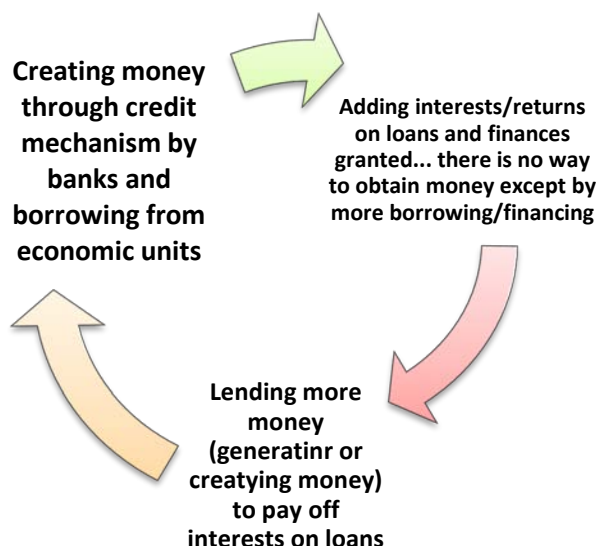
It is highly important to answer a significant question which is: why is the suggestion of stripping the commercial banks from money creation property, and stressing it from time to time? Simply the answer is: the created money, as mentioned above, is brought out as debt owed by economic units. Whatever the way by which this money is created, as the economic literature¹⁴ explains, and whatever the return is (a usurious interest or a

¹² The use of (M0) by the researcher, and not being mentioned in the institution's report, is a quote from some central banks - such as the Bank of England - in their division of money supply segments. In the Corporation's reports, "cash circulating outside banks" was used; as the first categories in the money supply; It symbolizes the official money (paper or coin riyals) issued by the institution (fiat money).

¹³ The UK represent the extreme case where M0 represent 3% only of the total money supply (= Broad money); <https://www.bankofengland.co.uk> .

¹⁴ There are two approaches or theories so explaining (Belouafi, 2017: 273-274; Werner, 2016: 361-363); i.e., the prevailing money multiplier theory and credit creation theory. According to the first approach, the created money is related to volume of the monetary base which is issued and determined by the Central Bank and the statutory reserve ratio which is defined by the Central Bank as well. Thus, the created money is related to the deposit volume. That is to say that the deposit derived from original deposits is what makes loans. In the second approach, as revealed by the England Bank study in 2014, is that the credit granted by banks is what makes the derivative deposits, i.e., a credit or loan granted by the bank without having a balance of pre-deposited money by economic units.

profit margin resulting from certain financing forms), the outcome is debt owed by borrowers plus a flat yield in form of interest, or a pre-defined profit margin as well, as shown in figure (2).



Source: Belouafi 2017, p. 278

Figure (2) – Nature and Way of Forming the Cash Proposition Created in Contemporary Economies

This is what explains to a great extent the global indebtedness reaching the volume explored in the previous section, increasing without being paid off, and even melting down and turning into toxic assets; being transferred from the accounts of private institutions to those of public institutions through big rescue packages like what happened in 2007-2008 crisis or by establishing Bad Banks by private financial institutions¹⁵. The previous proposition did not address the issue of canceling interest (one of the most prominent forms of usury in financial transactions), not because it is unimportant, but rather because it is one of the axioms and postulates for a Muslim. The paper avoided talking about it because the details in it are contained in abundant literature, perhaps the most famous of which is the report of the Islamic Thought Council on “the abolition of interest” in Pakistan, which the Institute (the International Center for Islamic Economics Research and then the former Center for Islamic Economics Research) thankfully translated¹⁶.

This on the one hand, and on the other hand, the paper decided on this occasion to discuss issues that may contribute to mitigating the effects of the situation existing; to put it another way, it seeks as a “gradual” proposition to address the points of convergence with some propositions of non-Muslims, which matter is not rejected from a legal and rational point of view, because “committing the lesser of two evils, and repelling the greater evil with what is less than it” is a sharia-established and reasonably acceptable principle. What can be made use of in this regard is what was presented by one of the British activists (McConnachie, 2013), who advocated stripping banks of the function of creating money in a special event on ethical finance at Glasgow University in Scotland in 2013. He pointed out that banning commercial banks from carrying out this function

¹⁵ For example, what is done by the German giant Deutsche Bank in June of this year, (FT, 2019).

¹⁶ The report was issued in English in 1980, and the Institute translated and printed it twice: the first edition in 1982, and the second in 1984. The latter is available at the following link: <https://iei.kau.edu.sa/Pages-A-ArabichPublish.aspx>.

would rid the money supply in the countries of a significant part (97%, as in the British case) of the benefits arising from the generated money. This supports the prohibition of Islamic financing of interest -according to his point of view. In any case, this issue and what is presented in the paper are the main purpose of opening the door to discussion, deliberating viewpoints to reach a fair amount of agreement, and identifying points of disagreement in these important issues.

2. Speculation ban or imposing a tax on speculative activities. There is a need to introduce laws prohibiting speculations or some of their instruments in the financial markets because of some financial stocks that have occurred in many countries in recent decades. This happened in the 1990s and the past two decades. An example of that is what the ex-German Chancellor Angela Merkel and ex-French Prime Minister François Fillon called for the countries of the European Union to ban "extreme speculation" and some of the controversial derivatives (i.e., credit default swaps (CDSs)), in 2010 (FT, 2010).

The following year, a group of European Parliament members (European Parliament, 2011) came forward with a similar call, in the wake of the Greek sovereign debt crisis and the speculations it was exposed to. However, these calls soon disappear after the "storm" of unrest subsides and this is due to the liberal philosophy rooted in the capitalist system, and the demand for intervention is the exception due to some exceptional circumstances and conditions resort. Once the tone of these circumstances subsides 'the liberal ideology' will 'raise its head' and speak loudly.

As for imposing a tax -as a deterrent measure- to limit the activity of speculators; even as fiscal policies, they are given more attention by global and regional organizations¹⁷, and some economic figures. It was proposed by the American economist James Tobin¹⁸ (1918-2002) (Tobin Tax) in 1972 on the movement of hot money resulting from operations in the foreign exchange markets in large sizes and in a very short position. Some sources (Schulmeister, *et al.*, 2008: 1) mention that Keynes preceded Tobin in proposing a tax on financial transactions in the American stock market after the Great Depression, because a similar tax is applied in the British stock market at 0.5% on a stock purchase transaction. Its value exceeds one thousand sterling pounds (£ 1000)¹⁹, since 1694 (Dieter, 2003: 7). However, Tobin's context and justification differs from Keynes' proposition, and from the application in the London money market, which imposes a tax on the purchase of shares and not on their sale, and that this tax is not imposed on debt instruments, government bonds and others.

Therefore, the discussion will focus on Tobin's proposition because it limits the application framework to speculations more than others, to achieve specific goals, some of which are below stated (Tobin, 1978: 154; Patterson and Galliano, 1998: iii):

1. Ensuring the stability of currency exchange rates that experienced major volatility after the collapse of the Bretton Woods system agreement in 1971 due to large and

¹⁷ However, its application is subject to "objection" or procrastination, as happened at the level of the European Union; Whereas a proposition to implement a financial transaction tax has been submitted since 2011, when it has not yet come into force; Because the passage of any law requires the unanimous agreement of Member States on this (Council of the European Union, 2019: 7).

¹⁸ American Economist (1918-2002) got the Nobel Prize in Economics in 1981 and graduated from Harvard University; Bachelor's degree in 1939, and PhD in economics in 1947. He taught at Yale University from 1950 until he retired. His contributions that led him to obtain the Nobel Prize focused on studying the theoretical foundations of investment behavior in the financial markets. He held many advisory positions and supervised scientific chairs. He is considered one of the most prominent adherents of the Keynesian school of the twentieth century: The Information Architects of Encyclopedia Britannica (2019).

¹⁹ The tax applies to the purchase of shares, not to their sale, and it may reach 1.5% of the total transaction in some transactions. Source: British Tax Agency website: <https://www.gov.uk/tax-buy-shares>, date of visit: 25 November 2019.

short-term deals to transfer large amounts of money from one currency to another because currency rates became floating and no longer fixed²⁰ as it was during the implementation of the rules of that agreement. This allowed speculators to move freely and quickly, and after that date, increased the number of currency crunches. For example, an IMF-issued study monitored 424 financial crises for forty-one years (1970-2011). Almost half of those crises (211) were related to currencies (Laeven and Valencia, 2013, p. 226).

2. Assisting governments in alleviating the pressure of speculators to take monetary or fiscal policies that harm their economies. This includes raising interest rates on their currencies to make the local economic environment attractive to capital; However, this policy has economic effects whose losses may exceed what governments want to achieve, and this is represented in limiting the level of investment in the real sector because the cost of financing has become prohibitive, and this leads, if it continues for a significant period, to a stagnation in economic activity and an impact on the labor market, and inflation, which may make national governments unable to deal with these rapid and large movements of capital, as we will see in some examples.

The fluctuations which were and are still witnessed in the currency markets due to the actions of speculators lead to the collapse of currencies, and the abandonment of economic policies by some countries, as happened -for example- in the European Exchange Mechanism (ERM) crisis in 1992 and 1993 due to speculations and betting on the British pound and the Italian lira, which led the British government to exit that mechanism, with a loss of more than one billion dollars that was pumped into the exchange markets to stabilize the value of the sterling pound in accordance with the terms and determinants of that mechanism. Due to the 'tense battle' between the speculators and British officials at the treasury and the Bank of England the British pound lost twenty percent (20%) of its value against major currencies such as the US Dollar, the French Franc, and the German Mark, and some speculators were able to make a 'profit' of one billion dollars in one day; the "Black Wednesday on 16 September 1992 as it has to be known in the economic literature", (Left Exposed, 2017; Andrew Beattie, 2019).

As a result, the Britain government was forced out by the blows of speculators from the ERM because it did not think to isolate its financial markets -even for a short period- to reduce the effects of these "attacks" as Malaysia did in the 1998 Asian crisis when it imposed controls on the movement of capital, which led to the isolation of its economy as expressed by Soros (Soros, 1998: xiv), yet, it succeeded in getting out of the crisis early before its Asian neighbors, and with less losses because it also refused to follow the IMF-recommended policies. Soros (1998: xiv) bet that these measures would be a disaster for the Malaysian economy, but the reality was otherwise.

As happened in the crisis of Southeast Asian countries, about which Soros said in an hearing by the US Congress on 15 September 1998: "*Indonesia has lost most of the economic gains it achieved over the past thirty years*" (Soros, 1998: xi - xii), and that was in a very short time, as it is well known, so the processes that cause these devastating effects were called "hot money" as happened in Mexico in 1994, in Russia (1998), and in other countries. This situation contributed to the transformation of the currency and money markets into "veritable casinos", as the French economist Maurice Allais once described it, (Fisher and Tempest, 1989).

Since Tobin's proposition appeared and until now, he finds a return to it with discussion²¹, and to consider how appropriate would be it to develop his proposition into a

²⁰ There is a third system between these two systems, which is the pegged exchange rate, such as the Saudi riyal or the Kuwaiti dinar, against a global currency: usually the dollar, or a basket of currencies.

²¹ In the rate of that tax, and the scope of its application, Tobin targeted speculations at 0.1 to 1%. As for others, they agree with him on the premise, and they may differ with him in scope, ratio, and other matters. For more details,

fiscal and tax policy to reduce fluctuations and transactions in the money and currency markets, as the European Parliament's interest in that tax in 1998 (Patterson and Galliano, 1998).

In the wake of the currency crisis in many countries in Asia, Latin America and Russia in the 1990s, Tobin re-emphasized the importance of implementing the tax he had proposed because -according to him- it would limit the activity of speculators (Der Spiegel, 2001). In the wake of the 2007-2008 financial crisis, many personalities and entities like EC re-considered this proposition or a policy close to it that limits unhelpful financial activities and makes the financial system, and its workers pay part of the large, even "imaginary" returns that they earn. Thus, we find that there are many and varied studies regarding this proposition due to the burdens that the financial markets are now posing, which requires consideration of the propositions that were "neglected or marginalized" by Tobin or others, despite the merits they may have and deserve attention and consideration.

There are economists who have taken another approach in dealing with some financial instruments, such as the naked derivatives that are used for side or pure betting, to put an end to it by "forbidding and prohibiting", as the British-American economist Willem Buiter did in the wake of the 2007-2008 financial crisis. This economist used the word "Haram"²² in his proposition in 2009 (Buiter, 2009), and even some financial practitioners and supervisors such as Adair Turner -the former head of the UK's Financial Services Authority (FSA) and Financial Stability Board (FSB) member advocated for radical thinking; i.e. banning and legalizing credit default swap (CDSs); a type of financial derivative frequently used for pure betting purposes, traded on unregulated private over-the-counter markets (FT, 2010), rather than the well-known secondary markets like the New York and London financial markets.

1. Imposing taxes appropriate with the amount of wealth, but in a fair manner (Fair or Just Tax) on the wealth of the "super-rich", which does not involve revenge or a way to "povertizing the rich" as happened in the socialist regime. An Oxfam report (Oxfam, 2019a) states that tax policies in most countries are discriminatory because it imposes a lower percentage of taxes on companies and the wealthy, and this contributes to increasing and feeding the gap between the poor and the rich, as the taxes that some countries collect -as the report mentions- on the wealthy does not exceed four cents (4 cents) on every Dollar; That is, 4%, while the percentage is much more than that for the poorest, i.e. 10% in those countries. Because of the growth of this phenomenon and its reach to unprecedented levels, some wealthy people see this issue as an important one that must be dealt with responsibly and effectively through the adoption of distributive policies by governments that will alleviate this gap. Unveiling the realities of tax systems and their effects is a large, delicate and complex topic that requires "anatomical" studies of those systems at the level of countries²³

briefing and updating of what was written about the Tobin tax and the propositions close to it, you can refer to: (Wrobel, 1996; Patterson and Galliano, 1998; Wahl and Waldow, 2001; Kovacheva and Topalova, 2011; Council of the European Union, 2019: 7). It is worth noting that some may consider this ratio to be very small, but the volume of speculation-related transactions, and not the real activity is very large, which makes the amounts collected also large (Watson, 2016).

²² "... At the very least, we should have a serious debate as to whether 'naked' derivative trading should be declared *haram* everywhere".

²³ In Islamic countries -for example- the imposition of this tax will be under consideration and scrutiny in front of the Shariah controls relating to zakat and the question of whether or not taxes are permissible; "*Charity [Zakat] shall not be paid twice in the same year*", and "*don't take (as a share of Zakat) the best of their properties*," which requires thorough objective studies in which

and at regions to find out more details and accurate data that would provide the necessary material that serves the design of appropriate policies adequate for each country, or each economic region, like the European Union.

2. Creating a neutral legislative and tax environment for various modes of financing to provide various financing options for economic agents because most prevailing tax systems are biased towards debt modes of financing, at the expense of equity modes of financing, (Turner, 2016b: 191). This is another fundamental issue that greatly influences the financing decisions of economic agents whether to use this or that financing mode. Some studies issued by international institutions, such as IMF, EC, and OECD pointed out that the existing tax and legislative systems are biased towards debt modes, and this has led to distortion, complexities, inequities, and inefficiencies of the existing financial systems, (de Mooij, 2011; Fatica et al., 2012; Cournède, et al., 2015: 9; Turner, 2016: 190-193).
 - a. Giving interest-based creditors the right for a fixed lump sum of money regardless of the position of the borrower and the purpose for which the financing was used, against the return on the participatory financing being linked to the performance of the financed project; the actual result of the investment or production process. This makes debt contracts have less flexibility than equity contracts, and the lack of flexibility entails significant societal costs as demonstrated by the policies and actions taken in the wake of financial turbulences as evidenced by the 2007-09 financial crisis.
 - b. Giving priority to creditors who have made loans or granted credit on the basis of interest by fulfilling all their financial rights from the property of the company and/or project in the event of bankruptcy of the company or the project, while the shareholders get what is left of the property after all debts are paid off.
 - c. When calculating corporate profits, interest, although it is a return, is deducted from the total profits like the rest of other expenses, while the dividend yield to shareholders is not calculated until the deduction all expenses. This resulted in a negative impact on public financial revenues because major companies resort to hybrid debt contracts and rearrange their finances with their subsidiaries, to take advantage of the preferential treatment of debt modes of financing.

All these factors altogether and others make the issue of reforming this biased tax and legislative situation of debt instruments a matter that must be addressed thoroughly and objectively at the theoretical and policy levels. In addition to this, there are investigations that were covered by *The Economist*, in its May 2015 issue. This magazine dealt with the phenomenon of debt addiction in rich and poor societies alike, and the spread of this among the various economic units: individuals, families, companies, and governments. One important factor behind this is the tax biases of debt finance²⁴. For this reason many international; including OECD and IMF (de Mooij, 2011: 3; Cournède, et al., 2015: 9; OECD, 2015: 1) have started calling for a neutral tax environment for financing modes.

not only the opinion and assessments of politicians shall suffice, but also other experts in jurisprudence, economics, and legitimate politics...etc.

²⁴ This is mentioned in detail in the following *The Economist* articles:

- The Economist. (2015a). Ending the debt addiction: A senseless subsidy.
- The Economist. (2015b). The size of the subsidy: Finance's Bermuda triangle.
- The Economist. (2015c). Why the world is addicted to Debt

Some renowned economists began to raise this issue too. In 2011, Kenneth Rogoff, of Harvard University, wrote in 2011 (Rogoff, 2011a), and gave a speech at the Bank of France (Rogoff, 2011b) on the issue of imbalances in the global economy, including the dominance of debt modes on equity contracts in the financial markets, and in the financing of individuals, companies and governments alike because of the preferential treatment we referred to above, he even went on to state that the "ambiguous attitude" of enforcing this bias is "rooted in the culture of Western societies". Hence, he addressed financial and legislative policymakers to work to reduce this bias by providing the appropriate environment in which equity contracts play a greater role than debt contracts²⁵. And in the he mentioned the principles of Islamic finance as a 'matter that can be guided by and benefited from in this regard'²⁶.

5. Concluding Remarks

The establishment of a just monetary and economic system is a very critical, but cumbersome at the same time. Therefore, its actualization is not dependent on what has been discussed in previous sections of this research. Indeed, income and wealth disparities on one hand, and global indebtedness on the other are very acute matters that deserve special attention and thorough investigation, but they don't represent an all-inclusive malaise that contemporary economies suffer from. Likewise, the proposed the solutions discussed do not represent everything that could affect the status quo of the global monetary and economic systems. The institutions, the markets, and legislation of the prevailing financial regimes are based on the philosophical foundations and practical procedures of the free market economy -the liberal 'ideology' of the capitalist system- which has been in operation for centuries in the countries of origin, and for decades in the countries that imitated this system and followed in its footsteps.

All that the paper sought is to open the door for discussion on such hot and very influential matters that affect human societies at large. At the forefront of the responsibility in this regard, are Islamic Economic institutions and academies like the Islamic Economics Institute of King Abdulaziz University. This may open the door for them to be to build good connections with many academic entities, initiatives, and prominent personalities in the Islamic world and in other parts of the world to provide a 'solid' platform that allows for the exchange of different views and formulate diverse policies that may benefit the human community to mitigate the risks and dire consequences that have been associated with global imbalances for a while. The "prevailing economic philosophy and its instruments" seem unable to get out of the box of 'mainstream orthodoxy'. This is because the world is facing a stalemate that must be exposed. Those that steer the economy globally, and those that draw policies and make plans, have been following the same approach, and resorting to the same 'toolbox of instruments' as if they are facing a "divine revelation". This stance may be regarded as an action of "arrogance and foolishness" that must be reconsidered because it is very much in line with Einstein's definition of insanity; "doing the same thing over and over again and expecting different results", (Herold, 2018:

²⁵ "... Global financial policymakers need to navigate a shift to a world in which equity-like instruments play a much larger role in global finance, and debt instruments a much smaller one. The real problems with the imbalances come when they contribute to excessive concentrations debt accumulation", (Rogoff, 2011b: 37).

²⁶ "Western policymakers and economists often portray Islamic financial systems, with their emphasis on shared risk and responsibility in lending, as less efficient than western systems that put no strictures on debt. Yet one can equally argue that Western financial intermediation is far too skewed towards debt, and as a consequence generate many unnecessary risks", (Rogoff, 2011b: 38).

14). This is what we have witnessed in dealing with crises -for example- is the recourse to the same logic and instruments every time and again whenever a financial disaster strikes, which led one of the renowned practitioners and ex-financial responsible at a very prestigious financial regulatory body²⁷ (Turner, 2016a) to question this behavior.

The conclusion that the paper would like to emphasize is; it is better for research institutions in the Islamic economics and finance discipline to pay prime attention to major economic and financial matters that severely affect the daily life of ordinary people in Muslim societies and others, through thorough and continuous investigations, to form a 'solid' opinion on them, at the very least, from an Islamic and humanitarian perspectives. This is a very long-term ambitious aspirations that requires adequate resources; human and financial. More importantly, dedication, honesty and cooperation are key ingredients for the success of such a pressing project.

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²⁷ Adair Turner was the chairman of the then UK financial regulatory body; the Financial Services Authority (FSA) from 2008 through 2013.

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