

Report & Proposal
arising out of
The First World Conference on Riba
1st – 2nd November, 2010, Kuala Lumpur

Rodney Shakespeare & Sofyan S. Harahap

The Conference had a confluence of forces resulting in a new situation with massive potential.

Forces Present in the Conference

Firstly, the Malaysian political party UMNO was not only substantially present but was asking for new policy that addresses the real economy and is capable of replacing a corrupted and failing 'free market' finance capitalism. Moreover, the new policy must be distinctively Islamic and serve the Malaysian nation while, at the same time, being universal. It should also be capable of addressing poverty and rich-poor division and, in particular, be genuinely free from *riba*/interest.

Secondly, financial resources are available if efforts are directed at removing poverty and forwarding religious education while other resources allow for more overtly political research, policy and action. In these respects, the ***Kuala Lumpur Council for Monetary Justice*** has already been established with adequate resources for the immediate future. Crucially, care has been taken to ensure that the Institute is free from institutional 'drag' and is capable of acting quickly and effectively. Moreover, the words 'Monetary Justice' are indicative of the desire to find policy of universal appeal and capability for solving the world's problems.

Thirdly, the Conference was remarkable for the way in which, through submitted papers, presentation speeches and informal conversation, academics and others (whose past positions have been clearly set out) are now focusing on the urgent need for new political, financial and economic policy. In practical terms, that means **they are seeing the best aspects of the work of others and are patently co-operating with each other (when, previously, that had not always been the case)**.

Fourthly, the Conference had a sense of urgency reflecting not only the needs of UMNO and associated parties but also an awareness that if major new thinking is not quickly established and spread, the global economy could be in a state of disorder, even collapse. In the event of disorder or collapse, political possibilities include fascism and widespread war would be possible, even likely. Perhaps above all, new political, economic and financial thinking could still come to nought if major environmental problems are not specifically, and practically, addressed.

Fifthly, speakers, formally and informally, indicated a strong sense of hurt that Western media and politicians often label all Muslims as 'al Qaeda' or 'terrorist'. Moreover, the question did arise as to whether the USA has, in practice, declared war on Islam. War or not, the feeling is that Islam is certainly being belittled and it is time that Islam reveals its huge potential for giving a political, economic and moral lead to a world sorely in need of such a lead.

The Mahathir Speech

An important development took place a week or so before the Conference. Ex-Prime Minister Mahathir made a speech and then essentially repeated it in his Conference Keynote Speech. While recognising that gold had a role, even an expanding one, in trade settlements between nations, he pointed out that gold as a national commodity currency was not practical when a tiny, easily lost, sliver of gold

would buy a burger. Furthermore, he indicated that a modern economy needed a substantial money supply if it is to develop properly, and that the use of gold certainly did not mean that, in some magic way, *riba* had been abolished.

To which can be added, of course, that all responsible people wish to avoid inflation. However, a narrow supply of commodity money would, in practice, mean that the rich remain rich and increase their wealth while there would be an increased necessity for *zakah* (which is only a palliative rather than a structured solution to poverty).

Ex-Prime Minister Mahathir then recommended a gold-backed money supply and stated what is dear to the hearts of all Conference members – that the real economy should be addressed – and that participation and co-operation in the real economy should be encouraged.

However, all Conference members also recognised that respect for Islamic tradition is essential and, as in Malaysia, there is no objection to people using gold coinage for purchases (should the seller be willing) and, in any case, there is no reason why ordinary people should not be able to put their savings into something which, certainly at the moment, is not losing value.

The Conference therefore welcomed the activities of those who promote gold barter and savings.

Further Implications of the Mahathir Speech

The Conference furthermore realized that the Mahathir speech had implications going far beyond the immediately obvious.

Firstly, once a complete commodity money supply is rejected, then some form of created 'fiat' money supply is inevitable.

Whereon, secondly, the key questions include, amongst others:-

- a. who creates that money supply?
- b. In what amounts?
- c. for what purposes?
- d. for whose benefit?
- e. are free markets forwarded?
- f. is private property forwarded and spread?
- g. is the development and spreading of the real economy forwarded?
- h. Is effort being made to make producers and consumers the same people (as is required by true market theory)?
- i. is *riba* involved?

Thirdly, the present fractional reserve banking system endlessly creates money out of nothing, adds compound *riba*/interest (in addition to a necessary administration cost), and does NOT put the money towards the development and spreading of the real economy.

Indeed, so ingrained is the practice of creating money and adding interest that it becomes necessary to restrict the banks to lending their own money and, with permission, that of depositors (the restriction being done by a gradual rise to 100% banking reserves). It should also be noted that Islamic Banking, whether it realises it or not, is part of the fractional reserve banking system which endlessly creates money out of nothing

The national money supply would then arise easily and naturally from the national bank which would issue it interest-free *although the actual administration would be done by the commercial banks and Islamic Banks which would make a genuine administration charge but NOT be allowed to add *riba*/interest.*

. All the time, of course, the interest-free money supply would be directed at the development and spreading of the real economy. This is because an interest-free loan is a huge advantage to borrowers so that, if existing owners of capital were to have interest-free loans, rich-poor divisions would be quickly accentuated and that is politically, morally and economically unacceptable. **The use of an interest-free loan supply therefore requires that, if justice is to be furthered and rich-poor division not accentuated, the loans must be used to spread productive capacity throughout the population so that **the justice creates the efficiency and the efficiency creates the justice**.** This is the great underlying principle of the new economics and more detail on the principles and mechanisms for spreading can be found at www.binaryeconomics.net and within binary textbooks.

As is usual, a proper business plan would be required and collateral be made available – exactly as at present, but with one additional requirement, namely, that the lending should be seen in some way to forward the development, AND the spreading, to all people in society, of the real economy

The loan money would be repaid to the commercial bank as it is repaid today, *but without interest* with the bank then repaying the national bank which would cancel the money. Thus, with the money cancelled, the physical productive (and associated consuming) capacity would be left behind in existence whilst the money which created it would have disappeared. The result is a *counter-inflation* (which is *not* deflation).

Please note that, since no compounding *riba*/interest is involved, borrowers are not losing a substantial part of their consuming capacity; debt does not need to be endlessly increased (as happens today); the poor are not being expropriated; and, for the first time in human history, not only efficiency but social and economic justice are being forwarded at the same time.

Policy for the Here and Now

The above matters constitute the basis for a major economic, even political, programme but the creation of such a thing takes time to achieve. The conference therefore considered what could be done in the immediate present and discovered that :-

a. **State banks.**

State banks ('state' as in the state of Perak or Kansas, USA) are practical, indeed, there is one remarkable example in North Dakota, USA.

Whereas most of the USA States are bankrupt or in considerable difficulty as a result of excessive debt, North Dakota has a solid financial account and low unemployment -- all of which appears to be the result of having a State bank.

As Ellen Brown is successfully pointing out, the State bank is really a normal commercial bank but one with the State as its shareholder. It can therefore give interest-free loans and does, for example, for start-up farmers who have land as collateral. If interest is charged, it goes to the State so that it can lower taxes.

b. **Complementary currencies.**

Around three thousand complementary currencies exist in the world. They are local and allow people to exchange a good or service for another without the use of conventional money. Obviously, when a conventional economy collapses, complementary currencies can be vital in reviving the local economy and enabling people, particularly poor people, to survive.

c. **Debt relief**

Debt relief is highly desirable but it is probably not wise to ask for what cannot be achieved. Western bankers are unlikely to heed a call to give relief and have only done so to date when the relief is such as to allow a debtor to be able to continue to pay. In other words, the purpose of the relief is not the cancellation of debt but rather the aiding of the ability of the debtor to keep paying (probably for ever).

Necessity for Agreement

It is pointless having conferences in which there is no clear main theme, greatly disparate views and no general agreement. Such conferences are mere talking shops of no practical import.

Agreement on the main principles of policy is essential if fast progress is to be made but the agreement can be broad – as it has to be in any movement or cause. Thus, whilst gold-backed currency can be promoted because it controls inflation and forces more responsible lending, the same result (no inflation and responsible lending) can also be achieved if all of the new money supply is directed at the development and spreading of the real economy with the interest-free loans being repaid to the national bank and cancelled. In such circumstances there is also a counter-inflation and thus gold backing for the currency is not necessary.

In order to get agreement, groups and movements etc must be canvassed to see whether they are able to give support in principle.

It would also be wise not to declare war unnecessarily on existing banking including Islamic Banking.

Moreover, if banks are prevented from creating new money it would not be necessary to nationalise them. The money supply would be the nation's with the banks being allowed to administer it on RibaFree-Econ principles. Any bank abusing the principles, of course, would lose the privilege of being able to administer the loans (and so make a reasonable administration charge).

Name of the Movement – Riba-free Economics

Existing names and titles have connotations and implications and it is thus important that the name of the movement be not only distinct but also indicative of what is new.

'Islamic Economics', 'Islamic Finance', and 'Islamic Banking' are all unacceptable because they are not new and reflect matters which are not part of the new thinking.

However, at the same time, it is desirable that the name have an Islamic connotation if only because Muslims have objection to *riba* at the centre of their faith whereas, in practice, members of other faiths (or of no faith) do not. Thus **Riba-free Economics** seems a good solution with a shortening to **RIBAFREE-ECON**.

NB RIBAFREECON might not be wise because the ending ('CON') could cause puerile jokes.

Next conference and centre of development

Clear, cohesive commitment to policy must be obtained before the movement attempts to go wider. It seems sensible that first effort be centred on the place of origin – Malaysia – with Indonesia (and Trisakti University) coming next if obvious support for the principles of RIBAFREE-ECON can be obtained from political, business, union and religious groups.

Recommended Action and Suggested Policy for the Future

1. The name of the movement should be **Riba-Free Economics** (RIBAFREE-ECON).
2. A short, clear Manifesto should be written and support for it canvassed.
3. Existing banking, which includes Islamic Banking, may continue its present practices (including those for depositors) subject to paragraph 4 below.

4. Because the banking system endlessly imposes *riba* (or its equivalent) and has failed to address properly the development and spreading of the real economy, the banking system should be constrained from creating new money (by a gradual rise to 100% banking reserves). Banks may lend their own money and, with permission, that of depositors.
5. The money supply should emanate as interest-free loans from the national bank. It can be gold-backed but this may not be necessary if all of the new money supply is directed at the development and spreading of the real economy and the money is eventually repaid to the national bank and cancelled.
6. Generally, however, the administration of the money supply can be done by the banking system (which may charge genuine administration fees, but not *riba*) with the banking system then repaying the national bank.
7. Whereas the national bank is the main source of the new money supply, another source could be *zakah* money because *zakah* has the alleviation of poverty as its purpose and such alleviation is one of the main aims of RIBAFREE-ECON.
8. Interest-free loan money should be available for:-
 - a. Public capital projects e.g. roads, bridges, waterworks, sewage systems, schools, hospitals etc. The effect of eliminating *riba* is to halve, even quarter, the usual cost.
 - b. Environmental capital projects e.g. mangrove-crested sea barrages. Again, cost is halved or quartered
 - c. Clean electricity generation. It is extraordinary how *riba* prevents the construction of technically feasible clean electricity generation. A good example is the Severn River barrage (or lagoons) project in the UK which could cleanly generate 10% of the nation's electricity supply using old technology. But, because of the long period of construction, *riba*-financing makes the project completely unviable whereas RIBAFREE-ECON financing guarantees success.
 - d. Micro-credit. Every year thousands of Indian farmers commit suicide or are forced to sell a kidney because of outrageous *riba*. RIBAFREE-ECON could diminish, even solve, the problem.
 - e. Small businesses and farms. The spreading of capital ownership to every individual in society.
 - f. Medium-size businesses IF the loan is associated with a widening of ownership.
 - g. Large businesses. All such businesses should be forced to pay out all their earnings all the time (with exception for research, maintenance and replacement). Therefore any business wanting to expand would have the choice of interest-free money (with a required widening of ownership); or new share capital or interest-bearing money.
 - h. The widening of ownership in the large corporations is potentially capable of ensuring an income for every individual in society – see www.binaryeconomics.net
 - i. Student loans.

Conference Resolution

1. RIBA is an enormously important issue affecting humankind today. The struggle against Riba is necessary to establish just, stable and sustainable economic systems that contribute towards peace and prosperity of humankind.
2. The issue of RIBA needs to be continuously deliberated upon - Call for papers for the second conference.

3. A network of NGOs, religious organizations, academic institutions, government institutions and individuals with common interest must be established to address and find solutions to the issue of Riba.
4. Systematic and effective ways must be established to educate the public , from the primary level, on the issue of Riba.
5. People be given the freedom to choose their medium of exchange.

Action Plan

1. Establishment of Kuala Lumpur Council for Monetary Justice
2. Center for Research on Riba - dedicated to the establishment of RIFCON
3. Journal of Ethical Finance
4. International Network of People against Riba (INPAR)
5. Lobbying for the peoples' freedom to choose between gold (or other commodities) and national currencies as medium of exchange.
6. Establishment of a web-resource on Riba - www.worldribaconference.org will be continued for this purpose. Articles, videos, continuous forum, links and other resources on Riba will be placed there for the benefit of the world.
 - o A section in the web-resource on How to Avoid Riba – Kuttu System, Rent home first for about 10 years while you save money to buy [Show numerical numbers]. If this money is put into Kuttu or Islamic housing cooperatives it is even better.
 - o A section on How I Avoided Riba – stories from individuals from different countries.
7. Creation of a facebook community that is against Riba and that supports this effort.

////////////////////////////////////