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Impact of Post-World War System and Fallacy of Capitalist Debt Policies

Since the end of the Second World War, the political status quo has been maintained under a neo colonial model dominated by American hegemony. Although European countries, like Britain and France, play certain roles in Africa and the Middle East, it is America that has been dominating the global politics and it was able to manage what the European colonialists failed to achieve post world wars. The era after WW2 is managed by America through major tools namely the UN, NATO, World Bank, IMF, WTO and American Dollar system of which the first two are more of a political framework while the rest of three institutions focus on economic aspects to maintain its hegemony of over the poor and third world countries under the capitalist framework.

The opposition against colonialism is evaded as the new model of colonialism is not by direct colonization but through exporting democracy or placing puppet dictator rulers in second world countries thereby carrying out deals with those agents that bring those countries into the path of economic enslavement; this model is more cunning than the pre-world war colonial era. However the Western capitalist countries portray that the capitalistic economic model as the best model which has paved the path for their development and they provide debts to the poor and middle income countries by which these countries shall proceed on the path of development.

World Bank

The World Bank was formed to finance the post-World War II reconstruction of Europe, using capital subscribed by member governments against which it could borrow in international financial markets at favorable rates and then lend out for development projects. European nations themselves were colonial powers and were never victims of exploitation; thus the World Bank set about marketing its loans in the newly independent former colonies as the rulers of these countries were artificial puppets or newly appointed rulers in democracy. At first, this too proved a hard sell. So, the Bank invested in training and education to indoctrinate scores of Third World bureaucrats and economists in an economic ideology that equates development with export-led economic growth fueled by foreign borrowing and investment—the basic fallacy that remains a cornerstone of its policy today.

IBRD and IDA of the World Bank Group deal with provision of loans, policy advice, and technical assistance to governments of developing countries. Focus of IDA **(International Development Association)** is on the world's poorest countries, while IBRD **(International Bank for Reconstruction and Development)** assists middle-income and creditworthy poorer countries. Other three institutions IFC, MIGA, and ICSID focus on boosting up the private sector in developing countries. The loans provided by the WBG were used to finance infrastructure projects and imports beyond the means of the country's export earnings. Eventually, ever-larger new loans were needed just to service payment of interest and principle due on previous loans. The more the borrowing, the greater the need for still larger loans, and borrowing became something of an economic addiction. Aside from a handful of citizen watchdog groups, few paid attention to the burden these loans placed on domestic economies when the time came to repay.

In 1980, the total external debt of all developing countries was $609 billion; in 2001, after 20 years of structural adjustment, it totaled $2.4 trillion. In 2001, sub-Saharan Africa paid $3.6 billion more in debt service than it received in new long-term loans and credits. Africa spends about four times more on debt-service payments than it does on health care.

According to 2012 data, developing countries received a total of $1.3 trillion, including all aid, investment, and income from abroad. But in that same year, some $3.3 trillion flowed out of them. In other words, developing countries sent $2tn more to the rest of the world than they received. If we look at all years from 1980 till 2017, i.e., the data of the World Bank, these net outflows add up to an eye-popping total of $16.3 trillion which was equal to America's GDP in 2012. Of these total outflows, one fourth of the amount i.e., $4.2 trillion is mere repayment of Interest by these poor countries for the debt that was received.

In recent years, the World Bank has provided thousands of billions of dollars in low-interest loans to subsidize the efforts of global corporations to establish control over the natural resources and markets of assisted countries. Corporations in energy and agriculture sectors have been among the main beneficiaries. Often, the World Bank-financed roads, power plants, and electrical grids were built primarily to serve the global corporations establishing operations in the service area of the loan-financed facilities rather than to serve the local populations.

International Monetary Fund

The objective of the International Monetary Fund (IMF) states that they work with member nations to implement measures to ensure the stability of the international financial system and correct balance-of-payment maladjustments. However, rather than helping governments avoid currency crises, it has persistently pressured the member countries to abandon their constitutional regulation of cross border trade and financial flows and to adopt the IMF solutions which have resulted in massive trade imbalances and reckless financial speculation. IMF-sanctioned policies helped attract huge inflows of foreign money to several countries in the name of "emerging market economies" of Asia, Africa and Latin America in the form of loans and speculative investment. The IMF also provides loans including emergency loans to member countries experiencing actual or potential balance of payments which contributes to the welfare of trade whose burden falls on the government, eventually on the poor citizens in the form of increased tax.

Martin Khor has stated, the rapid buildup of foreign financial claims set the stage for the subsequent financial meltdown in Mexico in 1994 and in Asia, Russia, and Brazil from 1997 to 1998. This is why when it became clear that the huge financial bubbles of the inflows had been created and could not be sustained and that claims against foreign exchange could not be covered, speculators were spooked and suddenly pulled out billions of dollars. Currencies and stock markets went into freefall. Millions of people fell back into poverty. Then the IMF stepped in with new loans to bail out the foreign banks and financiers involved—leaving it to the taxpayers of the devastated economies to pick up the bill once the loan payments came due. In many instances, at IMF insistence, uncollectible private debts were converted into public debt.

Structural Adjustment Program

Over the last two decades, structural adjustment programs were imposed by the IMF and the World Bank Group on close to 90 developing countries, from Guyana to Ghana. The objective of these SAPs went beyond debt repayment or attainment of short-term macroeconomic stability, seeking nothing less than the dismantling of protectionism and other policies of government.

SAP includes the following measures to be implemented by the governments:

● Cut government spending on education, health care, the environment, and price subsidies for basic necessities such as food grains and cooking oils;

- Devalue the national currency and increase exports by accelerating the plunder of natural resources, reducing real wages, and subsidizing export-oriented foreign investments;

- Liberalize (open) financial markets to attract speculative short-term portfolio investments that create enormous financial instability and foreign liabilities while serving little, if any, useful purpose;

- Eliminate tariffs and other controls on imports, thereby increasing the import of consumer goods purchased with borrowed foreign exchange, undermining local industry and agricultural producers unable to compete with cheap imports, increasing the strain on foreign exchange accounts, and deepening external indebtedness.

Consequences of SAP measures

Clearly, it was an immense failure that could no longer be denied with dozens of countries under “adjustment” for over a decade, even the World Bank had to acknowledge that it was hard to find a handful of success stories. In most cases, structural adjustment caused economies to fall into a hole wherein low investment, reduced social spending, reduced consumption, and low output interacted to create a vicious cycle of decline and stagnation rather than a virtuous circle of growth, rising employment, and rising investment, as originally envisaged by the World Bank-IMF theory. The government couldn’t do its job as they are incompetent and do not have any indigenous system to address the issue of economic failure, and the third world countries are in debt and forced by Western countries to abandon the needs of their people to prioritize debt and its interest repayment to receive further loans.

Pandemic Loans and Austerity Measures

An Oxfam report states over 80 per cent of the International Monetary Fund’s (IMF) Covid-19 loans recommend that poor countries hit hard by the economic fallout from the pandemic adopt tough new austerity measures in the aftermath of the health crisis.

- In Ecuador, healthcare and burial services collapsed in April, yet the government has been advised by the IMF to backtrack on increases in healthcare spending and stop cash transfers to people unable to work. A recently agreed $6.5 billion, (£5bn), loan includes cuts to fuel subsidies which poor people rely on. A year ago, Ecuador’s president, Lenín Moreno, was forced to cancel a disputed IMF-backed austerity package after protests left several dead.

- 14 countries including Barbados, El Salvador, Lesotho and Tunisia are likely to freeze or cut public sector wages and jobs, which could mean lower quality of healthcare and fewer nurses, doctors and community workers in countries already short of healthcare staff. Tunisia had just 13 doctors per 10,000 people when Covid-19 struck. In Costa Rica, protests have erupted against the government for seeking a $1.75 billion (£1.35bn) loan from the IMF in exchange for austerity measures, including public sector wage freezes.

- Nine countries including Angola, Nigeria and Malawi are likely to introduce or increase the collection of value-added taxes (VAT), which apply to everyday products like food, clothing and household supplies, and fall disproportionately on poor people. Unemployment in Nigeria has surged to 27 per cent, the highest in at least a decade.

Dollar system

The Bretton Woods Agreement founded the twin institutions of the World Bank and the IMF and required signatory countries to peg their currencies to the U.S. dollar. However, the system of fixed exchange rates broke down in the late 1960s and early 1970s due to an overvaluation of the U.S. dollar and President Richard Nixon's decision to suspend the convertibility into gold which paved the way for currency without any backup. This crucial step was historic which led to exponential inflation the world had never seen before. America was able to manage this dollar system by concluding an agreement with Saudi Arabia during King Faisal era in which the Kingdom assured the sale of oil in American dollar and also pushed the framework through OPEC as Saudi is de facto head in OPEC. The impact of fiat currency and the dollar's hegemony in global trade is causing a serious blow to the poor segment in all nations, especially the poor countries. Moreover these poor nations stuck with Western debt model had to repay their debt in dollar for which they rely on this international system of trade to obtain the dollar reserve.

GATT and WTO

The General Agreement on Tariffs and Trade was created in 1948 just a year before the creation of NATO. It was during the same era when the World Bank and IMF were created. The focus of GATT was to tackle the Soviet Union in terms of aligning the countries under US led capitalism by enabling multilateral trade between those countries. After the Cold War, with the collapse of the Soviet Union in 1991, the GATT transitioned into a fully global organization — the WTO in 1995. It admitted former communist bloc countries, such as Czech Republic, Poland and Romania. In the capitalist view, this organization's main function is to enable globalization and to make the trade flows as smoothly, predictably and freely as possible.

GATT and WTO are complementary to IMF and WB which combinedly contributes to the support of the capitalist model where IMF and WB enforce adjustment and austerity programs and the WTO with its ease of trade systems allow Western companies of the developed world to exploit the wealth of the poor nations. According to Oxfam, in 2010, the last year for which data is available, multinational companies avoided paying tax on $40 billion of income through a practice called trade mispricing – where a company artificially sets the prices for goods or services sold between its subsidiaries to avoid taxation. With corporate tax rates averaging out at 28 percent in Africa, this equates to $11 billion in lost tax revenues. Trade mispricing is just one of the ways multinational companies avoid paying their fair share of taxes. According to UNCTAD, developing countries as a whole lose an estimated $100billion a year through another set of tax avoidance schemes involving tax havens.

West Africa is known for producing one-third of the world's cocoa, mostly in West Africa including Ivory Coast and Ghana, but most of it is obtained with unfair trade deals due to the huge level of market acquisition by the large multinational companies of the developed West. Ethiopia's 'Arabica' coffee is the biggest exporter in Africa, then comes Uganda, Kenya, Tanzania and Cote d'Ivoire. But it is said that coffee farmers in Ethiopia sell up to $4 for a kilogram of coffee while large coffee corporations make up to $200 for each kilogram of coffee. Mark Curtis, a journalist, released a report on the 'Britain's scramble for Africa's energy and mineral resource. He talks about how British companies have mining operations in 37 sub-Saharan African countries. They collectively control over $1 trillion worth of Africa's most valuable resources.

Conclusion

The particular process of globalization that is facilitated by the World Bank and IMF does all in its power to encourage the expansion of Western domination and the protection of those institutions' interests. Creating a world that works for all must begin with an effort to undo the enormous damage inflicted by Western capitalism that so badly distorts economic relationships among people and countries. This is not possible under the framework set by the capitalist ideology. The ideology of Capitalism has flaws in its foundation whose focus is on production of wealth rather than distribution of wealth which is the root cause for massive wealth inequality; this ideology views this issue as an economic issue and cannot solve the massive problem of food insecurity in the Africa and other poor countries but shall showcase the improvement in the numbers by terming GDP and GNP which is an indicator for production. These reference terms, even if it proceeds in an increasing trend, are in no way related to the solution for fulfillment of the basic needs of people. On the contrary, the Islamic ideology which stems from the spiritual basis addresses the human problem, appreciates the instincts and organic needs, defines the economic principles in such a way the state ensures the fulfillment of the basic needs in the society and allows people to fulfill other luxury needs according to their individual ability; all of this is within limits set by the Creator. The Messenger of Allah (saw) said, **«لَيْسَ لِابْنِ آدَمَ حَقٌّ فِي سِوَى هَذِهِ الْخِصَالِ بَيْتٌ يَسْكُنُهُ وَثَوْبٌ يُوَارِي عَوْرَتَهُ وَجِلْفُ الْخُبْزِ وَالْمَاءِ» "There is no right for the son of Adam other than these things: a house in which he lives, a garment to cover his nakedness, a piece of bread, and water."** [Sunan al-Tirmidhī]

As for the taxes, the Khilafah (Caliphate) State cannot enforce any taxes be it direct or indirect one; rather, the Khilafah State will implement what has been legislated through divine text like Zakah, Jizya, Kharaj, Ushr and one-time tax if the fund in Bayt al-Mal is insufficient to fulfill the obligation of the Ummah.

The Messenger of Allah (saw) said **«إِنَّ صَاحِبَ الْمَكْسِ فِي النَّارِ» "One in charge of imposing extra tax is in Hellfire"** [reported by Abu 'Ubayd in Al-Amwal].

Moreover, the Khilafah has to stand against the enforcement of the capitalist framework and cannot be submissive to the Western world order as the current rulers of the Muslim land and other poor countries does.

Allah Azzaajal says **﴿وَلَنْ يَجْعَلَ اللَّهُ لِلْكَافِرِينَ عَلَى الْمُؤْمِنِينَ سَبِيلًا﴾ "Allah will never allow the non-believers to have a way (sabilan) over the believers"** [Surat al-Nisaa':141].

The Khilafah State will be a beacon for the world to adopt the Islamic model that shall expose and destroy the capitalist framework. This state shall proceed on the non-speculative real value trade with its Bimetallic currency standard and encourage the victims of the Western model to get out from the claws of the dollar system and international frameworks; thus, enabling the actual economic independence and proceed towards mutually agreed bilateral trade deals between the states and the people of the states based on the treaties conducted with those countries.

Written for the Central Media Office of Hizb ut Tahrir by

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