

KEYNOTE SPEECH 2

FINANCIAL INSTITUTIONS AND SYSTEMS: THEIR ROLES IN WIDENING THE GAP BETWEEN THE RICH AND THE POOR {AN ISLAMIC PERSPECTIVE}

Associate Prof. Dr. Rubi binti Ahmad
University Malaya, Kuala Lumpur
Associate Prof. Dr. Magda Ismail Abdel Mohsin
INCEIF, Kuala Lumpur

Abstract

Thomas Jefferson 3rd US President (1743 – 1826)

“I believe that banking institutions are more dangerous to our liberties than standing armies.”

“If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, the banks...will deprive the people of all property until their children wake-up homeless on the continent their fathers conquered.... The issuing power should be taken from the banks and restored to the people, to whom it properly belongs.”

For the past centuries, conventional banks become the key player in terms of funding which in our view have created a huge gap between the rich and the poor a matter that urge policy makers, economists and scholars to find the alternatives in the 21st century. The dependence of the capitalist system on interest (especially compounded/floating interest) in finance and the practice of fractional reserve system, beside the inflated financial sector resulted from uncontrolled creation and usage of debt instruments, financial derivatives and structured products that are all depend on interest, have led to the regular occurrence of financial crises worldwide. From one side, unprecedented profits have been received by such financial institutions and their managers and shareholders which increased their wealth, while, on the other side, indebtedness and insolvency problems of lower classes have increased leading to a less disposable income and financial distress. According to the World Bank statistics of 2012 on Global Issues, more than 80% of the world’s population live in countries where income inequality is very wide. On the other hand, a moderate degree of inequality is required, within societies, to stimulate economic progress and general prosperity. When taken to extremes, however, unethical behaviour will prevail which can undermine the system of norms and sanctions in regulating social stability (Hodgson, 2013)¹. This paper explores the features of current conventional financial system and the reasons of income gap from economic perspective as well as the current situation in the Muslim countries. Such situation motivated the authors to look at the alternative Islamic financial system, which provides various financial and non-financial institutions that offer many financial products. The beauty of these institutions are that each has its own role in reducing the gap between rich and poor and promoting economic development and economic growth in an ethical and just manner, beside the social solidarity and safety nets.

¹ Hodgson. G (2013) “Banking, finance and income inequality”, Positive Money.