

**GLOBAL FINANCIAL
CRISIS:
UNDERSTANDING
AND ANTICIPATING IT**

Hira Jhamtani

Third World Network

1. DEBT

E.g. Many farmers borrow money to buy fertilizer, seeds, pay labour. They borrow from loan shark, without guarantee, but with high interest. Rules set by loan shark. If harvest fails, farmers loose money and sometimes their land, or become “*bonded*” labour for many years.

Loan sharks are not regulated by the village head/rules. They can apply all the conditions and interest they want to.

1. DEBT

Countries also borrow money --> in US dollars, with interest over many years. Have to comply with regulations. The loan sharks also set the conditions.

Many people borrow money to pay house in installment, with interest.

2. MONEY HAS BECOME COMMODITY

Money is not used only for payment. it can now be bought and sold in the market.

To get interest, or to gain from changing money into other currencies (US dollars into peso, etc.).

Even loan agreements can be sold to other sharks.

THIS IS THE FINANCIAL MARKET

**3. FINANCIAL MARKET is
overtaking PRODUCTION MARKET**

**The volume of financial transaction
is much much bigger than the
value of global gross production.
Can be six times bigger.**

4. FINANCIAL MARKET HAS NO REGULATIONS

The currency rates are determined by speculators and not by movement of goods and services.

There is “hot money” circulating i.e. short term loans that are not used to generate revenue or not used for productive activities.

This is called deregulation of the financial, much like the loan shark in the village.

5. The crisis in US is due to financial market deregulation

- People can get “Easy” money with very low interest rates to buy house --> mortgage system.**
- It was regulated in the past: if you have an income of 10.000 USD, you can get a loan for a house of USD 25.000.**
- The house belongs to the Bank or financial institution that gives you the loan, until you pay back the loan with interest.**

- **If everyone already has a house, they are encouraged by “the market” to own another house. How? By lowering the interest and “manipulating” the eligibility of the borrower.**
- **So people with even low incomes are encouraged to “borrow” money. Or they mortgage their first house.**
- **Like the farmers who have given lands for loan guarantee are then told to borrow more by mortgaging their house, or even without any loan collateral.**

Banks are allowed to add on the interest for house loan

- **Banks also allowed to work with other financial institutions.**

- **These “other financial institutions” are not bound by regulations**

- **They can take loans, give out loans, buy companies, buy shares, become guarantors, sell and buy houses, buy and sell “mortgages” and other loan contracts, virtually with no regulations.**

- **If everyone already has a house, they are encouraged by “the market” to own another house. How? By lowering the interest and “manipulating” the eligibility of the borrower.**
- **So people with even low incomes are encouraged to “borrow” money. Or they mortgage their first house.**
- **Like the farmers who have given lands for loan guarantee are then told to borrow more by mortgaging their house, or even without any loan collateral.**

Credit are given to non eligible people (sub-prime credit).

After many years, people cannot pay back

Houses are given back to banks, thus there are many houses to be sold = price falls

Banks have taken loan using the house mortgage as guarantee

Now banks have to pay loans, while having property that are not the same price as the loans --> mismatch

- **No data on the amount of mortgages, which institutions holds what mortgages,**

- **no one knows which part of the chain is having trouble with payment, and so one collapses, others simply follow**

- **This happens also with speculative lending and speculative currency trading**

- **When banks collapse, it brings problems to other sectors --> productive sectors that need loans for production.**

- **Governments forced to bail out these banks, but often without putting sanctions on them.**

Loan sharks are set free!!

HOW LONG WILL THIS LAST?

- **Difficult to predict!**
- **If no structural change, this will occur again and again, every few years.**
- **Uncertainty will loom in the global economy, unless there is concrete steps to regulate the financial market.**

WHAT ABOUT OUR COUNTRIES?

- **The 1997 financial crisis was due to financial market deregulation, so there might be effects**
- **Pressures from IMF, WB, bilateral trade agreements force many Asian countries to open up their financial market even wider.**
- **Exports to US, Europe, and China will be affected, because people consume less!!**

WHAT ABOUT OUR FARMERS?

- **Commodity prices will fall = farmers that grow cash crops will be affected**
- **Farmers that use chemical inputs face uncertainty due to ups and downs in world oil price**
- **Protectionist measures over agricultural products will increase; farmers face difficulty in exports.**
- **Europe and US resorting to buying only “raw commodity” like the colonial era**

HOW TO ANTICIPATE

- **Reduce import and export dependent agriculture; apply non chemical agriculture. Balance export produce with local markets and subsistence. Making sure there is food for the family.**

HOW TO ANTICIPATE

- **At the national level, governments must find alternative economic system, not apply IMF style conditionalities.**
- **Governments need to control financial market through regulations, monitoring and sanctions. Loan sharks must be controlled or they will damage the economy.**

- **We need ASEAN and Asian regional cooperation to restore stability from shocks caused by the US crisis, to create regulations for financial market --> avoid future crisis**



Role of civil society organizations

- **Understanding the causes of financial crisis**
- **Monitoring and understanding the impacts on society (employment and livelihoods; on farmers; government spending on education, health and other public services; etc)**
- **Urging national governments to create safety nets and regulations**