Generating Growth in the Khoja Community

Definition of Poverty:

"In a society of little economic development, universal inactivity accompanies universal poverty. You survive not by struggling against nature, or by increasing production, or by relentless labour; instead you survive by expending as little energy as possible, by striving constantly to achieve a state of immobility"

Ryszard Kapuściński

Objective:

Broad and Timeless objective of Policy -

To generate growth in civil societies of and adjacent to The World Federation in order to ensure that those stagnant in the process of achieving economic growth are aided to a level where they see past the aim of survival and get to the point where they can make a timeless contribution to humanity's collective consciousness.

Narrow Macro Objective -

To generate Economic growth in civil societies of and adjacent to The World Federation

Micro Objective -

To generate Economic growth of an individual that forms a civil society.

By: Abbas Akbar

Policies for Generating Growth

This is a paper for policies to generate growth for the Khoja community. I have used a framework of a fictional community in order to see the policies that we can apply to the Khoja community. The policies in this paper have been taken from research some of the research includes reading the reports of the Aga Khan Development Network.

Framework

This is an example that is completely made up, but it is the best way to describe the policies recommended within this document.

Imagine Heathmead KSIMC

Heathmead is a small town in England. It has a Jamaat of 100 people, a small mosque but a vibrant community. Its 100 people can be grouped in the following categories,

A) Dependent on the Social Security System

5 out of 100 people are completely dependent on Social Security, even though they are of working age but the system's loop holes and its manipulation for several years has left these people dependent on the system. These individuals live in Relative Poverty but lack the will to do anything about it. 3 out of the 5 have dependents. 2 out of the 3 have children dependents; while one has an adult dependent that has grown up dependent on the system thus they are a second generation of dependency.

For the sake of making clear assumptions let's assume that the 5 all live in rented accommodation with low or no amount of savings, low disposable income, low aspirational consumption and no wealth.

B) Old age pensioners

10 of 100 people are Old age pensioners. 7 out of these 10 are dependent on the state pension system thus suffer from Relative poverty as their pension cannot cover their living expenses. While 3 of these 10 are on private pensions and they are able to continue with similar lifestyles and consumption as they did during their working years.

C) Disabled

Two of the individuals in this community are disabled without the ability to work.

D) Underemployed

23 individuals within this community are underemployed. So their job does not meet their skillset, as the United Kingdom has just gone through a recession. 12 of these 23 are graduates in their first jobs who finished university in the wake of a recession. 6 of these 23 are young who felt like university was not the right option for them, and 5 of these individuals are middle aged who are working in an underemployed environment to support their young families.

E) Unemployed

8 of the individuals are in frictional unemployment. 2 of the individuals are in structural unemployment.

F) Middle Income

30 individuals are earning a wage by supplying their labour, and they are part of the middle income wage bracket in the United Kingdom. These individuals earn a disposable income between £14,000 and £20,000. They are all university graduates, they all have debts to clear from their past, and they are all trying to move onto the property ladder. 20 out of 30 of these individuals are married, 10 out of these 20 individuals have children.

G) Middle Income Labour demanding population

15 individuals have set up businesses, these individuals need skilled labour. These individual's businesses are either start up's or SME's.

H) Wealthy

5 of these individuals are wealthy, with enough wealth in the bank, in assets, shares, and bonds earning them a return but due to low Central Bank interest rates they could be happier with a higher return.

Assumptions:

No one is in absolute poverty

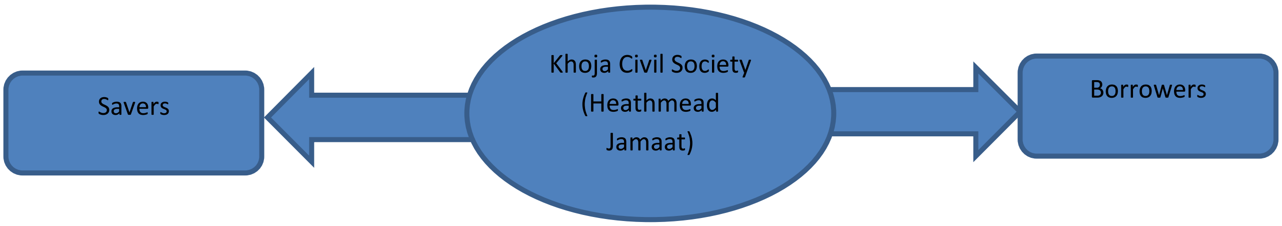
Basic healthcare, food, shelter, and education are provided by the state including all other UK state provisions.

How to generate growth?

Policy 1 - Market for Loanable Funds

So my first step would be to design a market for loanable funds. I.E a market where the suppliers of credit can meet those who demand it in order for there to be a transaction so that those who supply credit receive a return after a given amount of time, and the demand of credit is pooled together by some financial institution in order to ensure that the risk is spread out and the resulting return is lower but everyone still walks away with more than they invested. So in our case the wealthy and maybe even the two middle income categories would be willing to invest in order to gain a higher rate of return than the banks, or central bank bonds can provide. Having identified the supply in the market, the demand would come from the underemployed, Middle income wage seeking, or those in either frictional or structural unemployment given the right amount of human capital in the system for them to set up enterprises and be guided through running it.

Thus by creating a market for loanable funds that appeases the supply and demand, and your various religious constraints you will be able to enable sustainable growth. Your funding then would come in not to finance the new ventures but to provide the Business Development Managers or Human Capital to ensure that those new businesses have support to get off the ground and become sustainable. Your other task would be to convince lenders that their money is guaranteed and they will receive their investment in case of business failure. However those demanding the money should never know that the investment is guaranteed by organisations as that would make failure an option. You would then ensure that the market pools the risk.



Example of how pooling risk works:

For our Heathmead Jamaat, we have 5 potential savers, who have capital who are willing to invest at a higher rate of return therefore incur a certain amount of risk, or we can guarantee them a lower return but a guaranteed return if we pool the risk and act as financial intermediaries .

Assume the 5 potential investors all have £30,000 capital in the bank. As the Central bank is setting low interest rates the rate of return they are getting on their £30,000 is particularly low. So we can take advantage of that.

Assume now there are 15 potential enterprises that those in unemployment, underemployment, or Middle Income Labour seeking or Middle Income Labour demanding populace wants to set up. Therefore if you were to associate a probability of a 20% failure to these enterprises and set about a loan scheme to bring those who demand capital with those who have it at a rate of return of 10% over 10 years you would have the following market.

Let's assume inflation is at 2%

You now as an intermediary have £150,000 worth of capital with a society that has 15 individuals who demand that money. Let's assume you divide that equally,

You have a failure ratio to incorporate so you have 12 successful investments.

Therefore after 10 years you should be expected to have: £311,249

Therefore dividing that by your 5 investors each of them should get, £62,249

Meanwhile your individual has paid back £25,937

Now if you discount the above values for inflation you should see, the return for the individual to be £25,679 (return not including investment) over a 10 year period

Now for the individual who pays back £23,747

Now even with you failure rate of 20% because you have successfully pooled risk, everyone in the system is making money. Those who demanded it have now set up successful businesses, and those supplying it have received a greater return than the banks even when we incorporate inflation.

NB: Of course as you can see the benefit is still skewed towards those supplying it, therefore in this instance I would recommend an attachment to this policy of Business Development Managers or individuals with expertise of guiding start up's and SME's to capture your entrepreneurs within KSIMC Heathmead, and calculate the risk component. I would also recommend these experts be hired for the 10 year duration to ensure the businesses are successful and the potential failure margin is reduced. Therefore you as an organisation guarantee the investment of the investors, and they would over a 10 year period rather than receiving a return of £25,679 you can convince them to take a return of say £10,000 above inflation profit, and the rest of £75,000 can go towards a contribution of the salary of Business Development Managers.

What this policy will aim to do is create jobs for those who are also unemployed or underemployed as you are financing new business ventures. Also in the UK there exists much funding for start up's in the form of grants that such a policy could augment and you would have sustainable created growth in the long run by moving people away from poverty or relentless labour.

Policy 2 – Old Age and Disabled dependency –

Here you have to out of moral obligations ensure that these individuals are living with DIGNITY. Therefore even though the outcome maybe inefficient here is the only place where I would welcome a wealth transfer so that the elderly and permanently disabled are living comfortably. However if the numbers of elderly are too many in a community, then you could pool the number of people who are carers in the community in order to ensure that the Marginal Productivity of Labour is being efficient because rather than one adult of working age looking after one elderly person, you could pool the elders so that you have a ratio of 5 elders to 1 adult freeing up the other 4 adults to work and contribute towards the salary of that one adult.

Policy 3 – Completely Dependent on Social Security

Now to deal with this level of dependency you need to create social pressures so big that the individual will want to change their lives and the organisation can provide them with the ability to do so. So for example if you take the market for loanable funds, create jobs through new businesses. Now you then turn around to the speaker at Heathmead Mosque at your next Muharram or Ramadan and on critical nights you train them to discuss the concept of inefficiency from the Social Benefit System or train them to disparage the benefit system the individuals who are dependent on the system will want to change their lives.

You then need on those critical nights to provide a way out, in essence a carrot. Therefore you take these individuals tie them into work contracts and offer them a mortgage. That way you are increasing their wealth but not leaving a dependency as to sustain their mortgages they would have to work. After a few months of work you will find that these individuals will enjoy their aspirational consumption from reintegrating into the labour market that those years of dependence will be regretful. Now I am well aware that banks wouldn't offer these individuals mortgages so it would need guarantees from the organisation, but the individuals should still perceive the bank offering them the mortgage and not the organisation as they would perceive the bank to be ruthless in collection and that would pre-empt failure or quitting in the labour market as a sense of shame would be attached to losing your housing that ‘the community got you.’

Conclusion

The questions that you all will ask upon reading this paper will be whether the rate of return is simply another way to describe an interest rate. For that I refer you all to the work of Ayatollah Mohammed Baqir As Sadr and his work entitled ‘Al Bank Bila Rabawi’ in that he refers to the financial intermediary, the same concept I discuss in this paper. From a secondary source I discovered that he indicates the financial intermediary can make a profit in bringing together the supply and demand in the market for loanable funds. Therefore that profit must be generated by a rate of return or any other terminology you might want to associate with that profit, therefore for the purposes of this paper I choose to believe that my discussions with my source justify this particular policy. However this seminal work would need to be translated into English by someone with Financial and Economics understanding in order to examine the writings of As Sadr closely and potentially use them as a religious framework.

The second question that would be asked by many readers is one of policy, why is there no mention of ‘Vocational Training’. To that I would say, those people who have been out of formal education for a while, it is difficult to see how vocational or classical educational training will allow them an increase return in the Labour Market. To overcome that obstacle would require significant upheavals in changing an individual’s mind-set; however those obstacles are much lower when training is provided through an employer or a perspective employer. Simply because a business sees its objective as Profit Maximisation, therefore it requires its labour to be efficient. From Economics we know that in a competitive labour market, the Real Wage (W/P) equals the Marginal Productivity of Labour (MPL), therefore an increase in Labour Productivity would mean company profitability would increase thus real wages increasing too. Therefore in this case-study implicit with the policy of Business Growth or start-up businesses is the idea that is funding is sought through the financial intermediary set up by our organisation then the contract would carry with it a condition that the individual receiving the funding would employ people from their civil society if the skill set were to exist, or it can be made to exist.

Finally, Heathmead is a fictional construct to aid our thought process so that we may describe a Khoja civil society and put it in a framework so as to ensure we are not discussing the solution to this problem across purposes but thinking with clarity. To be able to do this for a real community would require mathematical and statistical modelling of Economic factors. This is known as Econometric research. In addition to this we need to provide a framework from Development Economics, a sociological framework, a religious framework, and a framework of Public Economics all to ensure that comprehensive Research is conducted and theoretical frameworks are applied to real people in order to assess the most efficient way to generate growth and meet our objectives.