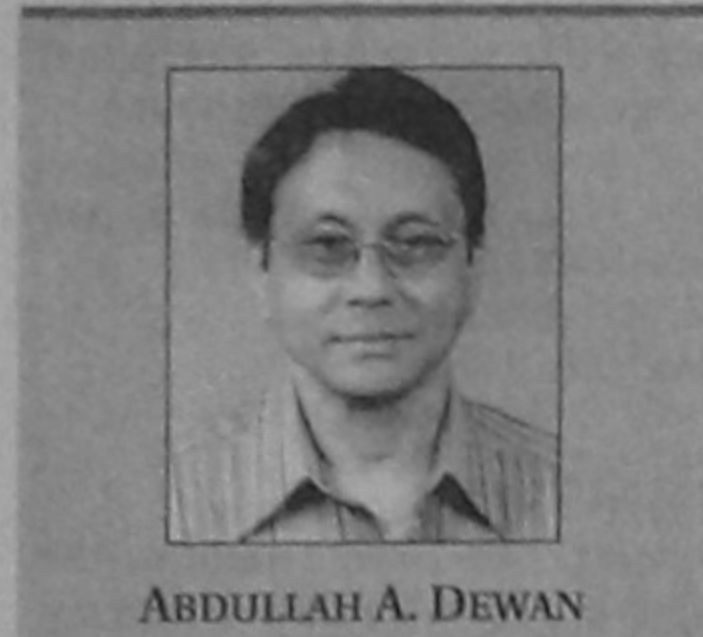


US financial market meltdown



ABDULLAH A. DEWAN

SAY good-bye to Wall Street as we knew it, said *The Wall Street Journal* (WSJ) in an editorial. In a flash, five giant investment banks have "ceased to exist," -- transforming themselves into, or being absorbed by, conventional big banks.

"This has been the worst financial crisis since the Great Depression. There is no question about it," said New York University economist Mark Gertler.

What really has happened with Wall Street? It has been a near earth-shattering -- even historic -- week for US and world financial markets. The 158 year old US investment bank, Lehman Brothers, collapsed and the Bank of America bought Merrill Lynch -- another Wall Street icon -- in a \$50 billion deal.

Markets were seriously shaken as the American International Group (AIG) -- the largest insur-

NO NONSENSE

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ance company in the world -- was stressed to secure a \$40 billion bridge loan (an interim financing for an individual or business until permanent financing is guaranteed) from the Federal Reserve (the US Central Bank, in short, the Fed) ahead of a possible downgrading of its credit worthiness.

What really set-off the meltdown, and why this matters to the average citizen appears mind boggling -- very intricate, if you will. Almost every expert agrees that much of the debacle is rooted in too much greed-driven risk taken by the CEOs of these and many other firms. Assets -- real or financial -- were over-assessed, loan worthiness of borrowers was over inflated, and credit cards charging maxed out. People were living well beyond what their income and wealth could support.

The crisis originated from the unbridled growth in subprime mortgage -- a loan that didn't meet the legal requirement.

Fannie Mae -- the Federal National Mortgage Association -- was created in the 1930s to facilitate homeownership in the US by buying mortgages from banks, freeing up cash that could be used to make new loans. Fannie and Freddie (FAF), which does pretty much the same thing, now finances most of the home loans being made in America.

Although FAF are private companies with stockholders, they're "government-sponsored enterprises" established by federal law. As a result, FAF enjoys special privileges -- the most important is the belief of investors that if FAF is threatened with failure, the government will come to their rescue, because they enjoy implicit government loan guarantee.

In that case, one wonders, how did they get into this mess? The answer is the sheer scale of the housing bubble and the magnitude of the unabated price declines that caused the bubble to burst. The

result is an alarmingly rising rate of delinquency.

FAF drove the explosion of the subprime housing market by buying up literally hundreds of billions of dollars in substandard loans.

By passing up all the old rules, FAF gobbled up the mortgage market. Using unusual leverage, they ended up holding 90% of the secondary market mortgages. That raised their total portfolio of loans to \$5.4 trillion -- nearly half of all US mortgage lending. They borrowed \$1.5 trillion from US capital markets with an "implicit" government guarantee of the debts.

This created the current problem for the financial market -- subprime lending jumped from around \$35 billion in 1994 to nearly \$1 trillion last year.

No real market can have such an accelerated growth for that long without being fixed. And that's just what FAF were -- fixed. They essentially became a government-run, privately owned, home finance

monopoly.

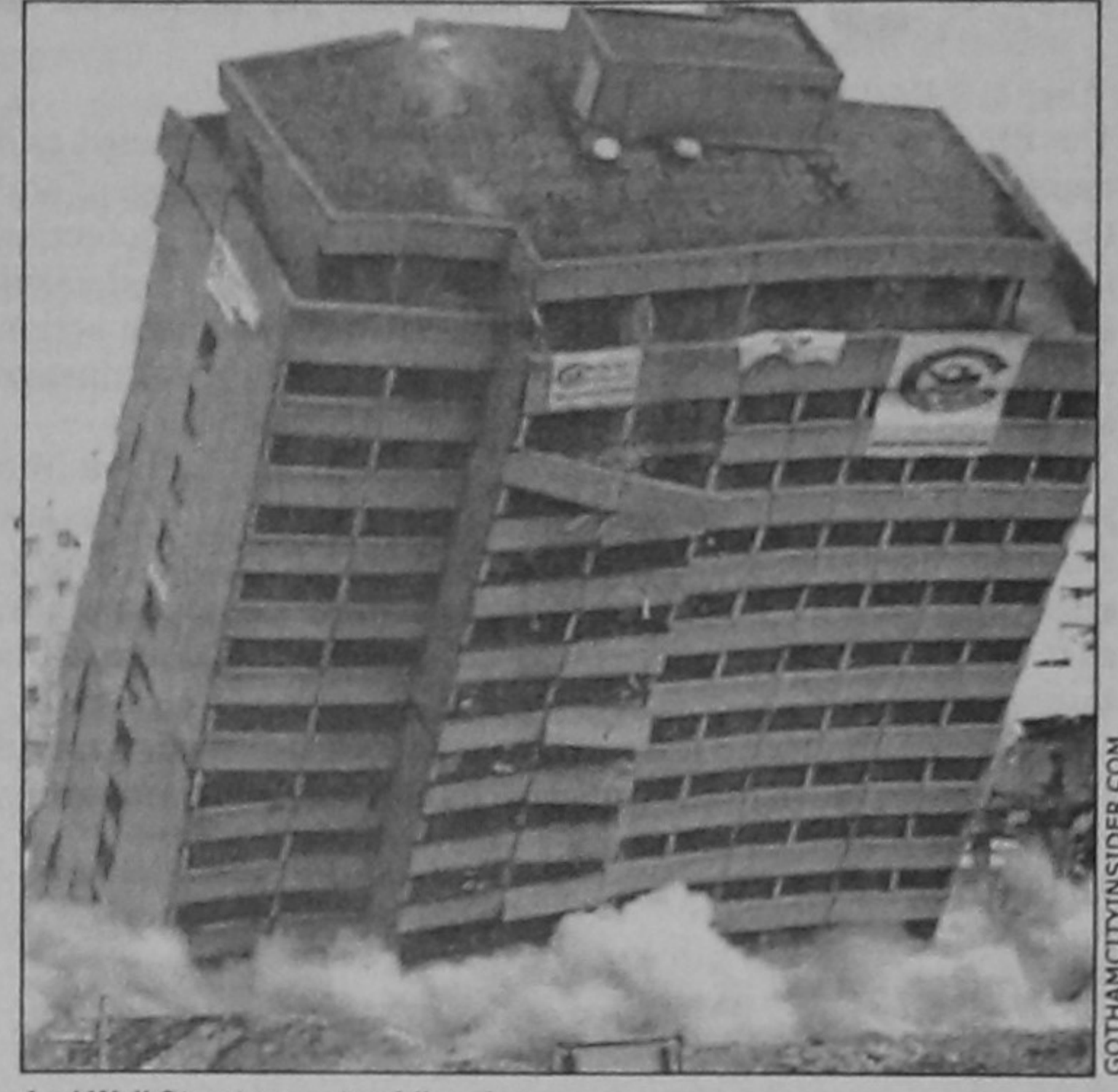
In the near-term, adverse effects for both developed and emerging markets are unavoidable. Experts predict that the market meltdown has triggered cascading effects:

- Asset prices have fallen in financial markets around the world.
- The threat to global economic growth has increased.
- Volatility in currency markets has surged.
- Banks will take heightened risk aversion stance, which will restrain banks' access to capital and thus slow down lending.
- Consumer credit will become more restrictive, making projected global growth of 5%-6% unattainable.

Because of credit tightening everywhere, tanking stock markets are sinking corporate valuations, and there are fewer investment bankers operating these days.

Financial firms unaffected by the market predicament will be much more cautious in extending credit to normal firms and individuals. So, even for people and firms whose credit standings have not changed much, their cost of the credit is also going to rise.

In their September 18 WSJ article, Senrath, Serena, and Paletta said that the Fed and US Treasury have diagnosed the market virus -- over-leveraged financing (debt financing) -- and also found the cure -- which is de-leveraging, that



And Wall Street came tumbling down.

During the credit boom, financial institutions and American households went on a spree of borrowing. Between 2002 and 2006, household borrowing grew at an average annual rate of 11% -- by far outpacing the overall economic growth. Financial institutions' borrowings grew by a 10% annualised rate. A multitude of loan defaults -- aggravated by the crumbling housing prices -- made the home value fall below mortgage loan, culminating in foreclosure.

To deleverage the process to an end at least three things need to be done, and they're not easy to accomplish all at once.

- Financial institutions and others need to fess up to their mistakes by selling or writing down the value of distressed assets they bought with borrowed money.
- They need to pay off debt.
- Finally, they need to rebuild their capital cushions, which have been eroded by losses on those distressed assets.

On September 20, U.S. Treasury Secretary Henry Paulson with the Fed Chairman Ben Bernanke on board proposed a \$700 billion market bailout plan -- the largest intervention in the history of the U.S. financial system aimed at supporting the private sector.

While presenting the bailout

Sadqa-e-Fitr

Sadqa-e-Fitr or Sadaqatu'l-Fitr should be distributed to the poor on the day of Eid-ul-Fitr before the congregational prayers are said. But one may also pay it off during the month of Ramadhan. It can also be distributed after the prayers. It will, however, remain due in his name till it is paid off. It must not, however, be distributed with arrogance or annoyance.

SYED ASHRAF ALI

THE Most Gracious and the Most Merciful Allah has, in His infinite Mercy, fixed a Sadqa (sacrifice) over His bondsmen. After the expiry of Ramadhan and on the rejoicing of breaking the fast (or returning to normalcy), it should be paid as a mark of gratitude. Fitr stands for "return to normalcy," and the Sadqaso paid is called Sadqa-e-Fitr. The Eid that comes after the month of Ramadhan is known as Eid-ul-Fitr, or the "Joy of returning normalcy."

According to Arabic authors the word "Sadqa" is derived from the verb Sadaqa, "to speak the truth," which is explained by pointing to the fact that the giving of alms by a Muslim is a witness to the truthfulness of his religion. Its proper sense is, therefore, voluntary or spontaneous almsgiving, or what we call "charity."

Arabic authors, however, use the word Sadaqa in two different senses. In the first it is frequently employed as a synonym of Zakat, which is obligatory, and of which the amount is fixed. It is so used in the holy Quran (Surah Tauba, Verses 58, 103). It is so used also in the Muwatta of Malik Ibn Anas (RA), in which, in the Kitab al-Zakat, Sadaqa is substituted for Zakat.

He does this apparently when it is a case of Zakat upon quadrupeds, but also in other cases. In Bukhari, on the other hand, Sadaqa seems to be used for Zakat quite indiscriminately, and the two words are used simultaneously as synonyms. Imam Bukhari uses Zakat where Imam Malik uses Sadaqa; he says "There is no

Sadqa on less than five dhwad of she-camels" in the same form as Imam Malik, yet speaks of the Sadaqat al-Fitr where Malik uses the usual Zakat al-Fitr.

The proper use of the word Sadaqa is, however, as has been said, in the sense of voluntary almsgiving. Ibn al-Arabi defines the Sadaqa as "voluntary Sadaqa is an act of worship arising from free choice mixed with authority; and if it be not so then it is not voluntary Sadaqa, for the man makes it obligatory upon himself, just as Allah makes mercy obligatory upon Himself towards those who repent, and corrects those who do ill in ignorance."

Sadqa-e-Fitr is the alms given on the day of Eid-ul-Fitr. It is Wajib on every free Muslim when he owns property to the value of Nisab. The Nisab of Zakat and Nisab of Sadqa-e-Fitr are the same, e.g. 54 tolas and 2 mashes of silver or 7 tola 8.5 mashes of gold, or its price.

But there is a difference between the Nisab of Zakat and Nisab of Sadqa-e-Fitr. For, Zakat becomes Farz, or obligatory, when a person owns a certain quantity of silver, gold or merchandise. But for Sadqa-e-Fitr being Wajib, all his possessions are taken into account. It is necessary for both the Nisabs to be free from all sorts of burdens of debts and in excess of real personal requirements.

So, if a person has extra clothes other than those clothes used by him, or has some extra utensils of copper, brass, china clay etc., or has an occupied house, or some other property or goods, exceeding his real and personal requirements, and the value of these things equals



MUNIR UZ ZAMAN / DRIK NEWS

or exceeds the order of the Nisab, no Zakat is Farz on that, but Sadqa-e-Fitr will be Wajib. The condition of a one-year duration is also not necessary over the Nisab of Sadqa-e-Fitr. The payment of Sadqa-e-Fitr becomes Wajib even if one becomes possessor of the Nisab the same day.

The payment of Sadqa-e-Fitr is Wajib on every person in possession of Nisab. He should pay it from his own side and on behalf of his minor children. But if the minors have their own property, it should be paid from that.

It is sometimes claimed that Sadqa-e-Fitr is not Wajib on a person who could not or did not fast in the month of Ramadhan. It is a wrong conception. Sadqa-e-Fitr is Wajib on every individual who holds Nisab, whether he fasts or not.

Sadqa-e-Fitr becomes Wajib on Eid day, just after the Subh-e-Sadiq. If a child is born before Subh-e-Sadiq, it shall be paid on behalf of the child. On the other hand, if a person dies before Subh-e-Sadiq, no Sadqa-e-Fitr will be paid from his property.

Sadqa-e-Fitr or Sadaqatu'l-Fitr should be distributed to the poor on the day of Eid-ul-Fitr before the congregational prayers are said. But one may also pay it off during the month of Ramadhan. It can also be distributed after the prayers. It will, however, remain due in his name till it is paid off.

Syed Ashraf Ali is former DG of Islamic Foundation Bangladesh.

Turning a deaf ear

One can only imagine the hours that are wasted in complaining, settling the bills, or even finding the complaint center to help make things right. Unfortunately, the general public is failed over and over again by the public service providers in whom trust is reposed to make the lives of the citizenry bearable by providing needed services.

S.S.M. SADRUL HUDA, SEGUFTA DILSHAD AND SYED SAAD ANDALEEB

ELECTRICITY and telephone services comprise two basic and necessary services for the citizenry. Historically, they have been associated with rampant corruption, mismanagement, and unreliable service provision in Bangladesh.

The organisations responsible for these services are Dhaka Electric Supply Authority (Desa), Dhaka Electric Supply Company (Desco), and Bangladesh Telegraph and Telephone Board (BTB). These organisations have caused monumental suffering. Recently, two of the three organisations were renamed as Dhaka Power Distribution Company (DPDC) and Bangladesh Telephone Company Ltd. (BTCL), with the objective of improving customer service.

The Center for Policy Research and Social Responsibility recently undertook two surveys using purposive sampling to assess the opinions of the urban educated group about these two services. Key findings of the BTB/BTCL survey are presented here. Findings about the services of Desco/DPDC will be presented in a subsequent article.

There were 330 respondents in the BTB survey. The demographic profiles of the respondents indicated the followings: 45.7% were service holders, 24.7% business persons, 5% housewives, and 24.6% represented other professions; 37.2% belonged to the 21-30 age group, 26.9% belonged to 31-40, 19.9% belonged to 41-50, and

16.5% sent somebody else to the complaint center, 1.5% wrote letters to newspapers, and 3.6% responded in "other" ways to lodge their complaint.

Unfortunately, 83.6% lamented that the BTB service staff demanded gratuity from them. Of these respondents, 49.5% mentioned that the demand was direct and 50.5% said the demand was indirect/implied. Surprisingly, 77.0% of them gave in to the demands. It was found that on average the respondents paid Tk.580 as gratuity. The refusal to pay gratuity led to non-cooperation of the service staff for 64.4% of the respondents.

According to 58.7% of the respondents, BTB did not take their complaints seriously, while 65.9% respondents' past experience with complaining was not good. According to the findings, 30.9% of the respondents expressed their dissatisfaction about the working hours of and access to the complaint center. Interestingly, 27.1% did not know where to complain. The majority of the BTB (69.5%) respondents also reported the recurrence of the problem shortly after a response from the service people.

According to only 31.2% of the respondents, the bills presented by BTB were accurate and only 30.0% agreed that monthly bills were delivered on a regular basis. It may also be noted that 67.6% of the respondents expressed their dismay at the payment procedures, which they found wanting, very trying and time consuming, and 77.8% of the respondents also believed that record keeping of billing information at BTB was not satisfactory.

Only 10.8% of the respondents indicated that the service provider performed the service properly the first time and 10% received the service at the time when BTB promised to do so. Also, only 10.9% respondents of BTB found the concerned officers in their chairs.

In limited cases (only 12.4% of the respondents), the employees assured the respondents that the

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Why most office workers would be better off in prison

I used to live near a prison. There was a guy on the top floor who used to wave his hand at me through the bars. Actually, it wasn't just his hand. But the thing that struck me was that he always looked so happy. For some reason, this annoyed me intensely. I wanted to shout: "Oi, you: stop being happy!" But then I realised that I would sound like my former employers, who were always hollering that at me.

Looking through the barred windows as I walked past, I absorbed numerous lessons,

which helped me put my life into perspective.

1. In prison, he spends most of his time confined to a space measuring three metres by three metres. At the office, I spend most of my time confined to a cubicle measuring 1.5 metres by 1.5 metres.
2. In prison, he gets a healthy, early night every night. At the office, I work late so often I'll probably end up with an ulcer.
3. In prison, he gets time off for good behaviour. At the office, I get extra work assignments for good behaviour.
4. In prison, he gets all the food and drink he needs prepared for him by trained catering staff, three times a day, seven days a week. At the office, I can help myself to free water from the water cooler.
5. In prison, he can watch television and read through a library of books. At the office, I'll get sacked if I get caught watching a clip on YouTube.
6. In prison, he'll spend a lot of time in quiet contemplation about the important things in life. In the office, mindless inconsequential activity fills my every second.
7. In prison, he gets a toilet to himself. At the office, I share a toilet with a building-full of people less toilet-trained than my pets.
8. At the office, I spend more money than I can afford making sure my clothing matches that of my colleagues. In prison, everyone gets free, colour co-ordinated outfits.
9. In prison, there are sadistic, evil creatures called warders who will torment him. In office life, there are sadistic, evil creatures called employers who torment me.
10. In prison, one's working

days are short and sweet. In my working life, I arrive at the office before the sun has risen and leave after it's dark.

11. In prison, he doesn't have to take work home with him. In my job, I arrive every morning with a fat briefcase and leave with a fatter one.
12. In prison, he never has to worry about paying bills for utilities and other things. In the life of a modern office-worker, I worry about paying bills all the time.
13. At the office, I spend hours every day wading through a sea of spam. In prison, he just gets one small square of Spam a week, on Tuesdays, with a side salad.
14. In my work life, I pay a fortune for a gym membership, but never have time to go.
15. In prison, the gym is free and he has plenty of incentive to keep himself in good shape, especially when taking a shower.
16. In my office life, I often feel pressured to be in three different places at once. In prison, this is probably not really an issue.

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