م ع ك التقرير الاقتصادي التخصصي باللغة الإنكليزية:

Debt is money owed by one party, the debtor to a second party, the lender

الدين مبلغ من المال مستحق على المدين لطرف آخر هو الدائن

لفهم الاقتصاد العودة للأساس Back to Basics

إعداد: الدكتور مصطفى العبد الله الكفري

كانون الثاني ، 2018

تحية طيبة،،،

أرسل لسيادتكم:

م ع ك التقرير الاقتصادي التخصصي باللغة الإنكليزية، كانون الثاني 2018 بعنوان:

Debt is money owed by one party, the debtor to a second party, the lender

الدين مبلغ من المال مستحق على المدين لطرف آخر هو الدائن

التقرير حصيلة متابعة للإعلام الاقتصادي والشبكة العنكبوتية.

أضعه بتصرف الأكاديميين والاقتصاديين وأصحاب القرار والمتابعين، لتسهيل الحصول على الخبر والمعلومة الاقتصادية. بعض المعلومات والبيانات الواردة في التقرير قد لا تكون موثوقة بما يكفي، وتحتاج إلى تدقيق من قبل خبير أو مختص. ساعد بتدقيق هذه المعلومات مع ذكر المصدر لتحقيق الموثوقية .

وأخلي نفسي من المسؤولية عن أية معلومة غير صحيحة واردة في التقرير لأن المعلومات الواردة فيه على مسؤولية المصدر الذي حصلنا منه على المعلومة، المثبت في نهاية التقرير.

أرجو الاطلاع وموافاتي بأية ملاحظات حول التقرير .

الأستاذ الدكتور مصطفى العبد الله الكفري
كلية الاقتصاد – جامعة دمشق

ملاحظة: أرجو ممن لا يرغب باستمرار إرسال التقرير، إعلامي ليتم حذف اسمه من القائمة البريدية.

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M E A K - Special Economic Report

Debt is money owed by one party, the debtor to a second party, the lender

الدين مبلغ من المال مستحق على المدين لطرف آخر هو الدائن

Prepared by Prof. Dr. Moustafa El-Abdallah Alkafry

2018،January

Good day

I sent you:

Special Economic Report in English, November 2017, entitled:

Debt is money owed by one party, the debtor to a second party, the lender

The report is a follow-up to economic information and the World Wide Web.

I put it at the disposal of academics, economists, decision-makers and observers to facilitate access to economic information.

Some information and data contained in the report may not be reliable enough and need to be checked by an expert or specialist. Help verify this information with source to verify reliability.

I disclaim any responsibility for any incorrect information contained in the report because the information contained therein is the responsibility of the source from which we obtained the information, which is confirmed at the end of the report.

Please provide me with any observations on the report.

Note: I hope that those who do not wish to continue submitting the report to their, inform me that their name will be deleted from the mailing list.

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كانون الثاني ، 2018

1 - Debt From Wikipedia, the free encyclopedia

Debt is money owed by one party, the borrower or debtor, to a second party, the lender or creditor. The borrower may be a sovereign state or country, local government, company, or an individual. The lender may be a bank, credit card company, payday loan provider, business, or an individual. Debt is generally subject to contractual terms regarding the amount and timing of repayments of principal and interest.[1] A simple way to understand interest is to see it as the "rent" a person owes on money that they have borrowed, to the bank from which they borrowed the money. Loans, bonds, notes, and mortgages are all types of debt. The term can also be used metaphorically to cover moral obligations and other interactions not based on economic value.[2] For example, in Western cultures, a person who has been helped by a second person is sometimes said to owe a "debt of gratitude" to the second person.

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Etymology

The English term "debt" was first used in the late 13th century.[3] The term "debt" comes from "dette, from Old French dete, from Latin debitum "thing owed," neuter past participle of debere "to owe," originally, "keep something away from someone," from de- "away" (see de-) + habere "to have" (see habit (n.)). Restored spelling [was used] after c. 1400.[4] The related term "debtor" was first used in English also in the early 13th century; the terms "dettur, dettour, [came] from Old French detour, from Latin debitor "a debter," from past participle stem of debere;...The -b- was restored in later French, and in English c. 1560-c. 1660." In the King James Bible, various spellings are used; the spellings "detter [are used] three times, debter three times, debtor twice and debtour once." [5]

Terms

Interest

Interest is the fee paid by the borrower to the lender. Interest is calculated as a percentage of the outstanding principal, which percentage is known as an interest rate, and is generally paid periodically at intervals, such as monthly or semi-annually.

Interest rates may be fixed or floating. In floating-rate structures, the rate of interest that the borrower pays during each time period is tied to a benchmark such as LIBOR or, in the case of inflation-indexed bonds, inflation.

There are many different conventions for calculating interest. Depending on the terms of the debt, compound interest may accumulate at a specific interval. In addition, different

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day count conventions exist, for example, sometimes each month is considered to have exactly thirty days, such that the interest payment due is the same in each calendar month. The annual percentage rate (APR) is a standardized way to calculate and compare interest rates on an annual basis. Quoting interest rates using APR is required by regulation for most loans to individuals in the United States and United Kingdom.

For some loans, the amount actually loaned to the debtor is less than the principal sum to be repaid. This may be because upfront fees or points are charged, or because the loan has been structured to be sharia-compliant. The additional principal due at the end of the term has the same economic effect as a higher interest rate. This is sometimes referred to as a banker's dozen, a play on "baker's dozen" – owe twelve (a dozen), receive a loan of eleven (a banker's dozen). Note that the effective interest rate is not equal to the discount: if one borrows $10 and must repay $11, then this is ($11–$10)/$10 = 10 percent interest; however, if one borrows $9 and must repay $10, then this is ($10–$9)/$9 = 11-1/9 percent interest.[6]

Repayment

There are three main ways repayment may be structured: the entire principal balance may be due at the maturity of the loan; the entire principal balance may be amortized over the term of the loan; or the loan may partially amortized during its term, with the remaining principal due as a "balloon payment" at maturity. Amortization structures are common in mortgages and credit cards.

Default provisions

Debtors of every type default on their debt from time to time, with various consequences depending on the terms of the debt and the law governing default in the relevant jurisdiction. If the debt was secured by specific collateral, such as a car or home, the creditor may seek to repossess the collateral. In more serious circumstances, individuals and companies may go into bankruptcy.

Riskier borrowers must generally pay higher rates of interest to compensate lenders for taking on the additional risk of default. Debt investors assess the risk of default prior to making a loan, for example through credit scores and corporate and sovereign ratings.

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Types of borrowers

Individuals

Common types of debt owed by individuals and households include mortgage loans, car loans, and credit card debt. For individuals, debt is a means of using anticipated income and future purchasing power in the present before it has actually been earned. Commonly, people in industrialized nations use consumer debt to purchase houses, cars and other things too expensive to buy with cash on hand.

People are more likely to spend more and get into debt when they use credit cards vs. cash for buying products and services.[7][8][9][10][11] This is primarily because of the transparency effect and consumer's "pain of paying."[9][12] The transparency effect refers to the fact that the further you are from cash (as in a credit card or another form of payment), the less transparent it is and the less you remember how much you spent.[12] The less transparent or further away from cash, the form of payment employed is, the less an individual feels the "pain of paying" and thus is likely to spend more.[9] Furthermore, the differing physical appearance/form that credit cards have from cash may cause them to be viewed as "monopoly" money vs. real money, luring individuals to spend more money than they would if they only had cash available.[10][13]

Besides these more formal debts, private individuals also lend informally to other people, mostly relatives or friends. One reason for such informal debts is that many people, in particular those who are poor, have no access to affordable credit. Such debts can cause problems when they are not paid back according to expectations of the lending household. In 2011, 8 percent of people in the European Union reported their households has been in arrears, that is, unable to pay as scheduled "payments related to informal loans from friends or relatives not living in your household".[14]

Businesses

A company may use various kinds of debt to finance its operations as a part of its overall corporate finance strategy.

A term loan is the simplest form of corporate debt. It consists of an agreement to lend a fixed amount of money, called the principal sum or principal, for a fixed period of time, with this amount to be repaid by a certain date. In commercial loans interest, calculated as

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a percentage of the principal sum per year, will also have to be paid by that date, or may be paid periodically in the interval, such as annually or monthly. Such loans are also colloquially called "bullet loans", particularly if there is only a single payment at the end – the "bullet" – without a "stream" of interest payments during the life of the loan.

A syndicated loan is a loan that is granted to companies that wish to borrow more money than any single lender is prepared to risk in a single loan. A syndicated loan is provided by a group of lenders and is structured, arranged, and administered by one or several commercial banks or investment banks known as arrangers. Loan syndication is a risk management tool that allows the lead banks underwriting the debt to reduce their risk and free up lending capacity.

A company may also issue bonds, which are debt securities. Bonds have a fixed lifetime, usually a number of years; with long-term bonds, lasting over 30 years, being less common. At the end of the bond's life the money should be repaid in full. Interest may be added to the end payment, or can be paid in regular installments (known as coupons) during the life of the bond.

A letter of credit or LC can also be the source of payment for a transaction, meaning that redeeming the letter of credit will pay an exporter. Letters of credit are used primarily in international trade transactions of significant value, for deals between a supplier in one country and a customer in another. They are also used in the land development process to ensure that approved public facilities (streets, sidewalks, stormwater ponds, etc.) will be built. The parties to a letter of credit are usually a beneficiary who is to receive the money, the issuing bank of whom the applicant is a client, and the advising bank of whom the beneficiary is a client. Almost all letters of credit are irrevocable, i.e., cannot be amended or canceled without prior agreement of the beneficiary, the issuing bank and the confirming bank, if any. In executing a transaction, letters of credit incorporate functions common to giros and traveler's cheque. Typically, the documents a beneficiary has to present in order to receive payment include a commercial invoice, bill of lading, and a document proving the shipment was insured against loss or damage in transit. However, the list and form of documents is open to imagination and negotiation and might contain requirements to

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present documents issued by a neutral third party evidencing the quality of the goods shipped, or their place of origin.

Companies also use debt in many ways to leverage the investment made in their assets, "leveraging" the return on their equity. This leverage, the proportion of debt to equity, is considered important in determining the riskiness of an investment; the more debt per equity, the riskier.

Governments

1979 U.S. Government $10,000 treasury bond

Governments issue debt to pay for ongoing expenses as well as major capital projects. Government debt may be issued by sovereign states as well as by local governments, sometimes known as municipalities.

The overall level of indebtedness by a government is typically shown as a ratio of debt-to-GDP. This ratio helps to assess the speed of changes in government indebtedness and the size of the debt due.

Assessments of creditworthiness

Income metrics

The debt service coverage ratio is the ratio of income available to the amount of debt service due (including both interest and principal amortization, if any). The higher the debt service coverage ratio, the more income is available to pay debt service, and the easier and lower-cost it will be for a borrower to obtain financing.

Value metrics

The loan-to-value ratio is the ratio of the total amount of the loan to the total value of the collateral securing the loan.

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Collateral and recourse

A debt obligation is considered secured if creditors have recourse to specific collateral. Collateral may include claims on tax receipts (in the case of a government), specific assets (in the case of a company) or a home (in the case of a consumer). Unsecured debt comprises financial obligations for which creditors do not have recourse to the assets of the borrower to satisfy their claims.

Role of rating agencies

Specific bond debts owed by both governments and private corporations are rated by rating agencies, such as Moody's, Standard & Poor's, Fitch Ratings, and A. M. Best. The government or company itself will also be given its own separate rating. These agencies assess the ability of the debtor to honor his obligations and accordingly give him or her a credit rating. Moody's uses the letters Aaa Aa A Baa Ba B Caa Ca C, where ratings Aa-Caa are qualified by numbers 1-3. S&P and other rating agencies have slightly different systems using capital letters and +/- qualifiers. Thus a government or corporation with a high rating would have Aaa rating.

A change in ratings can strongly affect a company, since its cost of refinancing depends on its creditworthiness. Bonds below Baa/BBB (Moody's/S&P) are considered junk or high-risk bonds. Their high risk of default (approximately 1.6 percent for Ba) is compensated by higher interest payments. Bad Debt is a loan that can not (partially or fully) be repaid by the debtor. The debtor is said to default on his debt. These types of debt are frequently repackaged and sold below face value. Buying junk bonds is seen as a risky but potentially profitable investment.

Debt markets

Market interest rates

Main article: Bond valuation

Loans versus bonds

Bonds are debt securities, tradeable on a bond market. A country's regulatory structure determines what qualifies as a security. For example, in North America, each security is uniquely identified by a CUSIP for trading and settlement purposes. In contrast, loans are

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not securities and do not have CUSIPs (or the equivalent). Loans may be sold or acquired in certain circumstances, as when a bank syndicates a loan.

Loans can be turned into securities through the securitization process. In a securitization, a company sells a pool of assets to a securitization trust, and the securitization trust finances its purchase of the assets by selling securities to the market. For example, a trust may own a pool of home mortgages, and be financed by residential mortgage-backed securities. In this case, the asset-backed trust is a debt issuer of residential mortgage-backed securities.

Role of central banks

Central banks, such as the U.S. Federal Reserve System, play a key role in the debt markets. Debt is normally denominated in a particular currency, and so changes in the valuation of that currency can change the effective size of the debt. This can happen due to inflation or deflation, so it can happen even though the borrower and the lender are using the same currency.

Criticisms

Main article: Criticism of debt

Some argue against debt as an instrument and institution, on a personal, family, social, corporate and governmental level. Islam forbids lending with interest even today. In hard times, the cost of servicing debt can grow beyond the debtor's ability to pay, due to either external events (income loss) or internal difficulties (poor management of resources).

Debt will increase through time if it is not repaid faster than it grows through interest. This effect may be termed usury, while the term "usury" in other contexts refers only to an excessive rate of interest, in excess of a reasonable profit for the risk accepted.

In international legal thought, odious debt is debt that is incurred by a regime for purposes that do not serve the interest of the state. Such debts are thus considered by this doctrine to be personal debts of the regime that incurred them and not debts of the state. International Third World debt has reached the scale that many economists are convinced that debt relief or debt cancellation is the only way to restore global equity in relations with the developing nations.[citation needed]

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Excessive debt accumulation has been blamed for exacerbating economic problems. For example, before the Great Depression, the debt-to-GDP ratio was very high. Economic agents were heavily indebted. This excess of debt, equivalent to excessive expectations on future returns, accompanied asset bubbles on the stock markets. When expectations corrected, deflation and a credit crunch followed. Deflation effectively made debt more expensive and, as Fisher explained, this reinforced deflation again, because, in order to reduce their debt level, economic agents reduced their consumption and investment. The reduction in demand reduced business activity and caused further unemployment. In a more direct sense, more bankruptcies also occurred due both to increased debt cost caused by deflation and the reduced demand.

At the household level, debts can also have detrimental effects — particularly when households make spending decisions assuming income will increase, or remain stable, in years to come. When households take on credit based on this assumption, life events can easily change indebtedness into over-indebtedness. Such life events include unexpected unemployment, relationship break-up, leaving the parental home, business failure, illness, or home repairs. Over-indebtedness has severe social consequences, such as financial hardship, poor physical and mental health,[15] family stress, stigma, difficulty obtaining employment, exclusion from basic financial services (European Commission, 2009), work accidents and industrial disease, a strain on social relations (Carpentier and Van den Bosch, 2008), absenteeism at work and lack of organisational commitment (Kim et al., 2003), feeling of insecurity, and relational tensions.[16]

Levels and flows

Main article: Debt levels and flows

Global debt underwriting grew 4.3 percent year-over-year to US$5.19 trillion during 2004. It is expected to rise in the coming years if the spending habits of millions of people worldwide continue the way they do.

History

Main article: History of money

Traditions in some cultures demand that debt be forgiven on a regular (often annual) basis, in order to prevent systemic inequities between groups in society, or anyone

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becoming a specialist in holding debt and coercing repayment. An example is the Biblical Jubilee year, described in the Book of Leviticus.

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https://en.wikipedia.org/wiki/Debt

2 - Credit theory of money,

(Redirected from Debt theory of money)

From Wikipedia, the free encyclopedia

Single and split tally sticks in the Swiss Alpine Museum - similar items may have been used in debt based economic systems thought to pre-date the use of coinage.

Credit theories of money (also called debt theories of money) are theories concerning the relationship between credit (or debt) and money, in particular focusing on how debt creates money in a modern economy. Proponents of these theories, such as Alfred Mitchell-Innes, sometimes emphasize that money and credit/debt are the same thing, seen from different points of view.[1] Proponents assert that the essential nature of modern money is credit (debt), and (at least in eras where money is not backed by an asset or commodity such as gold) has in the past also served as a record of debts owed as well as a means of exchange. Money then serves two purposes - as a means of exchange and as a record of debts owed. Once money is not tied to a limited asset such as gold or silver, "money" is created in parallel with debt in a fiat money system, with fractional reserve banking legally permitting debt to be the catalyst for the creation of nearly all new money in the modern economic system.

Two common strands of thought within these theories are the idea that money originated as a unit of account for debt, and the position that money creation involves the simultaneous creation of debt. Some proponents of credit theories of money argue that

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money is best understood as debt. Others hold that money equates to debt only in a system based on fiat money, as gold itself is clearly an asset and does not rely on debt for its existence. In a pure fiat money system with fractional reserve banking debt creates money. In the current monetary system, without some entity (individuals, companies or governments) going into debt, money would not exist in the volume it does today. With a free market money system like gold (or Bitcoin) money can exist independent of debt.

The first formal Credit theory of money arose in the 19th century. Anthropologist David Graeber has argued that for most of human history, money has been widely understood to represent debt, though he concedes that even prior to the modern era, there have been several periods where rival theories like Metallism have held sway.

Contents

Scholarship

According to Joseph Schumpeter, the first known advocate of a credit theory of money was Plato. Schumpeter describes Metallism as the other of "two fundamental theories of money", saying the first known advocate of metallism was Aristotle.[2][3] The earliest modern thinker to formulate a credit theory of money was Henry Dunning Macleod, with his work in the 19th century, most especially with his The Theory of Credit (1889). Macleod's work was expanded on by Alfred Mitchell-Innes in his papers What is Money? (1913) and The Credit Theory of Money (1914),[4] where he argued against the then

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conventional view of money arising as a means to improve the practice of barter. In this alternative view, commerce and taxation created obligations between parties which were forms of credit and debt. Devices such as tally sticks were used to record these obligations and these then became negotiable instruments which could function as money. As Innes puts it in his 1914 article:

The Credit Theory is this: that a sale and purchase is the exchange of a commodity for credit. From this main theory springs the sub-theory that the value of credit or money does not depend on the value of any metal or metals, but on the right which the creditor acquires to "payment," that is to say, to satisfaction for the credit, and on the obligation of the debtor to "pay" his debt and conversely on the right of the debtor to release himself from his debt by the tender of an equivalent debt owed by the creditor, and the obligation of the creditor to accept this tender in satisfaction of his credit.

Innes goes on to note that a major problem in getting the public to understand the extent to which monetary systems are debt based is the challenge in persuading them that "things are not the way they seem" [5] A Quantity Theory of Credit was proposed in 1992 by Richard Werner, whereby credit creation is disaggregated into credit for GDP and non-GDP (financial circulation). The approach is tested empirically in a general-to-specific econometric time series model and found to be superior to alternative and traditional theories. Werner found that bank credit creation for GDP transactions Granger-causes nominal GDP growth, while credit creation for financial transactions explains asset prices and banking crises.

The 2005 book New Paradigm in Macroeconomics (Palgrave Macmillan) by Richard Werner presents a comprehensive and empirically tested credit theory of money, including the Quantity Theory of Credit, and policy proposals as to how to avoid the 'recurring banking crises' and how to stimulate economies after severe banking crises (making use of Werner's policy concept of quantitative easing, which he proposed in Japan in 1994, and which is defined in true 'credit theory of money' spirit as an expansion in credit creation for GDP transactions). Werner's historical analysis presents a historical overview of credit money, tracing it back to ancient Mesopotamia.[6]

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In his 2011 book Debt: The First 5000 Years, the anthropologist David Graeber asserted that the best available evidence suggests the original monetary systems were debt based, and that most subsequent systems have been too. Exceptions where the relationship between money and debt was less clear occurred during periods where money has been backed by bullion, as happens with a gold standard. Graeber echoes earlier theorists such as Innes by saying that during these eras population perception was that money derived its value from the precious metals of which the coins were made,[7] but that even in these periods money is more accurately understood as debt. Graeber states that the three main functions of money are to act as: a medium of exchange; a unit of account; and a store of value. Graeber writes that since Adam Smith's time, economists have tended to emphasise money as a medium of exchange.[8] For Graeber, when money first appeared its primary purpose was to act as a unit of account, to denominate debt. He writes that coins were originally created as tokens which represented a unit of account rather than being an amount of precious metal which could be bartered.[9]

Economics commentator Philip Coggan holds that the world's current monetary system became debt based after President Nixon suspended the link between money and gold in 1971. He writes that "Modern money is debt and debt is money". Since the 1971 Nixon Shock, debt creation and the creation of money increasingly took place at once. This simultaneous creation of money and debt occurs as a feature of fractional reserve banking. After a commercial bank approves a loan, it is able to create the corresponding amount of money, which is then acquired by the borrower along with a similar amount of debt.[10] Coggan goes on to say that debtors often prefer debt based monetary systems such as fiat money over commodity based systems like the gold standard, because the former tend to allow much higher volumes of money to circulate in the economy, and tend to be more expansive. This makes their debts easier to repay. However creditors also approve of a fiat money system because the gross amount of debt can increase without a natural limit increasing the total income stream from interest payments and avoiding problems associated with deflation and converting debt to equity in a crisis. Savers without debt are the ones who suffer in such an environment through inflation. Coggan refers to Bryan's 19th century Cross of Gold speech as one of the first great attempts to weaken the link

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between gold and money; he says the former US presidential candidate was trying to expand the monetary base in the interests of indebted farmers, who at the time were often being forced into bankruptcy. However Coggan also says that the excessive debt which can be built up under a debt based monetary system can end up hurting all sections of society, including debtors and notes that the real source of the crisis was excessive levels of speculation and leverage, not the gold standard itself.[11]

In a 2012 paper, economic theorist Perry Mehrling notes that what is commonly regarded as money can often be viewed as debt. He posits a hierarchy of assets with gold [12] at the top, then currency, then deposits and then securities. The lower down the hierarchy, the easier it is to view the asset as reflecting someone else's debt.[13] A later 2012 paper from Claudio Borio of the BIS made the counter-intuitive case that it is loans that give rise to deposits, rather than the other way round.[14]

In a book published in June 2013, Felix Martin argued that credit based theories of money are correct, citing earlier work by Macleod: "currency ... represents transferable debt, and nothing else". Martin writes that it's difficult for people to grasp the nature of money, because money is such a central part of society, and alludes to the Chinese proverb that "If you want to know what water is like, don't ask the fish." [15] [16]

Advocacy

The conception that money is essentially equivalent to credit or debt has long been used by those advocating particular reforms of the monetary system, and by commentators calling for various monetary policy responses to events such as the Financial crisis of 2007–08. A view held in common by most recent advocates, from all shades of political opinion, is that money can be equated with debt in the context of the contemporary monetary system. The view that money is equivalent to debt even in systems based on commodity money tends to be held only by those to the left of the political spectrum. Regardless of any commonality in their understanding of credit theories of money, the actual reforms proposed by advocates of different political orientations are sometimes diametrically opposed.[11]

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Advocacy for a return to a gold standard or similar commodity based system.

Former US presidential candidate Ron Paul has spoken out against Fiat money, partly on the grounds that it encourages the buildup of debt.[17]

Advocates from an Austrian School or Libertarian perspective view the current debt-based monetary system as an aberration or perversion of sound money principles and frequently state that although "money" is equivalent to debt in our current monetary system, it should not be the case. They point to the past (in particular the relatively stable 19th century) to point out that monetary systems can be based on a debt free asset that has inherent value independent of debt, such as with the gold standard. They have frequently used this view point to support arguments that it would be best to return to a gold standard, to other forms of commodity money, or at least to a monetary system where money has positive value. Similar views are also occasionally expressed by Conservatives. As an example of the latter, former British minister of state The Earl of Caithness made a 1997 speech in The House of Lords where he stated that since the 1971 Nixon Shock, the British money supply had grown by 2145% and personal debt had risen by almost 3000%. He argued that Britain ought to move from its current "debt based monetary system" to one based on equity:[18]

It is also a good time to stand back, to reassess whether our economy is soundly based. I would contest that it is not ... as it is debt-based ... a system which by its very actions causes the value of money to decrease is dishonest and has within it its own seeds of destruction. We did not vote for it. It grew upon us gradually but markedly since 1971 when the commodity-based system was abandoned...We all want our businesses to succeed, but under the existing system the irony is that the better our banks, building societies and lending institutions do, the more debt is created ... There is a different way: it is an equity-based system and one in which those businesses can play a responsible role. The next government must grasp the nettle, accept their responsibility for controlling the money supply and change from our debt-based monetary system. My Lords, will they? If

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they do not, our monetary system will break us and the sorry legacy we are already leaving our children will be a disaster.

In the early to mid-1970s, a return to a gold anchored system was advocated by gold rich creditor countries including France and Germany.[19] A return has repeatedly been advocated by Libertarians, as they tend to see commodity money as far preferable to fractional reserve banking with fiat money and this combination allows debt to rise without limit, eventually resulting in the debt-based monetary system we have today. Since the 2008 Crisis and the rapid rise in the price of gold that soon followed it, a return to a gold standard has frequently been advocated by goldbugs.[11][20]

Advocacy against the gold standard

From centrist [21] and left wing perspectives, credit theories of money have been used to oppose the Gold Standard while it was still in effect, and to reject arguments for its re-instatement. Innes's 1914 paper is an early example of this.[5][11][20]

Advocacy for expansionary monetary policy

From a moderate mainstream perspective, Martin Wolf has argued that since most money in our contemporary system is already being dual-created with debt by private banks, there is no reason to oppose monetary creation by Central Banks in order to support monetary policy such as Quantitative easing. In Wolf's view, the argument against Q.E. on the grounds that it creates debt is offset by potential benefits to economic growth and employment, and because the increase in debt would be temporary and easy to reverse.[22]

Advocacy for debt cancellation

Arguments for Debt forgiveness have long been made from people of all political orientations; as an example, in 2010 hedge fund manager Hugh Hendry, a strong believer in free markets, argued for a partial cancellation of Greece's debt as part of the solution to the Euro crisis.[23] But generally advocates of debt forgiveness simply point out that debts are too high in relation to the debtors ability to repay, they don't make reference to a debt based theory of money. Exceptions include David Graeber, who from a radical perspective, has used credit theories of money to argue against recent trends to strengthen the enforcement of debt collection, such as greater use of custodial sentences against debtors in the US. He also argued against the over zealous application of the view that paying ones

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debts is central to morality, and has proposed the enactment of a biblical style Jubilee where debts will be cancelled for all.[9]

Relationship with other theories of money

Debt theories of money fall into a broader category of work which postulates that monetary creation is endogenous.[5][24]

Historically, debt theories of money have overlapped with chartalism and were opposed to metallism.[25] This largely remains the case today, especially in the forms commonly held by those to the left of the political spectrum.[26] Conversely, in the forms held by late 20th-century and 21st-century advocates with a conservative libertarian perspective, debt theories of money are often compatible with the quantity theory of money and with metallism, at least when the latter is broadly understood.[5][9][11][27]

Notes and references

1. As Innes mentions in What is money? (1913), whenever he uses the word credit or debt, "the thing spoken of is precisely the same in both cases, the one or the other word being used according as the situation is being looked at from the point of view of the creditor or of the debtor."
2. Chpt 1 Graeco-Roman Economics , 'History of Economic Analysis, Joseph Schumpeter , (1954)
3. Anitra Nelson. "Marx's objections to credit theories of money (extract from Nelson's 1999 book: Marx's concept of Money)" (PDF). Mount Holyoke College. Retrieved 2013-07-08.
4. Originally published in The Banking Law Journal, since reprinted in books such as Wray (2004) and made available online by the CES
5. Randy Wray, ed. (2004). "See esp Chpt 1 7". Credit & State Theories of Money. Edward Elgar. ISBN 1843765136.
6. Richard Werner (2005). "See esp Chpt 12 & 13". New Paradigm in Macroeconomics. Palgrave Macmillan. ISBN 1403920745.
7. This is the classic Metallist view.
8. Polanyi goes as far as to say Ricardo "indoctrinated" economists into viewing money just as a medium of exchange - see chapter 16 of The Great Transformation

9. David Graeber (2011), "passim, see esp Chpt 2: The Myth of Barter", Debt: The First 5000 Years, ISBN 978-1-61219-181-2

10. The new debt will generally soon exceed the newly created money due to added interest.

11. Philip Coggan (2011). "passim, see esp Introduction". Paper Promises: Money, Debt and the New World Order. Allen Lane. ISBN 1846145104.

12. In the Financial sector, gold is often said to be the only financial asset that does not represent someone else's liability to pay.

13. Perry Mehrling (2012-01-25). "The Inherent Hierarchy of Money" (PDF). Columbia University. Retrieved 2012-07-10.

14. "The financial cycle and macroeconomics: What have we learnt?", by Claudio Borio, Bank for International Settlements December 2012

15. Felix Martin (4 March 2014). Money: The Unauthorized Biography. Knopf Doubleday Publishing Group. ISBN 978-0-307-96244-7. Chapter 1

16. Ian Birrell (2013-06-09). "Money: The Unauthorised Biography by Felix Martin – review". The Guardian. Retrieved 2013-07-08.

17. Ron Paul (12 Sep 2003). "Fiat Paper Money". LewRockwell.com. Retrieved 16 July 2012.

18. Malcolm Sinclair, 20th Earl of Caithness (1997-03-05). "Our Debt-Based Money System Will Break Us". Prosperity UK. Retrieved 2012-07-12.

19. Helleiner,, Eric (1995). States and the Reemergence of Global Finance: From Bretton Woods to the 1990s. Cornell University Press. ISBN 0-8014-8333-6.

20. Izabella Kaminska (31 May 2012). "Debunking goldbugs". The Financial Times. Retrieved 16 July 2012.

21. During the two centuries leading up to WWII, it was mostly only those who leaned towards the left who opposed the Gold Standard, but this has since became a centrist position.

22. Martin Wolf (9 Nov 2010). "The Fed is right to turn on the tap". The Financial Times. Retrieved 16 July 2012.

23. Courtney Comstock (2010-02-10). "Watch Hedge Funder Hugh Hendry Fight WIth Joe Stiglitz". Business Insider. Retrieved 2012-07-18.

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24. Simply put, this contrasts with exogenous creation where money is created by events such as new finds of gold occurring outside of a narrowly conceived economy.

25. In the 19th century, and to an extent the early 20th century, metallism enjoyed an almost "unchallenged" position as the dominant theory of money – see for example Chapter 1 of Schumpeter's History of Economic Analysis

26. Chartalists will sometimes say money derives it value by virtue of being the legal way to pay ones debt to the State as taxes. Debt theories can be broader in scope – Graeber, Innes and others have argued that organic debt based monetary systems that did not involve the state continued to operate well into the 19th century.

27. Stephanie A. Bell and Edward J. Nell, ed. (2003). "Passim". The State, the Market, and the Euro: Chartalism Versus Metallism in the theory of money. Edward Elgar. ISBN 1843761564.

https://en.wikipedia.org/wiki/Credit_theory_of_money

3 - This is how much debt your country has per person

To pay off their high national debt, Japanese people would owe $90,345 each.

Image: REUTERS/Jason Reed 04 Oct 2017 Alex Gray Formative Content

"Neither a borrower nor a lender be," Shakespeare's Polonius warns his son Laertes.

Today, however, many governments are getting by on borrowed money. Borrowing allows governments to cover shortfalls without having to increase taxes or cut back public spending. But too much debt can hurt economies, especially in a recession.

The US just passed $20 trillion in debt for the first time, while the UK owes £1.9 trillion ($2.5 trillion) and counting.

The US and UK are not the most indebted countries though. Japan's debt reached 221.8% of GDP in 2015, according to the OECD Government at a Glance report.

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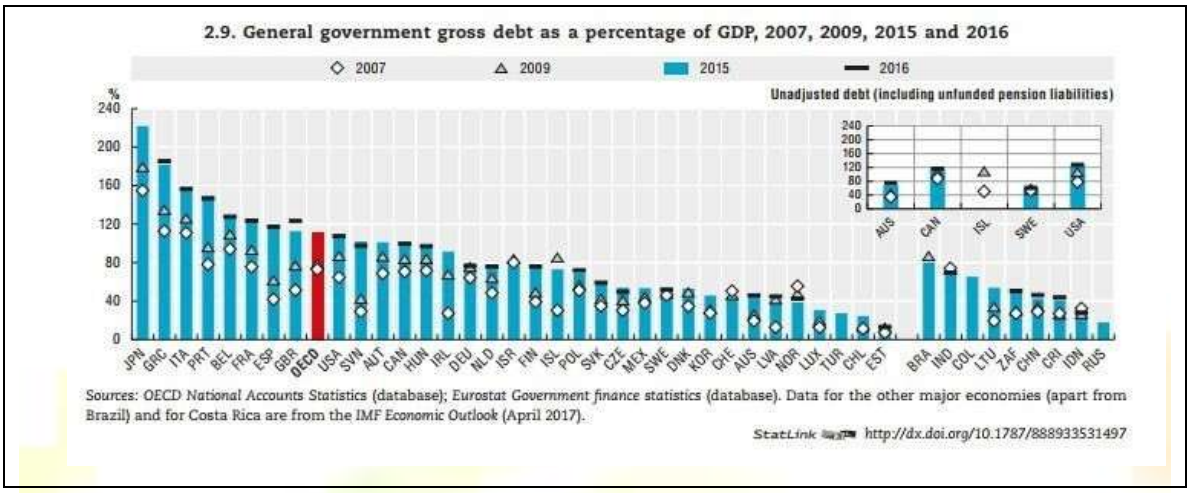


Image: OECD

How much is it per person?

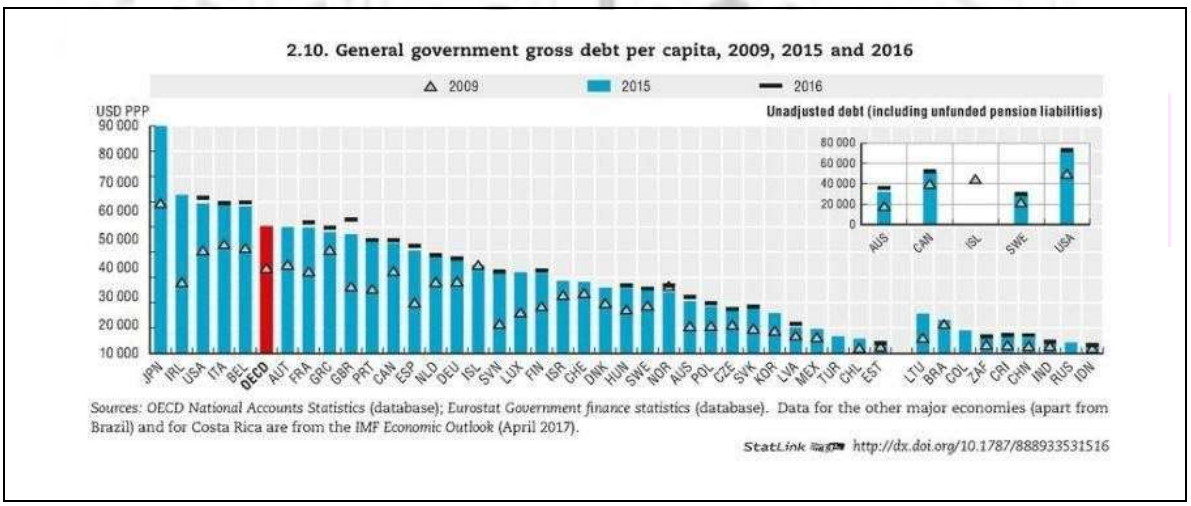
One way to think about government debt is in per capita terms. So, for example, if the Japanese wanted to pay off their national debt, they would owe $90,345 each.

Among OECD countries, Ireland, the US and Italy are next, with $62,687, $61,539, and $58,693 respectively.

Belgium, at $58,134, is above the OECD average of $50,245.

Austria, France and Greece all have higher per capita debts than the UK, and their citizens would have to find almost $50,000 each ($49,975, $49,652 and $47,869 respectively).

Per capita debt among OECD countries has increased at an average annual rate of 5.9% since 2007. The amount owed per person in each country varies dramatically, from Japan's $90,345 to Estonia's $3,761.



The rise of debt

The level of gross government debt as a percentage of its GDP is an indicator of how able a country is to pay back debts without incurring further debt.

When a government borrows money, it has to pay it back with interest. So when interest rates go up or the economy slows down, debt levels can become unsustainable.

In 2015, the average level of gross public debt in the OECD countries reached 112% of GDP. That's compared to 73% in 2007, before the financial crisis.

Debt levels increased the most in Spain, Slovenia, Portugal, and Greece.

Only three OECD countries have reduced their debt levels since the financial crisis: Norway, Switzerland and Israel. Countries with the highest public debt throughout this period are Japan, at 221.8% of GDP in 2015, followed by Greece (181.6%), Italy (157.5%) and Portugal (149.2%).

Although Greece's debt/GDP ratio is significantly lower than Japan's, the consequences have been much more severe in Greece, not least because the debt is owed to foreign rather than domestic creditors.

https://www.weforum.org/agenda/2017/10/this-is-how-much-debt-your-country-has-per-person/?utm_content=buffer0c659&utm_medium=social&utm_source=plus.google.com&utm_campaign=buffer

4 - This is how much you would have to contribute to pay off your country's debt


Image: REUTERS/Pichi Chuang 20 Dec 2016 Alex Gray Formative Content

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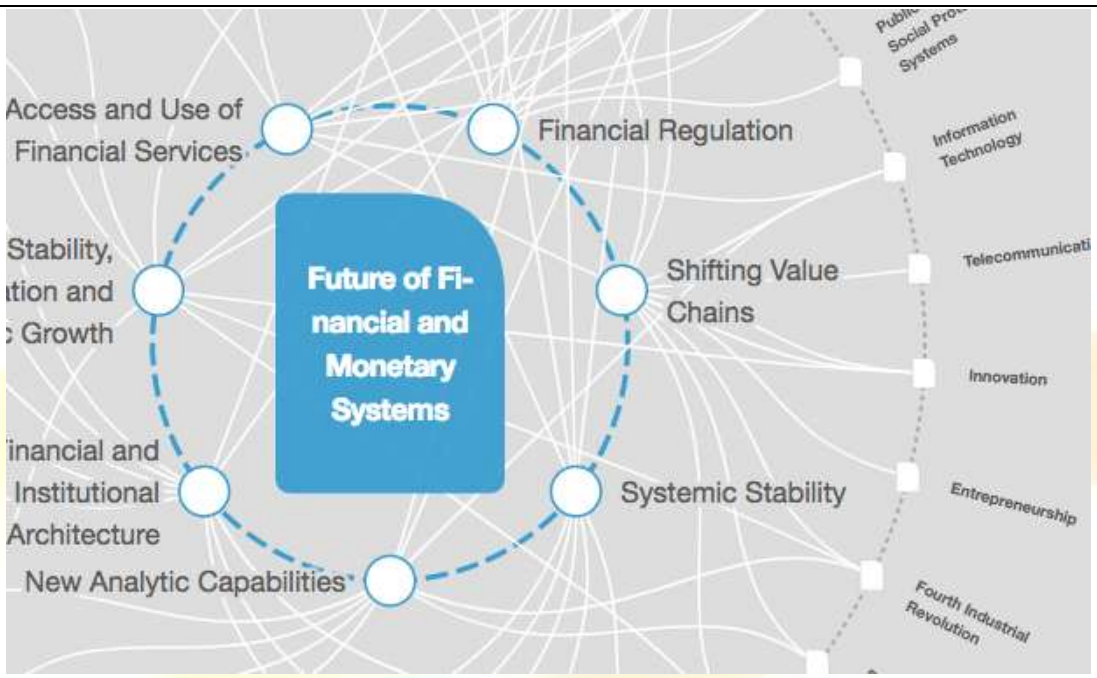

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In addition to collecting taxes, governments also borrow money in order to meet their spending obligations.

For a lot of developed countries, this is usually in the realm of millions or trillions of US dollars, numbers that we might struggle to comprehend.

For example, the gross national debt of Japan is $ 10,000,000,000,000.

The gross national debt of the United States is $18,992,810,000,000.

This map seeks to make those numbers a bit more understandable, by looking at the debt relative to the country's population. In other words, by showing how much we would each owe if it were up to us to pay it back.

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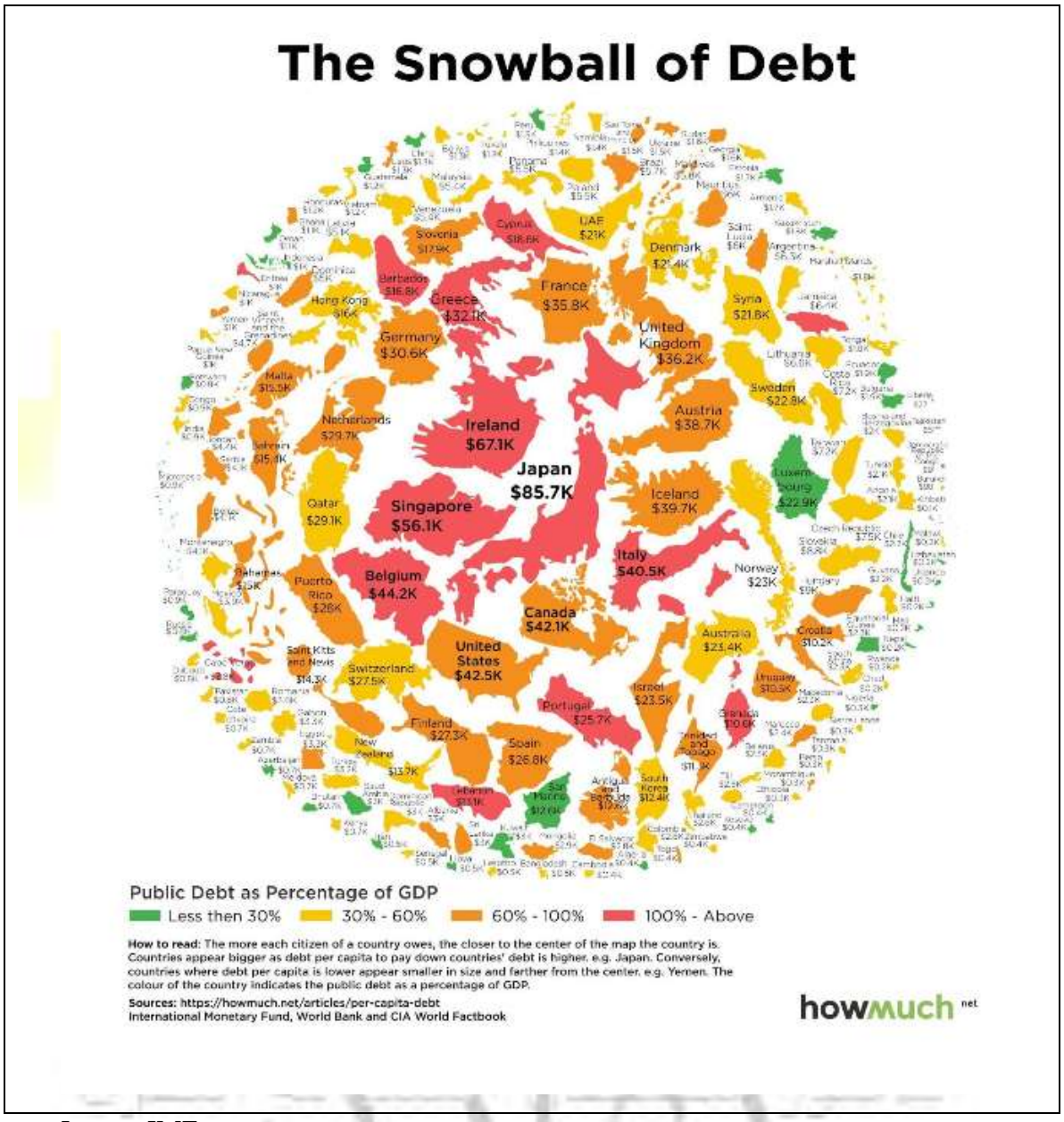

Image: IMF

At the centre of the globe are those countries which owe the most. For example, every person in Japan would have to pay a whopping $85,694.87 in order to pay off their government's debt.

Every person in Ireland would have to pay $67,147.59. In Singapore, it's $56,112.75 per person, and in Belgium, it's $44,202.75 per person.

Every American would have to pay $43,503.00.

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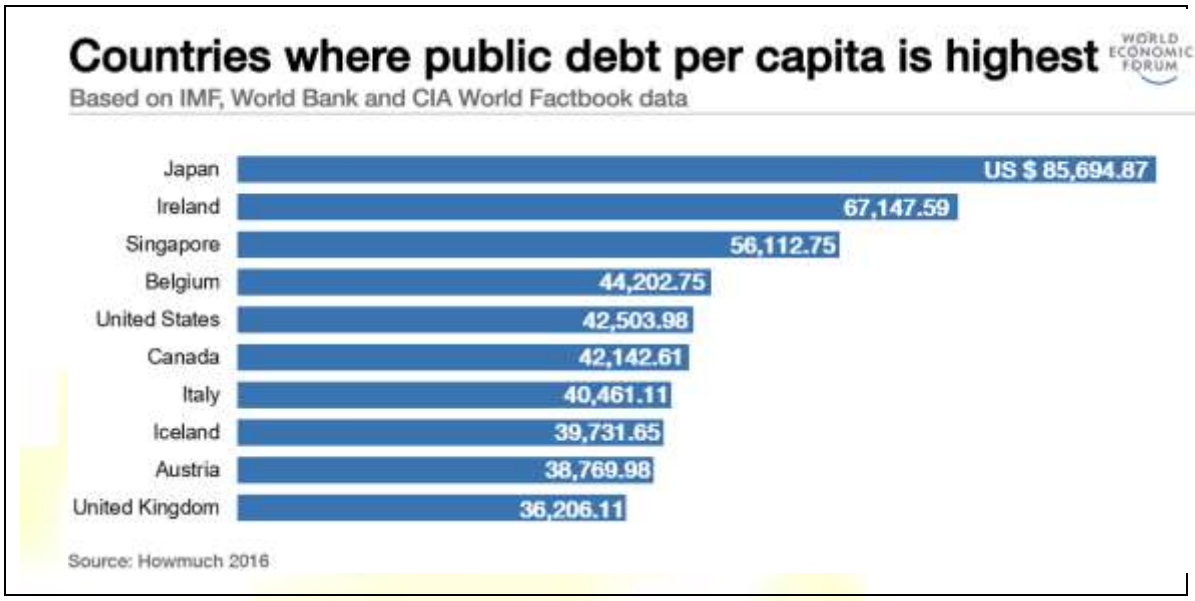


Image: World Economic Forum

In some countries, with national debts that are much smaller, the figures are lower than $30 a person. In Liberia, for instance, a country with a national debt of 798,000,000,000, its people would have to pay back $27.44 per person. In Tajikistan, they would pay $50.67 per person and in the Democratic Republic of Congo, $90.70 per person.

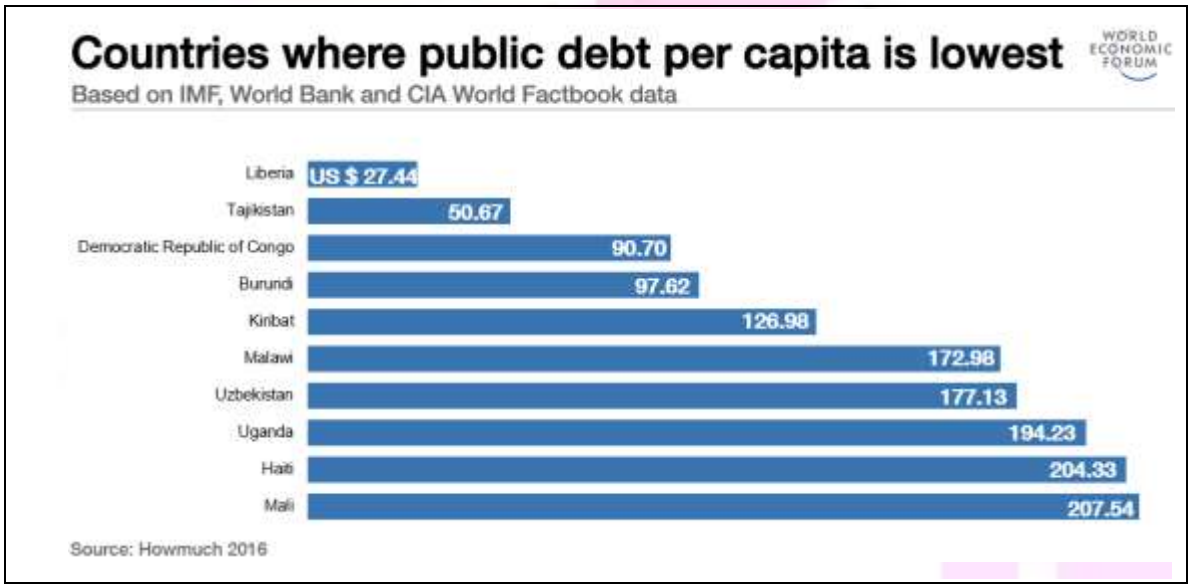


Image: World Economic Forum

This clock is said to continually count the UK national debt, showing that it increases at a rate of £5,170 per second.

Image: National Debt Counter

Governments borrow money to spend on investments that will boost their own economies, as well as to meet their spending obligations. In an environment of low interest rates, it's cheap for them to do so.

However, some say that the debt is unsustainable, arguing that it poses new risks to financial stability and may undermine global economic growth.

https://www.weforum.org/agenda/2016/12/this-is-how-much-you-would-have-to-contribute-to-pay-off-your-country-s-debt

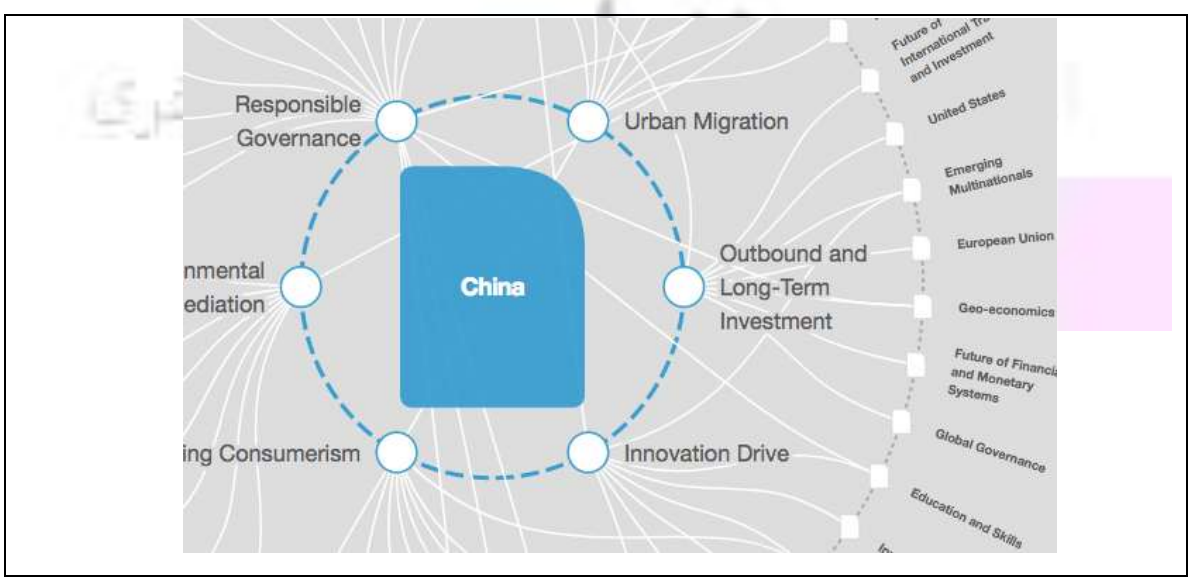
5 - Chinese debt has been downgraded for the first time in almost 30 years

The key features of the FIH can be boiled down to six types of crisis warning signs.

Image: Reuters This article is published in collaboration with Forbes

02 Jun 2017 Hersh Shefrin Contributor, Forbes

Explore context , China



Explore the latest strategic trends, research and analysis

Moody's has finally recognized the dangers of instability in China's financial system and economy. This past week, the ratings agency downgraded China's debt one notch from Aa3 to A1. Although that might not seem like a lot, it's Moody's first downgrade of Chinese debt in almost 30 years; and that is something to take seriously.

The danger signals in China's economy have been there for anyone to see, that is for anyone not in denial. But many are in denial, including other rating agencies, investors and journalists. Being in denial means ignoring the warning signs, just as rating agencies, investors, and journalists ignored the warning signs in the lead up to the global financial crisis.

Commercial towers are seen in Central, a business district of Hong Kong, Thursday, May 25, 2017. Moody's has cut its credit rating for Hong Kong hours after downgrading China for rising debt levels, which it said would have "significant impact" on the Asian financial hub because of their close links. (AP Photo/Kin Cheung)

To be sure, the late economist Hyman Minsky laid out the general warning signs in a framework he called the financial instability hypothesis (FIH). However, most ignored Minsky's messages until it was too late. It was only after the global financial crisis erupted that the phrase "Minsky moment" became fashionable.

Coverage of Moody's downgrade by The Wall Street Journal and The New York Times has nicely conveyed the key facts of what led Moody's to downgrade China's debt. But the coverage could do more by linking those facts to the FIH, in order to help readers connect the dots of how the worrisome pieces of the China puzzle fit together.

The key features of the FIH can be boiled down to six types of crisis warning signs, two signs that a crisis is erupting, and four types of policies for mitigating the magnitude of a crisis. The specific warning signs are not arbitrary, but instead characterize the evolution of systemic risk as the financial system moves towards the red zone during the latter phase of an economic expansion. In this regard, China's economy expanded at an official rate of 10.6 percent in 2010, but its more recent growth rate has been lower, 6.7 percent in 2016. Moody's forecasts that over the next five years, the rate will continue to decline, falling to 5 percent.

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What follows is a short FIH-based rundown on China, organized around the six warning signs. This rundown takes the key points in the media coverage of Moody's China downgrade, and matches these points to Minsky's perspective. In making the match, I hope to encourage journalists to organize their ideas so as to present the discussion in the context of the bigger picture, and thereby present their readers with a coherent view of what the facts mean for overall financial stability.

Excessive leverage: As a percentage of GDP, China's debt at 164 percent is high for a developing country. In the first half of the century, before the financial crisis struck in 2008, China's debt was stable. Since then, it has grown by 15 percent of GDP, per year. The lion's share of that debt relates to businesses, and to a lesser extent local governments, rather than to households and the central government.

Surge in shadow banking: In the past, four large state-controlled banks dominated China's banking sector. However, in recent years a shadow banking system has evolved, involving local and provincial banks that today account for roughly half of the assets in the country's banking sector. While the state is the lender of last resort for the four large banks, the latter serve as the lender of last resort to the shadow banks. Therefore, imprudent risk taking by shadow banks holds the potential to shock China's entire financial system.

Increased speculative and Ponzi finance: According to the FIH, a major source of financial instability is when borrowers count on price appreciation, in addition to cash flows, to make principal and interest payments. This feature is compounded by mismatching the maturities of assets (long-term) and liabilities (short-term), with borrowers needing to continue borrowing short term in order to avoid defaulting on their obligations. In recent years, banks in China have continued to make loans to state-owned firms that are experiencing financial distress, in order that these firms do not default. Minsky warned that such practices render the country's financial system to become increasingly fragile.

Emergence of asset pricing bubbles: Although pricing bubbles were not highlighted in the media coverage of Moody's downgrade, in recent years China has experienced both a stock market bubble and a real estate bubbles. What does get highlighted is the use of financial innovation. In particular, shadow banks are partly funded by state-owned banks, and partly funded by selling wealth management products to customers. These products

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are often non-transparent in terms of risk, and indeed are used to finance highly speculative construction projects.

New era thinking: China's reaction to the Moody's downgrade has been to suggest that Moody's does not fully understand China's system, which is different from corresponding systems in the West. To be sure, there are differences. Chinese central government debt is relatively low, as is residential mortgage debt. Chinese borrowing from the rest of the world is also low. On the surface, China scores favorably on three of the four FIH crisis mitigating factors: a large public sector able to increase spending to offset declines in aggregate demand, the power to create jobs when the labor market weakens, and the ability to rescue enterprises that are too big to fail. Notably, The Wall Street Journal reports that China has recently initiated efforts to reduce risky investment and financing practices by raising key short-term interest rates.

Regulatory failure: China scores less well on the FIH's fourth crisis mitigating factor. Over time, its regulatory system has deteriorated significantly, especially as regards the country's shadow banks, where the increase in speculative and Ponzi finance have been concentrated. Perhaps there is hope, as The Wall Street Journal reports that regulators have increased their oversight of investment products that feature highly leveraged bets in financial markets.

The six warning signs just described signal increasing financial fragility in China. In the FIH, there are two main indications that a crisis has erupted. The first indication that a crisis is erupting will occur when there is a run on Chinese financial institutions, especially the shadow banks. That is when the Chinese public will lose confidence in these banks. The resulting bank runs will feature a collapse in the markets for shadow banks' wealth management products. A wave of defaults will follow. As the crisis evolves, larger firms will be pulled down by the failing shadow banking sector. Remember that the large state run banks are the shadow banks' lender of last resort.

https://www.weforum.org/agenda/2017/06/chinese-debt-has-been-downgraded-for-the-first-time-in-almost-30-years

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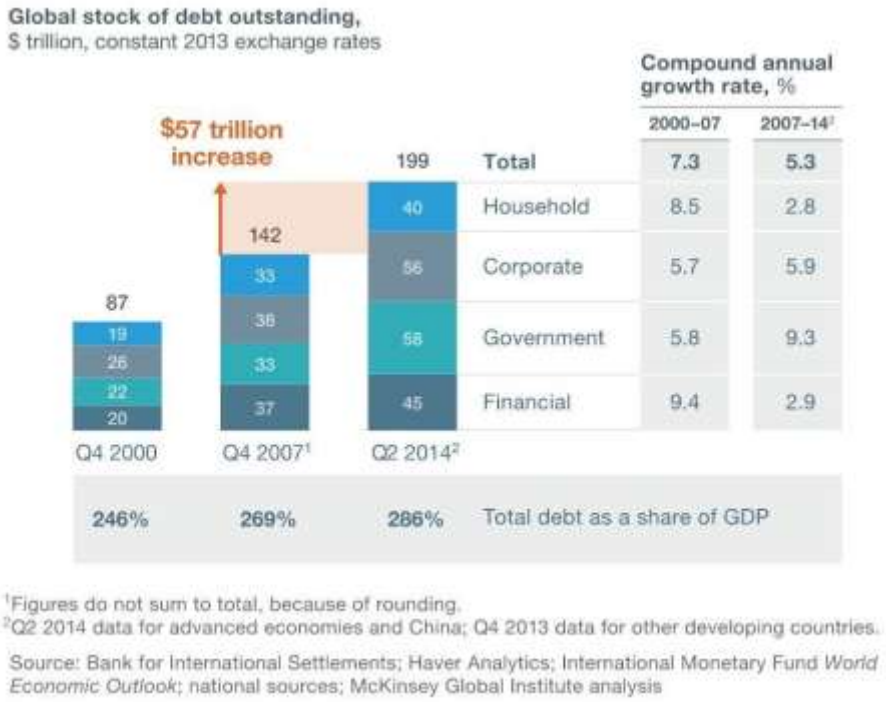
6 - Is there ever a safe amount of debt?


Image: People cross an illuminated floor at a banking district in central Tokyo. REUTERS/Thomas Peter.

This article is published in collaboration with Project Syndicate, 01 Feb 2016

Robert Skidelsky Member of Parliament, House of Lords, United Kingdom

Is there a "safe" debt/income ratio for households or debt/GDP ratio for governments? In both cases, the answer is yes. And in both cases, it is impossible to say exactly what that ratio is. Nonetheless, this has become the most urgent macroeconomic question of the moment, owing not just to spiraling household and government debt since 2000, but also – and more important – to the excess concern that government debt is now eliciting.



According to a 2015 report by the McKinsey Global Institute, household debt in many advanced countries doubled, to more than 200% of income, between 2000 and 2007. Since then, households in the countries hardest hit in the 2008-2009 economic crisis have deleveraged somewhat, but the household debt ratio in most advanced countries has continued to grow.

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The big upsurge in government debt followed the 2008-2009 collapse. For example, British government debt rose from just over 40% of GDP in 2007 to 92% today. Persistent efforts by heavily indebted governments to eliminate their deficits have caused debt ratios to rise, by shrinking GDP, as in Greece, or by delaying recovery, as in the UK.

Before modern finance made it easy to live on borrowed money, getting into debt was considered immoral. "Neither a borrower nor a lender be," Shakespeare's Polonius admonishes his son Laertes. The expectation of uninterrupted economic growth brought a new perspective. Mortgage debt, unknown a century ago, now accounts for 74% of household debt in developed countries (43% in developing ones). Banks have been lending, and households borrowing, as if tomorrow was sure to be better than today.

Likewise, governments used to be expected to balance their budgets, except during wartime. But they, too, came to expect continually rising revenues at unchanged, or even falling, tax rates. So it seemed prudent to borrow against the future.

Today, with many households and governments facing severe financing problems, that no longer appears to be true. But the only certainty is that the "safe" debt ratio depends on the context.

Consider Denmark and the United States. In 2007, Denmark's household debt/income ratio reached 269%, while the US peak was 125%. But household default rates have been negligible in Denmark, unlike in the US, where, in the depths of the recession, almost a quarter of mortgages were "under water" and some homeowners chose strategic default – fueling further downward pressure on housing prices and harming other indebted households.

This can be attributed to the distribution of borrowers. In Denmark, high-income households borrowed the most, relative to their income, and standards for mortgage lending remained high (mortgages were capped at 80% of the value of the property). In the US, households with the lowest income (the bottom quintile) had a higher debt/income ratio than the top 10%, and mortgages were dispensed like gumballs. In the US, as well as in Spain and Ireland, banks and households became what the Financial Times columnist Martin Wolfcalled "highly leveraged speculators in a fixed asset."

As for government debt, Japan's debt/GDP ratio is 230%, compared to Greece's 177%. But the consequences have been much more dire in Greece than in Japan. The distribution

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of the creditors is crucial. Most of Japan's bondholders are nationals (if not the central bank) and have an interest in political stability. Most Greek bondholders are foreign banks. Yet, while crises of confidence come much sooner if debt is mainly owned by foreigners, no steps have been taken to restrict government borrowing to domestic sources.

We now know that the expectation of uninterrupted growth was a delusion. But governments have been slow to rearm against the next crisis. Macro-prudential tools like counter-cyclical capital and reserve requirements on banks have been emasculated by vested interests in the financial industry. And, while governments have been trying (albeit ineffectually) to reduce their net liabilities, they have been encouraging households to increase their debt, in order to support the restoration of "healthy" growth.

The McKinsey report uses consensus data from the International Monetary Fund and the OECD to forecast that, with the notable exceptions of Germany, Greece, and Ireland, the debt/GDP ratio in advanced economies is set to rise. This seems alarming. But a great deal of the alarm is based on the oft-repeated canard that government spending is unproductive and a burden on future generations. In fact, future generations will benefit more than the current one from government infrastructure investment, so it is reasonable that they should pay for most for it.

The purpose for which the debt is incurred is important. Debt crises are likelier if debt is being used to cover current spending. But now, when real interest rates are almost zero or negative, is the ideal time for governments to borrow for capital spending. Bondholders shouldn't worry about debt if it gives rise to a productive asset.

All governments nowadays aim for a fiscal surplus to pay down debt. This is sensible, but how it is done matters. In conditions of incomplete recovery and stagnating growth, raising taxes or cutting welfare spending is the wrong approach; fiscal consolidation requires taking active steps to increase GDP growth.

In the long run, this can be achieved only by raising productivity. But governments can help make the long run shorter. They have been relying on printing money to offset their fiscal policies' deflationary effects. But as McKinsey puts it, "Liquidity...cannot translate into inflation when demand is depressed, the propensity to save is high, and banks are still de-leveraging." Expansionary fiscal policy is taboo, because it threatens to increase national debt further. But much depends on how governments present their accounts. In

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2014, the Bank of England held 24% of UK government debt. If we discount this, the UK's debt/GDP ratio was 63%, not 92%.

So it makes more sense to focus on debt net of government borrowing from the central bank. Governments should be ready to say that they have no intention of repaying the debt they owe their own bank. Monetary financing of government spending is one of those taboo ideas that is sure to gain support, if, as is likely, economic recovery grinds to a halt.

https://www.weforum.org/agenda/2016/02/is-there-ever-a-safe-amount-of-debt

انتهى التقرير

The report ended

Raport się zakończył

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