

ISLAMIC ECONOMY RESTRICTIONS TO OVERCOME THE CURRENT FINANCIAL CRISIS

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المستخلص

هذه الورقة تسلط الضوء على نقاط القوة في الشؤون المالية الإسلامية في سياق الأزمة المالية والاقتصادية الحالية. وأيضاً، ويبحث ما إذا كان التمويل الإسلامي يمكن أن تساعد على توفير نهج بديل للمشاكل التي أدت إلى الأزمة التي من شأنها منع تكرار حدوث أزمة مماثلة في المستقبل. نتيجة الأزمة المالية العالمية وأثارها على الاقتصاد العالمي، هناك تزايد من الوعي واستكشاف أكثر نشاطاً من الأطر وأنواع الأدوات المالية والوسائط المالية. أن اسباب الداعية الى هذه الأزمة عديدة، مثل أسعار الفائدة، والرهون العقارية، والاقتراض لمؤسسات وهمية، قد تنتهي بكارثة مما جعل الكارثة أكثر شراسة، ويتوجه نحو الانهيار.

Abstract

This paper highlights the strengths of Islamic finance in the context of the current financial and economic crisis. And also, examines whether Islamic finance could help to provide an alternative approach to the problems that led to the crisis that would prevent the repetition of a similar crisis in the future.

As a result of the global financial crisis and its effects on the world economy, there is an increasing awareness and exploration of more vigorous frameworks and types of financial tools and intermediations. The crisis was attributed to many causes, such as interest rates, mortgages, borrowing for fake institutions, ending with a disaster which made the disaster more virulent, and heading towards collapsing.

Key words: *subprime mortgage, global financial crisis, Islamic financial system,*

Introduction

The world economic crisis was not a surprise to specialists and observers, who warned of this crisis years ago. This time the crisis hit hard the capital system led by the United States of America¹, the strongest economy in the world. The latter's economy represents 30% of the world economy. Is it a matter of losing trust? Worldwide voices have risen about this crisis for solutions to solve this problem that hit the entire world, many people wonder:

- *What are the causes of the global financial crisis?*

- *What are the causes that made banks and large companies that depend on financing from banks by interest systems go bankrupt?*
- *What are the expectations and effects that this crisis will have upon the world economies?*
- *Many Arabs and Muslims wonder, what is the view (point of view) of the Islamic economy and the Islamic banking system?*
- *These questions and others will be the center of this study according to the following plan*

I. DIAGNOSING THE CRISIS

During the new-liberal globalization period, which started in the seventies of the twentieth century, the large capitalist centers specially the U.S. underwent the process of deindustrialization, whereby the western capitalism moved from depending on local national markets to the current globalized figure from globalization through transferring heavy polluting industries to China, India and other countries. That was accompanied by releasing the capital markets and removing all restraints that were organized for it, which lead to the collective immigration of the capital to the “Asian Heavens,” and also to the division of a new international action: Modern technology, research development, commodities (financial services) in capitalist centers and traditional industrial operations in parties.

The crisis began after the increasing concern of the dealers in the financial market about the conditions that the world credit markets are undergoing. Most of which most analysts ascribed to the problems that happened to the U.S. mortgage market known by “Saab Prime,” which gives loans to those interested in housing without requiring a strong financial track record from the borrower². This contributed to the serious dropping of stock during the last previous period. The banking sector stocks were most affected, such as, U.B.S., H.S.B.C., and Barkly’s Banks, which were the most effected during the crisis. This was a reason for attracting financial analysts who explained the crisis by saying that the investors in the stock market don’t know which banks were exposed to mortgage credit problems and what the potential losses were, and everyone started to sell hysterically.

At this level 70 American mortgage companies suspended their operations and declared bankruptcy, or were put in the market since the beginning of 2006 until now. Country Financials mentioned that the mortgage market difficulties have become a

serious threat to its profits and financial status. Finally, “Home Mortgage Investment” announced bankruptcy, and the quarterly revenue of “Toll Brothers Real Estate” dropped. “Home Depot real Estate” also announced that profits are expected to decline due to the falling of the residential property market.

In spite of all procedures this hasn’t prevented the spread of a global phenomenon. The phenomenon which expresses itself in the decline in capital markets in Thailand, Malaysia, Hong Kong, Indonesia, Korea, Singapore, and Taiwan. The decline in the China market was less than its counterparts in Asia. Whereas the Chinese banks announced that they don’t have investments linked to the U.S. mortgage problems. In Europe, financial analysts described the crisis there as a serious crisis threatening the European financial system, but not a disastrous one. Markets fell in Sweden, The Netherlands, Norway, Belgium, Austria, Denmark, and Finland. Also for Britain’s F.T.SE (Financial Times), Germany’s D.A.X., France’s C.A.C. 40, Britain’s Vosty, Italy’s Meptel, and the broader T.O.P.I.X., which hit its lowest point in November 2006 and Japans Nikai, which closed at its lowest level in eight months. That was clearly on the indicator of Dow Jones Industries, which was shaken violently, dropping to levels below the barrier of 13000 points. While the Nasdaq indicator lost about 1.7 of its value.¹

Depending on what benefits it generates, which began simple for two years and then increased after that. In return, the borrowers who are homeowners re-mortgaged real estate after evaluating it for more than its original value. Then they took loans from other institutions, which in turn sold these loans to companies that issued the securitization bonds and raised them in the capital markets and stock exchanges for trading. In the third step was the issuance of financial instruments (derivatives) to speculate on the differences in the prices of these bonds which were put on the market as well, and were traded separately from the bonds. Thus the houses held a large number of loans that exceed their value, and they cut off the link between the bondholders and borrowers ensured by the real estate.

The features of the global financial crisis can be summarized by saying that the financial institutions gave huge loans to real estate finance worth approximately 11 trillion dollars for buying houses. It also gave a similar amount in consumer loans for credit cards, and then sold these loans to securitization companies and relented the proceeds to new real estate finance over and over. The factoring firms issued bonds

¹ Reading in the Islamic world crisis: d. Mohamed Abdel Halim Omar (Saleh Kamel Center for Islamic Economics)

with the value of such loans and they were traded by reselling them to others and to others repeatedly, that in rates higher than its nominal value. Depending on what it generates from profits, which began low for two years and increased after that. In return the borrowing homeowners remortgaged the properties after evaluating them with amounts higher than their original value and got loans from other institutions, who in return sold these loans to factoring firms that released upon it bonds and raised them in the financial markets and stock exchanges to be negotiated. In a third step financial instruments (derivations) were issued to speculate on the differences of the prices of these bonds, and were put in the market as well, they were traded separately from the bonds. Thus the houses were held many loans worth a lot more than the actual price of these houses, and the connection between the bond holders and the borrowers was broken.

When the real estate market was full and the demand dropped, prices of homes or property fell. In the light of the increasing interest and the inability of owners to sell or re-mortgage to get new loans they stopped the payments for the loans and the interest. Here began the decline in bond prices and its owners headed towards selling them with loss. Then the financial institutions stopped lending due to former borrowers failed to pay. Once again the demand of real estate decreased, thus its value dropped. It has been legally decided that loan giving financial institutions despite the sale is considered responsible with the securitization companies for following up the collection of the premiums and the benefits and handing them over to the bondholders. When the borrowers stopped paying they left the houses to the financial institutions, which are worth a lot less than value of the loans. The inability of these institutions to sell these loans, due to the slowdown in the real estate market, which made these loans poor can't be collected. These loans were originally funded by the deposits of other clients, so the clients began a group withdrawal of their money which lead to the failure of the financial institutions to face this withdrawal so they declared bankruptcy. In return the stocks of these financial institutions and the real estate investment companies, which give loans as well, dropped. This led to the collapse of financial markets. Thus, in a simplified example a house worth a million-dollar brought traded debts in the financial markets worth \$ 30 million based on each other in a fragile balance, so that if one could not pay the entire system collapsed, which happened in the global crisis.²

² Islamic economic controls in handling global financial crises: Dr. Samer Madher Qntakji p. 28-30.

In the consequent development of the crisis mortgage companies and banks made an agreement with the property buyers to insure loan repayment at insurance companies in return with installments. When the buyers failed to pay these installments, the insurance companies started to claim for the payments. Then, when the problem aggravated, these companies failed to provide the necessary liquidity to pay the compensations and entered the circle of stumbling and bankruptcy. So everyone began fighting for the monarchy or the rights of the house. The house owner believes that s/he has the right of owning the house because s/he has bought it, and the mortgage companies and the banks believe that they have the right of owning the house because it is mortgaged to them. The other companies who the buyer mortgaged the property to for a new loan also believe that it has the right to own the house, as well as the insurance companies. This means that one property which is worth a certain amount of money became debited to many parties with an amount worth double times worth the actual price. When the house buyers stopped paying, the banks and companies attempted to sell them, but the buyer refused to leave according to the law. This is what led the property prices to drop, because it is occupied. And here the prices of the bonds, which were raised for the house mortgage, began to drop because their owners tried to get rid of them by selling them. So, the problem got more complicated and accumulated.

With noticing that banks have stopped giving new loans, this hit finance that the enterprises require (industrial, agricultural, commercial and.) Enterprises who didn't find the necessary money to finance their operations, and that lead to the decrease of its activities. Thus having to lay off some of the employment, this increased unemployment and lead the economy to a phase of consecutive depression. Here serious implications happened some of which were made by the governments to give huge amounts of money to financial institutions to buy the bad loans, nationalize some, merge others together, and impose commandments on them. However, these methods could not stop the crisis, but it is still increasing day by day.

II. THE REAL AND DIRECT CAUSES OF THE CRISIS

The crisis has exposed the defects of the capitalist economic system that has been dominating the world for more than three centuries. These defects can be analyzed from an Islamic perspective through the following key factors:

First: Mortgage where the contract shall be tripartite between a property owner, a buyer, and a financier which could be a bank or a real estate financing corporation. The

owner has to sell the property to the buyer for a certain price and the buyer must pay part of the price; for example, 10%. Then, the financier, in the same contract, pays the rest of the money to the seller immediately, considering it as a loan to the buyer in return for mortgaging the property to the financier. The loan shall be paid in long-term installments between 15-30 years, with a low interest rate in the first two years, which increases afterwards. The property is registered in the name of buyer who becomes the owner. Thus, s/he has the right to sell or mortgage it.

Mortgage is the main cause of the crisis, because banks neglected the verification of the creditworthiness of the borrowers and lured them with low interest at the beginning, and the expanded in giving loans creating a growing demand on real estate leading to market saturation³. Therefore, prices of real estate dropped and borrowers failed to pay the loans. Banks had sold these loans to securitization companies that have issued bonds for these loans and put them for Initial Public Offering (IPO). Thus, mortgage resulted in a large amount of interrelated debts in such a fragile balance that led to the collapse of this structure and the problem took place accordingly.

From an Islamic perspective, this method of mortgage is not permissible. According to the resolution of the International Islamic Fiqh Academy number 6/1/52 in its session held on March 1999 states: "Housing is one of the basic needs of humans, and it must be provided legitimately with money earned through legal ways. The method that real estate and housing banks follow in loaning with low or high interest is forbidden because it involves usury. There are legitimate ways used instead of those that are forbidden to provide a home to be owned."

One of these legitimate ways followed by Islamic financial institutions is that a financing corporation buys the property and then sells through credit-sales (*Murabaha*). Another way is making a procurement contract with the client to build the building.

These two ways differ from the loan method in the fact that they do not deal with usury and they link between finance and real estate without creating multiple debts.

Second: re-selling or re-mortgaging the property: buyers often sell the mortgaged property, or mortgage it for a new loan with interest; thus, one property bears multiple mortgage rights. In the course of the crisis, the borrower stopped paying and the value of the mortgaged property couldn't suffice for paying both loans.

This issue is religiously forbidden for two reasons:

- *It is a process involving a new loan with usurious interest which is forbidden in Islam.*

- *The Islamic jurisprudence does not allow re-mortgaging an object for another loan without the permission of the first mortgagee. If the mortgagee gave permission, the second mortgage is accepted but the first is invalidated because the mortgage is a right of one object and there are no two rights for one object. Also, if the mortgaged object was sold, its price becomes a mortgage that may not be used.*

However, if the mortgagee permitted the mortgager to sell or use the money, the mortgagee has no right in the money. So, the loan becomes without mortgage.

Third: Securitization: It means that banks and mortgage companies sell the accumulated mortgage debts of the clients who bought the properties to specialized companies which are legally called “securitization companies.” This sale is in return of an instant price that is less than the value of the debt. Then, the securitization company issues bonds that amount to the debt with a nominal value for each bond and puts them for IPO (for offering) to individuals or institutions for a price higher or lower than the nominal value (with a premium or a discount.) Bondholders get the loan interest, and the securitization companies along with the financing corporation take the installments and the benefits from the original borrowers and give them to the bondholders. Therefore, the financing corporation gets liquidity and the securitization companies make the difference between the value of the loans and what they have paid for buying them. The bondholders gain the interest as well as the ability to trade these bonds in the capital market by selling them with prices higher than their original prices when their interest rate is higher than regular, or they could sell them with lower prices if their interest rate drops or when they are in urgent need for liquidity. As the circulation of the bonds continue their ownership transfers to many people inside the country and abroad.

When property buyers borrow from other financial institutions by mortgaging the same properties, these institutions sell the loans to a securitization company that makes bonds for the loans and puts them for sale in the markets. Thus, many people and institutions have rights on the property and the value of the stocks issued increases if compared to the value of the property. If these loans turn into doubtful loans due to the failure of the property owner to pay or the drop of the property’s value in the markets, the bondholders hurry to sell their bonds, resulting in an increase in supply and prices fall. This leaves pressure on the financial institutions and the securitization companies. Thus, it could be claimed that securitization and its results such as inflation of the value of debts, the spread of debited bondholders, and multiple debts on one property constitute the cornerstone of the financial crisis.

Securitizing debts is intrinsically religiously forbidden for the following reasons:

- The securitization process is done by selling the loan to a securitization company for a price lower than its actual value, which means the company pays less and takes more which is pure usury.
- The bonds yield profits from interest, which is usury.
- These bonds are usually traded in the stock market on credit or on installments, and that is a kind of selling a loan with a loan which is religiously forbidden.

For these reasons the International Islamic Fiqh Academy of the Islamic Conference Association issued the resolution number 11/4/92, in its 11th session in November 1988, which states:

“It is forbidden to sell a deferred debt without a debt of accelerated money of its same sort or of a different one, because it is a type of usury. It is also forbidden to sell the deferred debt for deferred money of its sort or of a different sort, because it is selling the late paid for the late taken which is religiously forbidden. There is no difference in that if the debt has emerged from a loan or a future sale.”

In its sixth session in January 2003, the Islamic Fiqh Academy of the Muslim World League issued a resolution which states:

“Dealing with, issuing, trading or selling usurious bonds, is forbidden because they contain usurious interests. It is also forbidden to securitise debts so as to be negotiable in a secondary market, because it is part of the resolution of commercial papers which contain selling a debt to a non-debt containing usury”.

Fourth: Interest: The other factor that lies behind the acute crisis is the interest that controls the global financial system as it is considered the sole drive of the economy, and the perfect mechanism through which resources are allocated and wealth is distributed. It is the heart of the capitalist idea since ancient times, the idea that criticisms and the series of financial crises failed to review or dispose and find alternative mechanisms.

The interest system has led to the wide spread of usury, and produced a series of crises and shocks such as the latest mortgage crisis which revealed openly to the attention of the world the amount of greed of the capitalist speculators in the capital markets through the expansion of the usurious lending and borrowing, aiming to achieve more profits regardless of the dangers and consequences that may harm humanity. It is not of any concern of those speculators and bank managers, but on the

contrary, this crisis and the Dot-com bubble before it began due to the reckless behavior of the banks and the American lending institutions that push the borrowers to buy homes into more consumer loans just because of an exceptional boom in real estate prices with full prior knowledge that they are exposed to bankruptcy and failure to pay at the first shake down of the financial sector.

This is how the subprime crisis began, where the citizen buys a house with a debt through mortgaging that property. Then, the price of the property rises, thus the property owner tries to get a new loan due to the rise of property prices in return for a second-class new mortgage. This resulted in the so called “subprime crisis” because they are second class mortgages. Therefore, they are vulnerable, if values of property drop. Consequently, the banking sector –the financial sector in general– has played an important role in increasing the amount of traded financial assets and the trust in them.

Since the financial assets are like the circulation in the human body, it’s not enough for the human body to have major organs such the heart, the stomach and the lungs, but there must be a blood circulation to feed and move the human body. Similarly, the current capitalist economy became unsatisfied with factories and farmlands which shape the real economy and it has become a weak bubble economy based on default financial assets such as stocks, bonds and money that have mostly nothing to do with real production, investment and consumption.

The structural capital dilemma is caused by the unrestrained neoliberal globalization and the continual expanding gap between the rich and the poor in every country, as well as the high inflation of the prices of food and energy.

Historians, who confirm that empires crumble from within after eroding and going bankrupt due to their selfish and blind economic policies, will be assured with the credibility of their point of view, while they are recording the series of economical crises that encounter the capital empire that is on the verge of collapsing.

Allah the Glorified says: “Allah will deprive usury of all blessing, but will give increase for deeds of charity: For He loveth not creatures ungrateful and wicked.”³ (Chapter 2 the cow, verse 276) Allah -highly praised and glorified is He – promised to destroy money which was earned via usury. Most of the money circulating in the international banks and stock markets today comes from usurious deals and goes in usurious deals. The fate of the usury funds is destruction, sooner or later. Prophet Mohamed peace be upon him says: “Even though usury be much it leads in the end to

³ http://www.harunyahya.com/Quran_translation/Quran_translation2.php

penury.”⁴ Accordingly, we witness that banks, insurance companies, bond holders, and all those who have dealt with usury lost their money and its interest. This result is being experienced nowadays before it actually happens.

After he was promising the end of history with capitalism as the finest product of the human mind in history, Francis Fukuyama, a prominent neo-conservative advocate ruling in the USA, says in an article in Newsweek Magazine entitled “The Fall of America”: “Globally the United States will not enjoy the hegemonic position it has occupied until now, something underscored by Russia's August 7th invasion of Georgia. America's ability to shape the global economy through trade pacts and the IMF and World Bank will be diminished, as will our financial resources. And in many parts of the world, American ideas, advice and even aid will be less welcome than they are now.”⁵ Thus, it is not strange that the leaders of the capitalist countries themselves blame the USA and hold it full responsibility for what had happened, and its reckless policy, which has led to the financial credit crisis afflicting the world today, demanding a comprehensive global review of the system.

Fifth: Gambling: which is forbidden in all religions, but the capital system permitted it in lotteries, competitions, stock markets, etc. Then, the stock market was to be considered a mere club or casino for gambling, and capitalism became the capitalism of casino and gambling. The stock market processes are mostly based on speculating prices. This speculation may lead to stock assessment in the stock market worth more than its original value or a lot less. The stock contracts do not impose the seller to present what he had sold, neither the buyer to present what he had bought, but it is mere bets on the profit of future contracts with no delivery or receipt, rather the settlements are made depending on the differences in price. This creates an imaginary speculative economy far from the real economy. The profit of young investors depends on luck and lottery not on financial analysis and budget review of which that investors are not capable, even with the help of some analysts as the latter have no responsibility, so they would cheat him. Major investors in the stock markets deceive the minor ones, drain their savings, and lead them to bankruptcy. Hence, the stock market involves religiously forbidden and unethical behaviors that must be disposed to become a legal market that liquefies stocks and finances projects without speculation, betting,

⁴ <http://www.islamicedfoundation.com/askscholar/interest-money.htm>

⁵ <http://www.newsweek.com/id/162401/page/4>

gambling, risk, and deception. Such behaviors are all non-productive, even harmful, and at their best what one makes another loses.

The dominance of the usurious interest and its major growth in a short period led to selling loans progressively without any consideration to their actual value, this resembles gambling which is mentioned in the Holy Quran which criticized and forbade it. Al mayser (الميسر - gambling) comes from the Arabic word al yusr (اليسر) meaning ease, because it is money that is earned easily with no effort or hard work creating an idle class of gamblers in the community who seek easy money. This behavior is a negative behavior that causes loss without compensation and illegally seizes the money of people with no effort.

That process involves all sorts of financial speculation activities that control the world capital markets, excluding what was controlled by Islamic restrictions with no gambling and illusory profits. It contributes in making people used to laziness and expecting to make a living through deceptive ways. It also weakens the mind by making people neglect the right ways in earning, and also neglect the productive work such as agriculture, industry and trade which are the cornerstone of human development that is broader than development. The loan selling phenomenon that caused the mortgage crisis in the United States was a mere modern gambling operation that was conducted through securitization of those property loans through collecting and converting them into bonds and marketing them in the global financial markets. The securitization operations led to an increase in the amount of unpaid debts due to the doubtfulness of many of these loans, which caused a decrease of more than 70% in the value of the property bonds in the American market.

Sixth: Monotheism of the market: (monotheisme du marche Roger Garaudy)⁶ a French thinker and philosopher defines it as releasing the invisible hand of the market in controlling the system which is the main cause of what had happened and what will happen in the center of the system and its parties. It is also the source of the catastrophes and shocks that have been hitting the global markets for weeks. These markets have turned into somewhat casinos and gambling rooms for speculators that are governed by no law except concentrating on making more profits regardless of the cost.

The new liberal capitalist system dominated greatly and exceeded its limits to the extent that the people in charge thought that this system has no ending. They even

⁶- Roger GARAUDY, *Monothéisme du marché ou foi en l'unité de la vie ?*

thought that it was the dead end where people are powerless against it, as said by the liberal theorists such as Fukuyama and others, “*The End of History and the Last Man.*” It is the maximum ideological extremism and arrogance which humanity had never seen throughout history. It is normal that this kind of arrogant thinking creates this kind of crisis that indicates collapse.

Many capitalist thinkers, who admitted the propriety of the Marxian analysis of the fate of capitalism, have predicted that this will be the end of capitalism despite the erosion of the theory of socialism. Most of these thinkers have anticipated the fall of capitalism and declared its end that will last till 2050, as the American sociologist and historian Wallerstein expects.

Furthermore, warnings were given by senior economists such as the French economist Morris Ally, a winner of the Nobel Prize for economy, Fransuar Piero, and Allan Kutta, as well as by symbols of international speculation, such as Georg Soros, the writer of “*The Crisis of Global Capitalism*”, who raised attention to the urgent need of fixing the current capitalist system before it collapses.

Lester Throw, one of the most important analysts and economists close to decision making departments in America, had previously predicted that the future of capitalism is dark, and capitalism in its globalised edition will not be the savior. His book was published with an expressive Chinese proverb saying: “We are like a big fish has been pulled from the water and is flopping wildly to find its way back in. In such a condition the fish never asks where the next flip or flop will bring it. It senses only that its present position is intolerable and that something else must be tried.” He adds: “In fact, the current status of the world economy and the rules of the market are all intolerable, and the current financial crisis has led to the demand of the disposal of the market system and the declaration of the end of the free economy, as well as the importance of finding alternative choices that are more efficient and organized.” This was declared by many presidents, including the French president who considered the idea of the market superpower and preventing restricting it with any rules or any political interference as insanity. The idea that the market is always right was insanity as well. The French president called for reformation of the whole capital system after the serious gaps that have been exposed by the current financial crisis in the money markets.

Seventh: Derivatives: The devils of modern finance created the so called Derivatives as they are greedy and want to make more profits and interest. The International Monetary Fund defines derivatives as “Financial contracts whose value

derives from underlying securities prices, interest rates, foreign exchange rates, market indexes, or commodity prices.”⁴

Derivatives are Futures, Options, and Swaps, i.e. stock exchange contracts. They are named derivatives because their value is derived from other contracts, most of which are used for speculation on prices. Derivatives are known in the west as instruments of mass destruction or timed bombs expected to explode anytime, constituting tools of gambling and betting. They separate the risk from the related asset, and then the risk becomes a traded good. This leads to sharp fluctuations in the financial markets, as well as crashes and crises.

Most importantly, if the risk was a follow up of money or work then it is religiously permitted and profitable, but if it was separated from money or work, then it is not permitted to have profit. The risk such as price increasing to a specific time is permitted when it is a follow up and not independent. Islam may permit something that follows and may forbid something that is independent. It has been previously clarified that both time and risk are dependent factors of production. Therefore, usury in taking a loan, and gambling in stock markets are forbidden because usury is trading in an independent time, and gambling is trading in an independent risk.

Eighth: short term speculation methods: One of the methods that inflamed the crisis is the speculations that are based on the expectations of speculators that the prices will change during a short period to gain the difference in prices, or by increasing the dealings through allowing those who do not possess any money or securities to deal. The French economist Maurice Allias states “It is possible to buy without paying, and to pay without owning.” This process is done through many ways, namely:

a- Short selling: Encyclopedia Americana defines short selling as the practice of people’s selling something that they do not own, where they predict a decrease in the price of a security (bond or share) in the near future. Thus, they speculate (gamble) on that decrease and borrows from the broker of what the latter saves, or the broker borrows on their behalf a number of shares or bonds to immediately sell them for himself with the increased price. The amount of money remains with the broker to be invested without him paying any interest. After a short period of time, if the prediction of the speculator proves to be right, and the prices have increased, then he asks the broker to buy alternative ones and hand them to the lender. The speculator then gains the difference after paying the commission to the broker. If the prediction of the speculator does not prove to be right and the prices have decreased, then he shall be

forced to pay an amount of money to complete price of these bonds and shares to turn them to their original owner.

This method is religiously forbidden as the International Islamic Fiqh Academy in its abovementioned 7th session had decided that: “It is also forbidden to sell a share that is not owned by the seller, but the broker may promise him to lend him the share on the delivery date because it is a matter of selling something that is not owned by the seller. The forbidding is resorted to if it was required to pay price to the broker to benefit from it through depositing it with interest in return for lending.”

b- Margin Buying: it takes place when somebody wants to buy a number of shares or bonds with a price that he owns, and the broker allows him to buy with a higher price up to 80% or more than what he owns through lending him the rest with guaranteeing the purchased securities in return of interest. The intention of the speculator is to predict the increase of the value of the shares and bonds, and then he sells them, pays the debt and keeps the rest. If his prediction was wrong and the prices dropped, he loses the difference and pays it from the margin that he has paid.

Margin buying is religiously forbidden according to the previous resolution of the International Islamic *Fiqh* Academy that states: “It is forbidden to buy a share with a usurious loan given by the broker or others to the buyer in return of mortgaging the share, because that is usury documented by the mortgage. Both are forbidden and stated in the saying of Prophet Muhammad (hadith) peace be upon him, “God curses the taker of usury, the giver of usury, the two witnesses, and the writer of the usury contract.” The speculations on the rising and falling of prices are done by speculators who do not have the ability to investigate the market and that is the risk that the Prophet peace be upon him has forbidden. The risk means ignorance and risk taking meaning that one makes a purchase expecting making future profit that is not guaranteed. The relationship between these practices and the crisis is that the officials in America and Europe have issued resolutions to stop these short-term speculations for 12 days in America and four months in England, especially short selling which assures that these practices play a role in causing this crisis.

Ninth: The inflation of the financial economy and the separation between it and the real economy:

The economy in fact is the activity that revolves around providing goods and services to satisfy the human needs through economical jobs, such as, production, distribution, and consumption. Buy this requires trade because no one can produce all his needs of goods and services, and trade requires finance; this is why we have

financial economy to support the real economy. However, the financial market separated from the real market and dealing with money and finance became selling and buying through loans and debts. That resulted in the increasing of the available finance through crediting to extent that it became greater than the value of the real economy, which lead to the imbalance between the two. The financial economy is not based on rules, but based on a series of debts that followed each other in a fragile balance for the sake of more revenue in the form of interest and price differences. So when there is a defect in one of the interdependent loans, like what happened when the borrowers in the mortgage market stopped paying the debts, the whole financial base collapsed and the crisis accrued. This is what the French president Sarkozy expressed in his words: “we must make capitalism ethical through directing it to its real purpose, which is serving the economic development, forces of production, and the economy all far from the speculative forces.” It is worth mentioning that the separation between the real economy and the financial economy, the effects of the crisis will impact the real economy, because the banks financial collapse will end borrowing even a little part which used to be given to enterprises which makes them decrease their production and let off some of their workers. On the other hand, the loss that the citizens have suffered through their deals in the market has made them reduce their purchases from enterprises thus causing the recession. ⁵

In Islamic economy any financial current must come against a commodity current, and Islam does not allow any profit making through financial currents only, ells would be usury. This is why we have the good loan (AQAH) which represents a legal financial current because of the borrowers need to purchase goods and services without paying the more than the actual loan. The mere dealing with that money is religiously forbidden as said by Ibn Al-Qayem: “He who makes money a shop is prevented, because by doing that he exposes to people corruption so great that only Allah knows its greatness, actually money is supposed to be traded capital and not trade by. ⁶

Tenth: Lack of control: One of the main factors and causes that lead the international financial markets to where they are now is the lack of control from the monetary authorities on the banking system. Especially that more than four fifths of this work was done outside the budget. Thus being no subject to formal control though the authorities knew this fact, so they claimed that they were under

III. ISLAMIC ECONOMICAL CONTROLS FOR PROTECTION AGAINST FINANCIAL CRISIS'S

The crisis has been showing that one of its causes is the inappropriate behavior of some dealers in the financial sector, such as voracity, greed, fear and panic. That sided by the unethical practices that have spread in financial institutions and markets, such as corruption, misinformation, lying and fraud. This has been affirmed by officials and experts, Sarah Palin, candidate for vice president for John McCain of the Republican Party, said: "Greed, voracity and corruption are one of the most important causes of the crisis." The Islamic financial and economical system and its financial institutions are based upon a set of rules that assure it security, safety, stability, and risk reduction, that compared to the man-made regulation systems which are based on interest systems and financial derivatives. Some of the most important rules are the following:

First: The Islamic financial economic system is based upon a system of values, ideals, and ethics, such as honesty, credibility, transparency, evidence, facilitation, cooperation, integration and solidarity. There is no Islamic economic system without morality and values. This system is considered a grantee that assures security, safety and stability to all dealers. At the same time the Islamic **SHAREA'A** forbids financial and economical transactions which are based on lies, gambling, fraud, deceit, ignorance, monopolies, exploitation, greed, injustice, and the taking of money of others wrongfully.

After committing to the values of faith and morality, worship and obedience of Allah rewards Muslims and controls their behavior, whether they were producers or consumers, sellers or buyers, that being in the state of boom or recession, stability or crisis.

Second: the Islamic financial and economical system is based upon a platform of participation in both profit and loss, and actual trading of funds and assets. That is controlled by the controls of Halaal, Islamic priorities, achieving legitimate benefits, and earnings of fines. Also by actual interaction between money holders and experienced business owners, working within the controls of justice and right and giving effort, this decreases the intensity of any crisis where there never is a continually winning team or losing team, but there is participation in profit and loss. Jurists and scholars of Islamic economy have made a group of investment and Islamic finance contracts based on legitimate controls. Of these controls: formulas of financing through speculation,....

The Corrupted Morals of the Capitalism is the cause of the scourge:

The economic and financial transactions in the liberal capitalist thought are based on the principle of (the end justifies the means) and the basis of (laissez faire, let him work.) the interference of the government in controlling the transactions is limited or sometimes non-existent. If a group now seems to realize the necessity of the commitment to morals, the purpose in this case is that ethics sometimes help in achieving more wealth, profits and growth. The real intention is not that ethics are values and ideals of humanity which must be abided by and are rewarded by Allah.

The disposal of values, ethics and virtuous ideals in handling financial and economical transactions has caused many negative aspects which led to injustice, chaos, crisis's and the captivating of people's money unlawfully.

The effects of the corrupted morals of capitalism:

The main effects of the corrupted morals in financial and economical transactions are as followed:

- The accumulation of wealth in the hands of a small group of people who dominate the country's economy and spread corruption, at the expense of the poor, hungry and ill.
- The proliferation of counterfeit transactions which are based on deception, gluttony, greed, and the -----, and this leads to the captivating of people's money unlawfully.
- Creating conflicts strife's to earn money unrightfully, and this has led to the invasion of civilizations and striping their wealth.
- The loss of mans dignity, especially the poor, on the account of the doings of the heartless capitalist tyrants who feel not for the poor and hungry.

The effects of what has been previously mentioned: monopoly, economical and financial blocs, poor distribution of wealth, the rich capitalists control over the political decisions of the Global Strategy, and widening the gap between classes. Most capitalist tyrants have worshiped money and made it their great god, and they humiliate the poor for it.

The contemporary capitalist financial crisis is considered a realistic model of the results of the separation between financial transactions and values, ethics, ideals and righteous behaviors. It also emphasizes the immutable fact that corrupt morals lead to corrupt transaction, and cause crises. This is what will be dealt with in the following paragraphs.

One of the causes of the financial crisis is the spread of moral corruption:

Economists believe that the spread of corrupt morals and its consecration by the liberal capitalists is one of the causes of the current financial crisis, as an example of these morals in the following ⁸ :

- Tyranny and greed in the acquisition of money in all methods and means, and the absence of justice and conviction.
- Lies and malicious rumors and the absence of honesty.
- The lack of clarity and transparency.
- Fraud and the absence of facts and objectivity.
- Deception, misinformation and the absence of truth and honesty.
- Deceit, scam and lack of credibility.
- Abuse, opportunism and the absence of justice and compassion.

These corrupt morals have resulted in: the waste of money, the layoff of staff and workers, the increase of unemployment rates, the eviction of people from their homes, the bankruptcy of banks and companies, the collapse of stock markets, and increasing the misery of the poor and needy, and others whom are in the same position.

On the other hand, the Islamic Economy is based on a set of values and good morals:

Islamic economists say that commitment to good and virtues morals and the worship and obedience of Allah leads to stable, secure, developed and financial and economical transactions.

Among the most important moral values of the Islamic Economy, the following:

- Honesty: true to the words of Allah: “ye who believe! Fear Allah and be with those who are true (in word and deed)” chapter 9 verse 119, and the prophet saying: “-----“
- Integrity: true to the words of Allah: “Allah doth command you to render back your Trusts to those to whom they are due;” chapter 4 verse 58.
- Justice: true to the words of Allah: “O ye who believe! stand out firmly for justice,” chapter 4 verse 135.
- Facilitation: true to the words of Allah: “Allah intends every facility for you;” chapter 2 verse 185.
- Fulfilling promises: true to the words of Allah: “Fulfil the Covenant of Allah when ye have entered into it, and break not your oaths after ye have confirmed them:

indeed ye have made Allah your surety; for Allah knoweth all that ye do.” Chapter 16 verse 91.

- Fulfilling contracts: true to the words of Allah: “O ye who believe! Fulfil (all) obligations.” Chapter 5 verse 1.

Commitment to good moral values is the way to solve the financial crisis:

After the previous analysis we are certain that the main causes of the financial crisis are the spread of tyranny and corrupt morals, or at least the absence of commitment to good morals. The only way to end the crisis is the clearing of financial transaction in general and the transactions of banks, financial and money markets, and of such corrupt morals.

It is the government’s responsibility to protect transactions from corruption and tyranny to achieve security and stability, in application of the words of Allah: “(They are) those who, if We establish them in the land, establish regular prayer and give regular charity, enjoin the right and forbid wrong: with Allah rests the end (and decision) of (all) affairs.” Chapter 22 verse 41.

Governments also must address the mischief in markets and transactions, including gamblers, usurers, monopolists, exploiters, and those who take others wealth unlawfully, in order to protect people from their evil and tyranny. This comes within the range of (forbidding what is wrong) previously mentioned in a previous verse. It is forbidden to reward their wrong doings with what is so-called support plans, because Allah does not correct the doing of mischief, but their retribution is exile.

The Muslim merchant’s commitment to values and good morals, in the early days of the Islamic world, played an important role in the spread of Islam in many countries in the world, especially in East Asia and Europe. Allah had blessed their money, true to the words of Allah: “If the people of the towns had but believed and feared Allah, We should indeed have opened out to them (all kinds of) blessings from heaven and earth; but they rejected (the truth), and We brought them to book for their misdeeds.” chapter 7 verse 96 and his saying: “He said: "Get ye down, both of you, all together, from the Garden, with enmity one to another: but if, as is sure, there comes to you guidance from Me, whosoever follows My guidance, will not lose his way, nor fall into misery.*** "But whosoever turns away from My Message, verily for him is a life narrowed down, and We shall raise him up blind on the Day of Judgment." ***He will say: "O my Lord! Why hast thou raised me up blind, while I had sight (before)?"” chapter 20 verse 123, 124, 125. And his saying: “Has not the time arrived for the Believers that their hearts in all humility should engage in the remembrance of Allah and of the Truth which has been revealed (to them), and that they should not become

like those to whom was given Revelation aforetime, but long ages passed over them and their hearts grew hard? For many among them are rebellious transgressors.” Chapter 57 verse 16.

Fourth study: How to get out of the crisis from Islamic economic perspective?

Rules and disciplines of Islamic economics is the savior.

It has been shown from the analysis of the causes of the financial crisis today that they are concentrated on the positive systems the following:

- 1- system of interest (usury) on deposits and the system of interest on loans.
- 2- Debt trading system, taking and giving.
- 3- Scheduling the debt with the interest rate is raised against an increase in term.
- 4- System for the sale of debt.
- 5- Derivates system which is based on the probability and luck.

As shown by the concepts and rules and controls financial and economic system and Islamic financial institutions, prohibits all of these systems that were the cause in the presence of crisis and conflict with human nature and purposes of legitimacy.

Islamic Sharia has prohibited the interests system on the loans, credit, and transmitting finance and investment systems based on participation and interaction of capital and labor within the framework of a gain and loss. The call for the repeal of usury in the economy is not today, saying calls for astonishment or ridicule as some Supporters of secularism still believe and the opponents of religion in Muslim countries and other, especially after the devastating cyclone that hit the capitalist world which based entirely on the interest rate system. It is not a slogan broadly inapplicable after the unprecedented success witnessed by the experience of Islamic banks in the multi-country of the world and has become a model for the real economy which is based on ethics and noble human values, and racing in its direction all banks and financial capital institutions which decayed by speculation and illusion transactions.

In return for this call to annul the usury and the abolition of interest, Islam calls for establishment of system to participate in the profit and loss between labor and capital, which is based on the basis of losses and gaining instead of interest prior (interet ex-anté) prohibited by the principle of interest Accessories (interet post-anté) that inspired by a rate of profit based on the fair and acceptable.

Usurious interest has been forbidden in all religions and by most philosophers and thinkers in human history. However, the complicity of some Christian clergy who

tolerated to justify the legislation which is changed the whole world from a position of denial and to confront the interest rate system to a convert and defend and employed in laying the foundations of contemporary capitalism.

Nonetheless, many economists and writers defend from within the system of capitalism itself against interest rate and consider it the source of instability, crisis and structural imbalances faced by all economies today, led by Paork, Fisher and Keynes and others, and the interest usury is still one of the most problems in the economics of modern political.

Prohibition of gambling, such as the illegal sale of debt and speculative practices and others: what happened during this financial crisis we are facing, is sufficient alone to eliminate all that is related to the symbolic economy such as the sale of debt illegally those that are not based on the assets in kind and to prevent speculative practices on which based most activities of stock exchanges and financial markets of capitalism. This behavior has led to growing schism between the real and symbolic economy default between productive capital and financial capital, its seriously development that reflects on the nature of the parasite of the capitalist system, which is now feeding on speculation rather than investment and the proceeds of securities does not profit from productive projects and became a stock market mirror of capitalism Financial sees it self every morning.

The development of symbolic economy is correlated with trade and productive work dramatically in the last few years until it the volume of financial flows associated with speculation on the stock exchange and financial markets reached forty times the real economy-related investment, production and international trade. And the unemployment expanded widespread, indebtedness has escalated, even in the Center on Capitalism and USA become the largest country in debt in the world and the people surrendered to the rule of one rank in all societies, without exception, and the world economy became on the edge of a volcanic unemployment and indebtedness.

Therefore no longer before the human face of this grave situation, except the immediate elimination of a symbolic economy and put a rapid end to stop the bleeding caused by the speculative practices in the financial markets to impose severe restrictions against the manipulators of the fate of human beings and the conditions of communities. And this will not happen except by preventing the sales of corrupt and illegal set by Islam. Islamic Sharia has prohibited all forms of prejudice, ignorance, gambling, fraud, lies, rumors, exploitation and eating the people's wealth unjustly

and stressed the commitment to honesty, trust, demonstration and transparency, and should be re-organized markets according to the approach that takes into account the values and ethics and develop human interest above all else.

Finally: What is the treatment to void the world a global, and great depression, its burden falls inevitably on the poor ranks and poor countries? Despite the difficulty of this question but the answer revolves around the following theme ⁽⁹⁾.

-Stop the speculation: gambling, and in particular derivatives.

- Call to account those responsible for this crisis in the banking devices.

- Tightening control of the central bank to banking in general and to pump credit in particular. To intervene governments through monetary institutions and central banks of effective control over the actions of financial institutions such as banks and mortgage companies, stock exchanges and so on to prevent all forms of speculation and gambling, trade with debt and financial derivatives delusional till stop the evils of the actions of financial capitalism which cause damage to all people in the world according to the legitimacy rules: The damage is removed; bear the lesser of two damages.

-Activating the banking policies with severity and firmness, especially in relation to the management of liquidity and revenue, and credit risk and capital adequacy.

- Continue to pump liquidity into the economy so as not to break down the basics of the productive base.

- Re-consider mechanism of interest system on loans and credits and replace them with systems of Islamic finance and investment based on participation, sales and actual transactions, which restore security and stability and the preservation of the rights of justice and equity, according to the base of legitimacy: gaining and losses sharing.

-Liberalization of the monetary transactions from the hegemony of a single currency which is the dollar and find a replacement where it does not lead the collapse of certain currency to the damage in all major currencies because this domination is a form of monopoly that is forbidden religiously,

- Re-examined in the mechanism of economic institutions and the global financial and monetary, such as the International Monetary Fund and the World Bank for reconstruction and the global trading system, and the like, especially U.S. hegemony so that it may proceed with its activities in the framework of justice, freedom and achieve the international public interest, particularly poorer developing countries.

- Placing standardized code of ethics for financial transactions in the world in the context of divine messages adjust adequately by all States and to impose international

sanctions on countries and financial institutions and monetary violation of this Charter until the circulation of money and cash in right and justice, to achieve the good of mankind and the reduction of the evils of financial capitalism there is no economy without morality.

And last but not least, it should think seriously to study the application of the Islamic system; away from the interest rate (Riba); which is based on the rate of profit as a tool for effective management of economic activity today, and which is based on real invest; to expand the productive base, and not on the basis of financial investment strength speculation: gamble, exploitation, and corruption, and theorists of the capitalist economy should remember what the U.S. economy, "Simmons": that a global recession in the thirties of the last century due to "changes in confidence arising from the credit system is unstable, and that "the risk of economic disruption can be avoided to a large extent If it can avoid the borrowing, and if all investments were in the form of self-financing and participation.

It's a great "usury" behind all the economic ills that afflict humanity;, therefore, to the eternal knowledge of whom He created; announced the Almighty and His Messenger, peace be upon him a war against the perpetrator; until the human societies becomes pure by staying away from it; as Allah Almighty says: " O you who believe! Be afraid of Allah and give up what remains from usury if you are believers. And if you do not do it, then take a notice of war from Allah and His Messenger but if you repent you shall have your capital sums. Deal not unjustly, and you shall not be dealt with unjustly. And if the debtor is a hard time, then grant him time till it is easy for him to repay, but if you remit it by way of charity, that is better for you if you did but know" (2: 278-280).

Conclusion

This crisis revealed many faults of the capitalist economic system, which dominates the world for more than three centuries. The crisis can be analyzed from an Islamic perspective through the following main factors: the subject of a mortgage, re-sale or mortgage of real estate, interest rate system, the deification of the market, monetary derivatives, methods of speculative short-term, inflation financial economics, and the dichotomy between it and the real economy, the absence of control.

The financial system and the Islamic economic based first on the system of values, ideals and morals such as honesty and credibility, transparency and evidence, facilitation, cooperation, integration and solidarity, not an Islamic economy without

morality, This system is consider as safeguards that meet the security and stability for all clients.

Second: The financial system and the Islamic economic based on principle of sharing profits and losses and on the actual trading of funds and assets.

Third: The Islamic Sharia has prohibited financial derivatives which are based on delusive transactions prevail prejudice, ignorance.

Fourth: The Islamic Sharia has prohibited all forms of sale debt by debt.

Fifth: The Superintendence over banks.

Sixth: The financial system and the Islamic economic based on the principle of facilitation on the borrower.

To escape some of the effects of this crisis must:-

- Call to account those responsible for this crisis in the banking devices.
- Stop the speculation: gambling, and in particular derivatives.
- Tightening control of the central bank to banking in general and to pump credit in particular.
 - Activating the banking policies with severity and firmness, especially in relation to the management of liquidity and revenue, and credit risk and capital adequacy.
- Continue to pump liquidity into the economy so as not to break down the basics of the productive base.
- Re-consider mechanism of interest system on loans and credits and replace them with systems of Islamic finance and investment based on participation, sales and actual transactions.
 - Liberalization of the monetary transactions from the hegemony of a single currency which is the dollar.
- Re-examined in the mechanism of economic institutions and the global financial and monetary, such as the International Monetary Fund and the World Bank.
- Placing standardized code of ethics for financial transactions in the world in the context of divine messages.

In short: the rules and regulations of Islamic economics is the rescue of the crisis, when compliance with the rules and regulations of Islamic economy can get out of the crisis, Allah Almighty said:" Then if there comes to you guidance from Me, then whoever follows My Guidance he shall neither go astray, nor shall be Distressed. But whosoever turns away from My Reminder verily, for him is a life of hardship, and We shall raise him up blind on the Day of Resurrection" (20:123-124).

And:" Allah will destroy usury and will give increase for charity. And Allah likes not the disbelievers, sinners" (2:276).

¹ -The dollar has continued its downward trend against other major currencies, despite lingering risks associated with sovereign debt levels in some European economies, the euro appreciated against the dollar in the first quarter of 2011, buttressed by the expectation of faster monetary tightening in the euro area. This trend is expected to continue until late 2011, when the United States Federal Reserve (Fed) may raise interest rates. The dollar/euro exchange rate is assumed to be 1.38 in 2011 and 1.28 in 2012.

² - Adrian Blundell-Wignall, Paul Atkinson and Se Hoon Lee, "The Current Financial Crisis: Causes and Policy Issues", Financial Market Trends, OECD 2008, 26 papers.
www.oecd.org/finance/financialmarkets/4194287.

³ - The percentage of new lower-quality subprime mortgages rose from the historical 8% or lower range to approximately 20% from 2004 to 2006, with much higher ratios in some parts of the U.S. A high percentage of these subprime mortgages, over 90% in 2006 for example, were adjustable-rate mortgages. These two changes were part of a broader trend of lowered lending standards and higher-risk mortgage products.

⁴ <http://www.imf.org/external/pubs/ft/GFSR/2004/02/pdf/glossary.pdf>

⁵ Islamic Reading of the global financial crisis: Dr. Mohamed Abdel Halim Omar.

⁶ Legal ways : ibn alqayi aljawzia p 24

⁷ *Global financial crisis, causes and solutions from an Islamic perspective: Dr. Rafik al-Masri.*

⁸ Ethical Dimensions of the Global Financial Crisis: Dr. Hussein Shehata (in a series of research and studies in Islamic economics / Dar Almashora)

⁽⁹⁾ The global financial crisis. Diagnosis and director: Dr.Abdul Hamid Al Ghazali