

GLOBAL FINANCIAL AND ECONOMIC CRISIS: THE ISLAMIC FINANCIAL SOLUTION

Saliu Yisa

Department of Religion and African Culture
Adekunle Ajasin University
Akungba Akoko, Nigeria
saliuyisa70@Gmail.com

Abstract

The global financial and economic crisis ravaging many countries of the world today calls for serious concern. The financial and the economic crisis have made it extremely difficult for many developing nations of the world to meet their financial obligations, even the advanced countries are not left out. The crisis is traceable to the spilled from financial sector to the economy and international trade in the area of manufacturing, commodities and provision of other essential services. The study examines how Islamic financial and economic policy can bail the world out of this economic mess. The study concludes that Islamic Financial and Economic Policy is the only viable option to global financial and economic crisis. It recommends that Islamic Financial and Economic Policy should be embraced by both developed and developing countries of the world so as to bail themselves out of this economic meltdown.

Keywords: Islamic, Financial, Policy, Economic, Crisis.

Introduction

The global financial and economic crisis that is ravaging the world today is as a result of the debt and assets of major banks in the west that had to be guaranteed by government protection. This policy is seriously tantamount to nationalization of many banks, a scenario that is contrary to the free – market ideals, (Tajudeen, 2012). From the onset, financial and economic crisis arose in the mortgage payments from large debtors on housing assets, (Tajudeen, 2012). Such large debts were built up by the borrowers in the housing market in the face of sub-prime mortgage interest rates (Tajudeen, 2012), which were attractive to borrowers. The borrowers now took the advantage of such easy borrowing situation to build up debts that went out of their ability to pay against the excessive borrowing (Mahmud, 1952). This is the case of over – investment in the housing market that was not in agreement with capacity of being paid out in the short run.

In the year 2006, the price of excessive kinds of real estate properties raised the volume of total mortgage payments. This however caused prices to decline at the end of the day. In 2007 to 2008, both the owners and the investors experience the adverse financial effect of losses in real estate properties, (Mahmud, 2015). According to (Lawal, 2010) lending banks and corporations lost heavily in the wake of low returns on the uncaptialized value of their

financial assets. In the area of domestic and financial market, it reacted to the sequence of causes for financial volatility and corporate insolvency. According to (Lawal, 2010) financial and economic indicators worsened the relationship between financial and real sectors. However, the rate of growth of real estate slowed down considerably in country like China (Siddiqi, 2012).

Financial and Economic Policy in Islam

Islam as a religion, it takes care of social, political and religious life of Muslims. Islam also laid down financial and economic policies and prescribed certain limits for the financial and economic activities of man so that the entire way of production, exchange and distribution of wealth may conform to the Islamic standard of justice and equity (Graiss, 2009). In other word, Islam does not concern itself with time-bound mechanism of economic production or with the details of the organizational method and mechanisms. However, such ways and mechanisms are specific for every age and are evolved in accordance with the needs and requirements of the community and exigencies of the economic and financial situation according to (Muhsin, 2018). Islam aims at whatever that is the form or mechanism of economic activity, the principles prescribed by it should find a permanent and paramount place in such activities under all situations and in all ages (Muhsin, 2018).

According to the (Qur'an 2:283), Islamic injunctions says, Allah has created for mankind the earth and all that it contains. It is the right of every human being to try as much as possible to secure his own share out from the universe. In Islam, every human being has the legitimate right to enjoy equal right and nobody can deprive another person from it. And also, there can be no bar on any person on the basis of race, class and religion for taking to certain means of livelihood or choosing certain professions. According to (Sanusi, 2015), Islam gives everyone equal opportunities in the financial and economic realm. The Glorious says thus: And if one of you deposits in trust a thing with another, let the trustee discharge his trust and let him fear his Lord (Qur'an 2:283).

Social Justice on Financial and Economic Policy in Islam

Islam does not wish that financial and economic policy takes place in an atmosphere of cold impartiality, moral neutrality and social apathy (Usman, 1998). It is desirable that the participants in the financial and economic race should be considerate and sympathetic to one another in the scheme of things. Islam, through its moral injunctions aims at creating a feeling of mutual love and affection among the people, under which they may assist the weak and those in need among their brethren and also to create a permanent institution in the society which will guarantee assistance to those that are lacking necessary means of subsistence. In the tradition of the Prophet (Sahih al-Imam al-Bukhari) said:

If I had gold equal to the mountain of Uhud, it would not please me that it should remain with me for more than three days except an amount which I would keep for repaying debts.

Islam also suggest to those that unable to take part in the financial and economic race that they should secure their legitimate share from the Islamic social welfare or otherwise known as institution of Zakat (Lawal, 2010). Also those that need some assistance to commence their struggle in the financial and economic field may also proceed to receive from the Zakat treasury, the treasury is created in Islam so as to cater for the category of people that are seriously in need, the widow, the orphan and the poor, among others. The Glorious Qur'an says thus:

Alms are for the poor and the needy, and those employed to administer the fund for those whose hearts have been reconciled to truth; for those in bondage and in debt; in the cause of Allah; and for the way farer; ordained by Allah. And Allah is full of knowledge and wisdom.

(Qur'an 9:60)

Islam demands that a certain amount $2\frac{1}{2}\%$ per annum on the total income wealth of nation as well as individuals be deducted. For example, on agriculture produce 10% is levied on lands which is irrigated by natural by natural means (rains) and 5% on irrigations which require man's efforts. And 2.5% is required on mineral products. Also, annual Zakat should also be levied at a specified rate, on the herds of cattle owned by anyone beyond a certain minimum number. The amount collected from the institution of Zakat is to be spent on giving help to the poor, the orphans, the widow and the indigent (Graiss, 2009).

Through this, Zakat provides means of social security in the presence of which no one in an Islamic society can ever remain without being well provided with the basic necessities of life (Azeez, 2015). As regards the position of individual vis-à-vis the state, Islam aims at striking a balance between the two as that would promote the individual liberty of a person. And that is why the rate of crime in most Islamic countries is zero percent, Islamic social institution otherwise known as Zakat takes care of everything irrespectively of your colour, religion and nationality.

Recommendations

The following recommendations are presented based on the findings of this study:

- i. The developed and developing countries should embrace the Islamic financial policy so as to overcome their financial and economic crisis.
- ii. Institution of Zakat should be opened by all Muslim countries so as to cater for the needs of the poor and the indigent member of their countries.

- iii. Zakat committee should be constituted in all major Mosques in the 36 states of the federation including Abuja.
- iv. Federal and state government should donate grants to 'Zakat treasury'; this will go a long way in catering for the needs of the poor, the widow, the orphans and the indigent group of people in the society.
- v. People with high level of integrity should be appointed to monitor and over-see the 'Zakat treasury' account.

Conclusion

This study has examined the failure of the conventional financial and economic policy of the developed and the developing countries of the world. The study also examined how Islamic financial and economic policy could rescue the global economic meltdown, through the introduction and implementation of the Islamic social security scheme otherwise known as Zakat or Sadaqah. The study also unfolded that the Islamic financial and economic policy is a masses centred which geared towards eradicating poverty from society. The study concluded that Islamic financial and economic policy is the only viable option towards solving the global financial and economic crisis. The study recommended that Muslims in cities and towns should constitute committee that will saddle with the responsibility of collecting and re-distribution of the proceeds of Zakat so that it can get to the target audience in society.

References

- Abdullah, A.Y. (1975). *The Holy Qur'an: Arabic Text, Translation and Commentary*. London: The Islamic Foundation.
- Chapra, M. (2010). Money and Banking in and Islamic Economy. *The Islamic Foundation Journal*, 97 – 110.
- Grais, W. (2009). Islamic Banking: Policy and Institutional Challenges. *Journal of Islamic Economics Banking and Finance*, 25 – 33.
- Lawal, Y.O. (2010). Islamic Economics: The Cornerstone of Islamic Banking. *Journal of Economics and Engineering*, 75 – 78.
- Mahmud, A.S. (2015). Economics of Islam, Interest and Unemployment, *Islamic Studies*, Islamabad, 40 – 46.
- Muhsin, K. (2018). Islam and Financial Intermediation, IMF Staff Papers, Cairo, 40 – 41.
- Sanusi, L.S. (2015). Keynote Address Presented at a Conference of Global Financial Crisis: Islamic Banking as a Credible Alternative System, Abuja, 10 -15.
- Siddiqi, B. (2012). Islamic banking Moves East. *Euromoney Journal, Islamabad*, 142 – 145.
- Tajudeen, S. (2002). Interest Free Banning: Investment and Profitability. A Lecture delivered at Al-Hayat National Annual General Meeting held at Otunba Dipo Dina Stadium (Ijebu-Ode), 92 – 95.
- Usman, M.T. (1998). *An Introduction to Islamic Finance*. Ibadan: Oxford Press.