



Istanbul Conference of Economics and Finance, ICEF 2015, 22-23 October 2015, Istanbul, Turkey

An Islamic Suggestion of Solution to the Financial Crises

Ismail OZSOY^{a*}

^aDepartment of Economics, Fatih University, Buyukcekmece Campus 34500, Istanbul, Turkey

Abstract

Islamic finance and banking has been an appealing phenomenon in the recent decades particularly after its suggestion by the Vatican in the aftermath of the 2008 Global financial crisis. Rejecting interest policy as an instrument for any business activity, Islamic banking is based on the non-interest substitutions that are profit, rental, commission, and wage, all of which are regarded as legitimate earnings of trade, its kinds, leasing, joint venture and partnerships, and other lawful and real productive economic activities. From Islamic perspective, interest is a value that is transferred from one party to another in any transaction without any matching value given back, resulting in an unequal distribution of income between individuals or groups. It takes place not only in loans but also in the sales of goods for each other or in the exchanges of currencies as well. The saying of the prophet Muhammed called “The Hadith or Saying of Six Things” concisely expresses 66 sales/exchanges that bear interest out of at least 114 transactions included in that saying. After dealing with that saying and defining the kinds of interest by making use of this saying, this paper tries to introduce some solutions to financial crises as a reply to the suggestion of the Vatican, and then it briefly introduces non-interest finance modes of banking and finance.

© 2016 Published by Elsevier B.V. This is an open access article under the CC BY-NC-ND license

(<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

Peer-review under responsibility of the Organizing Committee of ICEF 2015.

Keywords: Interest/usury/riba; Islamic finance and banking; trade; mudaraba; the Hadith of Six Things; time value of money (goods).

1. Introduction

An official Vatican Newspaper L’Osservatore Romano suggested Islamic Finance as a solution to the financial crises just after the 2008 global financial crisis hit. “*The ethical principles on which Islamic finance is based may bring banks closer to their clients and to the true spirit which should mark every financial service,*” the Vatican’s official newspaper Osservatore Romano said in an article in its issue dated 3 March, 2009. The authors Loretta

* Tel.: +90-532-4057520;

E-mail address: iozsoy@fatih.edu.tr; ismailozsoy@yahoo.com

Napoleoni and Claudia Segre, said in the article that Western banks could use tools such as the Islamic bonds, known as sukuk, as collateral.† Vatican offers Islamic finance, and then what does Islamic finance offer?

2. The Hadith of Six Things of the Prophet Muhammad

To answer this question, we had better first lend an ear to the saying of the Prophet Muhammad:

“You should sell gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, and salt for salt, like for like, equal for equal, and hand-to-hand; if the classes (genus) differ, then you may sell as you wish, provided that the exchange is hand-to-hand.”‡

Although this saying seems to be very simple and to be as if describing simple trade relationships in the VII. Century Arabian markets, it is actually very comprehensive and includes vast meanings. With this concise saying, which is called “*the Hadith of Six Things*”§, the Prophet Muhammad expresses at least 114 kinds of exchanges, which are,

the exchange of commodity for commodity,
or currency for currency,
on credit or on the spot,
and for matching (equal) or different quantities.

According to that Prophetic saying, out of these 114 kinds of exchanges, 66 sales bear a religiously forbidden “*interest*.” (see the tables)

Table 1. Monetary Category (All the quantities are hypothetical)

GOLD for GOLD					
1.	100 gr	for	100 gr	on spot	permissible
2.	100 gr	for	100 gr	deferred	interest
3.	100 gr	for	101gr	on spot	interest
4.	100 gr	for	101gr	deferred	interest
5.	100 gr	for	99 gr	deferred	interest
SILVER for SILVER					
6.	100 gr	for	100 gr	on spot	permissible
7.	100 gr	for	100 gr	deferred	interest
8.	100 gr	for	101gr	on spot	interest
9.	100 gr	for	101gr	deferred	interest
10.	100 gr	for	99 gr	deferred	interest
GOLD for SILVER					
11.	10 gr	for	500 gr	on spot	permissible
12.	10 gr	for	500 gr	deferred	interest
13.	10 gr	for	550 gr	on spot	permissible
14.	10 gr	for	550 gr	deferred	interest
15.	10 gr	for	450 gr	on spot	permissible
16.	10 gr	for	450 gr	deferred	interest

† Totaro, Lorenzo, “Vatican Says Islamic Finance May Help Western Banks in Crisis”,

<http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aOsOLE8uiNOg>, accessed on 31 May, 2014; “Vatican offers Islamic finance system to Western Banks”, <http://www.worldbulletin.net/index.php?aType=haber&ArticleID=37814>, accessed on May 31, 2014.

‡ Muslim, Musakat, 81; Abu Davud, Buyu’, 12: See, for other versions of this hadith: Irfan, Qazi, Riba and Hadith of Six Commodities, accessed on March 21, 2016). Available at SSRN: <http://ssrn.com/abstract=1790222> or <http://dx.doi.org/10.2139/ssrn.1790222>.

§ Although some writers call this hadith “Hadith of Six Commodities”, it is wrong because gold and silver that are mentioned in this hadith are not commodity but money. That’s why we call that hadith as “Hadith of Six Things”.

Download English Version:

<https://daneshyari.com/en/article/982533>

Download Persian Version:

<https://daneshyari.com/article/982533>

[Daneshyari.com](https://daneshyari.com)