CHAPTER 12

The Credit Crisis: An Islamic Perspective

12.1 Introduction

Industrial economies are experiencing a serious crisis not seen since the Great Depression. One key factor in the creation of the crisis, dubbed in many circles as the "Great Recession", is the utilisation of credit. Historically, credit was seen as one of many factors that contributed to a financial crisis but it was not until recently that economists see it as a critical and crucial contributor to a crisis, with one study suggesting that more credit-intensive expansions tend to be followed by deeper recessions and slower recoveries.[1] Carmen Reinhart and Kenneth Rogoff argue that financial crises over the last few centuries have all been credit crises irrespective of the label (such as currency or banking crises) attached at the time. This includes all the crises over the last half century including the emerging markets' crises of 1997-2000.[2]

In attempting to provide explanations, financial and economic experts have gone beyond assessing the immediate causes and are questioning the whole edifice underpinning economic and financial theories over the past half-century. Important and influential research has emerged in the last three to four years providing new insights into the foundational role of interest based debt financing and the structure and architecture of the associated financial system. This research has provided emprical support for the views of Keynes and his ardent follower, Minsky, that debt financing creates instability in the form of boom and bust business cycles. What is unique about the present phase of financial capitalism is the growing sense of "regime uncertainty"- uncertainty regarding the benefits and costs as well as the sustainability of the debt financing regime.[3] Thousands have taken to the streets in the US and Europe demanding a fairer distibution system. Crises in the Eurozone – a key to the architecture of modern Europe – prevails as massive sovereign debt overhang and increasing probability of sovereign default threatens the institutional integrity of the Eurozone.

This chapter maintains that current trends in empirical and theoretical research is converging to the idea that the interest based fractional reserve banking system with its potential of facilitating high leverage constitute the root cause of financial crises in contemporary markets. To consider an Islamic perspective, the next section provides a brief summary of how Islam conceives finance as primarily serving the real sector of the economy based on risk sharing, and explicates the core principles of an Islamic financial system. The second section presents three leading views on the causes of the crisis from perspectives other than Islam. The final section summarises the current research that, given its present trend, will ultimately provide an explanation converging to the Islamic perspective. Even though current research provides the basic elements of this convergence of perspectives, it remains for analysts and researchers to connect the dots in order to complete the explanation.

The chief characteristic of contemporary financial economies is the overwhelming presence of credit. The main difference between debt and credit is that a debt contract can be a one-time transaction between the lender and a borrower while credit is based on a longer-term relationship between the two. Etymologically, credit is derived from the Latin word credo, meaning "I believe". Economic historians suggest that credit, in its contemporary sense, began with commercial banking.[4] However, taken according to its broadest meaning –a loan for productive activity – the economic historian Sidney Homer traces the origin of credit as far back as 5000 B.C.[5]

Today, "credit" refers to an established interest based debt relationship between a financial institution and its borrowing client. It must be noted, however, that a credit relationship need not be debt based. Such a relationship can be based on the risk-reward sharing

[1] Jorda, O., M. Schularick and A. M. Taylor. (2012) "When Credit Bites Back: Leverage, Business Cycles, and Crises".

[2] Reinhart, C. and K. Rogoff (2009). "The Time Is Different: Eight Centuries of Financial Folly". Princeton University Press.

[3] Mirakhor, A. and M. Shaukat. (2012). "Regime Uncertainty: Interest Rate Based Debt Financing System". RCIB International Conference on Islamic Business. Islamabad, Pakistan.

[4] Ferguson, N. (2008). "The Ascent of Money". New York: The Penguin Press.

[5] Homer, S. (1963). "A History of Interest Rates". New Brunswick, New Jersey, USA, Rutgers University Press.

contingent upon a given project's outcome. A debt contract is a nominal obligation with a certain maturity date regardless of the outcome. An equity contract, one that shares the risk between parties, does not have these features. These contracts are not redeemable, they do not have the maturity constraint of a debt contract and, provided that a market exists, shares obtained through the provision of financing can be sold in case of need for liquidity. Hence, contingent payoff, non-redeemability, maturity, liquidity, and risk-sharing are characteristics that distinguish equity from debt. It has been shown that informational problems such as moral hazard and adverse selection plague the debt market leading to inefficiencies, such as credit rationing. Risk sharing contracts, or equity participation, avoid these inefficiencies.[6] In contrast, in order to protect their financial resources when advancing credit to businesses, banks generally discourage risk-taking. There is an inherent agency conflict. The entrepreneur is interested in the high-end of the risk-return distribution; the bank, on the other hand, is concerned with the low-end of the distribution as it wants to protect itself. This, Joseph Stiglitz maintains, "has dilatorious consequences for the economy."[7] He further suggests that "from a social point of view, equity has a distinct advantage: because risks are shared between entrepreneur and the capital provider, the firm will not cut back production as much as it would with debt financing if there is downturn in the economy." Martin Hellwig adds that often there is a neglected information problem: "negative incentive effects on the choice of risk inherent in the moral hazard of riskiness of the lending strategy of banks."[8] This risk materialised dramatically in the period leading up to the 2007/2008 credit crisis.[9]

12.2 The Islamic view of finance

Islam is a rule-based system, prescribing ways and means of human conduct in all spheres of life. The objective of these rules is to serve the fundamental proposition of Islam that creation is one united whole – a corollary of the axiom of the oneness and uniqueness of the Creator. It sees it as a duty of every human to strive to achieve and maintain this unity. This is done when humans comply with rules prescribed in the primary sources of Islam: the Qur'an and Sunnah. In the sphere of economics and finance, the rules require risk-reward sharing which in turn brings humans together. Other modes of economics and finance, i.e., risk transfer or risk shifting, do not serve this objective.

The axiomatic principle of risk sharing can be derived in part by verse 275 of chapter 2 of the Qur'an, which declares that real sector transactions must be based on exchange contracts and their financing must avoid interest based debt. Compliance with this rule needs to be supported by institutional scaffolding which includes faithfulness to the terms and conditions of contracts and promises, property rights rules, transparency, truthfulness, trust, rules governing the behavior of market participants, and rules governing distribution and redistribution. By entering into contracts of exchange, parties improve their welfare by sharing the risks of their economic activities through specialisation and division of labor. Entrepreneurs calculate the risks of a project before seeking financing. The risk of the project does not change as it enters the financial sector. In terms of financing, risks (not the risk of the project itself, although this is considered) can be transferred, shared or shifted. Risk is transferred to a counterparty while it is shifted to a third party not directly involved in the transaction, such as the collectivity of tax payers. The essence of financial intermediation up until the middle of twentieth century was thought to be its ability to transfer the risk originating from finance. For this reason, all institutional arrangements within the financial sector, including the fractional reserve banking system, with deposit insurance provided by central banks, were geared to facilitate this function. However, one of the most important characteristics, perhaps a crucial cause, of the 2007/2008 crisis was that many financial institutions shifted the risk of losses but internalised the gains of their financing operations; hence the concept of "privatized gains and socialized losses."[10]

What would be the expected outcome of operations of a financial system organised on Islamic principles? Characteristic operational requirements of Islamic finance include: (i) property rights; (ii) transparency, trust and faithfulness to terms and conditions of contracts; (iii) close relationship between the real and the financial sectors of the economy such that the rate of return to the former determines that of the latter; (iv) asset/liability risk matching; (v) coordinated asset/liability maturity structure; (vi) asset/liability value matching such that the value of both sides of the balance sheet move simultaneously and in the same direction in response to changes in asset prices. In such a system credit expansion and leverage will be limited to the potential and expected growth of the real sector of the economy. Abbas Mirakhor makes the case that equilibrium in such a system would be stable and that the system would be capable of generating high employment, income and growth along with stability.[11] In such a system there is no room for pure finance, i.e. trade in purely paper specie. In this system risk sharing operates through three main venues:

i. Contracts of exchange and finance based on risk sharing;

ii. Redistribution and transfer payment programs through which those economically better off share the risk of less economically able; and

iii. Risk sharing with future generations through Islam's rules governing inheritance. The full spectrum of instruments serving such a financial system would be expected to run the gamut from short-term, liquid, and low-risk financing of trade contracts to long-term financing of real sector investment. At the lower end of the risk-return spectrum, there would be the provision of financing of sales and purchases of goods and services to allow expansion of production leading to higher employment of resources. At the higher end, financing for planned production; all financed through risk sharing assuring the stability of the financial system.

The above perspective makes clear that other modalities of financing, e.g., risk transfer and risk shifting, produce financial systems that are inherently unstable and prone to bouts of booms and busts. Risk transfer leads to banking crises that destabilise the financial system

[6] Baltensperger, Ernst (1978). "Credit Rationing", Journal of Money, Credit, and Banking". Vol. 10, No. 2, pp. 170–183; Greenwald, B. C. and J. Stiglitz. (1990). "Macroeconomic Models with Equity and Credit Rationing". in R. G. Hubbard (ed.), Information, Capital Markets and Investments (Chicago, University of Chicago Press); Hillier, B. and Ibrahimo, M. V. (1993) "Asymmetric Information and Models of Credit Rationing". Bulletin of Economic Research, 45, pp. 271-304; Stiglitz, J. E. (1987). "The Causes and Consequences of Dependence of Quality on Price". Journal of Economic Literature,25, pp.1-47; Stiglitz, J. E.and A. Weiss (1992), "Asymmetric Information in Credit Markets and its implications for Macroeconomic". Oxford Economic Papers, 44, pp. 694-724.

[7] Stiglitz, J. (1989), Financial Markets and Development, Oxford Review of Economic Policy, vol. 5, no. 4.

[8] Hellwig, M. (1998), Banks, Markets, and Allocation on Risks in an Economy, Journal of Institutional and Theoretical Economics (JITE), vol.154, no.1, pp.328-345.

[9] Sheng, A. (2009). "From Asian to Global Financial Crisis". Cambridge University Press.

[10] Sheng, A. (2009). "From Asian to Global Financial Crisis". Cambridge University Press.

[11] Mirakhor, A. (1990). "Equilibrium in a Non-Interest Open Economy" in Islamic Economics (Journal of King Abdulaziz University), Vol. 5, 1993, pp. 3–23.

and risk shifting creates massive public and private debt that exhaust the ability of consumers and producers to sustain levels of aggregate demand and hence GDP needed to validate debt claims. The banking structure of the Islamic system is envisioned as "two tiered" where commercial banks that serve the payment system hold 100 percent reserves against their deposits complemented by an investment banking arm that operates on the basis of risk sharing without deposit guarantees.

12.3 Other perspectives on the credit crisis: the conventional view

Early explanations viewed the crisis as a consequence of large global macroeconomic imbalances and massive savings held by emerging markets. The latter was itself a consequence of the financial crises of 1997–2000 in emerging markets such as Malaysia, Singapore, etc. These economies experienced firsthand the absence of an effective and representative global lender of last resort that could provide balance of payments support fairly and adequately during the crises. Consequently, these countries embarked on protecting themselves against future occurrence of crises by accumulating large reserves, a significant portion of which were invested in government bonds issued by industrial countries, especially the United States. This, in turn, led to medium to long-term interest rates, a huge expansion of credit and debt, and rapid expansion of liquidity in a ferocious search for yield. Increased liquidity led to an aggressive incentive structure for the promotion of financial innovations and engineering of complex, opaque instruments. The design of instruments and their packaging were engineered such as to create an illusion that they possessed risk–return characteristics more attractive than the risk exposure attributes of their underlying assets. This process encompassed the entire spectrum of activity, design, origination, packaging, trading, distribution, wholesale and retail. Increased global demand for financial assets led to increasing prices for these paper assets that had little or no connection to the real sector of the economy, thus validating expectations of ever-increasing asset prices.[12] This in turn led to the creation of a full-blown asset bubble. Then came the collapse of asset prices in the real estate market in the United States. Interconnected international asset markets ensured negative contagion effects from the US-originated crisis spread rapidly.

12.4 Alternative perspectives: Keynes-Chicago Plan-Minsky

The alternative perspective maintains that crises are endogenous and endemic in market capitalism served by a debt-dominated financial system. This view echoes a number of arguments from the Islamic perspective against interest and unbridled speculation. The alternative explanations of financial crises view them as internally- generated instability episodes that inevitably arise from the basic debt–credit–interest rate relationship. In contemporary financial capitalism, debt and credit contracts predominate. In such a system, a fundamental "conflict between guaranteeing return of capital while also putting that capital at risk is a key channel through which financial instability can be, and recently has been, generated.[13] Fractional reserve banking and its close relatives in the form of money market funds and hedge funds plus other financial innovations operated by highly leveraged institutions ensure that the credit and debt creation process is amplified during the upswing phase of the financial cycle to leading to asset bubbles. The process works in reverse during the downswing phase leading to a credit crunch once the bubbles burst.

The view that the fractional reserve system is a source of instability, creating a financial system dominated by interest based debt, in which the credit multiplier and leverage ratios mechanisms are operative, found its most forceful expression during the years of the Great Depression. This recognition led a major group of American economists, including Irving Fisher and the Chicago Group (such as Henry Simons, Frank Knight and other members of the economics faculty in the University of Chicago), to propose a significant reform of the US banking system. The proposal, which became known as "the Chicago Plan", was submitted to President Roosevelt but was not implemented. It required banks to hold 100 percent reserves against deposits. The plan claimed that there were four major advantages in the proposal:

1. Much better control of business cycles, sudden increases and contractions of bank credit and of supply of bank-created money;
2. Complete elimination of bank runs;
3. Dramatic reduction of the (net) public debt;
4. Dramatic reduction of private debt, as money creation no longer requires simultaneous debt creation.

In an excellent study, Jaromir Benes and Michael Kumhof found support for all four claims. Moreover, they found that the plan would lead to an output gain approaching 10 percent and that "steady state inflation can drop to zero without posing problems for the conduct of monetary policy."[14]

Whereas these American economists viewed the fractional reserve banking system and its power of credit creation as the source of financing instability, Keynes saw another deeper cause. He argued that market capitalism left to itself is inherently unstable. The core of this argument maintained that the real phenomena of saving and investment come from two different actors in the real economy: consumers and businesses. They save and invest for different reasons. Their coordinated behavior is subject to uncertainty. Even under the best of circumstances, their equality cannot be assured. The existence of a financial system dominated by ex ante fixed interest debt contracts exacerbated this coordination problem. Since the equality of saving and investment cannot be assured, emergence of unemployment and inflation were likely possibilities. Not only the equality of saving and investment cannot be guaranteed because of the coordination problem, it is likely that not all savings would be channeled to productive employment-creating investment. This, Keynes argued forcefully in his famous book The General

[12] Tobin, J. (1984). "On the Efficiency of the Financial System". Lloyds Bank Review, no. 153, 1-15

[13] Cooper, G. (2008). "The Origin of Financial Crises". (New York: Vintage Books)..

[14] Benes, J. and M. Kumhof. (2012). "The Chicago Plan Revisited". IMF Working Paper WP/12/202.

Theory of Employment, Interest and Money was due to the role of interest in creating a wedge between saving and investment. He viewed interest as "rent" and those who demanded it as "rentiers".

Keynes was neither the first nor the only scholar holding such views. Nor was expression of the concept confined to the twentieth century. But it was Keynes who made the relationship of interest-rentier and the lack of coordination a centerpiece of his explanation as to why market capitalism was unable to achieve full employment. Moreover, he argued that the rentier-interest rate relationship was responsible for another "evil" of capitalism. Keynes states that not only does, "interest today reward no genuine sacrifice" but its compounding leads to wealth accumulation at an accelerated pace without the commensurate risk or work. This tilts income and wealth distribution toward the rentier. So convinced Keynes was of the detrimental role of predetermined fixed interest rates that he suggested that while unemployment and poor income and wealth distribution were the two "social evils", the real "villain of the piece" creating both, as well as inevitable instability, was the rentier class that finds advantage in holding liquid assets rather than risking their holdings in employment-creating investment. They would part with the assets only if they can loan them in the form of ironclad debt contracts that guarantee full repayment of principal and interest. The solution he offered was the "euthanasia of the rentier". This was to be a gradual process that "will need no revolution" but through "socialization of investment."

One of the most perceptive, productive and astute followers of Keynes was Hyman Minsky who pushed forward the frontiers of Keynesian thought to produce valuable insights into the workings of financial capitalism. As did Keynes before him, Minsky considered such a system in which debt dominates as endogenously and endemically unstable. Indeed, he argued that in the debt-dominated financial system of contemporary capitalism, the structure itself amplifies disturbances. His major contribution is known as the "financial instability hypothesis." [15] The pivotal element of the hypothesis is debt. So important is this element that Minsky himself considered his hypothesis as a "theory of the impact of debt on system behavior." This hypothesis contains two central propositions. The first states that there are two financing structures: one promotes stability and the other instability. Simply stated, this proposition maintains that the more a financial structure, as measured by the debt to equity ratio, tilts toward debt, the more fragile the system becomes. The second proposition argues that in financial capitalism, stability is not sustainable because during the prosperity phase stability sows the seeds of instability. Minsky refers to the second hypothesis as saying "stability is destabilizing."

In the stages of prosperity, businesses finance their activities using internal funds or through equity finance. If they borrow, they do so only if their future income streams are sufficient to meet payment commitments on the principal and interest over the lifetime of the contracted debt. This Minsky calls "hedge finance." The system in which hedge finance dominates – financing which is mostly equity or internal funds with minimal debt commitments that are validated compatibly by an underlying income stream – is stable. As profit opportunities intensify during prosperity, however, there is higher reward to borrowing as enterprises take on riskier investments. More and more firms and other participants tilt their financial structure toward debt and increased leverage. Minsky calls this "speculative finance" and enterprises using this type of finance as "speculative units" who overwhelm their financial structure with debt to the point where their income stream becomes insufficient to pay the principal that comes due. They can only pay the interest but must rollover the principal. According to Minsky, matters do not rest here. Firms continue to borrow to the point where their financial structure is made of debt commitments that can be validated by more borrowing to pay both principal and interest. He referred to these enterprises as Ponzi units and their financing as "Ponzi finance." Minsky considered contemporary capitalism as a dynamic system with a number of dialectical processes and feedback loops at work that created instability, unfair distribution and structural unemployment. In this he was following Keynes. And, like Keynes, he thought the dialectic forces within the system would lead it to disaster if the system were left to its own devices. He was known as one of the followers of Keynes most faithful to the purity of his ideas. Nevertheless, it is puzzling that as central as the discussion of interest rate mechanism and concepts of "rent" and "rentier" were in Keynes' perception of contemporary capitalism, they are not dealt with in Minsky's writings. One explanation could be that perhaps he saw no need for it since he had already made "debt" such a potent and pivotal element in his own rendition of the Keynesian model. And "debt" without the interest rate mechanism was not "debt."

Be that as it may, in the aftermath of the credit crisis, many found Minsky's diagnoses of past crises and his explanation of potential turbulences ahead insightful. He had warned of growing fragility in the system, debt build up in the household and business sectors as well as the adverse consequences of securitisation, debt globalisation, and deregulation. A number of his colleagues and students continued research in the Minskian tradition – many of their publications can be found at The Levy Economics Institute of Brad College- after his death in 1996. Minsky had observed the growing fragility of the US financial system since 1966 as boom and bust in one asset market was followed by the formation and implosion of another bubble in a different asset market. After him, his colleagues and students saw continuation of the phenomena of bubbles of debt and credit forming and then imploding. In Minsky's tradition, they considered these not as isolated incidents due to external factors, but as "rolling bubbles" signifying the growing fragility of the financial system. George Soros too had seen each asset bubble connected to others, and all part of a long-term formation of a "super bubble" of debt and credit that finally imploded in 2007/2008.[16] The "Minsky Moment" had arrived.

12.5 Emergence of the "Paper Economy" and financialisation: James Tobin and Hans Tietmeyer

[15] "The Financial Instability Hypothesis," in P. Arestis and M. Sawyer, eds., Handbook of Radical Political Economy (1993).

[16] Soros, George (2008), "The Crisis and What to Do About It", The New York Review of Books, 4 December, pp. 1–6.

The period between the second half of the 1960s and 1970s was one of much progress in the theory of finance. It laid the foundation for the development of derivatives and securitisation. These theories included spanning and the efficient market hypothesis, themselves based on Arrow-Debreu and Modigliani-Miller theories. By the mid-1970s the application of these achievements initiated a drive for innovations unmatched in history that gave finance a significant presence in industrial economies, investing it with the potential for taking on a life of its own. This influence manifested itself in massive currency trade so alarming that James Tobin, a Keynesian economist, proposed what became known as the Tobin tax just to throw sand in the wheels of this financial trade.[17] By early 1980s, finance was well on its way to dominating the real sector of the economy. In 1984, Tobin sounded the alarm about the emergence of a "paper economy":

"… we are throwing more and more of our resources into financial activities remote from production of goods and services into activities that generate high private rewards disproportionate to their social productivity, a 'paper economy' facilitating speculation which is short-sighted and inefficient."

In little over a decade later, the "paper economy" was not only dominating the real sector but was well on its way to decouple from it. This period coincided with the presidency of Hans Tietmeyer at the Bundesbank. Much respected, Tietmeyer used his presence in domestic and international forums to warn about "financialisation" – a process whereby financial sector growth is much faster and larger than the real sector – and the "decoupling" of finance from production of goods and services[18]; in other words the rapid growth of the "paper economy". In the event, Tobin's and Tietmeyer's warnings were not heeded resulting in the collapse of the "paper economy" in 2007/2008.

A "paper economy" has distinct characteristics:

i. Finance is speculative rather than productive;

ii. Finance is focused on short-termism, buying pieces of paper and trading them back and forth in rapid turnover;

iii. Finance decouples from real sector production;

iv. It extracts, rather than add, value from the real sector;

v. It has only an illusory or, at best, a tenuous (virtual) anchor in real assets.

How is the "paper economy" fairing five years after the crisis? Data shows that at the end of 2011, the nominal value of paper instruments that had no or tenuous connection to the real economy – such as interest rate swaps, collateralised debt obligations, credit default swaps, and other – was USD700 trillion in US alone. This is 4.5 times as large as the capitalisation of the global debt and stock markets.[19]

Data also reveals that stock markets too are serving mostly the paper economy. Over the last five years, data shows that of the total volume of USD33 trillion annual trading in the US stock markets, only USD 250 billion average per year provided additional equity capital to new (USD45 billion) and established (USD205 billion) companies.[20] In other words, only 0.8 percent of the USD33 trillion was devoted to capital formation in the real sector of the economy every year on average for the last five years. The remaining 99.2 percent was devoted to pure finance activities, i.e., the paper economy. In the meanwhile, debt continued to pile up in major economies. A Bank of International Settlement study showed that by 2010, total debt (government, households, and corporate) in the US, Japan, Canada and 15 European countries ranged between a minimum, for Austria, of 238 percent of GDP to 456 percent for Japan.[21] Indications are that with little growth in these countries, their debt continues to increase with significant spillover effect on emerging and developing countries elsewhere.[22] To bring their debt-to-GDP ratios to more sustainable levels, these countries have to produce primary surpluses ranging between 5 percent for Austria to 12 percent for Ireland every year for five years, a Herculean task by any standard, particularly given the negative to low single digit growth in these countries.[23]

Given the recent long-term studies – see in particular the joint work of Carmen and Vincent Reinhart, and Kenneth Rogoff- showing the devastating consequences of interest based debt in creating credit crises growing uncertainty about the cost-benefit of sustaining this regime is not surprising.

12.6 The credit crisis as moral failure

There is a third alternative explanation of the credit crisis that considers it as a major sign of a massive "moral failure" that has plagued contemporary society. In this view, the credit crisis was an episode, albeit highly damaging, in civilization's long march toward becoming totally unhinged from a moral anchor as the "banality" of economic crimes becomes entrenched in the psyche of people.

William Davies considers finance as "a profoundly moral issue, as it involves the creation of relationships of trust, often with very high stakes indeed."[24] This is perhaps the reason why the revelation of the extent of fraud and other financial and economic crimes committed by financial institutions – the latest being the LIBOR rate fixing scandal – created intense moral outrage reverberating in the "occupy" protest movement. Thus, in an expression of moral outrage, Shoshana Zuboff argues that while there is merit in technical explanations of the credit crisis, what is ignored in these analyses is "the terrifying human breakdown at the heart of the crisis". She maintains that at its heart, what drove the crisis was a sense of "remoteness and thoughtlessness compounded by a widespread abrogation of individual moral judgment." This is promoted by a business model that dominates and is characterised by self-centeredness of its practitioners who operate at an "emotional distance" from their victims and from the "poisonous consequences" of their actions. It was this "narcissistic model" that "paved the way for a full-scale administrative economic massacre… to the world's dismay, thousands

[17] Tobin, J. (1978). "A Proposal for International Monetary Reform". Eastern Economic Journal 4:3-4, 153-59; reprinted Eastern Economic Journal 29:4 (2003), 519-526.

[18] Menkoff, L. and N. Tolksorf. (2001). "Financial Market Drift: Decoupling of the Financial Market from the Real Economy?". Heidelberg-Berlin: Springer Verlag.

[19] Bogle, J. C. (2012). "The Clash of the Cultures. Investment vs. Speculation". John Wiley And Sons.

[20] ibid

[21] Cecchetti, S. G., M. S. Mahonty, and F. Zampolli. (2010). "The Future of Public Debt: Prospects and Implications" BIS Working Paper No. 300.

[22] Alper, C. E. and L. Forni. (2011). "Public Debt in Advanced Economies and its Spillover Effects on long-term Yields". IMF Working Paper WP/11/210.

[23] Mauldin, J. and J. Tepper. (2011). "End Game: the End of the Debt Supercycle and How it Changes Everything". John Wiley And Sons.

[24] Davies, W. (2012). "Taking Risks with the Economy? It's Time to Throw Caution to the Wind". OpenDemocracy, April 28, 2012.

of men and women entrusted with our economic well-being systematically failed to meet… minimum standard of civil behavior" that "says: you can't just blame the system for the bad things you've done."[25]

Zuboff found appropriate the philosopher Hanna Arendt's formulation of "the banality of evil"[26] in her observation of the Nazi, Adolf Eichmann, in his trial in Jerusalem. Arendt observed that Eichman did not appear "perverted and sadistic", but "terribly and terrifyingly normal." Accordingly, Eichman was motivated by nothing except "an extraordinary diligence in looking out for his personal advancement". The same motivation animated the practitioners of the "narcissistic business model" operative in the run up to the crisis. Zuboff argues that the "the crisis has demonstrated that the banality of evil concealed within a widely accepted business model can put the entire world and its people at risk." She concludes that "in the crisis of 2009 the mounting evidence of fraud, conflict of interest, indifference to suffering, repudiation of responsibility and systemic absence of individual moral judgment produced an administrative massacre of such proportion that it constitutes economic crime against humanity."

The crisis and its aftermath have led to a debate about the need to consider the role of ethics and morality in the economic and financial workings of contemporary capitalism. It is worth noting that Adam Smith, considered as the father of Western economics, wrote his book The Theory of Moral Sentiments some decade and half before The Wealth of Nations. Abbas Mirakhor has argued that the proposition discernible from The Wealth of Nations regarding the workings of market capitalism must be placed within the institutional framework of The Theory of Moral Sentiments that provides the mooring for them.[27] The decoupling of the two books, in effect, cuts off economics and finance from the ethics of the system envisioned by Smith. This purging process to purify economics and finance in order to make them "value free" began in earnest in the second half of the twentieth century, leaving market capitalism with only one ethic: "quid pro quo."[28] This is perhaps a fundamental reason for the emergence of the "narcissistic model" subject of Zuboff's outrage.

In contrast, ethics, morality and justice are firmly embedded in the Islamic vision of how an economy and its finance are to operate. They are defined by a set of behavioral rules prescribed in the Qur'an. These include property rights, faithfulness to terms and conditions of contract, maintenance of trust, honesty, transparency, cooperation, reciprocity and consultation and a number of others. Participants internalise these rules before entering the market which has rules governing its operations as well. Hence, what would be considered as moral, ethical values in contemporary parlance are endogenised within the economic and financial system.

[25] Zuboff, S., 2009. "Wallstreet's Economic Crimes Against Humanity". Businessweek, March, 2009. http://www.businessweek.com.

[26] Arendt, H. 2006. "Eichmann in Jerusalem: A Report on the Banality of Evil". New York: Penguin Group.

[27] Mirakhor, A. (2011). "Epistemology of Finance: Misreading Smith". Islamic Finance Review, vol.1, 9-15.

[28] Knight, F. H. (1939). "Ethics and Economic Reform". Economica.