The current issue and full text archive of this journal is available on Emerald Insight at:
www.emeraldinsight.com/0306-8293.htm

Islamic finance and debt culture: treading the conventional path?

Mohammad Omar Farooq
Department of Economics and Finance, University of Bahrain, Bahrain

Received 3 September 2013
Revised 4 July 2014
Accepted 3 September 2014

Abstract

Purpose – The purpose of this paper is to examine the phenomenon of debt culture in the conventional financial systems and then to compare the existing or emerging trends in the Islamic finance industry. It provides critical insight into why economic policies that are delinked from some fundamental wisdom about sustainable lifestyle might be increasingly less effective.
Design/methodology/approach – The paper identifies various areas of impact of the debt culture and provides qualitative analysis based on relevant data.
Findings – The data presented in the paper shows that the Islamic finance industry is clearly biased in favor of debt-creating modes, which is expected to lead to promoting the same kind of debt culture as experienced in the conventional financial system.
Research limitations/implications – Finding comprehensive and current data for Islamic financial institutions is a challenging task. The IFIs are not as transparent as their conventional counterparts in sharing relevant data and information.
Practical implications – The paper highlights and analyzes a problem – i.e., the debt culture. Dealing with this problem would be indispensable in the long run for any credible as well as sustainable solutions to contemporary crisis.
Social implications – Debt culture is more than an economic phenomena. The paper identifies/analyzes several areas, including consumption explosion, speculation, ethics, that are related to debt culture.
Originality/value – This is probably the first research paper that looks into the issue of debt culture in the context of Islamic finance. The contemporary, ongoing global crisis underscores the kind of conventional problems that Islamic finance needs to avoid.

Keywords Development, Economic philosophy/theory, Sustainable development, Debt culture, Global justice, Islamic banking/finance

Paper type Conceptual paper

1. Introduction

Islamic finance has gained attention in light of the ongoing global financial crisis since 2008. In 2009 the Vatican issued a statement urging the world community to take a closer look at Islamic finance "to restore confidence amongst their clients at a time of global economic crisis" (Totaro, 2009). The official newspaper of the Vatican *L'Osservatore Romano* noted: "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" (Totaro, 2009). A 2010 study by IMF suggested that Islamic banks were affected by the crisis, but in marked contrast with their conventional counterparts. More importantly, Islamic banks seem to show greater resilience in challenging financial environment (Hasan and Dridi, 2010).

While such attention will also bring greater scrutiny to Islamic finance, any vindication of this niche industry should bolster industry confidence and help elevate its relevance and potential in a competitive, dynamic global context.

JEL Classification — H63
The author is grateful to an anonymous reviewer for valuable observations that have helped improve the paper and to Syed M. Islam (Minnesota, USA) for his editorial assistance.

International Journal of Social Economics
Vol. 42 No. 12, 2015
pp. 1168-1195

0306-8293
DOI 10.1108/IJSE-09-2013-0197

An important premise in this discourse is that Islamic finance is fundamentally distinct from its conventional counterpart. Legalistically, such distinctiveness has been accomplished. The critics point out, however, that distinction in substance is yet to be measurably achieved, especially when the same conventional macro-monetary environment and framework that Islamic finance operates in are considered. To effectively combat the crisis beyond laws and legal aspects, the principles, values and ethical foundation of Islamic finance need to be emphasized and integrated.

The current crisis has been fundamentally intractable due to the underlying debt culture and greed-based lifestyle, which expands its scope beyond financial or economic. Indeed, that is where the ethical principles governing Islamic finance might be most relevant. Unfortunately, as this paper will illustrate, Islamic finance either promotes or is neutral to the debt culture that led conventional finance to the trajectory of crisis.

This paper examines the phenomenon of debt culture in conventional financial systems and then compares existing or emerging trends in Islamic finance. Identification and understanding of the cultural, moral and structural factors that foster a debt-prone culture – a culture that is debt seeking, debt promoting and debt creating – help explain why economic policies that are delinked from fundamental principles of sustainable lifestyle might be increasingly less effective. This would be true not just for conventional financial systems, but also for Islamic finance.

This paper places the issue of debt culture in the broader/holistic context of life, explaining why the contemporary Islamic banking and finance may also fall seriously short in dealing with the kind of crisis the world is experiencing. It also suggests some essentials for a value framework that is both Islamic and universal which can help better prepare humanity to deal with the instabilities, a large part of which is man-made.

Islamic values in regard to debt and debt culture are rather straightforward, which we will delineate toward the end of this paper and shed light on the current practices and tendencies of the Islamic finance industry. However, since we have a wealth of accumulated experience regarding the debt culture and its impact it is important to outline the conventional path to appreciate the Islamic values and parameters.

2. Current crisis and credit factor

Common explanations of the recent financial crisis center around "credit boom" (Eichengreen and Mitchener, 2003) or oversupply of credit, which induced aggressive and irresponsible lending practices by major industrialized countries, especially the USA (Truma, 2009). As early as in 2004, there were predictions about an impending "gigantic" credit bust (Eavis, 2004; Jeanne, 2008; Adalid and Detken, 2007). In the words of current Fed Chair Ben Bernanke:

> The financial crisis, the worst since the Great Depression, has severely affected the cost and availability of credit to both households and businesses. Credit is the lifeblood of market economies, and the damage to our economy resulting from the constraints on the flow of credit has already been extensive (Bernanke, 2009).

Industry experts and academics alike view the current crisis as essentially financial and blame credit bubble as its primary cause. However, it is not merely an economic or financial phenomenon. Rather, underlying the crisis, which is symptomized by unsustainable debt or credit level, there is a deep-rooted, endemic, incentivized, debt culture. The culture here signifies a way of life or lifestyle based on debt, where indebtedness is considered not only normal, but also unavoidable, preferable (based on policy incentives) or even "cool" (Boynton, 2011).

3. Anatomy of debt culture

The "debt culture" is not that old. As the USA is at the forefront of this culture, it might be worthwhile to note that the founding fathers of that nation were aware of this tendency and reminded themselves of the timeless wisdom, as in the words of Thomas Jefferson: "Never spend your money before you have it" (Monticello.org, n.d.). But over time that wisdom was reduced to insignificance by the motto "Buy now, Pay later," which is the essence of debt culture – "wanting everything now rather than waiting and working for something that you really want" (Hankel and Isaak, 2011, p. 85; Flax, 2010, p. 3). American love affair with consumer credit began in the 1920s (Geisst, 2010, p. 3; Krehm, 1999, p. 177). The triumph of the Keynesian revolution over the classical/neoclassical school during the Great Depression era and the following decade provided powerful and attractive rationale for the government in the form of countercyclical stabilization policy framework (Macdonald, 1999, p. 127; Willett, 1988, p. 131; Auerbach and Kotlikoff, 1998, p. 229; Friedman and Friedman, 2010, p. 256) to partake in this love affair with debt (deficit financing). As Graeber (2012) in his fascinating historical work, explained: "Personal credit received a bad press in the eighteenth century. It was frequently said that it was wrong to go into debt simply to pay for everyday consumption goods" (Chapter 11, note no. 67).

But that was in the eighteenth century. Once the taboo about general indebtedness was argued away, it became quite acceptable, without any stigma whatsoever. Indeed, in modern literature on consumer credit, "Borrowing in order to finance a more desirable consumption pattern or to finance housing purchases can be optimal from the economic point of view, and is perfectly normal nowadays" (Bertola *et al.*, 2008, p. 3). Then, with the policy regimes and incentives in place, indebtedness was no longer really a matter of need. It became an entrenched culture that paved the way for an endemic situation at personal, business, national and international level, where this culture became inseparable from the legendary American Dream and the American way (Adams, 2012).

Notably, this dream was to be achieved through hard work, thrift, education, and competitive struggle (Caldwell, 2006, p. 108). However, the culture that evolved made hard work and thrift nostalgia of the past. Why wait to leverage your standard of living, even if through debt? As the stigma about bankruptcy disappeared (Dick and Lehnert, 2007, p. 5; Athreya, 2004) and as legal frameworks to protect the spendthrift borrowers evolved, the foundation of this culture was reinforced. The issue of external debt and public debt, as for example, in the USA, enjoys the discussion limelight. On the other hand, consumer debt (not including the secured real estate debt), which is 2.6 trillion dollars (2007 figure; Urbanska, 2010, p. 38), is lent a lot less light.

Current global debt (2012) is US$48.7 trillions[1]. As the debt's global spread indicates, the more developed the countries are the more is the debt burden and the more entrenched and widespread is the debt culture. The so-called development, higher standard of living and the politico-economic power the rest of the world desires to emulate are significantly leveraged by debt.

As Table I further corroborates the abovementioned trend, the developed countries have the highest proportion of the public debt, often several multiples of their respective GDP.

As Table II shows, the debt culture involves all the sectors (households, businesses and government) of the economy.

Economic agents in all sectors – households, businesses and government – seem to be in a race to live today without any consideration to the budgets subject to current resources.

Table I. Public debt as a percentage of GDP, 2012

Country	Unemployment rate (%)	GDP (nominal; trillions)	Public debt (trillions)	% of GDP
Japan	4.6	$5.880	$13.700	233.1
Greece	19.2	$0.303	$0.489	168.2
Italy	8.9	$2.200	$2.540	120.5
Ireland	14.5	$0.217	$0.225	108.1
Portugal	13.6	$0.239	$0.257	101.6
Belgium	7.2	$0.514	$0.479	97.2
USA	8.3	$15.130	$12.80	85.5
France	9.9	$2.760	$2.260	85.4
Germany	5.5	$3.560	$2.790	81.8
UK	8.4	$2.460	$1.990	80.9

Source: Huffington Post (2012)

Table II. Total debt in selected countries as a percentage of GDP by sectors

Countries (Q2 2011)		Government	Nonfinancial business	Households	Financial institutions	Total
1	Ireland	85	194	124	259	663
2	Japan	226	99	67	120	512
3	UK	81	109	98	219	507
4	Spain	71	134	82	76	363
5	Portugal	79	128	94	55	356
6	France	90	111	48	97	346
7	Italy (Q1 2011)	111	82	45	76	314
8	South Korea	33	107	81	93	314
9	USA	80	72	87	40	279
10	Germany	83	49	60	87	278
11	Canada	69	53	91	63	276
12	Greece	132	65	62	7	267

Source: Aridas (2013)

Households are indulging in "conspicuous consumption" (Veblen, 1994) that often trivializes the notion of standard of living and leading governments have little hesitation to undertake expensive ventures (e.g. war of choice like US intervention in Iraq) that are also financially disastrous:

> Along with the emphasis on the short-term payback mentality of the 1980s came its shady companions: debt and speculation. Not only was the urge to make a quick buck irresistible, but it was downright seductive if you could do it with other people's money. The debt surge had begun in the federal government in a modest way (by today's standards!) in the Carter administration. But it really got rolling under Reagan. The federal (or national) debt passed the tidy sum of $1 trillion in the first year of the Reagan administration. By 1983 it was at $1.178 trillion and grew to $2.118 trillion, a 79.7 percent increase in five years. Not to be outdone, state and local government debt grew from $358 billion to $604 billion from 1983 to 1988. Corporate debt jumped from $1.023 trillion to $1.9 trillion in the same period, and households exploded from $1.812 trillion to $3.191 trillion. During the period of 1983-88, total debt from all sources went from $5.2 trillion to $9.1 trillion, a 74.8 percent increase (Cummings, 1998, p. 85).

4. Impacts of debt and the debt culture

Rising or exploding debt as part of a debt culture has multidimensional effects, not all of which have been studied in a holistic framework. However, even when these effects are considered in a fragmented manner, the implications are overwhelming. Here we discuss a few such impacts of debt and the debt culture.

4.1 Debt and intergenerational equity

The issue of debt is important for many reasons, among which is the fundamental notion of intergenerational equity based on the benefit principle. From the macro-social viewpoint, this means that each generation should "pay their way": needs and fancies of a generation should be taken care of by the same generation (Musgrave and Musgrave, 1989, p. 202; Thompson, 2002/2003).

The principle of fairness is at the heart of the issue of intergenerational equity. From macro-social perspective, policies, institutions and culture should prevent major inequities in this regard so that one generation does not try to overconsume or attempt to augment its standard of living at the expense of future generations. Of course, there are positive intergenerational externalities (Tietenberg, 2000, p. 288), as in the case of those achievements of a generation that also positively impact the lives of the next generation. Such positive externalities can be argued as a basis to draw against the future time frame. However, there are also negative externalities. While not all of these externalities can be identified and quantified, they significantly mitigate the positive externalities.

As Birdsall and Griffin (1993) explain, such intergenerational externalities exist only when parents care about their children and succeeding generations (p. 12). Since such externalities are unidirectional insofar as the current generation can affect future generations, but not vice versa, the responsibility and constraints are applicable only to the current generation (Sandler, 1997, p. 43).

These intergenerational externalities are commonly discussed in the context of environment. However, such externalities generally require financing, which involves debt (Baker and Nofsinger, 2012). While pollution and environmental degradation became a major problem since the industrial revolution, the exponential growth in pollution and environmental degradation in the twentieth century and onward coincides with fast rising debt at all levels – personal, business and government (Wang, 2009, p. 8). Also, notably, the debt explosion is not a recent phenomenon. Rather it has its root in the post-Second World War period (Geisst, 2010, p. 3).

4.2 Debt and systematic risk

It is important to acknowledge that there has been an explosion of debt, as part of the debt culture (Fisher, 2010). Let's take the case of the USA, the largest economy in the world:

> From 1950 to 1980, the personal consumption/gross domestic product (GDP) ratio was stable 62 percent. Since 1980, it has surged to 70 percent. Personal debt also exploded from 55 percent of national income in 1960 to 133 percent in 2007 (Friedman and Friedman, 2010, p. 256).

Even the emerging developing countries' debt burden has risen to a crippling level. Take the case of Brazil, where the consumerism has hit like it has in the USA and people are drowning under mounting credit card debt (Brooks, 2011).

Rising debt can increase systematic risk considerably and make the economies seriously vulnerable, especially in an interconnected, globalized world. Most important factors contributing to systematic risk (not necessarily in order of importance) are: interest, inflation, liquidity and currency risk.

Interest rates in many economies are part of the monetary policy toolkit of the respective central banks. Inflation erodes the value of money and thus of purchasing power. Since in a fiat money system, confidence in the system is essential, the systematic risk is harder to control or determine especially in countries facing serious instability or crisis, causing the systematic risk to rise. The liquidity risk, especially in the fixed-income market, related to the constricted market to liquidate an existing asset, may be a result of downgrades.

All these risks are accentuated during economic or financial crisis, and if such a crisis is rooted in credit-related factors, then all these factors become more pronounced in an economy with credit crisis. The tragedy or drama involving Greece or Portugal is related to unsustainable level of debt (Nelson *et al.*, 2011) and has increased systematic risk even at the global level. Systematic risk rises under a debt culture as they are interlinked. Indeed, the "term systemic risk was coined on the onset of the Latin American debt crisis of the early 1980s" (Ozgöde, n.d.). Its impact is even greater and more extensive in a globalized environment.

4.3 Debt and environment, and consumption explosion

Significant rise in the standard of living in the past two centuries has been achieved at equally significant cost in terms of the environment. What constitutes "standard of living" and whether the traditional economic measures of such standards are relevant and meaningful to assess the quality of life both from intragenerational and intergenerational perspectives, are important.

Notably, there is a close connection between intergenerational and intragenerational equity in the sense that those do not care about intergenerational equity also rarely care about intragenerational equity:

> […] intragenerational equity is an inherent part of the fulfillment of our intergenerational duties. In fact, the two should not be a cause of conflict: they are complementary.
>
> It is clear that the concept of ecological debt fits rather well into this theory. A debt has been created because on the one hand, we are not fulfilling our duties of conservation of *access* (or fulfillment of intragenerational equity), and on the other hand it is obvious that we are currently violating our duties of conservation of *quality* and of *options* towards are descendant" (Paredis *et al.*, 2009, p. 119).

Due to emerging global conditions, the gap between intergenerational and intragenerational equity has significantly narrowed. If in terms of intergenerational equity we were referring to future generations, such as our grandchildren and great-grandchildren, the impact of burden now needs to focus on our children's generation, as well.

Despite greater environmental awareness, whatever way one looks at the contemporary pursuit of higher standard of living, this pursuit has become inseparable from "consumption explosion," especially during twentieth century (Robins, 2001, p. 48; Mukherjee, 2004, p. 35; Friedman and Friedman, 2010, p. 256).

Since the relationship between relentless pursuit of higher standard of living, particularly in the so-called developed world where the pattern and magnitude of consumption tend to trivialize life, and the environmental impacts are part of a rich discourse, we will not go into further detail about that. However, what is not often recognized or acknowledged in this interrelated discourse is the issue of debt and consumerism that also are linked to environmental degradation, and even "ecological debt" (Paredis *et al.*, 2009, p. 119; Hijojal and Aurrekoetxea, 2010) related to intragenerational equity. John Kenneth Galbraith aptly connected the relevant dots:

> Galbraith's […] explains the recent decline in savings rate and the corresponding rise in consumer debt and bankruptcies: "Viewing this process as a whole, we should expect that every increase in consumption will bring a further increase – possibly a more than proportional one – in consumer debt. Our march to higher living standards will be paced, as a matter of necessity, by an ever deeper plunge into debt." Galbraith acknowledged the role of consumer debt in supporting higher levels of consumption and augmenting demand in the economy. But Galbraith also highlighted how the precarious explosion of debt adds to macroeconomic instability […]" (Dunn, 2010, p. 53).

4.4 Debt and speculation

To better appreciate the nature and significance of this debt culture it is important to note the positive correlation between debt and speculation, as well as between debt culture and speculative pursuits. The latter is considered by icons like George Soros as the biggest threat to human welfare and international peace in our time (Northcott, 1999, p. 14).

Some see the relationship between debt and speculation particularly in the context of the Capitalist system, but that this relationship has become much stronger in our contemporary time. Hyman Minsky's writings in recent years, such as "money-manager capitalism" where excessive indebtedness plays pivotal role, is quite illuminating in this regard (Clayton, 2000, pp. 129-130).

Without getting into the merits of Minsky's arguments, it is obvious that ongoing financial crisis is fundamentally characterized by explosion of debt that fueled speculative bubbles in both financial and real estate market. Money-manager capitalism has an entrenched short-term emphasis that is relentlessly after quick profits. Notably, activities of the real economy often are more long term and carry greater risk (Cummings, 1998, p. 85).

4.5 Debt and war/conflict

Though often not recognized or acknowledged, there is a close connection between debt and the wars undertaken by various countries. While twentieth century is known for many unprecedented achievements of the human society, it is also known as the "Century of Genocide" (Totten and Parsons, 1995). Many of these were intranational as well as international conflicts. While public debt through deficit financing often has been more associated with international conflicts, even many of the intranational conflicts were part of larger regional or global conflicts or tensions, such as the Cold War, and even the nations that could not accumulate surplus to finance their socioeconomic development were unrestrained in financing their conflicts or at least in their military spending to maintain some kind of deterrence[2] (Table III).

As can be seen in the figure above, five of the top seven countries under the two headings are common. The most recent military extravagance is exemplified in case of the USA, where as part of its so-called War on Terror, it invaded Iraq under false and malicious pretexts in 2003 and according to the Congressional Budget Office, the cost would be north of 2 trillion dollars (Reuters, 2007b). Of course, in such reference to cost, no human cost, particular to the Iraqi side, is considered. Deficit financing has been the primary source of funding wars and when such (mis)adventures are undertaken as part of an endemic debt culture, it helps to appreciate the connections and why the USA has found the current crisis not easily tractable.

4.6 Debt and exploitation

Another important area in this context is the relationship between debt and exploitation. The "resource politics" in the less-developed countries with rich natural resource endowments is illustrative in this regard, as these countries become vulnerable to their external debt to other countries (Sanderson, 1992). The sub-Saharan African countries became victim to such "resource politics," whereby the corrupt, undemocratic governments took on massive external debt and aid as part of facilitating the agenda of some developed countries to exploit the earth. "According to World Bank Statistics, the external debt of sub-Saharan African countries amounted to $101 billion by the end of 1986, of which the 22 low-income countries defined by the World Bank as "debt-distressed" owed $45 billion; in these countries external debt amounted to 108 percent of GNP" (Hayter, 2013, p. 66).

Even during the European colonial era, debt has been used to make the colonial empires grow as well weaken rival empires. In his illuminating work, Tripp mentions how the Ottoman empire became increasingly indebted to the European powers, leading to "concessions […] in the form of capitulations" (Tripp, 2006, p. 14).

At the individual level, indebtedness creates vulnerability to exploitation (*zulm*, in Arabic). While slavery in the past often has resulted from crippling, vicious cycle of debt, in modern times there is still widespread debt bondage and servitude, the consequences of which are similar to slavery (Allain, 2012).

4.7 Debt and ethics

The current global economic crisis has also been identified as an endemic ethical crisis. From Enron to Salomon Brothers, there was a serious erosion of ethics:

> The culture that developed at Enron bore striking similarities to the culture of Salomon Brothers in the early 1990s, when the investment firm faced its own ethical crisis. Each company demonstrated a lack of ethical leadership that fostered an unethical organizational culture (Sims, 2003, pp. 148-149).

As we will discuss the relevance of SPVs in Islamic finance in a later section, it is important to shed some light on SPVs and how it played diversionary role for companies, such as Enron:

> The SPVs not only allowed Enron to boost earnings, but also allowed the company to keep debt off its balance sheet. A highly leveraged balance sheet would jeopardize its credit rating, as its debt-equity ratio would rise and increase its cost of capital. To avoid this, Enron parked some of its debt on the balance sheets of its SPVs and kept it hidden from

Military expenditure (2010)		External debt	
USA	687,105,000,000	USA	13,980,000,000,000
China	114,300,000,000	UK	8,981,000,000,000
France	61,285,000,000	Germany	4,713,000,000,000
UK	57,424,000,000	France	4,698,000,000,000
Russia	52,586,000,000	Japan	2,441,000,000,000
Japan	51,420,000,000	Ireland	2,441,000,000,000
Germany	46,848,000,000	Norway	2,232,000,000,000

Source: http://en.wikipedia.org/wiki/List_of_countries_by_military_expenditures; www.cia.gov/library/publications/the-world-factbook/rankorder/2079rank.html

Table III. Countries with highest debt and military expenditure (US $)

analysts and investors. When the extent of its debt burden came to light, Enron's credit rating fell and lenders demanded immediate payment of hundreds of millions of dollars in debt (Sims, 2003, pp. 148-149).

Lehman Brothers' case is considered by many in the context of the current crisis as the straw that broke the camel's back. "In the weeks leading up to Lehman declaring bankruptcy, the firm's execs repeatedly assured investors that the company was in fine shape. "Our balance sheet is better than ever," an exec in Lehman's European division, Christian Lawless, recalls telling clients" (Umansky, 2008).

It is important to note how the "cleverness" and indulgence of companies like Lehman Brothers in the debt market led to its own titanic experience:

> In 2007, the same year as the beginning of the subprime crisis, Lehman Brothers was ranked number one on the *Fortune* "Most Admired Firms" list. CEO Richard Fuld was placed on the list of the world's thirty best CEOs. For its third quarter, Lehman Brothers possessed assets worth $275 billion.
>
> Then the subprime mortgage crisis hit. By August 2008 the company's shares had lost 73 percent of their value. Even as the company asked for government aid, its executives continued to pocket millions of dollars in bonuses, an action that caused public outrage. In September, the company filed for bankruptcy with $615 billion in debt (Ferrell *et al.*, 2009, p. 401).

The ethical problem is so deep-rooted that, even as big a crisis as the most recent one is, many parties continue their unethical practices undeterred. The case of "Robo-Signing" in the USA is an example (Conlin and Gogoi, 2011).

The recent scandal involving LIBOR fixing has exposed the problem even further (Farooq, 2012). It is not surprising that a recent survey found that a current study of 500 top senior executives in USA and UK revealed that 26 percent of them believe that wrongdoing or being unethical is a key to success (Dominguez, 2010).

The ethical dimension of the contemporary crisis now encompasses the links between public debt, public confidence and the representative governance. As Harold James, a professor at Princeton, articulated recently: "The European Union's sovereign-debt crisis constitutes a fundamental threat not only to the euro, but also to democracy and public accountability. At the moment, Europe's woes and dilemmas are confined to relatively small countries like Greece, Ireland and Hungary. But all of them look as if their governments have cheated on fundamental articles of the democratic contract" (James, 2011).

Indeed, one of the reasons the experts of almost all backgrounds are scratching their heads about the ongoing global crisis is because they are treating it as a primarily financial or economic crisis, while this is much, much broader than that:

> Up to now, the majority of analysis circulating in the public sphere have remained on a largely technical level, as if the economy was a technical problem for economists and technocrats, independent of any social, political and cultural context; as if economic behaviour was taking place in a vacuum. Yet, this crisis is not merely a financial crisis; it is a also a social, a political, and an ethical crisis, above all else a spiritual crisis – provided, of course, that "spirit" is used here in its Weberian sense, where it implies a particular form of obligation, a distinct ethical mode, a type of categorical imperative (Stavrakakis, 2011).

5. Debt culture and various faiths and philosophies

Debt culture is now an integral part of the modern way of life commonly seen in the Western, developed societies. However, generally major religions shun debt and any culture or lifestyle based on debt. Being indebted is rarely encouraged in any religion, or even in ancient philosophy. In this regard our primary focus here is Islam. But to place it in a more universalistic perspective, a brief survey of the other religions' attitude toward debt and indebtedness is relevant.

According to Christianity as reflected in the New Testament, "Owe no man anything, save to love one another: for he that loves his neighbor has fulfilled the law" (Romans, 13:8).

Judaism, as reflected in the Old Testament, enlightens its adherents about the trap of debt: "The rich rule over the poor, and the borrower is slave to the lender"[3] (Proverbs 22:6-8). In the story of Elisha, one of the Old Testament Prophets, a woman distressed under debt seeks help and guidance regarding her situation. Her husband's creditor was coming to take their two boys as settlement of debt. Elisha guides her toward God's blessing and once the arrangement of settling the debt was in place, he instructed her: "Go, sell the oil and pay your debts and advised: "You and your sons can live on what is left" (2 Kings, 4: 1-7). This advice indirectly illuminates the wisdom of living within one's means, rather than seeking debt.

Buddhism emphasizes *anana sukha* (happiness of debtlessness):

> The moral character of the good life of an ordinary layperson is fourfold. In his discourse to the banker Anathapindika, the Buddha enumerated four characteristics of the good life: (1) well-being relating to resources (atthi-sukha), that is, a life of sufficient mean achieved through one's effort without resorting to fraud and trickery; (2) economic well-being (bhoga-sukha) or happiness resulting from the enjoyment of lawfully acquired wealth; (3) happiness consequent upon being free from debt (anana sukha); and (4) the happiness of being free from blame (anavajja-sukha) (Kalupahana, 1992, p. 107).

Hindu scriptures also have ideas that juxtapose sin and debt, which can be taken as encouragement for avoiding the burden of indebtedness:

> Even among the virtuous a distribution of wealth is made (for the success) of holy rites; some-times a man who is free from debt is (thereby) freed from guilt.
>
> Liberated according to this rule from the ocean of guilt and debt, he considers himself pure and able to successfully perform the sacred rites.
>
> But in the case of that pure mortal who, freed from all sin and debts, begins the sacred rites, they will succeed without any effort[4].

Other religions or philosophies also have specific teachings about debt and indebtedness or it is addressed indirectly by modesty in consumption or simplicity of life, etc. For example, according to Confucius: "He who will not economize will have to agonize"[5].

6. Islamic guidance about life and finance

Let us now turn to Islamic values and principles about debt and indebtedness, which is the main focus here. Since justice or fairness is also a fundamental Islamic principle, the issue of intergenerational equity is also an issue of importance from the Islamic perspective. While this matter can be considered broadly covered by the general Islamic principle of fairness, some interrelated areas can be identified from Islamic perspective in this context.

6.1 The ideal of moderation

> Thus, have We made of you an people (Ummat) justly balanced, that you might be witnesses over the nations, and the Messenger a witness over yourselves […] (2/Al Baqara/143).

According to the Qur'an: "[…] and eat and drink, but be not prodigal. Behold! He does not love the prodigals" (7/Al A'raf/31). It further proclaims: "O you who believe! Make not unlawful the good things which Allah has made lawful for you, but commit no excess: for Allah does not love those given to excess" (5/Al Ma'ida/87).

6.2 Prohibition of wastefulness/extravagance

Islam is not against decent, comfortable or even abundant life, as per the ideal of moderation. However, it is decisively against wastefulness or extravagance:

> Those who, when they spend, are not extravagant and not niggardly, but hold a just (balance) between those (extremes) (Qur'an 25/Al Furqan/67).

Indeed, the Qur'an equates wastefulness and extravagance as a form of satanic behavior:

> Verily spendthrifts are brothers of the Evil Ones (shayateen); and the Evil One is to his Lord (himself) ungrateful (Qur'an 17/Al Isra/27).

The two values – moderation and avoidance of wastefulness – themselves are vital to have an impact on overconsumption.

6.3 Intergenerational and intragenerational care and commitment

The Qur'an guides the believers to pray, which ought to be the reflection of their own bent of mind:

> Our Lord! grant us in our spouses and children [*dhurriyatina*: progeny, descendants] the joy of our eyes and make us leader (imam) for those who guard against evil (25/Al Furqan/74).

Commonly this verse is explained or understood primarily as relating to the moral dimension. However, unless the notion of being exemplary to one's children or progeny was drained from the idea of being imam to the children, it also should include responsible way of life that flows from one generation to the next. Thus, from intergenerational viewpoint, we must strive to make this world a better place for them. If we are unable to do so, we must strive not to make it worse. Thus, by overusing resources during our generation, we must not cause depletion. Rather, wherever possible, we must use resource responsibly and moderately and replenish as well.

Islam also teaches to show intragenerational care. While it allows the believers to eat, drink and fulfill their needs in this world, it also enjoins them not only not to harm others, but also not to be oblivious to the needs and rights of the others:

> We have indeed created man surrounded by hardships.
>
> Does man think that no one will ever have power over him?
>
> He says, "I destroyed vast wealth."
>
> Does man think that no one saw him?
>
> Did We not make two eyes for him?
>
> And a tongue and two lips?
>
> And did We not guide him to the two elevated things?
>
> So he did not quickly enter the steep path (*aqaba*).
>
> And what have you understood, what the steep path is!

> The freeing of a slave!
>
> Or the feeding on a day of hunger.
>
> Of a related orphan,
>
> Or of a homeless needy person!
>
> And moreover to be of those who accepted faith, and who urged patience to one another and who urged graciousness to one another.
>
> These are the people of the right (90/Al Balad/4-18).

Indeed, if someone has surplus wealth beyond his needs and reasonable enjoyment, Islam wants the believers not to destroy their wealth. Rather, he should free people from bondage, feed the hungry or an orphan or a needy person. Essentially, Islam wants its followers to be sensitive, thoughtful and caring about their fellow human beings, which falls within the scope of intragenerational care. Accordingly, the Prophet Muhammad taught that righteousness or piety is not merely in fulfilling the rituals or meeting the legalistic requirements, but rather in being empathic about the world around us:

> He is not a believer who eats his fill while his neighbor remains hungry […] (Al-Baihaqi, n.d.).

If such is the Islamic view about a believer's demeanor and attitude, it should not be difficult to understand its attitude toward building or relishing an indulgent life based on debt, which has intergenerational implications.

6.4 Shunning debt and debt culture

Islam considers debt permissible, but is categorical in motivating the faithful to value a debt-free life and be debt-averse. While categorically prohibiting *riba* (generally blanketly equated with interest), freedom from debt was one of the things the Prophet Muhammad used to regularly mention in his supplication:

> Narrated Anas bin Malik:
>
> I heard him saying repeatedly, "O Allah! I seek refuge with You from distress and sorrow, from helplessness and laziness, from miserliness and cowardice, from being heavily in debt and from being overcome by men" (Al-Bukhari, n.d., Vol. 4, No. 143; Al-Hallaj, n.d., Vol. 4, No. 1218).

While this supplication of the Prophet should be seriously taken simply because it reflects the values and preferences of the Prophet, the teachings of the Prophet shed additional light on the ethical implications of debt culture, where people make themselves vulnerable to the burden of debt and be overwhelmed:

> Narrated 'Aisha:
>
> Allah's Apostle used to invoke Allah in the prayer saying, "O Allah, I seek refuge with you from all sins, and from being in debt." Someone said, O Allah's Apostle! (I see you) very often you seek refuge with Allah from being in debt. He replied, "If a person is in debt, he tells lies when he speaks, and breaks his promises when he promises" (Al-Bukhari, n.d., Vol. 3, No. 582).

The reality that this Prophetic narration wakes us up to is reflected in the ethical lapses as we saw in the context of the contemporary crisis, where even the best of the CEOs, like that of Lehman Brothers, resorted to lies under the delusion of delaying the reckoning even for a few days. Many individuals are drawn to lies overstating their income, to qualify for a larger mortgage. Many mortgage brokers and lenders do not mind stooping low to entice unsuspecting borrowers, who are offered higher amount of debt or at an exorbitant rate of interest, without making the clients aware or educated about either the fine lines or the long-term implications.

Being permissible, debt can play a legitimate role within certain parameters. But embracing and promoting debt culture and incentivizing the same through policies that induce borrowers to get into debt – as interest expense for businesses or mortgage purposes are deductible – exposes the society to great harm and in some cases ruins from which individuals, businesses or even governments sometimes cannot recover. The traditional focus on elimination of interest (blanketly equating it with *riba*) glosses over the fact that people can accumulate debt even at zero interest rate. And, if the culture promotes debt, then it too can become unsustainable.

7. Islamic finance and basic principles

With such strong position of Islam regarding debt and the demonstrated ill-effects of debt-based lifestyle and culture, both at the level of individual, business and government and at the level of national and global, pertinent Islamic principles and values must be reflected in financial dimension as well. However, is that the case with the contemporary praxis of Islamic finance? Before addressing that aspect, let us view in summary form some fundamental principles of Islam relevant to Islamic finance.

7.1 Real economy orientation

Islamic finance, properly embedded in an Islamic economy, should focus on the real economy and avoid unnecessary financialization. Instead of facilitating, promoting and incentivizing trade in debt or financialization becoming predominant, Islamic finance should give primary importance to developing policy frameworks and allocating resources toward production and technology. This can prevent the debt culture from turning into a culture of securitized debt, trapping more and more participants into the maze of debt and financial markets.

7.2 Asset backed/based

Islamic finance is to be asset-backed or based. This principle in itself limits the kind of financialization that has overtaken the financial world. Unfortunately, the contemporary Islamic finance in praxis is on the same track of financialization, where the dominance of *murabaha* – cost-plus trades with fixed, predetermined return - in general and commodity *murabaha* in particular has seriously undermined the claimed link between a transaction and its underlying assets.

7.3 Ethical behavior in transactions where risks of all stakeholders are taken into consideration

Businesses, financiers, entrepreneurs all have the worldly goal and necessity to make a profit. However, from an Islamic perspective, one stakeholder that is often ignored is God. The most fundamental requirement of faith is having *Taqwa* (God-consciousness). Since God has hardly any place in modern business or finance, the collapse of the ethical foundation that underlies the contemporary global financial crisis is understandable. However, Islamic finance and its real world practice – to be Islamic – must distinguish itself in its ethical dimensions. Indeed, Islamic finance has been credited to be more resilient during the economic and financial downturn, primarily due to its underlying ethical foundation, where what God has prohibited – in this context, for example, *riba*, *gharar* (excessive speculation), *maysir* (gambling) – are avoided.

7.4 Fair sharing of risk and profit

Based on the pristine principle, any claim on profit should be integrally connected with fair risk sharing, which, as the proponents of Islamic finance argue, is not the case with the modern conventional banking. Thus, Islamic finance movement, from which emerged the contemporary Islamic finance, consistently did and still does emphasize the profit-loss sharing (PLS) modes compared to fixed-return-based modes that mimic conventional transactions. Debt-based modes create fixed-term obligations, which under variable income or revenue conditions contribute additional risks. This becomes even more problematic when speculative tendencies are rampant, and when everyone is trying to find ways to shift financial risks to others, both being integrally related to the debt culture.

8. Islamic finance and debt-orientation

When Islamic finance is credited with relatively better resilience under challenging economic and financial conditions, it is the abovementioned principles that are central to such virtues of Islamic finance. Is Islamic finance succumbing to the debt culture that is debt-seeking, debt-promoting and debt creating? If so, it would contradict the principles and values of Islam. Studies are accumulating that report and demonstrate that the Islamic finance industry is shunning PLS modes and has developed a clear debt-orientation. Let us take a look at the portfolios of IFIs.

8.1 The debt-orientation

PLS modes include primarily *mudaraba* and *musharaka*, while non-PLS modes include *murabaha*, *ijara*, *salam*, *istisna*, etc. There is also *sukuk*, the Islamic alternative to conventional bonds, that is essentially a non-PLS mode, even though there are some hybrid characteristics from underlying PLS modes as well.

According to Fakih, (2010) report, "Assets are mainly composed by the financing activities which count for 63.7% of the total assets with a total of USD 146.0 billion. Then 20.0% of the assets are composed by investment activities. The remaining 16.4% are composed by cash, fixed/other assets and due from banks. Financing activities are composed in their major part by Murabaha which represents 58% of the financing activities and 36.5% from total assets" (Fakih, 2010).

Figures based on IBIS database shed further light on the asset composition[6]. As can be seen in Table IV, PLS transactions have increased from 3.31 percent in 2000 to 6.06 percent in 2009. However, this is ironic because while the PLS modes were claimed to be the ideal and desired, non-PLS modes dominate the portfolio overwhelmingly. Notably, non-PLS modes are almost invariably debt creating, with debt impacts similar to conventional finance.

The trend is not different for IFIs in GCC (see Table V) or the top ten IFIs (see Table VI).

While the industry struggles to find robust solutions for liquidity, as relevant for the short-term money market, the industry has found greater demand for and interest in capital market activities through *sukuk*. Until the introduction of *sukuk*, public financing has been limited and thus government options, especially in the form of equivalent of unsecured, general obligation bonds, have also been limited. However, there are serious questions about the assets underlying *sukuks* and their valuation. Indeed, while Islamic financial transactions were supposed to be backed by assets and in case of *sukuk*, there is supposed be true-sale and transfer of ownership, now there is a distinction between asset-backed and asset-based *sukuk*, the latter being overwhelmingly popular (Dusuki and Mokhtar, 2010; Maurer, 2005, p. 40).

Asset-based *sukuk* are closer to conventional bonds, despite their legalistic differences. Not surprisingly, Nakheel *sukuk*, which defaulted and had to be restructured with intervention and assistance from Abu Dhabi, was an asset-based *sukuk* (Hesse and Jobst, 2010; Salman, 2013). Indeed, most of the *sukuks*, including a few well-known ones that defaulted, such as Investment Dar and Saad *sukuk*, are asset-based (Wijnbergen and Zaheer, 2013). As it was determined later that some key provisions of these *sukuk* were contrary to AAOIFI standards. More importantly, the industry heavily promotes the notion that a key principle of Islamic finance is that transactions are asset-backed, but in reality this principle is being seriously compromised as illustrated by these defaulted *sukuk*. This is an issue of transparency and governance as well.

Table IV.
Asset composition of IFI's as a percent of total Islamic asset book

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Murabaha and deferred sales (%)	94.69	70.72	95.18	84.17	83.32	75.72	81.67	80.41	78.06	80.15
Other non-PLS modes (%)	2.37	21.17	0.07	9.77	11.12	15.17	12.91	12.10	12.11	9.45
PLS modes (*mudarabah*/*musharakah*) (%)	3.31	4.38	3.00	4.76	3.26	5.05	4.62	5.98	7.39	6.06
Provisions (%)	0.41	6.23	2.26	1.94	2.71	3.93	3.84	3.55	3.26	4.25

Notes: Some column totals may not add up to 100 percent or may slightly exceed possibly due to rounding in the database. Also, in some cases, data were not available
Sources: Islamic Banks & Financial Institutions Information System (IBIS), industry highlights: Islamic modes of finance, www.ibisonline.net

Table V.
Islamic asset composition (as a percent of total Islamic assets) Middle East/GCC

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Murabaha and deferred sales (%)	86.64	87.16	85.35	79.89	83.64	83.51	77.44	77.29	84.83	88.08
Other non-PLS modes (%)	20.43	16.19	17.57	20.43	16.72	14.95	19.31	21.51	23.88	24.89
PLS modes (*mudarabah* and *musharakah* in %)	2.69	3.61	3.88	4.47	4.05	6.79	4.42	5.86	8.40	5.99
Provisions (%)	4.7	3.17	4.24	1.93	4.40	5.25	3.21	2.67	2.71	3.62

Sources: Islamic Banks & Financial Institutions Information System (IBIS), industry highlights: Islamic modes of finance, www.ibisonline.net

Table VI.
Islamic assets for the top ten Islamic banks for the year 2007-2009 (as a percent of total Islamic asset book)

	Murabaha and deferred sales (%)	Other non-PLS modes (%)	PLS modes (*mudarabah* and *musharakah* in %)	Provisions (%)
2007	70.78	20.74	6.16	2.67
2008	78.31	12.17	7.91	3.04
2009	72.11	19.40	5.92	3.43

Sources: Islamic Banks & Financial Institutions Information System (IBIS), industry highlights: Islamic modes of finance, www.ibisonline.net

8.2 Why the bias toward debt orientation?

The clear debt-orientation of the industry requires some meaningful explanation. Many studies that show Islamic finance industry's avoidance of PLS modes also offer some explanation. Iqbal and Molyneux (2005, p. 136) identify a number of reasons why *mudarabah*, one of the key PLS mode of contracts, is avoided by the industry:

> There are many reasons why businessmen do not prefer PLS contracts. These include, among others: (i) the need to keep and reveal detailed records; (ii) it is difficult to expand a business financed through *mudarabah*, because of limited opportunities to re-invest retained earnings and/or raising additional funds; (iii) the entrepreneur cannot become the sole owner of the project except through diminishing *musharakah*, which may take a long time. Similarly, there are some practical reasons for banks to prefer fixed-return modes, including the fact that due to moral hazard and adverse selection problems in all agent-principal contracts such as *mudarabah*, there is a need for closer monitoring of the project. This requires project monitoring staff and mechanisms, which increase the costs of these contracts. Moreover, on the liabilities side, the structure of deposits of Islamic banks is not sufficiently long term, and therefore they do not want to get involved in long-term projects. Third, PLS contracts require a lot of information about the entrepreneurial abilities of the customer. This may not be easily available.

Dar and Presley (2000, pp. 3-4) share the following perspective on the IFIs' entrenched tendency to avoid PLS modes and overwhelmingly use *murabahah* and other non-PLS modes. They enumerate several such factors:

(1) PLS contracts are inherently vulnerable to agency problems as entrepreneurs have disincentives to put in effort and have incentives to report less profit as compared to the self-financing owner-manager […].

(2) PLS contracts require well-defined property rights to function efficiently. As in most Muslim countries property rights are not properly defined or protected, PLS contracts are deemed to be less attractive or to fail if used […].

(3) Islamic banks and investment companies have to offer relatively less-risky modes of financing as compared to *mudarabah* or *musharakah* in the wake of severe competition from conventional banks and other financial institutions, which are already established and hence more competitive […].

(4) The restrictive role of shareholders (investors) in management and, hence, the dichotomous financial structure of PLS contracts make them non-participatory in nature, which allows a sleeping partnership […].

(5) Equity financing is not feasible for funding short-term projects due to the ensuing high degree of risk (i.e. the time diversification effect of equity). This makes Islamic banks and other financial institutions rely on some other debt-like modes, especially mark-up to ensure a certain degree of liquidity […].

(6) Unfair treatment in taxation is also considered to be a major obstacle in the use of PLS. While profit is taxed, interest is exempted on the grounds that it constitutes a cost item. This legal discrimination and its associated problem, tax evasion, make PLS less reliable as a tool for reward sharing […].

(7) Secondary markets for trading in Islamic financial instruments, particularly *mudarabah* and *musharakah*, are non-existent. Consequently, they have so far failed to effectively mobilize financial resources.

Each abovementioned point has merit of varying degrees. Farooq (2007) explores the contradiction between the industry claim that PLS is the ideal mode for Islamic products and transactions and the reality that the industry has consistently avoided PLS modes. Instead, the industry has shown categorical preponderance of transactions that ensure for the financier fixed and known return, where there is no risk sharing. One possible explanation, as offered by Farooq, is that the Islamic finance and economics literature may have unduly idealized the PLS contracts and exaggerated their usefulness. He further points out that in the developed world, of the three primary legal forms of business organization (sole proprietorship, partnership and corporation), the least common is partnership and provides rationale why potential entrepreneurs might seek financing for their business, but are not interested in partnership-like arrangements.

Notably, business financing, especially that serves manufacturing and agricultural sectors, involves considerable risk. It is not surprising that, for these sectors, IFIs clearly favor non-PLS modes, which are also debt creating. Even in business financing, the industry developed a clear bias toward the real estate sector, which until recently was considered "safe haven" as per conventional wisdom (Pirounakis, 2013, p. 65). However, as the global economy faced the financial crisis since 2008, it is notable that the sector that became the originating source of the crisis is the real estate sector, especially the sub-prime segment. The Islamic finance industry was not unaffected either, as several *sukuk* defaulted or faced difficulty and some prominent names in Islamic finance, Arcapita and Investment Dar – both Islamic investment banks – filed for bankruptcy (Kuwait Finance House Research, 2013; Hall, 2013). Both of these companies bore high leverage by investing disproportionately in the presumed "safe haven" (Tradearabia, 2009; Billing, 2009).

8.3 Consumer finance and debt: a much bigger issue

Consumer financing, just like any other type of financing, is an integral feature of modern economic/financial system. Indeed, unprecedented achievement in standard of living has been significantly leveraged through greater and easier access to consumer financing (Jacque, 2001, p. 20). From conventional perspective, it is now accepted as a norm that young individuals entering their career might not be able to achieve desired current level of standard of living if they also save considerably at the same time (Xiao, 2008, p. 38). This is also consistent with the life-cycle hypothesis, which suggests that "people try to maintain a relatively stable level of consumption over their lifetime" (Ando and Modigliani, 1963).

Thus, without consumption-smoothing, where a good part of consumption in the early stage of life is facilitated by consumer finance, there might be "dismal consumption patterns" (Bertola *et al.*, 2008, p. 3). Of course, saving for the old age is also part of this consumption-smoothing behavior. However, the harsh reality is that in most modern societies, savings rate has been dismally poor and high level of consumption has been possible based on high leverage (Blackburn, 2012, p. 57). Such leveraged consumption can be alright in an economy during a period when investment growth is faster (Gokarn, 2012). Such highly leveraged consumption patterns can be linked to financial crisis (Ranciere and Kumhof, 2010), as rising debt-to-income ratios facilitated by aggressive marketing of consumer debt not only pressure the household budgets, but also add to systemic risk (Geisst, 2010, p. 210). The so-called "consumer age" characterized by unsustainable levels of consumption and easy access to credit that was also "risky […] (but) highly profitable" from the lenders' side has made the link between consumer finance and systemic risk much stronger (Cynamon and Fazzari, 2012, p. 148). The situation has been exacerbated by the fact that the consumer finance area is a much less-regulated market compared to other areas of the financial market. International regulations of the financial markets may not adequately cover the consumer finance sector (US Congress, 2009, p. 213; Jackson, 2005, p. 126).

Quite interestingly, emerging theoretical literature on Islamic finance from some notable names in the field, including Zamir Iqbal and Abbas Mirakhor, advance claims that "Islamic finance does not face a systematic risk, either at the central banking or the financial institutional level" (Askari *et al.*, 2011, p. 7). That is a tall claim. Their contention is partly based on the argument that "asset prices have very low correlations with a market portfolio and cannot be influenced by interest rates, since these rates are nonexistent in Islamic finance" (Askari *et al.*, 2011, p. 94). The argument that interest rates are nonexistent in Islamic finance is dubious at best. In reality, the current edifice is based on benchmark interest rates where the Islamic finance industry has no independent pricing mechanism, on the one hand, and it is consistently trying to match or mimic the benchmark rates. So far Islamic finance functions mostly in an interest-based dual banking system within a country and participates in the interest-based global financial system. Setting aside the issue of Islamic permissibility to use interest-based benchmarks, as Kader and Leong (2009, p. 1) empirically make the case that: "because customers are profit motivated, Islamic banks in the dual system are exposed to interest rate risks despite operating on interest free principles."

To understand the issues pertaining to consumer finance in Islamic context, it can be argued that the growth and leveraged consumer finance, presumably for the sake of consumption-smoothing, would be unavoidable in the context of Muslim societies and Islamic finance. As Ghazali (1994) argues about debt-financing, including the case of consumer financing:

> […] the human need for debt-financing is almost as old as the human civilization itself. This is a part of life for mankind. And because Islamic is a way of life that is compatible with the nature of the human being, the Shari'ah does not prohibit the practice of debt-financing […].
>
> The Islamic forms of deferred contracts of exchange […] can […] be practically and feasibly applied to debt-financing needs at various trade and economic levels: (e.g.) *consumer financing*, […] for the purchase of residential buildings, vehicles and consumer durables (p. 454).

Acknowledging the need for human beings to augment their consumption through debt, a valid question can be raised whether from Islamic perspective the life-cycle hypothesis that holds that there is nothing beyond this life should be the foundation of Islamic finance either from the demand or the supply side. From conventional perspective, it is rational to resort to consumption-smoothing to maximize one's standard of living and the utility derived therefrom over one's life-cycle. However, if one considers the premise that life does not end here and pursuit of maximization of utility and enjoyment in this life is not the ultimate goal, then the Islamic values shaping the consumption behavior of Muslims cannot mirror the conventional counterpart. Yet, assuming human beings as *Homo Islamicus* might not be realistic, as the Muslims in general tend to behave like *Homo Economicus* than as *Homo Islamicus* (Farooq, 2011).

Not surprisingly, consumer financing is growing in various parts of the Muslim world rather rapidly (Bendjilali, 2000; Reuters, 2007a), often strongly outpacing the growth of personal income. We are already familiar with the consequences when consumer debt significantly and persistently outpaces the growth of personal income and wealth. Does this have any implication from Islamic perspective? Well, at least from the supply side of consumer finance this does not seem to be an issue of significance, as the marketing of consumer finance/debt in the Muslim world is often without relevant education and literacy of the customers. Financial literacy even in the developed world is proving utterly inadequate. Evidence from several empirical studies link "poor financial literacy to higher consumption, less saving, and out-of-control credit usage" (Gerardi *et al.*, 2010, p. 5). If the level of financial literacy in the developed world is being found inadequate, financial literacy in the Muslim world especially in the context of Islamic finance, is even more so. Studies from a number of countries, including Tunisia, Turkey, Yemen and North Africa, indicate the huge gap between consumer awareness and consumer usage pertaining to Islamic finance industry due to lack of Islamic financial literacy (Goud, 2014). The following story of one of the clients of Islamic finance is quite revealing:

> When Reem Muhammad sought a personal loan to pay off some lingering debts, a Saudi bank offered 100,000 riyals ($26,667). The price tag? Repayment of the loan, plus 33,000 riyals.
>
> I took the loan and repaid it, but I never knew what the 33,000 was for since it wasn't interest," Muhammad, 38, told The Media Line. "But it sure felt like interest.
>
> Muhammad is one of thousands of Saudis taking advantage of Saudi Arabia's healthy economy and banks' increasing willingness to offer personal loans and credit cards. Her loan also illustrates the continuing debate in the Saudi banking industry whether some aspects of the loan system contravenes shariah, or Islamic law, that guides how Muslims conduct financial transactions (Wagner, 2012).

While it is acknowledged that "the understanding and Islamic financial literacy of its users will count much more for maintaining the momentum in demand as well as for keeping the orientation of Islamic finance in the correct direction […]" (IRTI, 2008, pp. 25, 39), precious little is being done by the Islamic financial industry to foster such literacy. The case and experience of Reem Muhammad probably is not unique. More importantly, consumers are awakened to major issues only when disputes arise and they find out that they have little protection in contracts, which their lack of relevant literacy had prevented them from understanding.

As acknowledged in a recent book *Islamic Finance: The New Regulatory Challenge*, "Consumer protection and financial literacy in Islamic finance is an emerging area for regulators" (Karim and Archer, 2013, p. 361). Consumer protection in many countries has been built on the twin pillars: appropriate and adequate disclosure and *caveat emptor* (let the buyer beware). However, more often than not *caveat emptor* has not been adequately present, whereby particularly in case of complex or new products, the buyer or investor faces serious information asymmetry problem (Mahmood, 2012, p. 1). Most Muslim-majority countries, including the GCC and MENA countries, have little consumer protection, let along organized consumer advocacy (ConsumerInternational, 2013).

In such environment of poor financial literacy and little to non-existent consumer advocacy, it is troublesome that even credit cards are being promoted as part of Islamic financial services, while credit cards have been one of the most important hallmarks of debt culture with ruinous potential consequences. While such consequences are often contested, there is a growing perception that "credit cards are a potentially uncontrollable and dangerous product, analogized to a drug. The assumption that credit cards are a potentially dangerous product persists even in a country, such as the US, which has a very high level of credit card use" (Ramsay, 2003, p. 19). While blames are directed against both the borrowers and the credit card issuers, the fact remains that it is not a one sided issue. Credit card is a highly profitable segment of consumer finance industry and quite understandably the marketing of consumer finance in general and credit cards in particular has been aggressive (Hovland and Wolburg, 2010, p. 35). However, borrowers themselves too have been rather irresponsible. There is plenty of blame to go around, when one takes into account the global experience (Stavins, 2000, p. 1).

Remarkably, as the conventional financial institutions promote credit cards, which carries significantly high rate of interest, the IFIs also are promoting Islamic credit cards, which of course are structured on the basis of "profit rate"[7] – rates, once again, benchmarked to conventional interest-based rates. When a region's economy gets major boost from expansion of consumer credit, especially credit cards (Churchill, 2013), serious concerns are to be noted, especially since there seems to be clear empirical connection based on data from various parts of the world between growth of consumer credit and personal bankruptcy (MacGee, 2012). Of course, if consumer credit was granted only to those with a history of responsible debt management, which should be the case, the growth curve of personal bankruptcy would be much flatter than the growth of consumer credit, the latter's delta being proportional to personal disasters and/or a change in spending habits. However, the marketing of credit card often has not reflected the strict prudence on the part of the issuers.

Credit card market is expanding rapidly in Muslim-majority countries where Islamic finance is also strong. Consumers are inadequately aware of the long-term implications of such credit card debt on their financial well-being, while the credit card issuing institutions are enjoying a bonanza (Reuters, 2007a; Zawya, 2014). Wherever there is a credit card growth, Islamic financial institutions are also participating in it and taking advantage of this niche. This is true for GCC and MENA regions as well as Malaysia (Hussin *et al.*, 2013; Wagner, 2012).

A further troubling issue is the disproportionate rise in consumer debt (including mortgages) compared to the investment or business credit in the Middle East, North Africa and Central Asian countries, for examples (Crowley, 2008, pp. 24-25). A country's long-term well-being depends on a healthy growth in business and investment, whereby the consumers' income simultaneously grows. If the growth in consumer debt, set in poor financial literacy and dismal to non-existent consumer protection/advocacy, significantly outstrips the growth of income and wealth through business and investment, the consequences regarding unsustainability are predictable.

It is widely acknowledged that cultural attitude toward debt has a significant impact on the relative level of debt in various parts of the world (Logemann, 2012, p. 212). Muslim societies are also subject to such cultural attitude. However, given the teachings of Islam regarding debt being permissible, but not desirable on the one hand and the reality of the vulnerability of people to consumer debt in an environment of poor financial literacy and consumer protection, greater circumspection is needed on the part of the Islamic finance industry. Otherwise, in the long run, if the industry treads the same conventional path, consequences of unsustainable debt promoted as part of a "debt culture" can significantly affect the industry's credibility for the negative.

Indeed, in order for Islamic finance to be truly "Islamic" in this regard, mere Shariah-compliance would be quite inadequate. Instead, the industry as well as the institutions need to assume a role of stewardship (Sheng and Singh, 2013, pp. 277, 291).

9. Conclusion

Debt is permissible in Islam. There is guidance about accumulating debt. However, debt culture is an different issue altogether. Modern societies that utilize conventional systems are considerably vulnerable both at the micro and the macro levels to the deadly effects of debt culture. Hence their sustainability is at great risk.

Islamic finance aims to bring Islamic principles and values to the financial dimension of the Muslim living. Unfortunately, while legalistically Islamic finance has developed specific modes of transactions, its debt-creation is in many ways similar to the conventional system.

While it is generally agreed within the Islamic finance industry that idealizing PLS modes has proven to be impractical, there seems inadequate awareness about the problem of overusing debt-creating modes, which can lead to similar ruinous effects experienced under conventional system.

Debt culture is not consistent with Islam as a way of life. The disastrous consequences of the debt culture in societies utilizing conventional systems are also quite apparent. The challenge for Islamic finance is not to mimic the conventional system while providing Islamic alternatives to conventional modes and products. The challenge is rather to come up with products and services that address the needs of the society (for Muslims and the humanity) without the trappings of the ruinous debt culture of the modern times.

Notes

1. The figure is dated August 30, 2012 from the Economist's electronic debt clock. www.economist.com/content/global_debt_clock
2. List of countries by military expenditures, http://en.wikipedia.org/wiki/List_of_countries_by_military_expenditures
3. Proverbs 22:6-8, New International Version (NIV), www.biblegateway.com/passage/?search=Proverbs+22:6-8&version=NIV
4. *The Baudhayna*, Prasna IV, Adhyaya 8, no. 11-13, www.hinduwebsite.com/sacredscripts/hinduism/dharma/baudh3.asp
5. http://quotes.liberty-tree.ca/quote_blog/Confucius.Quote.794E
6. It should be noted that while IBIS database is an excellent source, there seems to be considerable discrepancy in terms of components that do not add up to 100 percent as total or sometimes exceed it. However, where there has been an issue alternative source for individual banks, such as Bankscope has been consulted for random checks to see whether data for individual banks closely correspond to IBIS aggregates.
7. For example, Bahrain Islamic Bank offers special raffles/prizes (extra salary BD 500 every month; extra bonus BD 1,000) that are available exclusively to credit card users. RHB's (Malaysia) web tag for Islamic credit cards reads: "Announce your arrival into this world of luxury and prestige with the RHB Platinum Credit Card." Islam and luxury in this world, are these two compatible? Unfortunately, legalistically, the answer is yes, even though the Qur'an and the life and teaching of the Prophet are categorically contrary.

References

Adalid, R. and Detken, C. (2007), "Liquidity shocks and asset price boom/bust cycles", Working Paper No. 732, European Central Bank, February 25, available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=963147 (accessed June 5, 2013).

Adams, J.T. (2012), *The Epic of America*, Transactions Publishers, New Brunswick, NJ.

Al-Baihaqi, A. (n.d.), *Sunan al-Kubra al-Baihaqi*, No. 19049, available at: www.dailyhadithonline.com/2012/08/12/hadith-on-neighbors-he-is-not-a-believer-whose-stomach-is-full-while-his-neighbor-is-hungry/ (accessed June 3, 2013).

Al-Bukhari, M. (n.d.), *Sahih al-Bukhari*, available at: www.sahih-bukhari.com/ (accessed on June 5, 2013).

Al-Hallaj, M. (n.d.), "Sahih muslim", available at: www.hadithcollection.com/sahihmuslim.html (accessed on June 14, 2013).

Allain, J. (2012), *Slavery in International Law: Of Human Exploitation and Traffic*, Martinus Nijhoff Publishers, Leiden.

Ando, A. and Modigliani, F. (1963), "The life-cycle hypothesis of saving", *American Economic Review*, Vol. 53 No. 1, pp. 55-74.

Aridas, T. (2013), "Public debt as a percentage of GDP in countries around the world", *Global Finance*, March 7, available at: www.gfmag.com/global-data/economic-data/public-debt-percentage-gdp#axzz1a7gEsQ8d (accessed June 13, 2013).

Askari, H., Iqbal, Z., Krichenne, N. and Mirakhor, A. (2011), *The Stability of Islamic Finance: Creating a Resilient Financial Environment for a Secure Future*, John Wiley & Sons, Hoboken, NJ.

Athreya, K. (2004), "Shame as it ever was: stigma and personal bankruptcy", *Federal Reserve Bank of Richmond Economic Quarterly*, Vol. 90 No. 2, pp. 1-19, available at: www.rich.frb.org/publications/research/economic_quarterly/2004/spring/pdf/athreya.pdf (accessed May 24, 2014).

Auerbach, A.J. and Kotlikoff, L.J. (1998), *Macroeconomics: An Integrated Approach*, MIT Press, Cambridge, MA.

Baker, H.K. and Nofsinger, J. (2012), *Socially Responsible Finance and Investing: Financial Institutions, Corporations, Investors, and Activists*, John Wiley & Sons, Hoboken, NJ.

Bendjilali, B. (2000), "On the demand for consumer credit: an Islamic setting", Research Report No. 30, IRTI, Jeddah, KSA, available at: www.irtipms.org/PubText/31.pdf (accessed May 23, 2014).

Bernanke, B. (2009), "Four questions about the financial crisis", FRB Speech, April 14, available at: www.federalreserve.gov/newsevents/speech/bernanke20090414a.htm (accessed June 10, 2013).

Bertola, G., Disney, R. and Grant, C. (Eds) (2008), *The Economics of Consumer Credit*, MIT Press, Cambridge, MA.

Billing, S. (2009), "Investment dar denies bailout talks with Kuwait Bank", available at: www.arabianbusiness.com/investment-dar-denies-bailout-talks-with-kuwait-bank-18150.html (accessed May 27, 2014).

Birdsall, N. and Griffin, C. (1993), "Population growth, externalities, and poverty", Working Paper No. 1158, World Bank Publications, Washington, DC, July.

Blackburn, R. (2012), *Age Shock: How Finance is Failing Us*, Verso Books, London.

Boynton, J. (2011), "Some young adults think debt is 'cool'", *Boston Globe*, July 14, available at: www.boston.com/business/personalfinance/managingyourmoney/archives/2011/07/some_young_adul.html (accessed June 23, 2013).

Brooks, B. (2011), "Credit-card debt may threaten Brazil's boom", Associated Press, July 11, available at: http://finance.yahoo.com/news/Creditcard-debt-may-threaten-apf-3046211331.html?x=0&sec=topStories&pos=8&asset=&ccode= (accessed June 23, 2013).

Caldwell, W. (2006), *Cynicism and the Evolution of the American Dream*, Potomac Books, Washington, DC.

Churchill, N. (2013), "Credit card use boosts MENA's GDP growth", *Gulf Business*, March 25, available at: http://gulfbusiness.com/2013/03/credit-card-use-boosts-menas-gdp-growth/#.U3-XLCizygs (accessed May 23, 2014).

Clayton, J. (2000), *The Global Debt Bomb*, M.E. Sharpe, Armonk, NY.

Conlin, M. and Gogoi, P (2011), "Mortgage 'robo-signing' goes on", Associated Press, July 18, available at: http://finance.yahoo.com/news/AP-Exclusive-Mortgage-apf-3239330433.html?x=0&sec=topStories&pos=main&asset=&ccode= (accessed June 3, 2013).

Consumer International (2013), "The state of consumer protection around the world", available at: www.consumersinternational.org/media/1139641/english_full_report_april.pdf (accessed May 30, 2014).

Crowley, J. (2008), "Credit growth in the Middle East, North Africa, and Central Asia region", Working Paper No. WP/08/184, IMF, Washington, DC, available at: www.imf.org/external/pubs/ft/wp/2008/wp08184.pdf (accessed May 23, 2014).

Cummings, S. (1998), *The Dixification of America: The American Odyssey into the Conservative Economic Trap*, Prager, Westport, CT.

Cynamon, B. and Fazzari, S. (2012), "The end of consumer age", in Cynamon, B., Fazzari, S. and Setterfield, M. (Eds), *After the Great Recession: The Struggle for Economic Recovery and Growth*, Cambridge University Press, New York, NY, pp. 129-186.

Dar, H. and Presley, J. (2000), "Lack of profit loss sharing in Islamic banking: management and control imbalances", *International Journal of Islamic Financial Services*, Vol. 2 No. 2, pp. 3-18.

Dick, A. and Lehnert, A. (2007), "Personal bankruptcy and credit market competition", Staff Report No. 272, Federal Reserve Bank of New York, available at: www.newyorkfed.org/research/staff_reports/sr272.pdf (accessed May 23, 2014).

Dominguez, R. (2010), "Survey of senior executives in Britain and US found 24 percent consider unethical or illegal conduct needed for success in the financial world", *New York Daily News*, July 10, available at: www.nydailynews.com/new-york/survey-senior-executives-britain-u-s-found-24-percent-unethical-illegal-conduct-needed-success-financial-world-article-1.1111746#ixzz25KWX1vOX (accessed June 15, 2013).

Dunn, S. (2010), *The Economics of John Kenneth Galbraith: Introduction, Persuasion and Rehabilitation*, Cambridge University Press, Cambridge.

Dusuki, A.W. and Mokhtar, S. (2010), "Critical appraisal of Shari'ah issues on ownership in asset-based sukuk as implemented in the Islamic debt market", Research Paper No. 8/2010, ISRA, Kuala Lumpur, available at: www.iefpedia.com/english/wp-content/uploads/2011/02/B108.pdf (accessed June 15, 2013).

Eavis, P. (2004), "What's eating the market: US debt", Street.com, April 20, available at: http://moneycentral.msn.com/content/P82498.asp (accessed June 25, 2013).

Eichengreen, B. and Mitchener, K. (2003), "The Great Depression as a credit boom gone wrong", Working Paper No. 137, BIS, Basel.

Fakih, A. (2010), "Islamic finance in the GCC 2010: analytical report on Islamic banks and financial companies" , CIBAFI, Manama, Bahrain.

Farooq, M.O. (2007), "Partnership, equity-financing and Islamic finance: whither profit-loss sharing?", *Review of Islamic Economics*, Vol. 11, Special Issue, pp. 67-88.

Farooq, M.O. (2011), "Self-interest, homo Islamicus and some behavioral assumptions in Islamic economics and finance", *International Journal of Excellence in Islamic Banking and Finance*, Vol. 1 No. 1, pp. 52-79.

Farooq, M.O. (2012), "LIBOR or LIE-BOR: the challenge of ethics and education", *Islamic Business and Finance*, September, No. 74, pp. 22-28, available at: SSRN http://ssrn.com/abstract=2135241 (accessed June 15, 2013).

Ferrell, O.C., Fraedrich, J. and Ferrell, L. (2009), *Business Ethics: Ethical Decision Making and Cases*, 7th ed., Cengage Learning, Mason, OH.

Fisher, D. (2010), "The global debt bomb", *Forbes*, January 21, available at: www.forbes.com/forbes/2010/0208/debt-recession-worldwide-finances-global-debt-bomb.html (accessed June 1, 2013).

Flax, B. (2010), *The Courage to Do Nothing: A Moral Defense of Markets and Freedom*, Tate Publishing, Mustang, OK.

Friedman, H. and Friedman, L (2010), "Dying of consumption? Voluntary simplicity as an antidote to hypermaterialism", in Sun, W., Stewart, J. and Pollard, D. (Eds), *Reframing Corporate Social Responsibility: Lessons from the Global Financial Crisis*, Emerald Group Publishing, Bingley, pp. 253-270.

Geisst, C., Goette, L. and Meier, S. (2010), *Collateral Damaged: The Marketing of Consumer Debt to America*, Bloomberg Press, New York, NY.

Gerardi, K. (2010), "'Financial literacy and subprime mortgage delinquency: evidence from a survey matched to administrative data", Federal Reserve Bank of Atlanta Working Paper No. 2010-10, Atlanta, GA.

Ghazali, A. (1994), "Consumer credit from the Islamic viewpoint", *Journal of Consumer Policy, December*, Vol. 17 No. 4, pp. 443-457.

Gokarn, S. (2012), "Strengthening macroeconomic frameworks: the Indian experience", in Kawai, M. and Prasad, E. (Eds), *New Paradigms for Financial Regulation: Emerging Market Perspectives*, Brookings Institution Press, Washington, DC, pp. 139-168.

Goud, B. (2014), "Are we tackling the Islamic finance literacy the wrong way", Thomson Reuters Blog, available at: http://blog.thomsonreuters.com/index.php/tackling-islamic-financial-illiteracy-wrong-way/ (accessed May 29, 2014).

Graeber, D. (2012), *Debt: The First 5,000 Year*, Melville House, Brooklyn, NY.

Hall, C. (2013), "The Investment Dar: creditors stand by for 'problem child' payment", *Financial Times*, April 24, available at: www.ft.com/cms/s/0/dec383a6-a80b-11e2-b031-00144feabdc0.html (accessed May 27, 2014).

Hankel, W. and Isaak, R. (2011), *Brave New World Economy: Global Finance Threatens Our Future*, John Wiley and Sons, Hoboken, NJ.

Hasan, M. and Dridi, J. (2010), "Effects of the global crisis on Islamic and conventional banks: a comparative study", IMF study, September 1, available at: www.imf.org/external/pubs/cat/longres.cfm?sk=24183.0 (accessed June 15, 2013).

Hayter, T. (2013), *Exploited Earth: Britain's Aid and the Environment*, Earthscan, London.

Hesse, H. and Jobst, A. (2010), "Debriefing Nakheel – wilder implications for the sukuk market", EconoMonitor, available at: www.economonitor.com/blog/2010/04/debriefing-nakheel-wider-implications-for-the-sukuk-market/ (accessed May 30, 2014).

Hijojal, I.B. and Aurrekoetxea, R.L (2010), "Ecological debt: an integrating concept for socio-environmental change", in Redclift, M.R. and Woodgate, G. (Eds), *The International Handbook of Environmental Sociology*, Edward Elgar Publishing, Cheltenham, pp. 150-163.

Hovland, R. and Wolburg, J. (2010), *Advertising, Society and Consumer Culture*, Routledge, London.

Huffington Post (2012), "The 10 countries deepest in debt", *24/7 Wall St.*, February 15, available at: www.huffingtonpost.com/2012/02/15/countries-in-debt_n_1278711.html#s698264&title=10_United_Kingdom (accessed June 2, 2013).

Hussin, S.R., Kassim, S. and Jamal, N. (2013), "Credit card holders in Malaysia: customer characteristics and credit card usage", *International Journal of Economics and Management*, Vol. 7 No. 1, pp. 108-122.

Iqbal, M. and Molyneux, P. (2005), *Thirty Years of Islamic Banking: History, Performance and Prospects*, Palgrave MacMillan, New York, NY.

IRTI (2008), "Annual report", Jeddah, KSA, available at: www.irtipms.org/PubText/240.pdf (accessed May 30, 2014).

Jackson, H. (2005), "Consolidated capital regulation for financial conglomerates", in Scott, H. (Ed.), *Capital Adequacy Beyond Basel: Banking, Securities, and Insurance*, Oxford University Press, Oxford.

Jacque, L. (2001), "Financial innovations and the dynamics of emerging capital markets", in Jacque, L. and Valaar, P. (Eds), *Financial Innovations and the Welfare of Nations: How Cross-Border Transfes of Financial Innovations Nurture Emerging Capital Markets*, Springer, New York, NY, pp. 1-22.

James, H. (2011), "Debt and democracy", projectsyndicate.org, January 5, available at: www.project-syndicate.org/commentary/james48/English (accessed July 24, 2013).

Jeanne, O. (2008), "Dealing with credit booms and busts: the case for prudential taxation", working paper, Johns Hopkins University, Baltimore, MD, November, available at: http://econ.jhu.edu/people/Jeanne/prudential_taxation.pdf (accessed June 14, 2013).

Kader, R.A. and Leong, Y.K. (2009), "The impact of interest rate changes on Islamic bank financing", *International Review of Business Research Papers*, Vol. 5 No. 3, pp. 189-201.

Kalupahana, D. (1992), *A History of Buddhist Philosophy: Continuities and Discontinuities*, University of Hawaii Press, Honolulu, HI.

Karim, R.A.A. and Archer, S. (2013), *Islamic Finance: The Regulatory Challenge*, John Wiley & Sons, Singapore.

Krehm, W. (1999), *Meltdown: Money, Debt and the Wealth of Nations*, Volume 2, Comer Publications, Toronto.

Kuwait Finance House "Markaz" Research (2013), "Dealing with bankruptcy in the GCC: a key missing block in the reform agenda", available at: www.markaz.com/DesktopModules/CRD/Attachments/BankruptcyintheGCC-MarkazResearch.pdf (accessed May 27, 2014).

Logemann, J. (Ed.) (2012), "From cradle to bankruptcy: credit access and the American welfare state", *The Development of Consumer Credit in Global Perspective: Business, Regulation, and Culture*, Palgrave Macmillan, New York, NY, pp. 201-222.

Macdonald, N.T. (1999), *Macroeconomics and Business: An Interactive Approach*, Cengage Learning EMEA, London.

MacGee, J. (2012), "The rise in consumer credit and bankruptcy: cause for concern?", Institute C.D. Howe Institute Commentary No. 346, Toronto, available at: http://cdhowe.org/pdf/Commentary_346.pdf (accessed May 23, 2014).

Mahmood, N.R. (2012), "Developing a platform for consumer protection in the Islamic services industry," paper presented at Sixth Islamic Financial Stability Forum, Jeddah, KSA, December 12, pp. 1-13, available at: www.ifsb.org/docs/IFSF6_Dr%20Nik%20Ramlah%20Mahmood_FINAL.pdf (accessed May 30, 2014).

Maurer, B. (2005), *Mutual Life, Limited: Islamic Banking, Alternative Currencies, Lateral Reason*, Princeton University Press, Princeton, NJ.

Monticello.org (n.d.), "Canons of conduct", Thomas Jefferson encyclopedia, available at: www.monticello.org/site/jefferson/canons-conduct (accessed June 3, 2013).

Mukherjee, A. (2004), *Hunger: Theory, Perspectives, and Reality: Assessment Through Participatory Methods*, Ashgate Publishing Ltd, Hampshire.

Musgrave, R. and Musgrave, P. (1989), *Public Finance in Theory and Practice*, McGraw-Hill, Columbus, OH.

Nelson, R., Belkin, P. and Mix, D. (2011), "Greece's debt crisis: overview, policy responses, and implications", Congressional Research Service No. R41167, Washington, DC, available at: www.fas.org/sgp/crs/row/R41167.pdf

Northcott, M. (1999), "Is the future a write-off?", *Third Way*, Vol. 22 No. 6, pp. 11-15.

Ozgöde, O. (n.d.), "The emergence of systemic financial risk: from structural adjustment (back) to vulnerability reduction", LIMN, available at: http://limn.it/the-emergence-of-systemic-financial-risk-from-structural-adjustment-back-to-vulnerability-reduction/ (accessed July 4, 2014).

Paredis, E., Goeminne, G., Vanhove, W., Lambrecht, J. and Maes, F. (2009), *The Concept of Ecological Debt: Its Meaning and Applicability in International Policy,* Academic Press, Gent.

Pirounakis, N. (2013), *Real Estate Economics: A Point-to-Point Handbook*, Routledge, London.

Ramsay, I. (2003), "Consumer credit society and consumer bankruptcy: reflections on credit cards and bankruptcy in the informational economy", in Niemi-Kiesiläinen, J., Ramsay, I. and Whitford, W. (Eds), *Consumer Bankruptcy in Global Perspective*, Hart Publishing, Portland, OR, pp. 17-40.

Ranciere, R. and Kumhof, M. (2010), "Inequality, leverage and crisis", Working Paper No. 10-268, IMF, Washington, DC.

Reuters (2007a), "US CBO estimates $2.4 trillion long-term war costs", Reuters, October 24, available at: www.reuters.com/article/2007/10/24/us-iraq-usa-funding-idUSN2450753720071024 (accessed June 15, 2013).

Reuters (2007b), "Credit cards drive Gulf consumer loan boom – study", available at: www.lafferty.com/resource?id=98 (accessed May 24, 2014).

Robins, N. (2001), "Rewiring global consumption: strategies for transformation", in Charter, M. and Tischner, U. (Eds), *Sustainable Solutions: Developing Products and Services for the Future*, Greenleaf Publishing, Sheffield, pp, 48-55.

Salman, S. (2013), "A critical assessment of asset-based versus asset backed sukuk structures and legal resource in case of defaults", available at: www.academia.edu/5294252/Critical_Assessment_of_Asset_Backed_and_Asset_Based_Sukuk_and_their_recourse_in_Case_of_Default (accessed May 30, 2014).

Sanderson, S. (1992), *The Politics of Trade in Latin American Countries*, Stanford University Press, Stanford, CA.

Sandler, T. (1997), *Global Challenges: An Approach to Environmental, Political, and Economic Problems*, Cambridge University Press, Cambridge.

Sheng, A. and Singh, A. (2013), "Islamic stock markets in a global context", in Iqbal, Z. and Mirakhor, A. (Eds), *Economic Development and Islamic Finance*, World Bank, Washington, DC, pp. 275-295.

Sims, R. (2003), *Ethics and Corporate Social Responsibility: Why Giants Fall?*, Greenwood Publishing Group, Westport, CT.

Stavins, J. (2000), "Credit card borrowing, delinquency, and personal bankcruptcy", *New England Economic Review*, July/August, pp. 16-30, available at: www.bostonfed.org/economic/neer/neer2000/neer400b.pdf (accessed May 23, 2014).

Stavrakakis, Y. (2011), "Lacanian theory: ideology, enjoyment, and the spirits of capitalism", in Delanty, G. and Turner, S. (Eds), *Routledge International Handbook of Contemporary Social and Political Theory*, Routledge, New York, NY.

Thompson, J. (2002/2003), "Intergenerational equity: issues of principle in the allocation of social resources between this generation and the next", Research Paper No. 7, Social Policy Group, Parliamentary Library, Parliament of Australia, Canberra, available at: www.aph.gov.au/binaries/library/pubs/rp/2002-03/03rp07.pdf (accessed June 5, 2013).

Tietenberg, T. (2000), *Environment and Natural Resource Economics*, Addison-Wesley, Boston, MA.

Totaro, L. (2009), "Vatican says Islamic finance may help Western banks in crisis", bloomberg.com, March 4, available at: www.bloomberg.com/apps/news?pid=newsarchive&sid=aOsOLE8uiNOg (accessed June 14, 2013).

Totten, S. and Parsons, W. (Eds) (1995), *Century of Genocide: Eyewitness Accounts and Critical Views*, Garland, New York, NY.

TradeArabia (2009), "S&P lowers Arcapita Bank credit ratings", available at: www.tradearabia.com/news/BANK_162328.html (accessed May 27, 2014).

Tripp, C. (2006), *Islam and the Moral Economy: The Challenge of Capitalism*, Cambridge University Press, Cambridge.

Truma, E.M. (2009), "What broke? The root causes of the crisis", presentation at Twelfth Annual International Banking Conference, Federal Reserve Bank of Chicago, Chicago, IL, September 24-25, available at: www.chicagofed.org/news_and…/2009_international_truman.doc (accessed June 3, 2013).

Umansky, E. (2008), "Did Lehman Bros. lie to investors?" October 6, available at: www.huffingtonpost.com/propublica/did-lehman-bros-lie-to-in_b_132272.html (accessed June 15, 2013).

United States. Congress. House. Committee on Banking and Financial Services. Subcommittee on Capital Markets, Securities, and Government Sponsored Enterprises (2009), *Perspectives on Systemic Risk: Hearing Before the Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises of the Committee on Financial Services, US House of Representatives, One Hundred Eleventh Congress, First Session, March 5*, Washington, DC.

Urbanska, W. (2010), *The Heart of Simple Living: 7 Paths to a Better Life*, Krause Publications, Lola, WI.

Veblen, T. (1994), *The Theory of Leisure Class*, Dover Publications, Toronto.

Wagner, R. (2012), "Saudi consumer debt a 'cause for concern' ", *Arab News*, April 2, available at: http://mideastposts.com/middle-east-business/middle-east-economics-analysis/cause-for-concern-over-saudi-consumer-debt/ (accessed May 23, 2014).

Wang, M.-L. (2009), *Global Health and Sustainable Development Architecture: Inclusive Dialogue, Partnerships, and Community Capital*, University Press of America, Lanham, MD.

Wijnbergen, S.V. and Zaheer, S. (2013), "Sukuk defaults: on distress resolution in Islamic finance", Discussion Paper No. TI 13-087/VI/DSF 57, Tinbergen Institute, Amsterdam, available at: http://papers.tinbergen.nl/13087.pdf (accessed May 30, 2014).

Willett, T.D. (Ed.) (1988), *Political Business Cycles: The Political Economy of Money, Inflation, and Unemployment*, Duke University Press, Durham, NC.

Xiao, J.J. (2008), *Handbook of Consumer Finance Research*, Springer, Spring Street, NY.

Zawya (2014), "Rising consumer credit to jack up Saudi bank profits", available at: www.zawya.com/story/Rising_consumer_credit_to_jack_up_Saudi_bank_profits-ZAWYA20140402041840/ (accessed May 23).

Further reading

Anderson, K. (2004), "Review essay", *Osgoode Hall Law Journal*, Vol. 42 No. 4, pp. 661-680.

Gross, D. and Souleles, N. (2002), "The empirical analysis of personal bankruptcy and delinquency", *The Review of Financial Studies*, Vol. 15 No. 1, pp. 319-347.

Hertz, N. (2004), *I.O.U: The Debt Bomb and Why we Must Defuse it*, Fourth Estate.

About the author

Dr Mohammad Omar Farooq is an Associate Professor of Economics and Finance at the University of Bahrain. Previously, he was the Head of Center for Islamic Finance and Head of Centre for Research at the Bahrain Institute of Banking and Finance (BIBF). Dr Farooq received his PhD in Economics from the University of Tennessee, Knoxville in 1988. He was a Ciriacy-Wantrup Post-Doctoral Research Fellow at the University of California, Berkeley during 1988-1989. His teaching experience and interest span economics and finance in general and Islamic economics, finance and banking in particular. Among his research interests are economic development, history of economic thought and Islamic economics/finance/banking. During the past ten years his research has focussed particularly on the field of Islamic economics/banking/finance, especially with the emphasis on the roles and mechanisms to interface Islamic finance with development, poverty alleviation and the real sector of the economy. Furthermore, his works also include important areas, such as Shariah, hadith and Islamic jurisprudence. His works have been published in several refereed journals. He presented paper at the Harvard Islamic Finance Forum in April 2008. Dr Mohammad Omar Farooq can be contacted at: farooqm59@yahoo.com