Suggestions to Financial Crises

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2008 Global Financial Crisis is considered by many as one of the most serious crises ever seen in the world finance history. Yet, thanks to the quick response of policy-makers in contrast to the Great Depression of 1929, the crisis did not hit as destructive as expected. However, we have not seen any fundamental suggestion to avoid the future crises of the same kind or even more devastating ones though the vital suggestion of the Vatican about Islamic finance as solution to financial crises. This paper is intended to draw the attention of economists and finance experts to the Islamic finance as an alternative system of crisis preventive nature. After giving the highly important saying of the Prophet Muhammad -so-called Six Items Hadith-, we will try to extract some basic principles that can be taken into consideration in financial transactions. This two sentences Prophetic saying or hadith is so comprehensive that it expresses exactly 80 kinds of exchanges. According to that hadith, out of these 80 kinds of exchanges, 46 sales include a religiously forbidden “interest”. Interest is a value transfer from one party to another in loans or exchanges, particularly in the finance sector without any corresponding real value in the underlying assets, resulting in financial or economic crises.

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