Remedies of the Financial Crisis: Evaluation from Islamic Finance Perspectives

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Abstract

The paper examines the adopted remedies and actions that deal with the current global financial crisis and evaluates them from the perspective of Islamic finance. For this purpose, it is divided in three sections. Section One gives a bullet points exposé of the basic axioms of Islamic finance. These are: Redefining the finance profession, finance can be provided for profit or for no-profit, Islamic finance is asset based, securities are only seen as representatives of assets, realism and the moral screen in Islamic finance. Section Two discusses the financial crisis and adopted solutions and remedies. Section Three calls for a return to the fundamentals of finance and suggests a road map for the short and long term measures to achieve this purpose. In Section Three we call to reassessing the role and function of the financial sector and suggest reform steps in the short run that consist essentially of taming speculation and eliminating virtual assets and zero sum transactions from the financial markets. And in the long run we call for a four-pillar reform which eliminates speculation and all speculative contracts, provides finance through principles and methodologies based on real ownership, creates a financial ombudsman and set stand-by financial providers.

Keywords: Financial crisis, Islamic finance, Speculation, Zero-sum transactions, Virtual assets, mortgage-backed securities, Financial ombudsman.

1. Islamic finance in a nutshell

Islamic finance is simply a generic name because it happened to be proposed and several of its components experimented by Muslims especially in the Middle East and South East Asia. The fact is: ***Islamic finance is simply a set of rules and axioms*** in finance that have nothing to do with the faith or level of religiosity of persons who use them. This set of rules and axioms is applicable on its own virtue. It does not require any statement of faith and have in fact no religious tint or colour. In other words, the fact is: Islamic finance is purely a civic or secular matter. We

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do not argue that the origin of this set of axioms and rules is the Islamic *sharīʹah* but we argue that the nature of the *sharīʹah* itself is that it is a set of rules and axioms in transactions that do not put forward the faith or religiosity of transactors as an element in contractual relationships. Faith and religiosity are matters that can only be judged by God alone.

Five broad axioms define the pillars of Islamic finance. These are: i) redefining finance to include provision of goods and services on credit, ii) inclusion under the banner of finance of profit and non-profit financial activities, iii) finance must always be asset-based, iv) securities and financial assets are mere representation of whatever they stand for realism; and v) moral screening. The following is a brief statement of these five axioms:

i) **Finance is redefined**: instead of being provision of credit as means of payments, finance becomes provision of goods and services and means of payments without requiring the counterpart to be delivered at the same time. Finance, *á la sharīʹah*, is provided by ways of sale of goods, lease of assets and venture capital. What matters in the definition of Islamic finance is the nature of contract that is used for financing as long as the contractual counterpart is not required to be paid at the contracting time.

   We argue that this definition of finance is more realistic and closer to actual practice than the conventional definition. In fact, it is financing when a company provides goods or services to another company and they agree that payment will be made after a period of time. It is also financing when a customer pays the price in advance for goods that it will receive sometime later and leasing is also a form of finance.

   This redefinition of finance should not be conceived as a negation of the profession of financial intermediation. Financial intermediation is the function of obtaining resources from the surplus units, usually income earners and providing them to deficit units, usually businesses. Rather we argue that financial intermediation is a great invention of modern ages and specialization in finance activities has its great merits as explained by the Founder of Western Economics.[1]

ii) **Finance can be provided for profit or for no-profit:** Non-profit finance is basically financing through the loan contract as well as through donations, gifts, grants and the like. All these transactions transfer ownership of the given object. In the case of lending the

[1] In Islamic economics we argue that the founder of the Science of Economics is Ibn Khaldun (Circa 1406 CE) who devoted chapter 5 of his *Muqaddimah* to economics.

transfer is associated by a condition of returning an equivalent object in the future while in the case of donations, gifts, grants and charities finance is provided without such a condition.

Although it transfers ownership, lending is not an act that produces value. Rather it only transforms the property owned by the lender from cash to debt (it balances outs the liability and asset on the part of borrower). This is why the *sharī΄ah* does not accept assigning a return to the lender or in general any debt owners. Whenever there is a loan no return can be earned by the finance provider.

Since the finance sector's activities are profit seeking actions, Loan and other non profit contracts are taken out of the whole picture in Islamic finance. The only use of loan contracts in today's Islamic banking is in deposits in current account. Current account deposits are based on the loan concept. This is why they can be withdrawn on demand and do not earn any return.

iii) **Islamic finance is asset based:** It is asset based because it provides finance through sale, lease and sharing contracts. In all these methodologies the finance provider has to own goods/assets/services, then sell them or lease them or keep them to sell goods or services produced by them.

Sale and lease based finance contracts provide for either party to finance the other. This means that we can finance producer, user or consumer by means of sale or lease contracts. Sharing contracts accommodate a financing partner to contribute to management (*musharaka*) or to stay as a dormant partner (as in *mudaraba*). Sharing also accommodates contracts in which net profit or gross revenue to be the focus of distribution between the finance provider and the user.

This axiom has two important implications:

a) **Earning in Islamic finance is air-tied to ownership:** Finance provider has to own in order to justify any earning or return. Further, whatever is owned must be an asset that can create increment on its own nature in order for the owner to expect a return. An immediate outcome of this is: Owning assets that by their nature do not produce increases does not qualify owners to get any return. This applies to cash kept idle and debt although both are real assets being a claim of the society or a claim on an individual person/entity.

b) **Virtual or non-real assets/goods/services cannot be sources of earning:** Simply because virtual assets are not real and consequently not able to augment or generate increments except in the imagination, virtual assets are totally not recognized in Islamic finance not only for the purpose of financing (producing increases) but also for buy, sell or own.
Accordingly, assets that are not productive by themselves such as units of indexes or options are not recognised as a source of earning. Also all virtual contracts or derivatives that do not make real sale or are not based on ownership of real productive assets are not recognised for trading. This includes some of the well-known contracts in Western exchanges such as CFD and currency betting.

iv) **Securities are only seen as representatives of assets:** This applies to all financial securities. They are only accepted for what they represent. They are just veils or *burka*'s that are considered only for what is behind them or what they stand for. This can be stated in other words to means that *sharī´ah* does not recognize purely financial assets or does not accept the full separation of financial assets from the actual reality.

Accordingly, a promissory note, a bond and a bill of exchange are treated as debts and to them all the rules of debts apply with no exceptions. A share in a company is considered a partial ownership or in common of the composite of the assets (minus liabilities) of the company including its market evaluation. All securities that do not represent real assets, such as indices, options and insurance derivatives are not recognised as return-producing assets and cannot be purchased, owned, sold while securities that represent debts are only tradable at face value on the ground that they are just debts. This means that a large mass of trades in conventional markets are considered inappropriate from sharī´ah point of view.
Realism is another essential axiom of Islamic finance**:** realism means that transactions should be meant for what they are. This applies to finance contracts as much as it also applies to assets.
For instance, finance through a sale contract must intend to transfer the ownership of the goods to a purchaser who means to obtain them. A violation of this axiom would be if the purchaser uses the contract to obtain cash instead of the goods themselves.

This axiom puts all speculative transactions that take place in regulated exchange markets in a corner of doubt. It is difficult, within the

Islamic precepts of finance to accommodate most of what is called "trades" or "investment" in stock, commodities, metals and currencies markets.

On the basis of this axiom all zero-sum transactions are completely ruled out. Additionally financial assets are also screened for realism and all "non-real" assets are removed from the basket of Islamic finance.

v) **The moral screen in Islamic finance:** Islamic finance is committed to a given moral screen defined strictly by what is humanly confirmed harmful in contrast to what is humanly confirmed beneficial. Any substance that is confirmed, according to human knowledge as harmful cannot be owned and consequently cannot be financed. This includes things that are prohibited in the Qur'an and things that are not mentioned in the Qur'an. Activities that are outside the basket or portfolio of Islamic finance include: alcoholic drinks, drugs, porno industry, gambling, tobacco industry, adult entertainment, military industry and the list may increase.

2. The financial crisis and its remedies

I will begin from the end, from the reform measures which we hoped they should deal with the financial crisis in a way that not only cures the crisis effects but may also prevent its recurrence in the future. This was probably the same hope of reformists of the 1930s who thought they were going to achieve after the 1929 crisis. Actually that hope never materialized and I am afraid now again we are not tackling the real causes and issues. The real issue is to come back to truth with ourselves regarding the role, function and nature of the financial sector. This I will come back to later in this paper.

In this Section, I will focus on the bail-out and rescue efforts that have taken place over the past two year since the fall of Lehman Brothers in the Fall of 2008. I will look into the measures of remedies and the endeavors of reform in the United States over the past 2 years… Three major Bills make the subject of this Section: The rescue and bail-out Bill of the Bush Administration that was adopted hastily in Oct. 2008, the Economic Stimulus Bill of the early time of Obama and the financial restructuring Bill that was finally adopted in the Summer of 2010.

The first step taken by the Bush Administration was bailing out the big 'Financial Wrong Doers' by buying their illiquid mortgage-backed securities and other bad assets for about Seven hundred billion dollars.

Was it a reward for what they did? Or was it a use of tax-payers money in order to retain and keep their big hand over the American economy?

Under the Emergency Economic Stabilization Act of 2008 (the official name of the Bush Bill) little restrictions were imposed on the big wrong doers in the bill and no changes were introduced in the financial system of Wall Street. Rather, the big banks were further rewarded by accelerating the start of interest payment on their required and accrued reserves with the Federal Reserve System that was made to begin on Oct. 6th 2008 instead of the previously scheduled date in the year 2011. This increased the bank liquid reserves deposited with the FRS from about US$ 10 billion at the end of august 2008 to 880 billion on the 2nd week of Jan 2009. Just 88 times in four and a half month! This liquidity increase happened at the time when the funds were withheld from industrial companies, a fact that lead to huge increases in layoffs and unemployment.

This Bill also increased the public debt of the American people to a record of 11.3 trillion (the American public debt had to soar further to 14.3 trillion in Feb 2010, just in a year time, thanks for more bailouts and more wars' spending by the Nobel Peace Prize Winner!).

In Feb 26, 2009, just one month after he assumed his responsibilities as president, the Associated Press reported that "President Barack Obama anticipates another $750 billion in bank bailouts this year (2009), a step that would more than double the direct infusion of taxpayer money into the reeling financial sector."

Then came the American Recovery and Reinvestment Act on Feb. 2009 with a US$ 787 billion stimulating package to help relieve the economy from further bankruptcies caused by the "financial wrong doers." This package is almost evenly divided between tax reductions, extended employment benefits and enhanced job creation Federal contracts and grants with the aim of stabilizing the real side of economy and halting further layoffs and drops in employment rates. This Stimulus Bill, as commonly known, was introduced by the new team of the Obama administration and was made required to remedy some of the setbacks caused in the American real sector by the financial mishandling of the Wall Street Firms. The total anticipated spending of US$ 787 Billion is distributed over ten years but more than one third of it was actually spent by Oct. 2009 and a total of 720 billion is to be spent by Oct. 2011, almost 92% of the entire amount of the bill in the first two and a half years.

The last major remedy was the Bill of Financial Services Reform which aimed, at the beginning, to completely overhauling the American financial system. But since it was introduced in the House, it had one set back after the other and finally lamely passed in the House in Dec. 2009 and in the Senate in June 2010. Interestingly in Late 2009 G. A. Miller on minst.com reported that lobbyists have spent more than $300 million that year trying to shut the bill down). One of the last watering down of this reform bill was dropping the idea of the governmental unified council that was to supervise the finance industry.

It is very clear that financial institutions and their lobbyists have had a heavy hand in reshaping this bill of reform in order to make it a shadow of its former self. It has become unclear whether the consumers and taxpayers will be better off after the bill passed by the Senate in early June 2010.

This new legislation is described by President Obama as it “brings us another important step closer to necessary, comprehensive financial reform that will create clear rules of the road, consistent and systematic enforcement of those rules, and a stronger, more stable financial system with better protections for consumers and investors," The Speaker of the House Nancy Pelosi said: "We are sending a clear message to Wall Street, the party is over. Never again will reckless behavior on the part of the few threaten the fiscal stability of our people" and "The legislation will finally protect Main Street from the worst of Wall Street."

The way it was approved lastly, this Reform Bill has three main features 1) creating a consumer financial protection agency that will deal specially with credit card and mortgage financial products from the point of view in forming and protection consumers especially in the area of changing phase and interest charges; 2) increasing the power of a governmental supervisory board to become able to dismantle failing large financial firms; and, 3) putting some caps on certain derivates through increasing the power of the federal reserve board and the Security and Exchange Commission to scrutinize derivatives. The bill also provides for a very modest emergency fund of only US$ 30 Billion that can be tabbed when troubled companies need to be dismantled or acquisitioned.

2.1 Analysis of the Reform Measures:

It is apparent that the bailout Act of Oct. 2008 was adopted hastily within three weeks after announcement of the crisis and many economists as well as politicians later declared that the Bailout of big financial wrong doers should not be an approach the government should take. There were many cries that if a company fails then let it vanish and disappear. Nancy Pelosi declared upon voting the Financial Reform Bill in Dec. 2009 that protecting the Main Street from the "worst" of Wall Street is an essential aim.[2]

The Bailout was a Bill of rescuing the wrong doers not the economy. Alternatively using seven hundred billion Dollars for direct retail finance to companies on the real side of the economy could have reduced the speed of layoffs, preserved the incomes of more than ten million employees and saved the real economy from further dives down. In early March 2010 the news brought us a move by President Obama indicating that we seem to have begun realizing the need to directly finance the real economy. It was a meager start with only US$ 30 billion in funds apportioned for helping companies avoid laying off employees. This is in sharp contrast with the 750 billion of the Bush administration that was given to the Wall Street firms, for neutralizing the Wall Street wrong players' finance-withholding effect on the real economy. This new Fund is announced to implement the idea of directly financing companies, should finance from the big banks be withheld.

The Obama Stimulus Package of early 2009 is a step in the Keynesian economics direction to increase incomes of the middle class and to create jobs using federal government's deficit. A deficit that has already been fattened may be to an irreparable level by the effect of the Bush Administration wars' spending and previous bailouts.

Finally the Financial Reform Bill was toned down in the house and later in the Senate. It was greatly watered down before it could become a law. While creating consumer protection emergency, taming derivates and increasing the government power of intervention to break up 'the Worst of Wall Street Wrong Doers' are steps in the direction. They are neither sufficient to bring about healthy recovery to the American economy nor adequate to enhance the world economy because they do not deal with the fundamental issues of redefining the financial sector and putting it in its right and appropriate track in the grand puzzle of the socio-economic setting as a whole especially in a world that has become a mere small village with interlocked economies that are polarized around one leader.

To bring the financial sector to its real function in the economy as a sector that serves the real side of the economy which in its turn takes charge of producing wealth and creating surplus we need more fundamental changes and more rigorous approaches that seem to be still far away from the Anglo-Saxon ideology of economics and finance.

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[2] CNN Money.com Dec.11.09

3. *La solution Islamique*

I like to begin this section with a short-story.

Once upon time, there was a very proud king and two very smart tailors who announced that they were going to make an extraordinarily gorgeous, marvelous and unique cloak for the king that he can wear only at the parade celebration on the National Day of his assuming the throne of the kingdom. The two tailors worked hard day and night on their claimed exceptional suit but actually worked harder on creating an image and propaganda of their great job putting announcement on newspaper, advertisement on the internet, radio and T.V. and on street boards with all side attraction such as girls in bikinis about their spectacular-to-be costume of the king. On the day of the parade and exhibition the two tailors stood proud by the king and with their own hands helped the king wear the incredible dress. As the king started parading everybody in the crowded lines around was admiring the beautiful suit of the king until a child climbed his father's shoulders and noticed that the king was in fact naked then the word passed through from one person to another like a thunder. It was an eye opener and everybody realized that the king was in bare exposed and that they were living under the illusion of advertisement and propaganda!

3.1 What is finance and what is the function of the finance sector?

We have created so much of virtual economy by our un-limited imagination of what we call "financial engineering" and we have created around this virtual finance images of wealth creation, wealthy people and highly paid senior professionals and CEOs. We went on playing with virtual wealth so much so that we believed our own imagination and illusionary creation. We thought that creating virtual wealth is an economic function and that the financial sector, on its own, is a place where wealth is created.

We have built virtual assets and virtual wealth and continued building them. We were so much over-ridden by the beauty of structured and later standardized financial derivatives that we refused to accept even simple facts such as "fictitious assets are not assets." We regarded trading indexes as best way of trade although indices do not represent assets. We continued to believe our fiction-created wealth until an eye opener came in the form of major crises of wealth vanishing and meltdown, laying off workers in the millions, decline of production and increase of poverty.

One crisis after the other that roam the whole world from South East Asia, to Russia, to Brazil, to America, to Iceland, to the UK, to Greece Ireland and Portugal and to cover the whole world!

Unfortunately even these eye openers did not yet show us the basic underlying truth of what went wrong. Is it a failure of the market system itself, inadequacy of regulations, imperfection of human rationality, lack of self discipline on the part of economic/finance players, or is it drifting from real economy to virtual economy?

One of the plain realities is that "lending does not create wealth" regardless of whether lending takes the form of short sale, debt securitization or interbank transaction. A loan contract only transfers ownership with neither increase nor decrease in its amount. This naked truism is as simple and as basic as if we all work as lenders/borrowers one to the other, who is going then to increase real-life wealth and create an added value and from where would the due interest, one on the other come from?

Furthermore, finance is useful in as much as it helps increase the ability to create wealth in the real sectors of production and exchange. The only way for finance activities to achieve this goal is by augmenting embodied and non-embodied capital. This is done exclusively by increasing goods, assets and services (like education).

Finance becomes destructive and harmful when it withdraws resources from production and exchange. This means that the very foundations of finance provision should be such that they can connect finance activities forcefully and exclusively to the production and exchange sectors.

It is necessary to change our basic philosophy of this relationship between finance and wealth creation in such a way that makes any financial earning strictly a reward for contribution to production and exchange, i.e., to wealth creation.

3.2 Let us come back to basics

The most serious foundational problem was a result of a persistent and intensive disorientation of the finance sector by confusing its support and service functions with the wealth creation function that is carried out only in the real production and exchange sectors. We confused "wealth transfer" with "wealth creation" and we thought that lending and virtual based activities that only transfer wealth actually create wealth. The assignment to finance of an unfair, incorrect and resource-diverting "wealth-transfer" task through a quasi gambling approach is in the heart of the financial crisis or rather crises. The solution must be in the direction of taking back the finance sector to make it play its supportive role and re-diverting financial and human resources again out of speculation back to enhance and help wealth creation activities.

The fundamental issue is to bring back the finance sector to play its appropriate role that is a role of financing. We want a finance sector that helps rather than disturbs, distorts and distracts. We need a finance sector that facilitates the channelling of funds to the productive sectors instead of attracting funds and other financial and human resources from the productive sectors to speculation. Eliminating speculative contracts and removing zero-sum contracts do not mean that we will sacrifice the hedging needs of financial and other institutions. Of course, I do not call for neglecting the needs of economic units and financial institutions to hedge the risks, manage risk distribution and deal with liquidity challenges.

The worst of dangers of the cancerous over-growth of the finance sector and the transformation of industrial capitalism into financial capitalism is the creation of a mentality of "getting a quick buck." If you can become wealthy by a click on the computer why should you invest in creating new companies, new products and new productive facilities and establishments? This has devastating effects on the economy similar to the effects of corruption of which economies of the world ache today!

From this angle the Reform Bill brings a good change by its curbing on derivatives but it does not go far enough to make us expect a visible or substantial reduction in the virtual economics of the Wall Street financial establishments.

Going back to basics should also mean tearing down the illusions that made the finance sector attract and withdraw resources, financial and human alike, from the sectors that create wealth to activities that are merely speculative and wealth transferring. To go back to basics, we need to tame out all activities that are not related to or in support of the channelling of financial resources to the wealth creating lines.

While effective regulatory and supervisory powers over the Wall Street type of economy are an important and useful step in a process to tie the knots of financial practices, elimination of the cancerous cells (contracts) that have over grown the whole body of finance sector is more important and more essential.

3.3 Fundamental rules of the financial reform

The ideology of financial capitalism needs to be changed or discarded all together and we need to create different convictions and different foundations of our eco-financial thinking. We need to re-structure our ideology around the simple and fundamental truism that the function of the finance sector is only and strictly to help and service the production and exchange sectors. This can only be done through functionally integrating finance into the productive activities of production and exchange.

A few basic principles/rules should make our fundamental guidance as well as our driving financial ideology to a healthy integration of finance into the productive sectors:

The rule No. 1 of financial reform should be: "you can only earn if you own an asset that creates wealth". This reflects the factual truism of real life that only real assets create wealth. A transfer of debt from one person to another does not increase wealth in the economy nor does it increase the wealth of either party in the deal. It is therefore not a productive transaction and it should not be a source of earning. In other words, debt secularization transfers risk but does not create wealth and we must not mix up a process of wealth transfer with a process of wealth creation.

Besides, debt transfer and debt securitization reduce the risk of the debt creator/initiator especially when you add to it debt insurance and debt insurance derivatives. This process relieves the debt creator from the hook and creates a low level of responsibility and reckless due diligence.

Additionally, debt securitization and debt trade create a domino effect from which we suffered a lot to an extent that convinces us to better live without it in finance.

Another kind of Wall Street practices not based on owning real assets that create value is speculation. Speculative contracts that are zero-sum contracts do not create wealth. Therefore speculation should be tamed. Purely speculative contracts should be removed from the financial market. In a world of a hundred year ago that had no quick, easy and direct contracts we may have needed market makers and speculators to help reveal prices but in the world of today with its modern communication facilities where producers and users of all kinds of goods can meet on the internet we need not these market makers that profiteer from shouting prices! Our time and communication facilities had already surpassed them. Get them out of our way!

The rule No. 2 of finance reform should be: “trading fake assets only transfers wealth but does not produce it.” Therefore, we should remove from the financial markets all fake assets and all fake transactions. What increases in wealth we produce, if we place in a warehouse hundred tons of wheat and a few hundred people sit there shouting prices around the wheat pile all day long, then at the end of the day they go back home only with a distribution of same amount of cash among themselves, different from that they started with in the morning? Do we really need a hundred fake transactions in the wheat market in order to discover the price of one transaction that will move ownership of the product from farmers to the flour mill’s owner?!

Because we changed the objective/function of the finance market from supporting and servicing farmers and flour mills’ owners to a ‘manipulated or not’ redistribution (transfer) of wealth among speculators, it has become only logical to do away with the wheat pile all together and instead we trade any virtual imaging or mirroring or even ‘presumed’ pile of wheat that allows us to speculate or shout prices. This is what has been called in the classical Islamic centuries-old literature “trading thin air.” Consequently, instead of trading commodities we went on to trade indices, options, CFD’s and futures. I wonder, if we believe our illusion that this kind of transactions creates wealth, why don’t we supply farmers with internet connections instead of land and seeds so that they trade futures instead of cultivating food stuff?

The rule No. 3 of finance reform should be “make finance only available to morally acceptable products/services” so that products that harm human beings and other creatures around us and/or products that hurt the environment of mother earth, the home of our grand children, naturally, physically, spiritually and/or socially, should not have accessibility to funds that are collected from the public at large under all/any schemes of deposits of the financial sector’s institutions.

While the Reform Bill’s creation of a consumer protection agency in finance is another good step in the right direction, what is needed more than consumer protection is stakeholders’ protection through a morally-based government-guided market-intrinsic protection agency that should be assigned the task of monitoring and screening new financial products before they are adopted in the market. Such an agency can follow up on financial engineering and market practices where the outside regulator can only reach them with a lag at a later stage/time.

3.4 Operationalization of the new finance ideology in the short run

We need to eliminate all zero sum contracts so that speculation can be reduced. Contracts like index trading, CFD (Contract for the Difference), currency price betting, internet currency trading, and their likes, all such contracts should be withdrawn from the finance market and their licensing for trade be cancelled. They should be eliminated and taken out of the organized financial markets so that we do not assign resources for purely speculative transactions and we do not allow these speculative contracts to unrealistically affect the price movement. If someone insists of individual freedom of trading anything, these contracts then may be placed in casinos along with other gambling products that require special licensing and special areas of trade.

Commodity and currency futures should be gradually restricted. This should be done in the direction of bringing them to reality so that the ultimate goal would be that only non-speculative transactions can be undertaken. It is not difficult in the present world with its means of communication and open markets that we restrict trading commodities and currencies in organized regulated markets only to real units that deal with these commodities and currencies as real suppliers or real demanders. All the arguments about the role/benefits speculators provide in the market do not apply in our modern hyper I.T. systems because we have sufficient number of real economic units that achieve the benefits of this role. We can impose restrictions in the form of market registration whereby only these economic units that are related to a given commodity can trade it. The objective is to tame speculation and re-divert resources of all 'Jumpers on prices' to real investment rather than commodity and currency speculation.

Hedging through futures or options can still be available but only to those who have existing future asset or liability positions. There are plenty of them in the real market that will create real exchange relationships.

Certain forms of behaviour can also accommodate more regulations such as imposing restrictions on day trading, lengthening the process required for a trade before it can be reversed and de-listing the market makers and kicking them out of the organized financial markets.

Short sale should not be available as a way of speculation. This can be achieved by increasing the margin to a high limit that may reach 100%, dis-allowing lending of shares and depriving short sale from benefiting of any financial facilities including margins.

Speculation in commodity, currency and equity markets can further be reduced by drying out its financing sources. We should deprive those who distort our finance system from any leverage under whatever name this may be. What is the economic benefit that can be brought about by juggling names hundreds of times a day on titles of equities, commodities and currencies?

Debts securitisation should be restricted to interlinked institutions within same holding company in order to force a financial institution that accepts a debt to bear all the consequences of its debt itself alone or with its sister companies within the same holding company. This will increase due diligence and precaution exercised in debt creating.[3]

Finally, financial market accessibility should be reduced from 24 hours 7 days a week across the globe to an extent that is barely sufficient to provide needed liquidity in the market, an extent that sustains transacting real exchange and supports real production.

3.5 In the Long Run

In the long run, there are four golden pillars of reform.

The first Pillar of reform should be genuinizing organized markets. This can be achieved by revising regulations and trading requirements in the equity markets and stock exchanges with the aim of making speculation on shares difficult. Liquidity in the equity markets is an indispensable element that will not be sacrificed. But liquidity requirement is different from speculation. Speculation creates excess but only artificial liquidity. It raises prices undesirably and creates a false illusion of profits. We must not let go on speculation in equities. Sufficient liquidity in the equity market can be obtained by opening stock exchanges across borders while we regulate stock trading in such a way that eliminates speculative commitment of liquid funds.

Along with genuinizing the equity markets we will need also to genuinize futures and options whereby the many folds multiplication of transactions will not be permitted. The same should also equally apply to currency markets. All derivative trading should be eliminated so that derivatives can be issued but only exercised or let die, they should not be traded.

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[3] Interestingly in the current crisis retail finance companies maintained better status than wholesale finance providers because they were always able to throw the bug on the latter.

The second Pillar of reform in the finance sector is to strictly channel all finance activities through the venues of sale, lease and venture capital (sharing). This means the removal of loans from the finance sector and the de-legalization of interest.

When finance is provided strictly through lease, sale or venture capital contracts we would be creating a one to one correspondence between the financial sector and the real sector so that finance would be issued only to enhance real market production and exchange. By their very definition, such regulations would eliminate interbank debt-based transactions and remove all forms of debt securitization; both activities do not produce or create value. On the other hand, not only that finance will simply become a supportive activity of the real market but also there will be a huge reduction in the layers of financial assets that are built in the current system above a narrow layer of real market. This would remove, eliminate or at least drastically reduce the up-side-down pyramid phenomenon of financial capitalism and would bring the system back to a more stable wide-based real market. Once this second pillar is put in place, financial assets would become mere representation of real assets and cannot, by their very nature, overgrow the real side of the market. Furthermore, this methodology of defining finance and financial contracts would remove all parasitic uses of funds from the finance sector and throw back loans to the arena of personal relations instead of being economic/business transactions.

The Third pillar of the long run reform is to strengthen the stake-holders protection agency to become a real financial ombudsman by giving it the authority to protect the public interests in the process of financial engineering and requiring all new products to pass through this financial ombudsman.

In fact, an ombudsman is needed not only in the finance market but also in other markets so that we can reduce speculative transactions that waste resources and hurt consumers. In this direction the government of Singapore started measures to restrict speculation in the real estate market (as reported on news of Feb. 20/ 2010). A permanent financial market ombudsman is needed to check and control the potentially harmful untrue financial products that may destroy wealth and transform our economy into a virtual one.

The fourth Pillar of the long term reform should be the creation of stand-by finance provider(s) that can remove the harmful effects on the real productive units/corporations of repetitive mishandlings by financial conglomerates. Self destructive mismanagement of the wall-street financial giants must not be allowed to halt the functioning of companies and institutions that work, in the real market, on creating goods and services and on producing income and employment. Such stand-by financial institutions may count on the tax-payer money and would provide return-generating finance to companies in order to prevent the downfall of companies that depend on financing extended by big wall-street players. It would have been an amazing exercise to simulate the results on income and employment that could have been obtained had the seven hundred billion dollars finance package of the Bush administration been used to finance real market companies instead of spending them to save the financial firms.

4. Conclusion

As a conclusion we should look forward to a world that is clean of financial (and other kinds of) corruption and its affects that hurt and distort the very desire to produce. We should look for a post financial capitalism era in which the financial sector plays a production role based always on ownership contribution to the economy rather than provision of interest-based debts; an economy in which the government and the Ombudsman as stakeholders' protection agencies can work together to the benefit of all instead of allowing speculators an ability to divert recourses from real production into a culture of "snatching the other guy's money."