

The Looming Recession & The Light of Islam

This year, as we all deal with rising prices, increased cost of living, reduced savings and increased income inequality, it is widely believed that the global economy is heading towards a recession and the economic situation for millions of people will worsen. While the exact timing of a recession is difficult to predict, there are several factors that suggest a downturn is on the horizon.

One of the main indicators is the current state of the labor market, which has been showing signs of weakness in recent months. Even tech giants like Google and Amazon eliminated a combined 30,000 jobs citing an uncertain economy. Additionally, a slowdown in the housing market and decline in consumer savings are early signs of an upcoming economic slump. Credit card debt has increased by 15% over the past year, the biggest increase in over two decades, indicating loss of savings and further reliance on debt to cover the increased cost of living. Another factor that suggests a recession is coming is the current state of the stock market. The S&P 500 has been experiencing a significant correction in recent months, with many analysts predicting that the market could continue to fall in the coming months. Additionally, the bond market is also showing signs of weakness with yields on long-term bonds falling to historic lows.

Many experts are predicting that the upcoming recession will be different from the past ones. BlackRock, the world's largest asset manager, has warned of an impending recession. In a report titled 2023 Global Outlook, it stated policymakers will no longer be able to support markets as much as they did during past recessions and it will ignite more market turbulence than ever before. Even BlackRock has recently laid off 3% of its workforce citing "an unprecedented market environment." Also, Morgan Stanley, Bank of America, and Deutsche Bank have warned that US stocks can plunge by more than 20% this year due to an economic downturn and liquidity risks fueled by the Federal Reserve's interest-rate increases. Even the World Bank said that the "global growth has slowed to the extent that the global economy is perilously close to falling into [a] recession."

In the capitalist system, the government has the ability to print currency as needed which can lead to inflation if the money supply is increased too rapidly. For example, the US pumped trillions of dollars to shore up the economy after the COVID-19 market crash and it did the same in 2008 after the housing market crash. Subsequently, interest rates were lowered to almost zero to kick start economic growth. Now, with rising inflation, the Federal Reserve has raised interest rates to manage the inflation and control the money supply. Since the 2020 COVID-19 market crash, approximately \$16 trillion have been printed out of thin air to prop up a fragile 'toilet paper' economic system.

The cyclical nature of these booms and busts is inherent to the Capitalist system. Significantly, the amplitude and frequency of these cycles can vary, however, over the past few decades the frequency of these events have increased. Fiat currency and interest rates play a significant role in the nature of this global cyclical economic instability. Moreover, the volatility of the financial sector and the debt-fueled perpetual push to increase GDP doesn't take into account the distribution of income and wealth among the population. With inflation at a 40 year high, rising costs of living and food, declining savings and wages not at par with inflation, average people are unable to make ends meet and the disparity in the concentration of wealth continues to increase. The data demonstrates that these issues are at the core of Capitalism and not just 'bad policy.'

As such, as Muslims we have the Islamic economic system to offer the world as the sole solution for humanity. Islam's view on the economic problem and its solutions are built on a unique paradigm and are not equivalent to Capitalism. For example, under Islam, the monetary system is based on a bimetallic gold and silver standard. The evidence for this is that Islam has linked gold and silver with fixed Shari'ah rules like Zakat, blood money, theft, currency exchange, etc. Prophet Muhammed (saw) states: «وَأَنَّ فِي النَّفْسِ الْمُؤْمِنَةِ مِائَةَ مِنْ الْإِبِلِ ، وَعَلَى أَهْلِ الْوَرَقِ أَلْفُ دِينَارٍ» **“and for the**

believing soul (if killed) it is one hundred camels, and for the people of silver one thousand Dinars” (Ibn Qudamah, Al-Mughni)

The bimetallic gold and silver standard has an intrinsic value and hence eliminates credit creation, minting/printing of currency out of thin air and eliminates significant inflationary cycles. The money supply in the market is controlled and is directly tied to the amount of gold and silver held in Bait ul-Mal's (State Treasury) reserves. Any inflation that may occur would be due to the supply and demand mechanisms and not due to monetary policies, as we see today. Additionally, since the value of the currency is tied to gold and silver, it provides a fixed exchange rate between different currencies and prevents sudden fluctuations in the value of a currency. In effect, the bimetallic standard brings economic stability, real value, and sustainable growth without the cyclical booms and busts.

The Islamic economic model focuses on the distribution of wealth rather than mere production. Emphasis is on the real economy and financial markets, as we see today, will be prohibited. Finance (raising capital) plays a part in the economy, of course, but it is done through business partnerships aimed at generating profit and sharing losses. The prohibition of Riba (interest) eliminates the current financial sectors that are built on debt and disastrous financial instruments. Moreover, prohibition of Riba helps eliminate the concentration of wealth. Zakat as well as prohibition of hoarding and monopolization all play a factor in redistribution of capital and thereby encourage economic growth. Islam has legislated that wealth should not be allowed to merely circulate amongst the rich. Allah (swt) states: ﴿مَا أَقَاءَ اللَّهُ عَلَى رَسُولِهِ مِنْ أَهْلِ الْقُرَىٰ فَلِلَّهِ وَلِلرَّسُولِ وَلِذِي الْقُرْبَىٰ﴾ **“As for gains granted by Allah to His Messenger from the people of ‘other’ lands, they are for Allah and the Messenger, his close relatives, orphans, the poor, and ‘needy’ travelers so that wealth may not merely circulate among your rich.”** [Al-Hashr: 7].

The above is just a brief look at the Islamic economic system that currently lacks practical application. The true fruits of the Islamic economic system cannot be realized until the complete system of Islam i.e. the Khilafah is established. This economic model works in tandem with the social, judicial, and political systems of Islam. Applying some Islamic economic policies within the current Capitalist system is irrational and devalues the Divine system of Allah (swt). Our Deen is applicable at all times and its Divinely mandated Ahkam are solutions to our global issues.

Hizb ut Tahrir has dedicated its efforts to resuming the Islamic way of life. Among its fortes is understanding the current global order and its economic system. Moreover, we offer plans on how to transition from the current economic system to the Islamic system with its constitution and ruling structure. Our detailed literature on these matters presents a new vision for the world. A new vision for our Ummah and the world, living under the rule of Allah سبحانه وتعالى, leading the world in peace, prosperity, and salvation in the Akhirah. A new vision that seeks to bring the world out of the darkneses of Capitalism and into the light of Islam. Hence, we ask the Ummah to place its belief and fear in Allah (swt) Alone and dare to imagine a new future.

﴿وَلَوْ أَنَّ أَهْلَ الْقُرَىٰ ءَامَنُوا وَأَتَّقُوا لَفَتَحْنَا عَلَيْهِم بَرَكَاتٍ مِّنَ السَّمَاءِ وَالْأَرْضِ وَلَٰكِن كَذَّبُوا فَأَخَذْنَاهُم بِمَا كَانُوا يَكْسِبُونَ﴾

“And if only the people of the cities had believed and feared Allah, We would have bestowed upon them blessings from heaven and earth; but they denied [the messengers], so We seized them for what they were earning.” [Al-A'raf: 96].

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Hizb ut Tahrir
America