

# DETERMINING THE REAL CAUSES AND SOLUTIONS OF NIGERIAN ECONOMIC RECESSION: A PERSPECTIVE OF ISLAM

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## ABSTRACT

As Nigerian economy continue to face constant economic recession, despite abundant of both natural and human resources in Nigeria due to adoption of falsehood economic system of capitalism inherent in its economic system. The purpose of this study therefore, is to determine the real causes and solutions of Nigerian economic recession from Islamic perspective. It will also at the same time deal with the concept of economic recession and the Islamic economic system. This study will be conducted purposefully by collecting authentic guidelines in Islam such as the Glorious Qur'an and Ahadith and exploring the view of Muslim Scholars. Library materials books, journals, interment, magazine and Islamic manuscripts will be accessed. The study is an indication that, the economic system either capital or socialism which has proved to be failures for centuries has proved that, the only solution to the present economic recession is Islamic economic system as it is purely based on fairness, justice, social responsibility, transparency, trust worthiness, and Shar'ia compliance. It is thus concluded that, economic recession in contemporary Nigeria could be prevented or lessened by adopting Islamic economic and finance laws and regulations, especially the main pillars of Islamic financial system, namely the prohibition of ribā (usury or interest), prohibition of maysir (gambling and game of chance or speculation) and prohibition of gharar (excessive uncertainty), in their many forms.

## 1. INTRODUCTION

The causes and solution of economic recession in Nigeria has become the major topic of discussion on the lips of major actors in Nigeria and beyond. The International Monetary Fund (IMF), as well as the Central Bank of Nigeria (CBN), has all agreed that Nigeria economy has plunged into recession. They assert that Nigeria's economy may not regain stability until early 2017 with low growth rate of 1.5%<sup>1</sup>. The solutions to this predicament have, however, been suggested by experienced economists of local and international reputation who, in their views, propounded so many artificial theories, forgetting that the problem could be resolved only if we go back to the Glorious Qur'an and the Sunnah. This write-up seeks to examine the causes of economic recession in the country and equally proffers lasting solutions to them in accordance with the dictates of Islam.

### 1.1 Islamic economic system

Islam solves the economic problems by first emphasizing that the dominion of every wealth belongs to Allah. So, when a man knows that whatever he acquires of the worldly materials is not for him, rather, it's a trust, and then he tends to seek for wealth through lawful means and spend it in accordance with the dictates of the Ultimate Owner. The Glorious Qur'an repeatedly reminds thus:

"to Allah belongs the kingdom of the heavens and the earth, and Allah has power over all things" (Chapter 3: 190). "Have they a share in the kingdom? Then who they not give men even so much as the little hallow in the back of the date stone" (Chapter 4:54). "Allah has favoured some of you above others in worldly gifts. But those more favoured will not restore any part of their worldly gifts

to those under their control, so that they may be equal sharers in them. Will they then deny the favour of Allah" ( Chapter 16:72). "Verily, your wealth and your children are a trial, but with Allah is an immense reward" (Chapter 64:16).

Also, the economic system of Islam views human beings as human beings and not as a means to be profited. It recognizes human beings' needs and addresses those needs not as an avenue for economic growth but distributes wealth and resources on a fair and just basis, not based on market forces. It virtually views human beings as living, breathing beings not as non-living beings like a hammer or sickle or other tools of production. That's because the Prophetic Guidance is based on the Glorious Qur'ān and Ḥadīth. Core principles of Islamic economics system are justice, equity and welfare<sup>2</sup>. Islamic economics seeks to establish a broad based economic well-being with full employment and optimum rate of economic growth. It brings socio-economic justice and equitable distribution of income and wealth<sup>3</sup>. Islamic economics also ensures the stability in the value of money to enable the medium of exchange to be a reliable unit of account and a stable store of value. Socio-economic justice is the main ingredient of economic system in Islam<sup>4</sup>. That is everyone has an equal right of access to Allah-given resources and no one can claim a monopoly over them or deny others a fair share. Islam forbids all anti-social economic activities which are, of course, not conducive to communal welfare<sup>5</sup>. There should not be any exploitation or unfair dealing which may ultimately stand as hindrance in the way of true brotherhood in the economic activities permitted by Qur'ānic and Ḥadīth perspectives. Economic development involves the attainment of social and economic equality, improves socio-economic institution and human attitudes in order to maintain justice, piece and prosperity in life<sup>6</sup>. Zakāt is one of the supporting means for transferring part of wealth from the haves to have-nots in order to decrease the inequality in the distribution of wealth<sup>7</sup>.

## **1.2 Prohibition of interest**

Islam prohibits usury and interest due to their inherent evils. The negative effect of these two cannot be overemphasized. The absence of interest in the Islamic economic system neither gave rise to high level of inflation nor did the prices spiral up beyond control<sup>8</sup>. At least, the history has no evidence of such. Mirza Tahir Ahmad (R.A), in his book titled "Islam's response to contemporary issues" remarks:

"The government of China under Mao Tse Tsung's era made many experiments with the economy. Some faltered. Some produced excellent results. But during the entire reign of Mao Tse Tsung, interest was not allowed to play any part, either domestically or internationally. Yet, throughout this period, there was no prominent increase in inflation. In fact, when ultimately the overall production level increased, prices began to register a fall".

"As compared to this, in the state of Israel, perhaps the world's most capitalist country, the rate of inflation has been amongst the fastest recorded anywhere else in the world, except, of course, in Latin American countries and the postwar exceptional phenomenon of inflation in Europe, particularly in Germany. But then both were not normal days. Other things being equal, the role of interest in any economy cannot be described as anything other than inflationary"<sup>9</sup>.

Allah, the Almighty delivered to mankind a powerful warning 1500 years ago regarding the consequence of interest based economy. Allah says:

"those who devour interest stand like one whom satan has smitten with insanity. That is so because they keep saying: The business of buying and selling is also like lending money on interest: whereas Allah has made buying and selling lawful and has made the taking of interest unlawful. Remember, therefore, that he who desists because of the admonition that has come to him from the Lord, may retain what he has retained in the past; and his affair is committed to Allah. But those who revert to the practice, they are the inmates of the fire, therein shall they abide. Allah will wipe out interest and foster charity. And Allah loves not confirmed disbelievers and arch-sinners. Surely, those who believe and act righteously and observe prayer and pay Zakat, shall have their reward with their lord. No fear shall come on them nor shall they grieve. O ye who believe! Fear Allah and relinquish what remains of interest, if you are believers. But if you do not do it, then beware of war from Allah and His messenger; and if you repent, then you shall have your original sums; thus you shall not wrong, nor shall you be wronged. And if any debtor be in straitened circumstances, then grant him respite till a time of ease. And that you remit charity shall be better for you, if only you knew"(Chapter 2:276-281)

Obviously, the words "but if you do not do it, then beware of war from Allah and His messenger" define the cause of our economic crisis. What we are going through is definitely Allah's wrath for we have forsaken His teachings and our hearts are averse to the Divine guidance. It is quite fascinating to discern the effects of interest and usury on Nigeria economy. Former president of Nigeria, Olusegun Obasanjo, once remarked, "Nigeria borrowed \$5 billion from western creditors in 1978, since then, Nigeria has paid back \$16 billion. It may also



surprise you to know that we still owe \$31 billion: this is largely due to compound interest and interest rate fluctuation<sup>10</sup>. One might go crazy if one starts to fathom to what extent the \$11 billion extra paid will boost the country's economy. The high level of unemployment, power fluctuation, and poor infrastructure can all be tackled to a very large extent with this money<sup>11</sup>.

### 1.3 Prohibition of lavish spending

Nigeria has not devised any method to check the spending habit of their citizens. In fact, the focus of most government is on how a member of a society earns his livelihood, then taxation is imposed on the income of the individual. Having done that, most countries interfere not in the financial affairs of the individuals<sup>12</sup>. Islam as a religion which touches every sphere of human endeavor regulates the spending habit of a Muslim. Glorious Qur'an 17: 27-28 declares:

*"Give thou to the kinsman his due, and to the poor, and the wayfarer, and squander not thy wealth extravagantly. Verily, the extravagant are brothers of Satan, and Satan is ungrateful to his lord".*

Despite the current economic condition of the country, club houses, night clubs, bars are still populated by Nigerians. Thousands of naira is spent daily on alcohol and fornication. Nigerians spend too much on ceremonies, parties and other cultural practices. I once attended a wedding ceremony and I heard the Bride's father telling his friend he paid #2.5 million to secure the event hall<sup>13</sup>. Allah defines his true servant as those who are neither niggardly nor spend extravagantly (Q 25: 68). So, any nation that desires a sustainable economy must instill in her citizen the spirit of a simple life style.

### 1.4 Basic Needs and Zakat

Materialism in its ultimate form breeds selfishness and callousness and veils man sensibilities to the sufferings of others. This is the reason why Islam has imposed a tax known as Zakat on an idle capital. The tax is used to cater for the basic needs of the poor. Every citizen, according to the Qur'anic teaching, is entitled to four basic needs. The Glorious Qur'an declares. "It is provided for thee (Adam) that thou wilt not hunger there in, nor wilt thou be naked. And that thou wilt not thirst therein, nor wilt thou be exposed to the sun (Chapter 20:119-120). Thus, the minimum rights established by Islam are: food, clothing, water and shelter. The money realized from Zakat would be employed in providing these basic needs for the poor and needy. The imposition of Zakat discourages hoarding of wealth, a notable characteristic of a capitalist economy. In short, Zakat has played a great role in maintaining the economic equilibrium of the Muslim communities<sup>14</sup>.

### 1.5 Major causes of the Global Financial Crisis according to Islam

In the view of Islamic economics system, the major causes of the Nigerian economic recession are as follows:

**1. Capitalism;** Capital is rewarded in capitalism with interest. Interest is employed as the central motive force to amass capital. So, the capital is given for investment which enjoys interest, the interest is then reinvested<sup>15</sup>.

**2. Scientific socialism:** Here, the state monopolizes capital and hence, no incentive of interest to cycle and recycle capital into a productive mechanism. The absence of interest in the scientific socialism economy does not prove its worthiness. The sense of responsibility itself is sufficient a driving force to put in efforts to multiply capital. This is lost since the capital used is not owned by the individuals<sup>16</sup>.

**3. Riba and gambling:** Both have formed a non - real sector in the capitalist economic system in the form of banking, insurance, and stock trading. In a capitalist system, money (capital also) is seen as private goods, both invested in the production process or not, all the capital has to make money. In fact, the "investment" in sectors rather than the production or in the non - real today is likely to continue to increase, far beyond the money circulating in the production sector<sup>17</sup>.

**4. Corruption:** This has become one of the main causes of the Nigerian economic recession. Corruption is prohibited in Islam, which is stated in several Qura'nic verses, such as Chapter 5 verse 38, Chapter 4 verse 29, Chapter 3 verse 161. Corruption is mentioned in the Glorious Qur'an Chapter 11 verse 85. Corruption prohibition is also recorded in several *Ahadith*. For example, a *hadith* reported that: *"Hand over even the needle and thread, for stealing from the spoils is disgrace, fire, and ignominy on the Day of Rising for people who do it"*<sup>18</sup>. Meanwhile, one management rule in Islam is to place the right man in the right position. For example, It is mentioned in one *hadith* narrated by Imam Muslim in Al-Nawawi's, about one companion who ask Rasulullah (SAW) for a position as government official, as follows:

*Abu Dharr (May Allah be pleased with him) reported: Messenger of Allah (sallallaahu 'alayhi wasallam) said to me, "O Abu Dharr, I see that you are weak and I like for you what I like for myself. Do not rule over (even) two persons, and do not manage an orphan's property."* Abu Dharr was not the right man for the position he asked, so that Rasulullah (SAW) refused his request<sup>19</sup>.



**5. Unsustainable Fiscal System or Ineffective Fiscal System:** This has become the main real causes of the Nigerian economic recession. The Glorious Qur'an has mentioned in several Chapters, such as Chapter 17 verses 29 about balanced budget, Chapter 11 verse 85 about excessive tax, Chapter 4 verse 9 about excessive government debt for the next generation, Chapter 25 verse 67 about excessive government spending, Chapter 6 verse 141 about not to waste by extravagance and Chapter 17 verse 26-27 about not to spend wealth wastefully. There are also many *ahadith* on fiscal system. For instance, it was narrated by Ahmad that: "*One who wrongfully takes an extra tax (sahib maks) will not enter Paradise*"<sup>20</sup>, in another Hadith narrated by Al-Baihaqi talks about excessive debt <sup>21</sup>. Also, hadith narrated by Imam Bukhari discusses about leaving surplus wealth for the next generation is better than otherwise<sup>22</sup> and hadith narrated by Al-Baihaqi talks about living managed budget with chastity is better than riches with extravagance <sup>23</sup>.

**6. Unstable Monetary System/Fractional Reserve Banking System:** Interest Rate and Fiat Money, has become one of the main real causes of the Nigerian economic recession. These three elements are the main pillars of conventional financial system which contain *ribā* (usury) are prohibited in Islamic economic perspective. *Ribā* is prohibited in several stages, in line with the readiness of the society of that era. In the first stage in Makkah, The Glorious Qur'an Chapter 30 verse 39 says that *ribā* (interest) will deprive wealth from Allah's blessings, while *Sadaqah* (charity) will raise Allah's blessings manifold. In the second stage in the early Madinah period, it is mentioned in the Glorious Qur'an Chapter 4 verse 161 that *ribā* is severely condemned (which is in line with *ribā* prohibition in previous scriptures) and those who take *ribā* are threatened with severe punishment from Allah. In the third stage in the second or third year of Hijrah, the Glorious Qur'an Chapter 3 verses 130-133 enjoins Muslims who believe to keep away from *ribā*, if they desire Islamic wellbeing. In the fourth stage close to the completion of Prophet's mission, the Glorious Qur'an Chapter 2 verses 275-281<sup>24</sup> severely condemns those who take *ribā*, establishes a clear distinction between trade and *ribā*, and requires Muslims to annul all outstanding *ribā*, instructing them to take only the principal amount, and forego even this in case of the borrowers' hardship.

**7. External Factor/ Social Instability and Political Instability:** They are exogenous variables which become the main real causes of the Nigerian economic recession where the government and regulator do not have control over them. People who make instability in the society are warned in Glorious Qur'an Chapter 5 verse 33. It is also narrated in some *ahadith*, such as one narrated by Imam Muslim that:

*"Whoever comes to you when you are in one union (of a country) and wants to undermine your solidarity (wants to divide the unity/community), you should fight him (or them)"*<sup>25</sup>.

**8. Misbehavior of economic actors/ Speculation and Hedonism:** This has also become the main real causes of the Nigerian economic recession. Speculation or gambling or *Maysir* is prohibited in Islam in several stages. In the first stage, gambling is considered as great sin which also contains some benefit, but the sin is greater than the benefit (Qur'an Chapter 2 verse 219). In the second stage, gambling is described as satan handiwork, so that believers should avoid gambling in order to be successful (Qur'an Chapter 5 verse 90). In the last stage, gambling must be stopped and prohibited since it hinders someone from the remembrance of Allah and from the prayer (Qur'an Chapter 5 verse 91). Meanwhile, Hedonic way of live is warned by the Glorious Qur'an Chapter 102 verses 1-8<sup>26</sup>. Allah warns that people who piling up worldly things will have diverted live and will be questioned in the Day of judgment (they indulged in, in this world), and finally will be punished.

### **Solutions to Economic recession in Nigeria in Islamic Perspectives**

Islam as the only sustaining unadulterated true religion has furnished us with a system that checks the defects in both capitalism and socialism and maintains a middle position, which puts into consideration the interest of the masses. The solution to economic recession in Nigeria therefore, is to apply Islamic principles in accordance with the teachings of the Glorious Qur'an and *ahadith* by running the Islamic *Shari'ah*. Islam as a solution on the problem of the Nigeria economic recession is to do some basic principles as follows:

**1. Capitalism:** thrives on interest which makes wealth to be concentrated in the hand of few individuals, makes the rich richer and the poor poorer. Idle capital has a room in this system and wealth is accumulated by the capitalists. Islam, on the other hand checks this "idle capital" and imposes a tax known as "Zakat" on it. The Zakat is paid on the idle capital not the one in current use. The interest enjoyed by the capitalist is frowned at by Islam as it does not favour the average citizens but focus on enriching the rich one<sup>27</sup>.

**2. Socialism:** encourages laziness and discourages dignity of labour since the capital is not owned by the individuals. Islam preaches hard work and allows private ownership of wealth but conditioned with prudence, charity, accountability and transparency<sup>28</sup>.

**3. Elimination of Riba:** The economic system of Islam has forbidden *riba*, both nasi'ah and Fadl. In contrast, the core of the economy Capitalism is usury and gambling, two things that are forbidden in Islam (Qur'an 2 verse





278). Based on this, Nigerian have to shut down and stop the usurious practices of conventional banking, including derivative transactions that are common in the financial markets and stock markets. Inflate stock prices and money is an act of *riba*<sup>29</sup>.

**4. Adl:** Justice and fairness, Islam also provides a comprehensive basis for the distribution of wealth to ensure its circulation and avoid extreme accumulation by a few individuals. It does not support the communist notion of equal distribution of wealth among individuals in the society; rather it guarantees a process of distribution where all participants in the market are rewarded for being exposed to risk and liability. Land, labour and capital jointly create value and the capital owner has to share in the profit as well as in the loss. In addition, Islam compulsorily retains a share of produced wealth through the collection of the *Zakah* and its disbursement to the needy; which further circulates wealth in the society. *Zakah* serves as a tool for poverty alleviation as well as a motivation to invest savings for the development of the economy. In addition, Muslims are encouraged to voluntary charity *Sadaqah* and make charitable endowments (*waqf*) in order to create social cohesion. The unique inheritance arrangements of Islam are also designed to support the circulation of wealth. The Islamic economic system is recession proof and resilient because it aims at circulating wealth not its concentration in the hands of a few. The distribution of wealth is achieved through the market. Islam allows the forces of demand and supply to determine prices, subject to some regulations and prohibitions. The most important of these prohibitions is that related to *riba* (interest)<sup>30</sup>.

**5. Shari'ah Compliance/ Prohibition of interest and Related Practices:** Islam is extremely strict in its prohibition of interest (*Riba*). It is an unfair, unearned, and undeserved increase in income. *Riba*, which is the pivot of capitalist economic system, is at the heart of most of the ills of the modern economic system.

“And whatever Riba you give so that it may increase in the wealth of the people, it does not increase with Allah” (Q30: 39). “O you, who believe, do not consume your property among yourselves wrongfully, but let there be trade by mutual consent... (Q29: 4)“Allah has allowed (profit from) trade and prohibited Riba. So, whoever receives an advice from his Lord and stops (from taking Riba), he is allowed what has passed, and his matter is up to Allah. And the ones who revert back, those are the people of Fire. (Q2: 275-276).

In the Islamic Economic System, profit and loss sharing arrangement replaces interest. It is considered to be a fairer method of earning returns because people are rewarded in direct proportion to their investment and/or effort. The removal of interest from economic transactions creates positive indications that help to bring focus on actual entrepreneurship, trade, and production; rather than in artificial manipulations of interest rates. Indeed many of the bubbles and market crashes experienced across the globe are Interest is always inevitably associated with another prohibited element-*gharar* (uncertainty) through speculative activities that serve as destabilizing force on the market. Therefore institutions and individuals that are solely dedicated solely to speculation and market manipulation spring up everywhere. The activities of these individuals and organization disconnect the financial market from the real economy because they are not associated to projects with real-world impact and value. Practices like hoarding of capital to take advantage of higher interest rates, create distortions and instability in the market because they block capital productive activities. Hence careful financial planning is substituted by yet another prohibitive element-maysir-gambling. Hence an evil vicious circle is created that makes it impossible to predict the market. Prohibition of interest is therefore expected to prevent speculation and gambling, which will in turn reduce instability and indebtedness. Islam does not prohibit debt, but it would be interest-free debt, managed in different financial modes that do not involve *riba* in any form. Many of the market crashes and financial problems in the past decades can be attributed to manipulation of interest rates and other securities, excessive speculative practices, and a lack of investment and entrepreneurship in infrastructure and new technologies. Modern economic practices also can result in unacceptable unemployment rates and infrastructure problems<sup>31</sup>.

**6. Accountability:** In addition to *riba*, *maysir* and *gharar*, her prohibitions of Islam in relation to economic activities that ensure the free circulation of wealth include the prohibition of monopolies and hoarding of commodities; sale of debt; exchange of defective or worthless goods (*alghish*) and niggardliness. Moreover, in order to regulate inflation, Islamic economists frown at the use of paper money that is not backed with assets. Money should be used as a store of value and it should be created based on the bi-metallic system-gold and silver. Once these prohibited elements are taken away, wealth circulates freely and the financial system is linked to the real economy. Growth and development then ensues; and poverty and inequality are put at bay. This system worked for over 1200 years before the dissolution of the Ottoman Empire. When Muslims followed the *Shari'ah* generally, and implement its economic system, they had a social and economic system that prosperity for all<sup>32</sup>.

**7. Transparency and Disclosure:** Abu Ubaid provided a picture of this type of society in his famous book *Al-amwaal*. He recounted that during the reign of Umar (R.A.), Mu'adhbnJabal, one of the companions of the

Prophet (SAW) and the governor of Yemen reported that he collected Zakah in Yemen and distributed what he could to the eligible people in Yemen there was a surplus 1/3 of the proceeds. So he sent it to Sayyidina Umar (R.A.) in the capital city of Madina for him to utilize for the good of the Ummah. However, Sayyidina Umar wrote to him questioning that action, adding that "it is not our Islamic practice to collect zakah from one part of the Muslim empire and send it to the center. You should distribute it where it was collected". Mu'adh replied – "wallahi Ya Amirulmu'minin" I have not sent you anything for which I could find someone to give here. In the second year, Mu'adh collected zakah, distributed it and sent two-thirds to Sayyidina Umar (RA) as surplus. The Caliph sent him the same strong message but he said he had checked everywhere in Yemen and could not find anyone to give Zakah. In the third year, Mu'adh collected zakah but he could not distribute any of the proceeds in Yemen; so he sent everything to Umar (RA) stating the problem. The province of Yemen has reached the level of growth and development that had eradicated poverty and want! This is the result when the economy is built on *iman*, *adl* and the fear of Allah<sup>33</sup>.

**8. Honesty and trust worthiness:** This was not an isolated case. The same thing was happening all across the Muslim Empire during the reign of other Caliphs in other provinces as well. Abu Ubaid reported another case also "*bi sanadinsahih*". In the days of Omar bn Abdulazeez, he appointed Abdulhamid bn Abdulrahman as the governor of Iraq. The governor sent a message to the Caliph that he had a very serious problem in his province that required urgent intervention by the Amir. He had collected Zakah and other lawful collections and had distributed to the *mustahakkin* (the entitled) but was not been able to exhaust it, that he still had some surplus. The Head of State, Umar bn Abdulazeez directed him to search for any citizen of Iraq that was indebted and give him to pay his debt. Under this condition no citizen should sleep with debt. The governor wrote back to say that he had actually done that before reporting the problem to the Caliph. The Amir then directed him to search for any young people (male or female) that wished to get married but did not have the means to do so and facilitate their marriage from the proceeds. -The governor said I have done that already Ya Amir-ul-Mu'minin. The Amir then asked him to search for non-Muslim citizens of the Islamic State and give them if they need. This is the picture of an Islamic State. It is the solution to poverty and inequality as well as the prevention and cure for economic recession<sup>34</sup>. Allah SWT has commanded us in his book to go back to him in order to find salvation. If we return to Allah he will provide solutions to our economic problems. "Verily this is My Way, heading straight; follow it; follow not other paths. They will scatter you away from this (great) path" (Q6: 153)

## 2. CONCLUSION

The study is an indication that, the economic system either capital or socialism which has proved to be failures for centuries has proved that, the only solution to the present economic recession is Islamic economic system as it is purely based on fairness, justice, social responsibility, transparency, trust worthiness, and *Shar'ia* compliance. It is thus concluded that, economic recession in contemporary Nigeria could be prevented or lessened by adopting Islamic economic and finance laws and regulations, especially the main pillars of Islamic financial system, namely the prohibition of *ribā* (usury or interest), prohibition of *maysir* (gambling and game of chance or speculation) and prohibition of *gharar* (excessive uncertainty), in their many forms. The first controlled main real cause of economic recession in Nigeria is Speculation or *maysir* (next to uncontrolled Social Instability), so that the prohibition of speculation in all markets, especially in financial markets should become the first priority. At the end, all of these real causes should be removed gradually in order to systematically and gradually improve the stability of financial system so that financial crisis will not reappear again in the future.

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