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Burgeoning Household Debt: An Islamic Economic Perspective

Roza Hazli Zakaria, Radiah Abdul Kader, Noor Ismawati Mohd Jaafar and Sabitha Marican

Faculty of Economics and Administration, University of Malaya, 50603, Kuala Lumpur, Malaysia

Abstract: Household debt has been exposed as a factor underlying the recent financial crisis. Greed for profit motivated institutions to offer financing to financially risky households. The need to boost economic activity encouraged governments to reduce interest rates and encouraged institutions to increase lending to households in order to promote consumption. At the same time, cost of living and the socially accepted level of consumption both increased, prompting consumers to factor financing options into decision-making. These issues have undeniably contributed to burgeoning household debt at the macro level and financially distressed households at the micro level. This paper offers an explanation on the issue of burgeoning household debt from an Islamic perspective. Specific emphasis is given to the violation of debt principles according to Islam and how this has led to an unmanageable level of debt at both household and macro levels.

Key words: Household Debt · Islamic Economics · Consumption

INTRODUCTION

Lessons from previous financial crises, such as the financial crisis of 2008, the Asian Financial Crisis of 1997-1998 and experiences of Dutch, United Kingdom and Nordic countries, warrant concern over rising household debt around the world. Excessive growth of household debt has repeatedly led to economic crisis, having dire consequences on the stability of financial institutions. The latest financial crisis of 2008, originating in the United States, serves as a prime example of how household debt is capable of producing such major financial catastrophe. Evidence also dictates that the severity of each crisis, in terms of the decline in consumption, is directly associated with the level of household debt [1, 2, 3].

Given the big role of overleveraged households in an economic crisis, various explanations have been offered to account for escalating household debt. An attempt has been made to comprehend the development and seek possible policy recommendations that could restrain excessive household borrowing. This includes an argument that blames economic conditions, such as unequal income distribution, stagnant wages and relatively low interest rates. Another argument blames the growing culture of consumerism.

In this paper, we offer a theoretical account of the increase in household debt using the Islamic economic approach. Islamic economics offer complete guidelines on debt and financial management. What led to excessive household debt and the resultant economic catastrophe, is due to violation of Islamic principles in debt and finance, by both the demand side (household) as well as the supply side (financial institutions). Some insights are offered into how adherence to Islamic principles and debt management philosophies could possibly avoid over borrowing and over lending, including associated negative consequences. In a broader sense, household debt management is another premise where Islamic economic principles would have a positive impact on the existing problematical financial system. The repeated instances of economic crisis due to household debt are clearly a failure in addressing structural problems. Hence, the practices of financial systems need a complete overhaul and the teachings of Islam offer viable suggestions.

The following section will explore the nature of debt according to the teachings of Islam. A possible explanation on the burgeoning of household debt, from an Islamic perspective, is discussed in part 3. Section 4 concludes with suggestions for financial stability in future.

Household Debt: Islamic Economic Perspective: Islamic economic perspective offers a complete and holistic explanation on what underlies the recent build-up in household debt. The teaching of Islam has underlined rules and principles for economic management including

Corresponding Author: Roza Hazli Zakaria, Faculty of Economics and Administration, University of Malaya, 50603, Kuala Lumpur, Malaysia. Tel: 603-79673615, Fax: 603-79677252.

household debt and financial management. Thus, it is argued that the global experience of household debt is attributed to violation of Islamic debt management principles. The framework for this explanation centers around the position of debt in Islam, household consumption behaviours, attitudes towards debt and financing for profit.

Position of Debt in Islam: Contrary to the role of debt in mainstream economics, debt is viewed negatively in Islamic household financial management. This is reflected by the word of debt, "*dayn,*" which means "an obligation to be fulfilled." It shows that once a person has submitted himself to debt, he is entrusted with the responsibility to repay the entire amount of debt. The linguistic meaning of the word in Arabic has got something to do with submission and humiliation. Hence, the word debt itself signifies something taboo, unpleasant and should be avoided. The fact that a person has to resort to debt, from Islamic perspectives, reflects weakness on the debtor.

The strong prohibition of debt in Islam is displayed by the Prophet Muhammad's prayer to seek refuge from debt. As narrated by Aisha, Prophet Muhammad used to invoke Allah SWT prayer, saying, "*O Allah SWT, 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 SWT 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.*" from Sahih Bukhari, Book 12, Hadith 795 [4].

The seriousness of the instructions to avoid debt is evidenced by the fact that even a martyr, whose death is associated with great sacrifice for Islam, could be forgiven from all his sins, but not from his debt. It has been reported on the authority of 'Amr b. al-'As that the Messenger of Allah SWT (may peace be upon him) said, "*All the sins of a Shahid (martyr) are forgiven except debt"* from Sahih Muslim, Book 20, Hadith 4649 [5].

The fact that Islam abhors debt does not mean that debt is forbidden altogether. Instead, debt is allowed in Islam in cases where debt is motivated by either the need to fulfill basic necessities or to undertake legal business ventures. In today's world, basic necessities (*daruriyat*) are no longer limited to food, clothes and shelter, but include education, healthcare and similar modern necessities. Thus, the scope of permissible debt under basic necessities has been expanded. Ibn 'Abd al-Barr reported in his book, Al-Tamheed (23/238), the Prophet said, from "*The debt for which a person will be kept out of Paradise - and Allah SWT knows best - is that for which he left behind enough to pay it off but he did not leave instructions to that effect, or he was able to pay it off but did not do so, or he took the loan for some unlawful or extravagant matter and died without having paid it off. As for the one who took a loan for something lawful because he was poor and he died without leaving behind anything to pay it off, Allah SWT will not keep him from Paradise because of it, insha Allah*." This quote from the Prophet reveals that debt is strictly an obligation that has to be repaid and strongly forbidden to support luxury consumption. Debt is allowed in cases of basic needs and extreme poverty, in the sense that debt in this case, per se, would not deter the debtor from entering paradise.

In cases of need, Islam accords a higher status to debt than charity. A person who asks for loan is regarded as having motivation to overcome difficulties since they only ask for a loan and will try to pay back their debt. To this effect, Allah SWT promises greater rewards for giving loans than for giving for the sake of charity. Ibnu Majah narrated, Anas bin Malik related that the Prophet stated, "*During the journey of Mikraj, I saw written on the door of jannah; 'the one who gives charity is rewarded tenfold. The one who gives a loan is rewarded eighteen fold.' I asked Jibrail, 'Why does the one who gives a loan get rewarded more?' Jibrail replied, 'the one who gets charity, they usually possess a small amount already but the one who seeks a loan only does so when he is in dire necessity."* from Sunan Ibnu Majah [6].

Fuqaha' or Islamic scholars, have provided conditions in which debt is considered permissible in Islam. These conditions are when the borrower is determined to honor the debt, is known or thought able to repay it and the debt is for something permissible according to Shariah. The first condition relates to the borrower's attitude. Only the borrower knows whether he or she is determined to pay off the debt. The second condition should be monitored by institutions, such as a borrowers' selection process to determine whether the borrower is able to repay the debt. The third condition should also be monitored by intuitions, evaluating whether use of borrowed funds is Shariah approved.

As for the supply side, the teachings of Islam offer a set of guidance for the creditor, or those who have the means to provide financing. As debt is allowed primarily for those in need, Islam encourages benevolence loans (*qard-ul-hassan*). Benevolence loans are offered in various forms, such as food, gold or money. Money lending is the most relevant form in modern times. According to the teaching of Islam, money lending is a gratuitous contract (*tabarru'*), where the lender does not

have the right to charge any reward (interest) from the borrower. However, it is permissible for the lender to request from the borrower a portion to cover cost incurred to enforce the contract.

Islam also allows debt for business or investment financing. If debtors utilize financing for productive ventures, creditors are allowed to share gains in the form of *mudarabah*, or risk-sharing. However, they are also required to share loses. Creditors are entitled to some portion of the profit as a reward for their participation in financing a risky venture. Islam forbids *riba,* or interest, in both forms of permissible financing. In both structures, *riba* leads to sufferings by the borrowers. In the case of *qard-ul-hassan*, when the borrower has faced difficulties in meeting basic needs, asking for more than was borrowed is a burden. As for business financing, *mudarabah* promises a fair deal since the capitalists share profit if the venture succeeds. In the event of failure, the capitalist would be burdened by additional charges. In short, financing is only allowed for financing basic needs or investment and *riba* is strictly prohibited. Financing is not a channel to generate profits, but for banks to share profits as a reward for their risk-taking by financing business ventures.

In short, debt is a form of financing that is allowed, but not encouraged, in Islam. To households, debt should be strictly confined to accommodate truly basic needs. To those who have the means to lend to others, it should also be with intentions to help those in needs, without expecting extra rewards or for investing in productive activities on a profit-sharing basis. In this context, returns are expected as a reward for willingness to assume risk, with an implied willingness to accept losses as well.

Burgeoning Household Debt from Islamic Perspective: With the Islam's position of debt in mind, an argument arises surrounding the violation of Islamic financial management principles, by households (demanders) and financial institutions (suppliers), as well as by regulators. This breach has led to a dramatic increase in the level of household debt. On the demand side, households violate Islamic consumption guidance and Islamic financial management principles. Households too often ignore the main debt principle, that debt should only be undertaken to finance basic consumption needs. The supply side has a tendency for manipulating household lending purposes as a means to increase income, since household financing is associated with lower risks. The suppliers are motivated to innovate various products to capture borrowers regardless of the riskiness implied. Loans are given regardless of intended purpose, covering extravagant consumption as well as basic necessities. In addition, the adherence of the two conditions that render the debt permissible, which demand strict screening of both borrowers the intended use of funds, is debatable at best. This applies to all financial players regardless of religion, reflecting the universality of Islamic financial management principles and etiquette.

Following is an explanation of how consumption (the demand side) and financing (the supply side) behaviour contradicts the teachings of Islam, therefore changing debt from being taboo to something socially accepted. An argument is made for how a negligent attitude toward household debt and credit is capable contributing to financial catastrophe.

The Demand Side: There are two competing hypotheses regarding why households borrow. Both hypotheses confer to conventional point of views. The first theory claims that households are forced to borrow to support ever-increasing living costs, given the backdrop of the weak labour market and inflation of costs [7, 8]. Evidence dictates households have become more reluctant to borrow to fund consumption; instead borrowing is motivated by basic needs, covering costs of houses and education fees. This premise suggests households use debt as a form of wage substitution, to accommodate basic living expenses. This is due to the fact that wages remain stagnant as costs of living increase. This premise puts the blame on current economic conditions.

The second premise claims burgeoning of household borrowing is a direct consequence of overconsumption, or the *consumerism* phenomenon [9]. Consumerism refers to up-scaling lifestyle norms, such as competing to acquire status goods and the growing disconnect between consumer desires and incomes. This new culture of consumerism, coupled with easier access to credit, especially unsecured lending such as credit cards and instalment loans, has encouraged households to spend excessively; households now overspend on luxury items such as branded toys and apparels, expensive meals, throwing lavish parties and buying vacation packages, without feeling restricted by personal income.

Both hypotheses are supported by evidences. However, the first hypothesis utilizes aggregate data, so its validity in explaining household behaviour is potentially biased. For instance, a study provides compelling evidence to support this hypothesis, showing how American households actually are consuming less than before on items like clothing and food. A major portion of American income is spent on housing loans, health, education and taxes, [8]. This dismisses the claim

that households are trapped in debt because of overconsumption. Debt is instead assumed to accommodate basic necessities.

On the other hand, the second premise is supported by empirical evidence from various household surveys that aim to explain what determines household indebtedness levels. Many researchers report income is not a significant predictor of debt. In other words, there is no evidence that income determine levels of household debt [10-14]. However, level of household indebtedness is related to income [15-18]. Given that debt levels and income are positively related, it can be assumed that debt is being taken for convenience and luxury financing rather than meeting basic needs. Should debt is confined to only financing basic needs, the lower income group would have higher debt levels. Another set of evidences show the level of debt is negatively associated with the number of children [14, 16]. Again, should debt is treated as a means to accommodate living costs, number of children should be positively related to debt levels. Together, these indications suggest that debt is not motivated by cost of living.

In addition to that, those studies share another important conclusions; it is the attitude towards debt that matters most in explaining household debt level. Those with higher debt levels are those who are pro-credit, in the sense that they think credit facilities are useful, convenient parts of modern life. With these thoughts, being in debt is considered normal and not something to be ashamed of. Household become more comfortable using credit to purchase luxury goods, rather than saving for purchasing them. Although those surveys involved only Western communities, but it is assumed that financial behaviour is universal. We can see that society's attitude towards debt has deviated away from Islam's attitude towards debt. Islam abhors debt and treats being in debt as something to be ashamed of by equating debtors to prisoners, as the Prophet (peace and blessings of Allah SWT be upon him) said, narrated by Abu Dawud, *"Your companion is being detained by his debt.*" [19]. Furthermore, according to Islamic debt principles, debt should be a last resort used only to finance basic necessities. This is inferred from Prophet's Muhammad saying as narrated by Abu Dawud, *"Whoever asks people for money when he has what is sufficient for him is only asking for more of the embers of Hell." They asked him, "O Messenger of Allah SWT, what is sufficient so that he does not have to ask for more?" He said: "Having enough to eat lunch and dinner."* [19]. Being tolerable towards debt clearly contradicts Islam's attitude towards debt.

Closely related to debt are consumption patterns and ethics. Conventional economic theory claims consumption is a function of permanent income. It is shown that household consumption patterns are determined by standard consumption norms, which in turn indicate the consumption level of the average household with median income or earning per capita income. Those earning below per capita income strive towards achieving similar consumption standards. In addition to that, household consumption decisions are highly influenced by factors such as emulating others and demonstrating social worth. In these cases, convenience financing such as credit cards result in overspending. There are few empirical studies that support the claim that conspicuous consumption behaviour has led to an increase in consumer borrowing, [20, 21].

Various researches has examined the link between personality traits and shopping behaviour, with consumption and attitude towards debt. For instance, [14] find debt levels can be explained by whether one finds pleasure in spending. Another study, [22] reinforced this hypothesis by offering empirical support that the degree of materialism is an important factor in determining attitudes towards debt. The more materialistic a person is, the more likely he is to have a positive attitude towards debt. Another study provides evidence showing those in debt regularly purchase items a household could do without, such as Christmas presents for kids, branded toys and branded apparel, [23]. Altogether, these findings support the theory that burgeoning household debt is related to wasteful spending and consumerism - a culture of spending not because of needs, but due to a desire to express social status or emulate others.

These consumption patterns are in clear contrast with Islamic teachings. In Islam, consumption is not an end, but a means to an end. Consumption is an economic activity of religious duty, showing faith to Allah SWT, in order to achieve glory, peace and prosperity. Income should be spent either for necessity or charity. The principle of consumption in Islam is summarized into five pillars that are, halal, economization, avoidance of an extravagant life, avoidance of debt and avoidance of stingy and ungenerous manner, [24]. Another scholar include moderation as one of the important principles of consumption in Islam, [25].

Supply Side: Equally responsible in the burgeoning of household debt is the easy and flexible financing by financial institutions. A study provides empirical evidence stating there was a supply shift in credit that supported the recent credit boom, [26]. Greed for profit motivates

financial institutions to increase lending and financing. Using the funds deposited by the customers with surplus funds, financing has become a way to generate easy profit without undertaking risk. The prospect of generating more profit by issuing more and more loans, coupled with greed, has resulted in excessive credit being advanced.

Islamic teaching does not ban lending or financing. However, it provides guidelines on proper financing to ensure that it is not manipulated as a means to generate profit from those in need. In Islam, supplying financing is a way to seek Allah SWT's blessings in the sense that financing is an act of virtue; that is to help those in need. At the heart of Islamic banking principles are the requirements that financing must be motivated by determination to help the needy, or to take part in productive ventures by supplying needed funds.

There are certain principles that must be adhered to by financial suppliers. It is a basic Islamic principle that *riba* (interest) is strictly prohibited. This is motivated by trying to avoid the rich, or those with excess resources, to exploit the poor or the needy. The concern is for the well-being of the poor. Looking at world economics, "interest" serves as an agent that distorts the mechanism of income distribution. Output should be allocated in such a way that the most productive factors of production receive the higher portion of total aggregate output. This includes the willingness of factors to assume risk in certain productive activities. However, a system that is based on interest allows those with excess resources to receive returns while being idle. For instance, those people with hefty initial endowment in the form of inherited money would then receive income consistently without any productive contribution to production activities. Given fixed output, a portion goes toward unproductive factors, meaning other productive factors have to receive less. This is occurring all over the world today. Factors of production are controlled by those who are passive; yet they are receiving higher and higher returns. Income distribution has become progressively more and more uneven. The heterodox theorists have demonstrated how unequal income distribution has assumed an important role in explaining the recent burgeoning of household debt, [27, 28].

Interest has also resulted in financial institutions getting greedier. Money is used not as the medium of exchange, but as an object to earn income. In the money lending business, interest serves as the price for risk. Borrowers with lower risk - stable incomes, good payment records, are charged lower rates of interest. Borrowers with higher risk - unstable incomes, bad payment records, are imposed with a higher rate of interest. Since profit is the motivation that underlies financial institutions' financing decisions, discriminating against borrowers with various levels of interest rates have distorted banks' lending decisions. Institutions favour subprime borrowers because they can charge higher rates, hence generating greater profit.

Financing activities not only violate the Islamic principle where riba is concerned, but also the second condition outlined by *fuqaha*'. This states that in order for financing to be permissible, it should be known or thought most likely that he is able to repay it. Borrowers must be subjected to strict screening procedures, particularly regarding their ability to repay debt. However, in the case of subprime financing, institutions more often than not are pessimistic on the ability of borrowers to complete repayment. Some scholars even claim that this type of financing is done with the anticipation that these borrowers would ultimately default. Banks do this to earn profit, partly from high interest rates charged and from the collaterals.

Current banking activities are intertwined with what is strongly immoral according to the Islamic finance principles of *riba*, *gharar* and *maisir*. *Gharar* and *maisir* refer to the sale of items whose characteristics are not certain, due to the risky nature which makes the trade similar to gambling. In short, it translates as risk and uncertainty. The characteristics of *gharar* are observed in the case of household lending. Conventional financing involves floating interest rates. Hence, the total amount of loan and its repayment fluctuate wildly. Research have reported that during the recent financial crisis in the United States, default and foreclosure rates on fixed interest rate mortgages did not rise much in 2007 and 2008. This was true for both prime and subprime loan borrowers. In contrast, the default and foreclosure rates on adjustable rate mortgages soared during 2007 and 2008 for both prime and subprime loan borrowers. A similar trend was observed in Malaysia during the East Asian financial crisis of 1998 where a sudden rise in non-performing loans was attributed to an increase in interest rates. The increase resulted in an increase in loan repayment, adversely affecting borrowers' ability to repay debt.

Banks manipulate financing as a means to generate excessive profit has been supported by the environment of low interest rates since 2000. Low interest rates have been prevalent all over the world since then. The objectives of achieving higher economic growth and encouraging investments have prompted governments to keep interest rates low. This period was also characterized by increased financial and economic uncertainty. Banks

have manipulated this situation by increasing lending and financing to households instead of encouraging business investments to reduce risk involved. Thus, the lower interest rate did not result in an increase in investment and the predicted long-term impact of growth. Instead, it has resulted in high levels of household debt and a boom in consumption, without having a long-term impact on economic growth.

Should Islamic financing principles be adhered to, banks would only be allowed to support business financing on profit-sharing basis. Banks would not be motivated to extend consumption loans, if interest is prohibited. Risk sharing in business ventures would motivate banks to strictly screen investors and projects and also to closely monitor projects once financing has been disbursed. Together, this would ensure banks to operate ethically, promoting a more secure financial environment.

The ability of Islamic finance to contribute to vibrant economic growth is evidenced by S.D. Goitien's work. In his book, *The Unfolding Truth, Volume Three: The World of Commerce and Finance,* he claims that between 900AD - 1500AD, in the Mediterranean region, during which commerce was thriving, the underlying financial system obeyed Islamic financial principles. Interest was shunned and of little significance. The only norm of contracts used in investments was similar to *qirad* or *mudharabah,* which is the Islamic practice of venture capital. This represents an important piece of evidence that an economy that adhered to Islamic economic principles has flourished.

In summary, charging interest has led banks to become increasingly motivated to use customer's excess deposits as a vehicle to generate profit. Greed has motivated excessive financing to households, without adhering to strict borrower selection processes. In addition to that, banks have devised plans to make financing look affordable, offering lower initial payments and floating financing rates, encouraging risky borrowing. This has managed to make financing affordable to more households, expanding the pool of banks' credit users.

When Households Overborrow and Banks Overlend: Collectively, burgeoning household debt resulted from ignorance of Islamic principles of debt management by all the parties involved. Mismanagement of interest rates by the authorities sparked a negative cycle. Lower interest rates, initially aimed to boost further economic growth, created misleading incentives for households and financial institutions. Household experiencing a rise in income were encouraged to borrow more. This cycle has led to a change in society's opinion of debt. The modern household is tolerant towards debt. Many prefer using credit as a means to purchase not only big ticket items such as residential property and cars, but also to finance luxury items. In addition to that, consumption norms have increased. Household consumption is no longer a function of income, but a function of social status and expected future income. This has led to excessive borrowing and the fact that future income determines one's ability to borrow, leaving household susceptible to defaults caused by unwarranted circumstances such as joblessness or illness.

Debt has increased households purchasing power. This has led to an increase in demand, particularly the property sector. This is followed by an increase in demand for residential property, which resulted in a hike in cost. Households in turn required more financing to purchase homes. What is detrimental in the long term is an increase in prices due to demand that potentially deviate the real underlying value. In the event of default, banks face difficulties retrieving the amount borrowed because of inflated prices.

While households have exploited the economic condition by maximizing the use of credit, banks have manipulated the situation to maximize profit. Various financing structures were designed to increase the pool of borrowers. Being aware of the fact that some borrowers are more risky than others, they opted to extend financing to high-risk borrowers to collect higher interest rates. All of this has resulted in the current situation of huge household debt. This phenomenon would not exist had Islamic principles of debt management been adhered to.

Households could improve the situation by only resorting to credit for basic needs. These might include house mortgages, cars, health expenditures and education fees. This means it would be based on current income, for the purpose of fulfilling basic needs and in moderation, instead of based on expected future income, influenced by positional concerns and to make extravagant purchases. To a certain extent, this would keep expenses to a minimum. Unsecured lending, such as personal financing and credit card purchases, should also be limited to necessary expenses. The resulting household debt level would be more tolerable. In the event of unforeseen circumstances, spending levels could remain constant without putting households in a position of having too much debt to repay. Moderation in spending and consumption could manage demand, hence keeping prices relatively stable. Thus, goods would become more affordable for all.

On the other hand, with interest-free banking, financial institutions will no longer have the motivation to extend excessive financing. Financing undertaken would be in the form of profit sharing. Given that banks would share the risk involved, they would be motivated to carefully screen potential borrowers and the projects involved. Banks would not relax lending requirements, as this could adversely affect them. This would ultimately ensure that financing is only channelled to productive sectors or ventures and credit standards would remain high. In regards to funding everyday purchases, banks would be more careful in extending loans, since extra fees for late payments or defaults would not be allowed. Borrowers would be subjected to stricter income requirements and receive lower credit limits. This would discourage borrowers from asking for financing or utilizing financing for unnecessary expenses.

Overall, consumption would be lessened as a result of supply restriction as well as a more disciplined and controlled demand. At the same time, investment in productive businesses would increase, as this would be the only option for banks to generate profit from lending money. This would include a willingness to undertake the risk associated with financing. Financing growth would be more moderate, but justified by a more stable and sustainable economy. The reduction in consumption would be accommodated by an increase in investment financing. More importantly, investment financing could generate future income for the economy while consumption never would.

CONCLUSION

This paper seeks to explain the recent build-up in household debt according to the teachings of Islamic economics. The basic differences in the principles of debt between Islamic finance and conventional finance are discussed; this explains why and what underlies, the unwarranted development of household debt.

From the demand side, Islam abhors debt. Debt is regarded as the last alternative to finance basic needs. In contrast, conventional economic theory embraces debt as a tool to increase household welfare by allowing households to smooth consumption over time. Conventional thinking leads people to believing credit is a useful tool to maintain spending levels, without preparing for future fluctuations in income. This basic difference has led to a significant difference in attitude regarding household debt management.

As for the financing suppliers, Islam prohibits using credit as an avenue to create profit, as reflected in the basic premise of Islamic finance, the prohibition of *riba.* This prohibition curbs financial institutions' aggressiveness in lending especially consumption loans that could not generate returns. On the other hand, interest is at the heart of conventional banking operations. Banks become aggressive in recruiting risky borrowers to maximize profit from interest charges and default fees.

The consequences from the two different principles are the most important issues at hand. Conventional financial practices and ethics have recently resulted in overextended, vulnerable households, with increasing bankruptcy rates. A failure of the financial system has been caused by high default rates. Islamic financial and debt management principles look promising, providing implicit mechanisms that could restrain the growth of household debt. This includes prohibition of *riba*, requiring banks to lend responsibly and leading households to only borrow in cases of true need. Limited financing availability and prudent household spending would ensure more reasonable levels of household debt. Adherence to Islamic financing principles promises to curb excessive growth of household spending and borrowing and offers sound solutions to eliminating the disastrous effects of traditional banking practices currently being experienced world-wide.

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