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THE INTEREST RATE AND THE PERIODICITY OF CRISES IN THE CAPITALIST ECONOMY

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ABSTRACT

Different economic systems are originally cognitive systems that reflect the way people think about the problems of life. Capitalist economics books have always identified this problem in accordance with the principles of utilitarianism, and from there the definition of the problem that becomes the intellectual and scientific basis for facing the problem is that it is: (scarcity of resources) versus unlimited needs of people. In it, which causes us to try to reformulate economic theory cognitively, based on a correction from the concept of the economic problem, or makes us, at least, question one of the pillars of the capitalist system, which is the interest rate·

Keywords: Interest rate, capitalist, utilitarianism etc.

I. INTRODUCTION

Different economic systems are originally cognitive systems that reflect the way people think about the problems of life. The economic perspective is the contradiction between people's needs and the resources available to them. Capitalist economics books have always identified this problem in accordance with the principles of utilitarianism, and from there the definition of the problem that becomes the intellectual and scientific basis for facing the problem is that it is: (scarcity of resources) versus unlimited needs of people. This capitalist definition of the economic problem cannot be considered a scientific opinion, but rather a doctrinal proposition. Economic systems do not agree in its definition of the economic problem if Islam considers it, for example, in this aspect of demand, i.e. in the human being itself and not in the supply side (natural resources).

The scientific reality of the global economy under the capitalist and socialist doctrines did not achieve the optimum distribution or effective allocation, which is what happened with the Soviet socialist system (whose collapse constitutes a sign of the greatest evidence of its failure) and speaking to the contemporary capitalist system, which is characterized by periodic crises whose view is one of its related features. In it, which causes us to try to reformulate economic theory cognitively, based on a correction from the concept of the economic problem, or makes us, at least, question one of the pillars of the capitalist system, which is the interest rate(1)

II. RESEARCH IMPORTANCE

The importance of research is evident in the fact that it deals with the economic problem, its roots and causes, which are the basis of the way of thinking in seeing the problems of life, and the problem in the economic perspective is the contradiction between the needs of people and the resources available to them, and capitalist books of economics have been defining these problems in accordance with the principles of utilitarianism.

Research objective
The research aims to investigate the essence of the economic problem, which is the intellectual and scientific basis for facing the problem that is the scarcity of resources versus the unlimited needs of people, even though economic systems do not agree in their definition of the economic problem.

Research hypothesis
The research is based on the hypothesis that the global economy under the capitalist and socialist doctrines did not achieve the optimum distribution or effective allocation, because periodic crises are among the most prominent features associated with the global economic system, which requires formulating economic theory cognitively and taking into account the most important pillar of the capitalist system, which is the interest rate.

First: - The concept of economic and financial crises

The periodic crisis occupies the center stage among the economic crises facing the capitalist economy. It is a direct result of general economic imbalances in its broad sense (disproportion between production and consumption, savings and investment (Keynes), disproportion between the first and second branches of production, i.e. from processing goods and consumer goods (marks), and disproportion between the various branches of the national economy, and ultimately, These crises contribute to finding mechanisms that help increase work productivity and reduce production costs, as institutions in their attempts to get out of the economic difficulties they are experiencing, intensify their search for new types of products and new technologies we use in production (1). Institutions are the basis for renewing fixed capital, raising labor productivity, and expanding production. In this same sense, the crisis is a foundational stage of the economic cycle, that is, the stage that largely determines the course of subsequent development, the main features of the next cycle, and the nature of renewal of fixed capital. From talking about the nature of the economic cycle inherent in the capitalist economy, its characteristics and stages it goes through, and then moving on to talking about the crisis Economic as one of the stages of this course (2).

And the cycle in the capitalist economy is a stage of time that starts from the beginning of a crisis and ends with the beginning of another crisis, passing through four basic stages: a crisis, recovery, and the rise of stagnation, followed by another crisis, and in this way the periodic movement is responsible for charting the path of capitalist development. The main stage in it is a crisis of overflow of production. Every crisis completes the previous cycle, and the accumulated decreases in the course of that previous cycle led to an explosion, paving the way for expansion of production in a new cycle that ends in the next crisis. Based on this, the cycle reaches its climax when the next crisis begins in a new cycle, which is called a crisis of overproduction in general (3).

Often the existence of a financial crisis as a result of the presence of deep imbalances and sudden and severe disturbances in some financial balances, followed by a collapse in financial institutions and their performance indicators, whether with banking institutions (a liquidity crisis, a credit crisis ....) or with the financial markets (the state of bubbles), or at the monetary institutions (the currency crisis and its exchange rate) (4)

There are various intellectual contributions that attempted to define what the financial crisis is, considering it the situation that affects the stock and credit markets of a specific country or group of countries, and its danger lies in its repercussions on the economy, causing an economic crisis followed by an economic contraction usually accompanied by a decline in loans followed by a crisis of cash liquidity and a decrease in investment, And a state of panic and caution in the transactions of financial market (5)

Second: - History of economic and financial crises

Economic crises were in the socio-economic formations that preceded capitalism, as they were previously caused by natural disasters, such as droughts, floods, locusts and other pests, as well as from man-made events, such as wars and raids that were destroying everything and affected the productive forces with ruin, and poverty occurred Severe in people, and famines and epidemics spread, killing many people. These crises, which are called (poor production crises), were caused by reasons that did not stem directly from the essence of a particular production method (3).

Taqi al-Din al-Maqrizi (died in 845 AH) pointed to most of the economic crises that occurred in Egypt over the ages, and identified the most important causes, including what was due to nature (such as the low level of the Nile, the retention of rain, and pests that affect crops) or because of human behavior and behavior as temptations, disturbances, widespread bribery, the high cost of housing, high wages and low value of money (4).

In our time, the recurrence of crises has been a cause for concern and concern. The reasons for this are due to the fact that their negative effects were acute and dangerous, and threatened the economic and political stability of the countries concerned, as well as the spread of these effects and the contagion of the crises to include other developing and developed countries as a result of the economic and financial openness that these countries are witnessing, and their integration into the global trade system (7).

The International Monetary Fund reports that during the period 1980-1997, more than two thirds of the Fund's member states were exposed to financial crises and severe banking turmoil. The frequency of those crises was repeated and chased globally, including East Asia, Russia, Brazil, Argentina, Mexico and the rest of Latin America, and the severity of the damage caused by them increased, as Japan's losses from the recent Asian crisis were estimated at about 10 percent of its gross domestic product, while the losses of the United States About 3 percent. Various reports of the International Monetary Fund confirmed that more than 50 percent of these crises occurred in developing countries and in countries with emerging markets in particular (6) .

The in-depth study of these crises makes us reveal the main reason for their existence, which is represented in exaggerated debts that are not justified by real activity as much as they are based on other activities that help in the growth of these debts that ultimately lead to economic stagnation, low production and high unemployment rates, which makes Governments intervene as necessary to reduce their negative repercussions. Often, this intervention is by pumping large sums to enforce the troubled banking and financial institutions, and the losses that result from this default (5) .

In spite of the existence of the Basel agreement, which sets limits for the expansion of lending, and stipulates that it does not exceed a percentage of the capital owned, and that the banks cannot lend more to a specific percentage of their capital and reserves, which is known as leverage, the control of the central bank is limited On commercial banks, which made what is known as investment banks to continue, without limits, in the lending process, until it reached sixty times the size of their capital, as in the case of (usb) and lyman bank, and this increase in lending is due to greed in obtaining profits Short-term (volume of bonuses), which generates more risks associated with payment (8).

And the matter does not stop there. Rather, financial institutions are devising other ways to increase the volume of lending, including what are called financial derivatives to generate successive waves of financial assets based on a single asset, which is what recently resulted from the real estate debt crisis as a result of the lack of control over intermediate financial institutions Investment banks, mortgage brokers and financial agencies that issue creditworthiness certificates. All these elements joined together in causing crises and losing the element of confidence, and from there there are economic crises (6) .

Third: Causes of the economic recession and financial crises

Regarding the causes of the economic recession crises in all of these breakdowns, the causes were apparently different, but they were involved in a fundamental phenomenon that ends in and then begins to collapse, which is the emergence of a large debt that exceeds the capacity of the economy or the market. It was also in the result that follows that the depression of an economic recession results in a decrease in production and unemployment, the most serious of these problems (8).

The direct causes of the crises of the economic recession are the main contradictions that accompany the capitalist system: the contradiction between increased production and the decline of relatively effective production, the chaos of production, the imbalance and asymmetry, the contradiction between production and consumption, the contradiction between the conditions of production of excess value and the conditions for its realization. All these contradictions arise from the contradiction between the social nature of production and the form of private capitalist tenure, and the contradiction between the productive forces and the relations of production (9)

As for the financial crises, it cannot be attributed to one or two reasons. There are a number of reasons (total and partial) that combine at the same time.

For the events of the financial crisis, the most important of which are (3).
1- Macroeconomic instability:
One of the most important sources of external crises is fluctuations in terms of trade. When the terms of trade decrease, it becomes difficult for bank customers engaged in export-import activities to fulfill their obligations, especially debt service. World Bank data indicate that about 75 percent of the developing countries that were exposed to a financial crisis witnessed a decrease in the terms of trade exchange by about 10 percent before the crisis occurred. And the low

trade conditions were a major cause of the financial crisis in the case of Venezuela and Ecuador, where the heavy dependence on crude oil exports with the small size of the economy and the lack of diversification [(2)].

The fluctuations in global interest rates are considered one of the external sources causing financial crises in developing countries. The large changes in interest rates globally not only affect the cost of borrowing, but more importantly, they affect FDI flows to developing countries and their degree of attractiveness. It is estimated that the direct cause of between 50 percent and 67 percent of capital flows to and from developing countries during the 1990s was fluctuations in interest rates globally, and fluctuations in real exchange rates are the third source of sources of turmoil at the macroeconomic level, which was a direct or indirect cause Direct due to the occurrence of many financial crises [(10)]. Various studies confirmed this fact, and showed that 22 developing countries in South America suffered from disturbances in real exchange rates at a higher rate than any region in the world, including Southeast Asian countries. The study stated that the occurrence of financial crises caused a sharp rise in real exchange rates, as one of the effects of high profits in the foreign trade sector or high local interest rates [(9).]

On the domestic side, there are fluctuations in the rate of inflation that are a critical component of the ability of the banking sector to play the role of financial intermediation, especially granting credit and providing liquidity. The economic recession resulting from price levels was considered a direct cause of financial crises in many South American and developing countries. There are also other negative effects on the levels of growth in GDP, which have had an important role in preparing for the occurrence of financial crises [(8)].

2-Financial sector turmoil
The expansion of credit, large flows of capital from abroad, and the crash of stock markets formed the common denominator that preceded the financial crises in the case of Southeast Asian countries. The financial sector in those countries witnessed a major expansion. The expansion in the granting of credit led to the occurrence of a concentration of credit, whether in a specific type of loan such as consumer or real estate loans, as in the case of the financial crisis in South Korea, or for a single sector such as the government, industrial or commercial sector, as happened in the case of the financial crisis in Thailand. One of the traditional matters in all financial crises witnessed in developing and industrialized countries is a major recovery in loan granting [(4)].

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3-Unsuitable assets and liabilities of banks
The expansion in granting loans leads to the emergence of the problem of incompatibility and matching between the assets and liabilities of banks, especially by not maintaining sufficient liquidity to meet its present and urgent obligations in periods when global interest rates are high and more attractive than interest rates Local. The Honohan (2016, Honohan) study indicated that as a result of technological progress, information processing, and a significant improvement in the regulation of the banking sector, the ratio of (M2) to GDP in a sample of 59 developing countries increased from about 25 percent to more than 35 percent during the period 200 - 2010, without any corresponding increase in the capital of banks in that country. The best example of the phenomenon of incompatibility and matching between assets and liabilities is the financial crisis in Mexico [(7).]

After we touched on the external (international or economic) causes of the financial crises, we will try to address the similar internal (microeconomic) causes, which can be observed in almost every financial crisis.

These reasons can be summarized as follows:
- ❖ Dealing with interest or excessive application, as in the event of an economic depression, the borrower is unable to repay the loan and its interest (financial insolvency).
- ❖ Dealing with the system of trading in debt (securitization), as it leads to excessive creation of influence without cover, and this leads to fake and formalized economic transactions, in addition to dealing with a system of financial derivatives practiced by stock exchanges, including, for example, buying by margin, futures, and options that are adventure in Mostly and bets are not covered.
- ❖ Abandoning the system of covering gold and silver and replacing it with dollars and banknotes, and this has caused inflation through the money creation system.

Unethical practices in economic and financial transactions, including deceit, ignorance, fraud, lying, rumors, greed and bribery (9) .

First: The manifestations of financial crises

Some common features of international financial crises can be mentioned by extrapolating many of them (3)
- ❖ Expediting the withdrawal of deposits from banks because the capital is coward, and this is what the various media agencies have covered.
- ❖ Many financial institutions freeze the granting of loans to companies and individuals, fearing the difficulty of recovering them.
- ❖ Shortage of liquidity circulating among individuals, companies and financial institutions, which leads to a contraction in economic activity - a decrease in the level of trading in the money and money markets.
- ❖ The low level of energy exploited in companies due to lack of liquidity, and the freezing of obtaining loans from financial institutions except with very high interest rates and strong guarantees.
- ❖ Decreased sales, especially in the real estate, auto and other sectors, due to weak liquidity.
- ❖ Increased unemployment due to bankruptcy, bankruptcy and liquidation.
- ❖ Increased demand for social advertising from governments.
- ❖ Reduced consumption, spending, savings and investment rates, which leads to more depression, unemployment, faltering, interruption, liquidation and bankruptcy.

Second: The effects of the financial crises

In general, financial crises are similar in their effects, including:
- ❖ The bankruptcy of many banks, banks and financial institutions *, due to the lack of liquidity and the increase in depositors' withdrawals, and the need for some governments through central banks to save what can be saved so that there is no complete collapse of economic life, and the state falls into the circle of bankruptcy (1)
- ❖ Some companies that were dependent on the formula of financing the loans system with bankruptcy went bankrupt, or some of their production lines were discontinued.
- ❖ Some countries impose more taxes to compensate for the deficits in their budgets due to the high support budget and provide assistance to companies and banks coming to bankruptcy or deposit support or so.
- ❖ Borrowers lose their assets and mortgaged homes due to loans so that they are among the displaced, refugees, displaced persons, the poor and needy (2)

Third: Carrying out and evaluating financial crises

The countries that were exposed to the crises, as well as the theorists of capitalism, sought to try to fix the situation every time. Among the things that have been proposed and done we mention the following:
- ❖ Demanding more transparency in debt products, the most important of which are derivatives (which the world's largest banking regulators have admitted they do not understand as their central banks do not).
- ❖ Demanding more regulation and oversight, and the fact of the matter is that supervision has been expanding and tightening, but on the third world.
- ❖ Establishing new mathematical rules for assessing assets that do not allow them to be amplified, thus amplifying the borrowing on them.
- ❖ Combating the corruption of rating institutions that have suffered serious corruption.
- ❖ Return to the traditional bank credit rules.

- The necessity of imposing controls on the use of the tax funds used to rescue banks and revive the economic situation (credit directly to the elements of the real economy from those who buy homes and vehicles, and loans to operate small and medium enterprises).
- Finally, due to the recent crisis, limited voices emerged that talk about fundamental reasons that must be reviewed (such as using mathematical models), and radical solutions must be considered because a new page started from capitalism and new mechanisms must be found for it - as happened to the Keynesian economy - and writings demanding consideration on the utility of public ownership theory, voices call for a review of privatization.

However, no invitation has yet emerged from the western side in a radical review of the foundations of the capitalist system. From the Islamic side, there were limited voices calling for the introduction of the Islamic alternative, although what happened was a collapse that almost happened in the financial markets - and was temporarily contained - and is expected to be followed by a depression in the real economy that results in widespread unemployment unless it remedies this (it is expected until now to decrease Global growth from 3.7 percent during 2018) and the picture may change for the worse. As for the cost of the intervention, it was estimated at 10 percent of the gross national product of America and Europe (11).

By touching on the definition of crises, their causes, manifestations, effects and procedures for dealing with them, we have noticed that the rate of interest (whether due to fluctuations or high spikes) has had a great impact in exploding crises or exacerbating them, due to the banks and capital owners seeking to achieve imaginary benefits (greed), The gap between the real and the cash economy on the one hand is multiplied, and the money escapes from the real economy (direct investment) towards the financial market (speculations) on the other hand, which leads to the emergence of crises (it is possible to return to the causes of crises, according to Marx and Keynes). Also, the high interest rates and the lack of liquidity due to the capitalists continuing the benefits of the prolonged depression and thus increasing their effects on the real economy (reducing production and the appearance of high unemployment) (12)
.

The interest rate adopted by banks is a cause of stagnation in the economy. Economists have called for a long time ago the need to reconsider the modalities and application procedures, if not transfer the abolition of the interest rate entirely. Aristotle was among the first to consider interest against nature, and obtaining a fortune in exchange for lending it to interest is an idea that Thomas Aquinas was convinced based on Aristotle's sayings and the teachings of the Church (13)

As for merchants of the seventeenth century, they attacked the interest and the release of moneylenders out of the interest of commercial capital, and if they justified this by following the directives of the clergy and the church (14)

Adam Smith during the nineteenth century, and despite adopting the idea of (let him do let him pass) (economic freedom), had called for a ceiling on the rate of interest on loans, which made the pioneers of the classic school adopt the idea in establishing measures to control interest (12)

Interest formed the cornerstone of John Maynard Keynes (the Keynesian School) in the wake of the Great Depression (1929), as he considered it a cause of this crisis. He devoted a wide area to it in his writings, which at the time (1936) were considered a wealth in economic analysis, and Keynesians and critics followed him (10)

Generally, even if the views differ on how to address the interest that everyone considers a reason for the existence of economic crises, loans with interest constitute an economic problem due to the dwindling of the original debt over time in relation to the interest calculated on it, and the inability of individuals, institutions and states to pay becomes a possibility in most cases In the cause of the debt repayment crisis, which creates imbalances in financial balances, and thus a real financial crisis, followed by an economic crisis (11).

As for from the point of view of Islamic law, the matter is clear in prohibiting interest based on the book of God and its Sunnah, and it has been termed interest (usury) as stated in the verses and hadiths, and the majority of Muslim scholars agreed that usury is forbidden as a cause of economic crises, and the cost and deviations that follow Financial and economic stagnation, through the control of usurious activity in the course of the movement of money invested in consumer and capital areas or through part of the funds and to prevent their participation in the commercial and investment activity according to the hoarding process(10) .

The Islamic economy is governed by the principles of fairness in distribution, social solidarity, fighting all forms of monopoly, exploitation and corrupt sales, devoting enough efficiency, sharing in profit and loss, adopting good loans, sanctifying work and permissible earning, and prohibiting forbidden gain and fraud. All these principles are capable of solving these crises in the capitalist economy (12)

Therefore, and pursuant to these principles that play a major role in preventing the recurrence of the global economy's exposure to shocks and crises, banks must stop selling debts, as the Messenger of God (may God bless him and grant him peace) forbade him: "selling agents with agents" and stopping their scheduling based on the principle (Money does not generate money), as well as stopping the sale on the margin, which is adopted by usurious banks as a tool of financial derivatives (selling what you do not own), and stopping the creation of money for the purpose of lending twice as much of their deposits in addition to preventing dealing in lending against bonds and ceasing Using investment instruments as a financial tool to finance governments and companies, preventing all forms of monopolistic practices and interest-bearing loans, and avoiding buying risks(14) .

III. CONCLUSIONS

- The financial collapses that are followed by economic collapses have been repeated in shorter periods and are increasing in size and impact, and many commentators have agreed in the recent period that the cause of the problem in short is (greed) which has been frequently reported but attached to the leadership of the global knowledge system.
- The financial and economic crises in the capitalist economy were concentrated funds with the same class of speculative capital owners, and that all the money that was pumped into different economies was directed to the same hands.
- The emergence of a large debt that exceeds the capacity of the economy or the market, which caused the depression of an economic recession resulting in a decrease in production and then significant unemployment, and unemployment was considered the most serious of these problems.
- The most important causes of financial crises are the main contradictions that accompany the capitalist system, namely the contradiction between increased production and the decline of relatively effective production, chaos of production, imbalance, inconsistency and inconsistency between production and consumption, and the contradiction between the conditions of production of excess value and the conditions for its realization.

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