

Building Genuine Islamic Financial Institutions

Lecture delivered to students of Islamic Finance from
PIDE and QAU

Capitalism Versus Islam: Conflicting Spirits

- Common Misconception: Islam=Capitalism+Zakat-Interest
- Based on Capitalism VERSUS Communism debate.
- Different Notions of Private Property.
- Spirit of Capitalism: Pursuit of Wealth as end in itself (Weber)
- Spirit of Islam: Spending on Others – Infaq.

History: The Great Transformation

- Bible: “Love of Money is Root of all Evil”
- Bernard Shaw: “Lack of Money is the Root of all Evil”
- Social acceptability of pursuit of wealth, and accumulation, and even ostentation, led to emergence of Banks
- Shylock the Jew – Shakespeare
- Ebenezer Scrooge – Dickens

Functions of Banks

- Encouraging Saving & Hoarding.
- Pooling money for investors – thereby transferring wealth from poor to rich.

Islam prohibits BOTH of these functions:

- Those who accumulate wealth and do not intend to spend it for Allah are accursed.
- Money should circulate freely, not concentrate in a few hands.

A Paradox of Islamization:

ARE BANKS NECESSARY?

- Yes: within a Capitalist System
- No: If you change the system to an Islamic one.

False Assumptions about Humans:

- Human beings “maximize utility” – assumed by neoclassical texts. REALITY: Humans are often generous & cooperative. Social norms are created by training & education. [Descriptive Failure]
- “Greed is Good” – selfishness, hoarding, accumulation of wealth leads to welfare. REALITY: generosity and cooperation, a big heart, leads to happiness. [Normative Failure]

Islamic Understanding of Humans: Sophisticated & Complex

- Human beings have simultaneous tendencies towards good and evil. (We have shown him the two highways: of good and evil – hadainahun najdain).
- Free choice between the two – influenced by many factors including environment, culture, etc.
- Islamic problem: How to encourage humans to make good choices, and prevent them from making bad ones. GOAL: Intervention, NOT description.

Bank VERSUS Waqf

- Banks express spirit of hoarding, accumulation
- Waqf expresses the spirit of spending, giving to others.
- Banks have led to situation where top 100 individuals have wealth more than the bottom billion. Massive and increasing income inequality & injustice.
- WAQF were the heart of social fabric of Islamic societies. 1/3 of Ottoman registered land registered as Waqf. Did massive social service in all dimensions.
- KEY Intention: Service for the love of Allah

Replacing Banks

Keeping Wealth Safe:

- Dar-ul-Amanah – TRUST – Al-Ameen.
- Problems: nature & value of money.
- Solutions: REAL indexation – Innovations needed.

Trade & Investment with Wealth

- Investment Banks: Currently exist, and can be Islamized with minor modifications.

Savings must be purposeful

- Savings for Hajj: Tabung Hajji
- Savings for House: Building Societies.
- Saving for Automobile: Motoring Clubs
- General Purpose Accounts – need special & careful handling.

Purpose of Institutions:

Create cooperation, generosity, trust

- **The Idea of Usury: From Tribal Brotherhood to Universal Otherhood by Nelson**
- **Qarz-e-Hasna and Islamic Microfinance**
- **Takaful and cooperative taking care of each other in times of need.**

Bold Steps Needed by Muslims

- The Prophet SAW brought a revolution to the world, and changed the course of history.
- Prophecy: Deen came as a stranger, and will soon become a stranger.
- Today, Muslims have Parliaments/Democracy not Khilafa/Shoora. Western Laws/Courts, Not Sharia/Qazi. Pay for Schools, not universal education, social rites and norms of alien cultures, not Islamic. Trade and Business follow Jews/Christian, not Islamic laws. RADICAL change needed for Islamic Institutions – not minor modifications to existing ones