

Book Review

Murat Çizakça:

“Islamic Capitalism and Finance: Origins, Evolution and the Future”
INCEIF, Kuala Lumpur, Malaysia

Edward Elgar, 2011; Cheltenham, UK; Northampton, MA, USA

ISBN: 978-0-85793-147-4; Pages: xxxiii + 323

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The title “*Islamic capitalism and Finance*” is apparently an irksome addition, as the author himself views, to the emerging literature on Islamic economics and finance because the term ‘capitalism’ is generally associated with the industrial capitalism of the West and the Europe embedded with the evils of exploitation, *riba* and *gharar*. But the learned author has successfully defended suitability of the title. The characteristics of Islamic system, namely, the property rights protection, emphasis on free market, modified profit maximization and competitive pricing, sanctity for enforcement of the contracts and emphasis on good governance make it closer to the term “capitalism”. Besides, many rules, institutions and laws of the medieval Western European economy which formed the nucleus of the modern Western capitalism later, have been borrowed from the Islamic world.

The book focuses on principles as enshrined in the classical sources of Islam and their implementation and objective analysis of the evolution of institutions for implementing these principles. It is basically an historical description of Islamic economics and finance, but owing to author’s life-long research, “the grand economic design laid down in the classical sources of law was capitalistic” he captioned it as “***Islamic Capitalism and Finance***”. It has been written with a novel idea in mind that Islamic system dealing with economic aspects of human beings fits best in the jargon of the nature for benefits of the individuals as well as the society - A unique type of system, that was evolved by the merchants including the Holy Prophet of Islam Haḍrat Muhammad (pbuh), the Pious Caliphs, the

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Companions, the jurists and the Islamic philosophers like Shatibi, Ghazali, Ibn-e-Khaldun and many others.

The offered system respects property rights and free trade, applies the principle of market economy and wage rate and treats interference in the market as transgression and sinful. No maximum limit has been imposed upon the profits a Muslim can generate, provided the profit is earned through legitimate means and keeping in view Islamic ethical values with full disclosure and free consent of the other party to the contract. Besides, the mercantile concepts have been transferred to the religious sphere and the honest merchants exalted to join the ranks of the martyrs on the Day of the Judgment. Capital accumulation is given sacred status in a way as for performance of pilgrimage and payment of *zakat*, two of the five pillars of Islam. Charity and establishment of *waqf* to finance the needs of the fellow Muslim have also been exalted. "I have no qualms about calling this Islamic economic system as such, even though this term is so closely associated with Western experience", says the author (P. xv).

Thus, according to the author, there are two capitalist systems: Islamic and, its follower with a lag of 200 to 450 years, the Western European Capitalism, the both had much in common, most significantly, both applied prohibition of interest. But as a result of the 'Enlightenment Movement' nearly all the values preached by the Church were discarded. Hence, "uncontrolled profit, exploitation of labour, in short, all the tenets of the new and ruthless form of capitalism, the modern Western capitalism, came out of Pandora box" (P. xxi).

As regards the development of Islamic capitalism, there was a gradual divergence from the Sunnah of the Prophet (pbuh), as the author contends, which represents the origin of Islamic capitalism. He has categorically indicated three main divergences: One, Omar the Second Caliph (ra) changed the pure private land ownership system to subordinated state ownership, although by referring to a verse of Holy Qur'an; and two, Ibn Taymiyya introduced the concept of fair prices – practiced by the majority of the merchants in the market, in place of competitive prices; and three, internal taxes, while the Holy Prophet had abolished all internal taxes to encourage the trading business. The Ottoman economic doctrine resulted in the most radical divergence which, as expressed by the author, has 'dubious honour of succumbing to Western capitalism first, even before Soviet Socialism, although it is still important being a rich archival evidence for functioning of a major Islamic state (Pp. xxiii, xxiv). Further, the wisdom of pre-Islam civilization and many pre-Islamic institutions were incorporated into Islam and Islamic jurisprudence. This way, the

Muslim scholars captured the combined wisdom of Rome, Iran and India and expanded it considerably further.

Hence, the author has forcefully defended the title of the book on the basis of entrepreneurial history and institutional approach. He has indicated the closest to nature kind of capitalism to add to the two kinds of capitalism (authoritarian as in China and Singapore and the 'democratic' as in the US) as mentioned by Robert Reich, former US Secretary of Labor and a Professor of Economics at the University of California. In this system, capital accumulation and religion are intimately fused and inseparable.

Historically, availability of sufficient stock in money form seemed to pose an economic problem, but it was solved within a very short time after the revelation. "The solution was so definitive and money became so widely available that even Europe was re-monetized thanks to Islamic coins" (P. xvii). *[It is possibly because Islam encouraged trading while it was considered a lowly profession in the Roman civilization, industry was slave driven; the god of traders, thieves and bandit was Mercury; and even in Christianity; money was kept in the temples for safety and not invested in trade (Henry Poston: Cambridge's Economic History of Europe)]*. Statistically, the author has estimated that the capitalistic commercial sector of the classical Islamic economy probably constituted some 90 per cent of the total economy. He is of the view that the Islamic world should rediscover its 'original capitalism established by the Prophet himself' (P. xxiv).

Islamic finance, as a part of the economic system, refers to a whole spectrum of financial activities that, however, does not include banking in the Western sense. Although a host of financial activities practiced by the merchants as a part of their business existed, but specialized institutions, as we know them today, focusing entirely on financial transactions, cannot be observed in medieval Islam. Two types of activities were there: financing the entrepreneurship by way of various kinds of *shirkah* and transfer of funds across time and space. Such institutions were so successful and strong that they were copied by the Europeans.

Modern Islamic finance is built upon three sets of institutions namely that of classical Islamic capitalism, Western Capitalism (pre- and post-Enlightenment) and the Ottomon Proto-quasi-socialism. The author opines that Islamic financial system is as old as Islam itself and not only 40 years old as generally believed in the present Islamic finance circles. There is a gap with regard to development of jurisprudence on Islamic finance from

the end of the Eighth century to 1960s – nothing of any significance happened in Islamic finance. But the ‘conventionalization’ appears to have emerged as the greatest danger to modern Islamic finance as it may result in mere imitation of Western finance and as quoted from Prof. Zubair Hasan, jurists sitting on the Sharī‘ah boards share much of the blame. Islamic finance as of today has deviated from original concepts as envisaged by its founders, the most prominent late Dr. Ahmad Al-Naggar, replacing partnership modes on assets side by *murābaha* in the early days (1980s) and recently on the deposits / liabilities side that also is being increasingly transformed to modes other than *muḍāraba* (P.133).

One purpose of the book was to reduce institutional borrowing, while linking the past with the present and the future, only to the most essential, so as to preserve the authenticity of Islamic economic and finance. Hence, the author has made an effort to intertwine the past, the present and the future of Islamic economic and financial system that emerged one thousand years before Adam Smith. He examines whether classical Islamic capitalism, which has served Muslims so well for centuries, can provide a viable alternative world economic system. If Islamic finance is to emerge as a viable alternative, its nature and systems must be well understood. He has also objected to the conventionalization of the 1500 years old system.

The book has been arranged in five parts:

- Part I on the VALUE SYSTEMS BEHIND INSTITUTIONS, comprising two chapters discussing the approaches to Islamic economics and finance, and basic principles of Islamic finance; Chapter 2 introduces basic ‘Axioms’ of Islamic capitalism including interest prohibition, competitive prices and profits, free trade and exchange, distribution of wealth and inevitable income inequality, property rights, honesty in work and the pilgrimage. (A case study on pilgrimage finance is given in Part IV, Chapter 12).
- Part II on HISTORICAL INSTITUTIONS OF PRIVATE ENTERPRISE - CAPITAL ACCUMULATION comprising three chapters covering discussions on Medieval Islamic business partnerships for financing the entrepreneurship, evolution of medieval Islamic business in Islamic world and the West, and the commerce and commercial institutions; But the introduction of *murābaha* in the chapters on commercial business partnerships (3 & 4) seems to be misfit. Chapter 5 discusses Islamic approach to trade and the institutions that emerged as per principles of the

Sharī'ah. While barter trade discouraged, the monetised trade was encouraged. International trade strongly developed that necessitated a whole spectrum of new accounting and financial instruments. The institution of *Imtiyazāt* or 'capitulation' facilitated trade across the Mediterranean. It means a sort of agreement or treaty between the governments conferring the privilege of extraterritorial trade activities and security for the traders across the borders.

- Part III on HISTORICAL INSTITUTIONS OF CAPITAL REDISTRIBUTION AND PUBLIC FINANCE comprising two chapters on obligatory and voluntary distribution of wealth, specifically discussing *zakah*, modern *ṣukuk* and *waqf*, respectively; Chapter 7 dedicated to *waqf* provides valuable information particularly on cash *waqf* of and the *waqf* of stocks. The author has tried to answer the question: weather we can envisage institutions that can accommodate profit motive and serving social goals within the same framework? Besides, a variety of taxes, securitization, *riba* in public finance and the difficult issue of public borrowing by the state have been discussed in detail. Various institutions for tax and fund raising by the state discussed include *Iqta'*, *Timar*, *Iltizām*, *Malikâne* and *Esham*.
- Part IV on ISLAMIC CAPITALISM AND FINANCE TODAY comprising five chapters on *waqf* of stocks, birth and evolution of modern Islamic banking, borrowing from the public through *ṣukuk*, *takāful* and financing the modern pilgrimage; Chapters 9 and 10 contain crucial discussions on the way Islamic finance has evolved over last four decades and the *ṣukuk* as instruments for public borrowing. Commodity *murābaha*, *bai' Bithaman al ajal* (BBA), so-called 'Sharī'ah Conversion Technology', reserves for smoothing the profit pay-outs and major instruments of assets side of Islamic banking have been discussed. The approach is analytical; "As is well known, *murābaha* is the most frequently used and widespread instrument for modern Islamic finance. Moreover, new instruments are derived from it nearly every day and they are often misused", contends the author (P. 142). Some reformatory measures by the regulators like Bank Negara Malaysia have also been discussed. Chapter 10 has been concluded by referring to the salient features of Islamic *ṣukuk* and how they have been made compatible with the conventional bonds.

- Part V on FUTURE OF ISLAMIC CAPITALISM AND FINANCE comprising four chapters to discuss the Islamic gold *Dinar*, Maqāsid al-Sharī‘ah and Islamic banking, venture capital and democracy and the modern Islamic capitalism. The discussion on future of ‘Islamic capitalism and finance’ has been started with analysis of the proposal of introducing Islamic gold dinar. The learned author discusses the hypothesis of zero rate of interest in absence of the gold standard – “a realistic assumption since it is very unlikely that the rest of the world will back to coinage just because the Islamic world has”. Juristic position of using paper money has also been discussed, concluding that as per views of the great jurists, anything that is generally accepted by the people as a medium of exchange can be accepted as money (Pp. 230, 231). The reasons for debasement and the difficulties / problems with regard to coinage have also been discussed from Islamic perspective (referring to dynamics of the so-called Gresham’s Law, and the intrinsic value of a coin surpassing its face value affecting money supply and demand and the rate of interest or the benchmark for financing). The chapter on Maqāsid al-Sharī‘ah also discusses weather Islamic banks will stagnate and become an unimportant component of Islamic capitalism or will they reform themselves with vigour and become predominant? The currently used methods on liability side of Islamic banks certainly violate the spirit of the Sharī‘ah, even if not the letter. On assets side, they are facing an increasing Sharī‘ah risk. “The more Islamic banks converge with conventional banks the greater is the risk that the public will become disenchanted with them. Thus, there is a great need to reform Islamic banks within the framework of Maqāsid al-Sharī‘ah” concludes the author.

Chapter 15 on Venture Capital guides Islamic finance movement to an extremely useful institution ‘Silicon Valley instrument’ and how it can be incorporated into the ‘Islamic capitalism’ of the future. The classical multiple *murābaha* constitutes the basic underlying structure of the Islamic venture capital, both for deposits and assets sides of Islamic finance. In addition to introducing venture capital in Islamic countries, a proposal on *waqf* of stocks, Islamic venture capital and microfinance has also been discussed.

Chapter 16 emphasizes the need for a trustworthy State and socio-political environment so that the Islamic model of capitalism could function effectively. The need for reinterpreting Maqāsid al-Sharī‘ah, also including democracy and conditions for truthful functioning of the democratic system, have been examined from the social perspectives. For the best example of Islamic way of governorship, the author has referred to five golden principles mentioned by the first Caliph of Islam, Abu Bakr (ra), in his *khutba* read at the time of his coming to power.

Thus, the author has proved in historical perspective that a third type of capitalism, Islamic capitalism, exists that is actually older than the existing types of capitalism and that can provide a better alternative depending “on to what extant Muslims can avoid being influenced by the powerful temptations of Western capitalism and utilize their imaginative and creative powers to develop new powerful tools inspired by their own religion and history”.

The learned author has provided an extremely useful guide to the past, present and future of Islamic economy and finance that should be of special interest to academics and researchers on economics, finance, financial history and financial crises. However, associating Islam with capitalism (the caption of the book) might not be an appealing choice to a few. As the author has himself discussed in detail, Islamic worldview is much wider in scope than the capitalism that in its practical manifestations altogether excludes morality and ethics. The profound sense of accountability, care for rights of others, the characteristic of sharing risk and reward justly, good governance with complete disclosure and *shurai* (consultative) system of Islam are nowhere found in the worldview of capitalism.

To conclude, the book is a unique addition to the literature on Islamic worldview of economics and finance and presents an excellent emblem of scholarship. The renowned scholar of Islamic economics and finance, Dr. Abbas Mirakhor, has very rightly observed that the book is “one of the most succinct renditions of evolution of Islamic finance embedded in comprehensive account of particularities of economies as diverse as Malaysia and Turkey. This is a unique contribution to Islamic finance and Islamic economic history. It has been a rewarding learning experience. It is truly a breathtaking effort.”