

# COMMENT

## Capitalism minus interest?

REFERRING to the Islamization of banking in Pakistan, Waqar Masood Khan in his latest book *Towards and Interest-Free Islamic Economic System*, says, "To say the least, the whole exercise is merely a change in terminology without even laying the foundations of the system. In the past five years, there has not been a single experiment of a truly Islamic financial arrangement".

After two decades of experimentation with Islamic banking, these observations are starting to say the least. They echo the warnings of perceptive Muslim social scientists that neither capitalism minus interest nor socialism plus Allah can amount to Islam. A change in the social and political organisation of a society in the direction of Islam is a prerequisite for the successful operation of an Islamic banking system. To quote Waqar Masood Khan again, "We must face the fact that a majority of Muslims engaged in modern banking do not believe that this institution is repugnant to the Islamic spirit. Real progress will have to come from a change in the attitudes of those who are heavily engaged in the present system".

We also know from the works of other Muslim economists, particularly of Sayyid Nawab Haider Naqvi, that there are instances where eliminating *riba* from a *capitalist* economy without altering any other facet, may actually lead to greater injustice and exploitation. Elimination of *riba*, is thus a small, albeit vital, policy decision compared with other changes required in the economic system for converting it into an Islamic one.

These macro-economic insights are slowly becoming evident to the multitude of Islamic banks in the course of their operations. The entrenched and established *riba*-banks which represent the very heart of capitalist commerce put all kinds of obstacles in their way. Thus the Faisal Islamic Banks of Egypt and Sudan are constantly harassed by the central banking authorities in their countries of operation, and their activities curtailed by criteria designed for *riba*-banks. The taxation structure, which allows interest to be offset against income, doubly penalizes the profit-share from Islamic banks, and so on. There are also many technical requirements for the

operation of banks, like short-term liquidity needs, which only an appropriately motivated central bank can satisfy adequately. In essence, without the will on the part of the state, Islamic banking is bound to be relegated to the sphere of a fringe activity to satisfy the proclivities of a small number of very adamant Muslims.

It was thus that the change in Pakistan was so enthusiastically welcomed by many an Islamic banker. At last here was a chance for state backing for the introduction of Islamic banking and the possibility of overcoming the sometimes crippling problems of operations in a hostile secular environment. Alas the comments of Waqar Masood Khan, quoted above, show that even state backing is not enough. A revolution in the entire way of thinking would have to provide the motivation for novel financial instruments which would faithfully reflect the spirit of Islam.

Many believe that such an opportunity has been provided in Iran after the Islamic Revolution, and most Islamic bankers are awaiting the results of the first two years after the introduction of usury-free banking in the country. Preliminary results made available suggest that substantial progress has been made in overcoming many of the classic problems of Islamic banking, and some useful financial instruments have also been developed. If confirmed and substantiated, these would provide much more solid grounding for the theory of Islamic banking and also lend weight to the insights of Muslim economists about the prerequisites for the operation of such a system.

In the meantime there is growing evidence that Islamic banking in secular Muslim states is feared not because of its profitability or other economic merits, but because of the pressures it creates for the Islamization of more and more facets of society. It is the best way of educating the mass of the Muslim people that capitalism minus interest does not equal Islam. Thus, Islamic banking, however superficial, serves a key catalytic role in mobilizing Muslim societies towards a more comprehensive actualization of Islam. ■

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