The Islamic Moral Economy

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A Study of Islamic Money and Financial Instruments

Shafiel A. Karim

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INTRODUCTION

The Islamic Moral Economy is an economic, social, and political model predicated upon the theological doctrines and values promoted by the Qur'an and Sunnah. In Islam, the Qur'an is considered the Word of God verbatim as revealed by the angel Gabriel to Muhammad beginning in 610 CE. The Sunnah is the tradition or orthopraxy of Muhammad, which is documented in the Hadith literature. Whereas the Qur'an is considered prescriptive, the Sunnah vis-à-vis the Hadith literature is considered descriptive. Depending on the legal school, these two primary textual sources serve as the foundation for Islamic law.

In the most general sense, the Islamic Moral Economy is a utopian model characterized by equitable distributions of wealth and systemic social structures that provide universal care for all individuals in need. The Qur'an not only extols the virtues of charity, but charity becomes a legal mandate through *zakat*, which is mandatory annual alms-giving totaling one-fortieth of an individual's net worth. However, *zakat* is only obligatory if an individual meets the predetermined minimum net worth requirement.

Similarly, several verses in the Qur'an require Muslims to care for orphans, widows, the indebted, and poor (see Qur'an 2:83, 2:215, 2:240, 2:280, 4:36, 8:41, 76:8). The Islamic Moral Economy's equitable distribution of wealth is parallel to the ultimate objective of Marx and Engel's vision of communist economic equality. Whereas Marx and Engel foresee a class struggle between capitalists and the proletariat, the Islamic Moral Economy introduces a divinely ordained mandate requiring all Muslims to participate in the redistribution of wealth through *zakat* and *sadaqah* or religiously prescribed alms-giving and general gifts or charity respectively.[1]

The Islamic Moral Economy also exhibits qualities of pure free-market capitalism, consisting of countless perfectly competitive trading partners. As such, no single economic entity may exhibit characteristics of a coercive monopoly over any given sector of the economy, which is anathema to the Islamic Moral Economy because of its potential to arbitrarily set market prices or production policies, without regard for the divinely ordained market forces of supply and demand.[2]

However, the primary purpose of this study is not to examine the role of coercive monopolistic policies present in traditional capitalist economies. Similarly, this book does not aim to prove the superiority of Islamic economies over conventional non-Islamic economies. Instead, this book shall critically study the various legal structures and financial instruments used in Islamic banking and finance firms within the framework of the Islamic Moral Economy, and determine its *shari'ah* tolerance, compliance, or dependence.

According to most Islamic banking and insurance practitioners, there are three levels of Islamic permissibility with regard to financial instruments and contracts today: tolerance, compliance, and dependence. These three terms span a spectrum of low to high compliance with Islamic law. The term "tolerance" refers to the lowest level of solubility with Islamic law, and "dependence" is considered the highest level of solubility with Islamic law.[3]

In the Islamic Moral Economy, the role of buyer and seller, and thus supply and demand, is imbued with certain moral and ethical expectations rooted in Islamic ideas of honesty, sincerity, and an abstention from exploiting asymmetric information advantages. In economics, the term "asymmetric information" refers to the unequal knowledge or information regarding a given transaction that gives one party an advantage. Although asymmetric information is inevitable in degrees, the Islamic Moral Economy aims to "level the playing field" by introducing as much transparency to the transaction as possible.[4] The following quote underscores the importance of symmetric information between two trading partners:

> Two men meeting on the street meet merely as two men, but for over a thousand years the bazaar has been recognized by Islamic law as a special arena of human life, and in law as well as in common understanding two men meet there as 'two men in the bazaar.' As such they share certain moral and even legal obligations—for example, to buy and sell with a shared knowledge of the current market price.[5]

This delightful passage from Roy Mottahedeh's *The Mantle of the Prophet* describes the role of sacred space and God consciousness in Islamic economics. In the Islamic Moral Economy, the role of theological assumptions is also present in price equilibrium models of supply and demand curves because God is the third economic party in a transaction.

In economics, the term "equilibrium" refers to a graphical point where the supply and demand curves intersect. More specifically, it is mathematically expressed as aggregate supply equaling aggregate demand—$A_S = A_D$—and thus represents a point where both buyers and sellers mutually agree upon a price and quantity.[6] Because God is omniscient and omnipotent, He is knowledgeable of all transactions and determines the outcomes. More specifically, if there are two market participants in a transaction, He is the third; if there are three market participants, God is the fourth, etc. Coupled with this Islamic theology and the role of the marketplace as a type of sacred space, the Islamic Moral Economy demands that only "God sets prices."[7]

Similarly, no single economic entity may grow so large that it poses a systemic risk to the economy's success or stability. If a market participant were to grow so large that it could potentially destabilize the greater market economy, it would inexorably exhibit elements of a coercive monopoly that fly in the face of the Islamic Moral Economy (e.g., undue and excessive influence over price equilibriums and asymmetric information).

From an Islamic Moral Economy perspective, the Great Recession of 2007-2010 is arguably a product of coercive monopolies and their utilization of highly speculative and abstract financial instruments. Although we will examine the role of abstractions in securitized financial instruments in Chapter 2 and Chapter 3, our primary interest here is the role individual market participants played in the systemic failure.

As stated earlier, if a firm's failure results in a systemic failure of the greater economy, such a condition is sufficient for labeling the firm as a coercive monopoly. In the Great Recession, preventing the failure of firms such as AIG and Bear Stearns was considered necessary to eschew a systemic global economic failure.[8] In contrast to conventional economic systems, the Islamic Moral Economy is more accurately portrayed as a utopian theocracy and social economy that contains elements of free-market capitalism and communism.

Any Islamic society will necessarily exhibit qualities of a theocracy because of the importation of religion's primary function: formulating public policy. Similarly, the vision of reforming the current interest-based economy to one that is completely devoid of *riba* is highly utopian in nature. Moreover, the Islamic Moral Economy espouses economic values and practices that embrace utopian ideals of absolute financial and social equality.

Along with these broad philosophical and theological mandates, the Islamic Moral Economy and its market participants may not engage in any activity that is expressly prohibited by Islam. Economic activities that are engaged in the research, discovery, development, manufacture, distribution, market, or sale of alcoholic beverages, porcine food products, pornography or other illicit sexual activity are strictly forbidden. Modern scholars and jurists have varied opinions regarding the permissibility of trading in derivatives of alcohol and porcine commodities. Many liberal scholars and conservatives argue that derivatives of such products are permissible on the basis that they no longer resemble their original form. Finally, gambling is another proscribed economic activity, which is discussed in further detail below.[9]

Most importantly, the Islamic Moral Economy is free from *riba*, *maysir,* and *gharar*, which are generally defined as "financial interest" or "usury," "gambling," and "excessive risk" respectively. Qur'an 2:275 and 5:90 are two specific verses that explicate the evils and repercussions of usury and gambling. Separately, the term *gharar* or "excessive risk" is often synonymous with "speculation," "uncertainty," or "hazard" and is the subject of great debate amongst contemporary Islamic bankers and economists.[10] The elimination of *riba*, *maysir,* and *gharar* form the foundational basis for modern attempts at establishing an Islamic Moral Economy. In modern Islamic economics, *riba*, *maysir,* and *gharar* are omitted from contracts, or are holistically replaced by true profit-and-loss sharing models that embrace risk and reward reciprocity.

The Problem

Contemporary attempts at establishing an Islamic Moral Economy are predicated upon the "Islamization" of conventional banking models. Conventional deposit relationships, loan products, and financial instruments become "Islamic" through Arabic nomenclature and revised contract language superficially eliminating financial interest (e.g., the *murabaha* cost-plus contract implicitly incorporates financial interest through interest-rate benchmarking and time-value calculations of financial capital returns on investment).

Current Islamic economies face an acute problem when considering the widely accepted definition of *riba* and its inherent presence in all fractional reserve banking models. A banking model where a depositor bank holds a fraction of all deposit liabilities for demand withdrawals by the depositors, and lends the excess funds for profit, results in the artificial "creation" of money on the balance sheets of banks. Indeed, fiat currency or paper money endowed with artificial value by a hegemonic social structure (e.g., a government body such as a central bank) is insoluble with the Islamic Moral Economy.

Therefore, the real problem with modern Islamic money, banking, and insurance is not the superficial and legalistic elimination of *riba*, *maysir,* and *gharar*. Instead, it is the absence of a critical and holistic examination of conventional money, banking, and insurance models that may or may not be soluble with the utopian Islamic Moral Economy. A study of the Islamic Moral Economy and its myriad *riba*-free components requires a fresh perspective that is not necessarily dependent upon conventional money, banking, or insurance.

Assumptions

The analyses and recommendations provided herein assume that *riba* is in fact proscribed and non-existent in the Islamic Moral Economy. Although several scholars have addressed the linguistic and exegetical implications of *riba*, and its permissibility or impermissibility in an Islamic context, this book will assume that it is defined as financial interest, usury, unequal exchange, or artificial creation in a purely economic context. As such, many *shari'ah* compliant financial structures are viewed critically and deemed insoluble with the Islamic Moral Economy.

Shari'ah is the term for Islamic law, which is based on the Qur'an, Hadith, personal interpretation or *ijtihad*, and *ijma'* or consensus of religious scholars known as *ulama*. In Islamic economics, the term "*shari'ah* compliant" has a specific meaning apart from "*shari'ah* based" and the newly coined "*shari'ah* tolerant." If a spectrum of compliance and adoption of *shari'ah* compliance were established, "*shari'ah* based" would unquestionably and wholly embrace all Islamic Moral Economy principles; "*shari'ah* compliant" would be the middle ground where most Islamic legal scholars deem something to be within an acceptable range of permissibility within Islam; and finally, "*shari'ah* tolerant" would meet the minimum Islamic legal requirements.[11]

SIGNIFICANCE

A substantial amount of scholarship on Islamic money, banking, and insurance has been produced since the 1940s beginning with Sayyid Abu'l-A la-Maududi, who coined the term "Islamic economics."[12] Much of the scholarship amongst practitioners of Islamic banking and insurance revolves around the innovation and financial engineering of new instruments and contract structures. Conversely, non-practitioner academicians focus on a specific disciplines' perception of the Islamic Moral Economy (e.g., anthropological, sociological, philosophical, and certainly economic). For example, Bill Maurer, a professor of anthropology at the University of California, wrote two books and several academic journal articles approaching the subject from an anthropological perspective. Similarly, the field attracts significant attention from legal scholars and theologians alike.[13]

Timur Kuran, a professor of economics and political science at Duke University, argues that the *raison d'être* of Islamic economics is a feeble attempt by Muslim expatriates to resist assimilation and maintain their Islamic culture. Kuran is an outspoken critic of Islamic banking and finance, and he has written extensively.[14] Kuran questions the superiority or economic efficiency of *riba*-free financial alternatives relative to its interest-bearing counterparts. Kuran further questions the ability of an Islamic Moral Economy to sustain and stimulate the level of global economic growth similar to that of its conventional secular counterpart.[15]

Similarly, others argue that Islamic economics and its emphasis on an interest-free economy are actually potential solutions to economic instability, unemployment, inflation, and poverty.[16] The purpose of this study is not to qualitatively or quantitatively prove the superiority of the Islamic Moral Economy or its numerous financial structures. Instead, the purpose of this study is to critically examine the myriad legal structures present in contemporary Islamic economics (i.e., money, banking, and insurance), and to determine its *shari'ah* tolerance, compliance, or dependence.

LITERATURE REVIEW

While a significant amount of scholarship has been produced on the subject, scholarship in the West primarily originates from academics, economists, and legal theorists—both Muslim and non-Muslim—in Europe, and more specifically England. Substantial scholarship has also originated from Muslim dominated countries such as Malaysia and several states in the Middle East. However, scholarship in the United States has been relatively limited, mainly because Islamic banking and finance has a very small foothold in the country. Nevertheless, critical scholarship on Islamic studies in the United States has steadily increased, especially after 9/11. While evidence of a general increased interest in Islam is largely anecdotal, there is some evidence supporting this generally agreed upon position. A 2008 report published by the American Academy of Religions states that undergraduate courses on Islam doubled in enrollment from 2000 to 2005.[17]

Similarly, this study incorporates many of these new American understandings of Islam. Like any discipline, scholarship in Islamic banking, finance, and economics is relegated to two primary schools of thought: (1) apologists and defenders, and (2) critics and detractors. As a student of the Institute of Islamic Banking and Insurance (IIBI), a non-profit organization based in London dedicated to training students and banking and finance professionals in the bourgeoning field of Islamic finance, IIBI takes a very apologetic position. Indeed, many of the mechanical descriptions of the *shari'ah* compliant structures used in modern Islamic banking and finance are based on the descriptions used in IIBI's programs for post-graduate students. Moreover, all authoritative positions regarding requirements are borrowed from IIBI and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) position statements and working papers.

This book frames the subject of Islamic banking, finance, and economics under the aegis of the moral economy. The term "moral economy" stems from E.P. Thompson's moral economy of the crowd and James Scott's *The Moral Economy of the Peasant*.[18] While neither work addresses Islamic economics in any detail, they do establish a framework for morality and ethics within an economic system. While Thompson discusses an English brand of socialism within the context of nineteenth century industrial revolution working class members, Scott reviews the peasantry in Southeast Asia.

As such, this work borrows the term "moral economy" within the context of the modern Islamic banking, finance, and economics movement, which began primarily in the 1970s. Although several chapters of this book are dedicated to describing the mechanics of the various financial instruments used in modern Islamic banking, finance, and economics, the ultimate goal is to compare each instrument to the fundamental principles of what constitutes Islamic moral and ethical compliance.

While some apologetic defenders of Islamic banking, finance, and economics may ignore such limitations, these groups typically promote Islamic banking, finance, and economics as a wholesale solution to the woes and inefficiencies of conventional economics. Many practitioners of Islamic banking and finance have publicly acknowledged *riba*-free financial instruments as a solution to the problems of the current global economic crises. Such proponents argue that interest is the root of all social and economic inequity. Specific individuals who promote such views include Taqi Usmani who, until recently, was a very vocal advocate of Islamic banking in its current form. Similarly, other practitioners such as Humayon Dar and Yahia Abdul-Rahman are critical of interest and usury and how Islamic banking embodies ethical and moral behavior that may stem from either Islamic doctrine or external influences, ultimately making Islamic banks a viable socially responsible alternative.[19] And if such deficiencies are articulated, excuses are made to justify the existing mechanisms in support of the status quo. For example, the use of interest rate benchmarking, which will be discussed in Chapter 2, is a clear example of how external interest rates continue to play a significant role in the pricing of Islamic financial products that purport to be interest-free. This apologetic sentiment is further reinforced by the inevitable need for Islamic banks and financial institutions to compete with conventional interest-based firms.

This primary motive of competing with conventional financial firms in every respect renders Islamic banking and financial institutions vulnerable to *shari'ah* non-compliance. Many American-Muslim scholars have argued that current models of Islamic financial instruments are simply not efficient enough to compete with conventional instruments while adhering to Islamic legal constraints. For example, Kuran argues in various articles and his book *Islam and Mammon* that Islamic financial instruments are not only inefficient but that they are not soluble with the purported absolute ban on *riba*.[20] Kuran further adds, "Most Muslims, whether or not they favor a ban on interest, and regardless of how they interpret Islam, readily agree that avoiding interest is among the constraints Islam places on economic behavior, if not its most important economic requirement."[21] While the arguments in this book are soluble with Kuran's conclusion that modern Islamic banks do not adhere to interest-free operations except superficially, this book also argues that Islamic banks, financial institutions, and governments are complicit in promoting *riba* through fiat currencies and the fractional reserve banking system.

Kuran also argues that Islamic banking, finance, and economics—as a moral and superior solution to the economic woes of modern economics—is a recent phenomenon that originates from post-colonial social movements in India, Pakistan, and Bangladesh.[22] Kuran says, "Islamic economics has fueled the illusion that Muslims can solve a wide range of social problems simply by embracing Islam and resisting Mammon—the evils associated with immoral forms of economic gain."[23] Ultimately, Kuran concludes that Islamic economics is a ruse and that it is simply a means for strengthening communal and cultural ties for expatriate Muslims: "A major reason for the existence of Islamic economics . . . lies in the objective to tighten communal bonds among Muslims, and in particular among those in the Indian subcontinent."[24]

Likewise, Mahmoud El-Gamal, an Egyptian born professor of economics at Rice University, argues that modern Islamic banking, finance, and economics relies too heavily on medieval Islamic contracts that cannot efficiently address the financial needs of a global and integrated complex economy. El-Gamal further adds that Islamic banking and finance institutions are primarily engaged in *shari'ah* arbitrage, which he defines as "identifying a captive market, with religious injunctions that forbid a given set of financial products and services, and synthesizing those products and services from variations on those premodern nominate contracts."[25] El-Gamal adds that such a trajectory is "unsustainable and dangerous."[26] More specifically, El-Gamal advocates a "disengagement" with the industry for fear that it will ultimately "corrupt" any Islamic values one has prior to entering the field of Islamic banking, finance, and economics.

While the unpublished working papers of IIBI and the journal articles and books of Kuran and El-Gamal are the most significant contributions to the formulation of the arguments contained in this book, several additional authors have been referenced and cited. The works of Maurer were particularly valuable especially with regard to the medieval mutuality and reciprocity of the *vif-gage* contract, which is strikingly similar to the Islamic *musharakah* contract. Additionally, the works of Umer Chapra, Rodney Wilson, Masudul Chowdhury, Frederic Mishkin, Fazlur Rahman, and a host of other theorists, economists, and theologians have been cited or quoted.

Yet, none of these works specifically address the issue at hand. Using the assumption that *riba* is strictly prohibited in an Islamic social and economic context, the goal of this study is to examine the various financial instruments in use by Islamic financial institutions and to determine the legal compliance or general lack thereof. As such, the arguments presented in this book are critical of Islamic banking, finance, and economics. Indeed, my ultimate conclusion is very critical of modern Islamic banking, finance, and economics and ultimately echoes those published by Kuran, El-Gamal, and others. However, none to the knowledge of this author have been explicitly concerned about the fractional reserve banking model, which implicitly introduces *riba* into the Islamic Moral Economy. Moreover, none have presented the material within the context of a moral economy.

METHODOLOGY

The bulk of the research conducted on behalf of this study was done through the review of existing scholarship on Islamic banking, money, and insurance from 2008 to 2010. However, its distinguishing arguments are the result of working as a distance-learner with the London based IIBI in 2009 and participating in residential workshops on "Structuring Innovative Islamic Financial Products" held by IIBI at Clare College in Cambridge, England from August 7-9, 2009. This workshop involved a critical legal analysis of the permissibility of various financial instruments that are not yet used by Islamic bankers and insurers worldwide. Such conferences further perpetuate the modeling of Islamic financial alternatives after interest-bearing financial instruments, and thus are *shari'ah* compliant or tolerant at best, instead of embracing and truly innovating *new* financial instruments in the spirit of *shari'ah* based transactions. Additionally, informal personal and e-mail interviews were conducted with Islamic banking customers, central bankers, and Islamic bankers in the United States and the United Kingdom.

SECTS AND LEGAL SCHOOLS OF THOUGHT

Islam consists of two primary sects which encompass most Muslims in the world today: Sunni and Shi'i. However, within these two sects there exists significant doctrinal and orthopraxic heterogeneity. Other groups such as the Ahmadiyya movement and the Nation of Islam may also be considered part of corporate Islam. However, due to the relatively small proportion of Ahmadiyya Muslims and members of the Nation of Islam within the broader global Muslim population, their opinions and interpretations on Islamic banking, finance, and economics are disregarded.

Both sects have great diversity with regard to jurisprudence, orthodoxy, and orthopraxy. For example, Sunni Islam is divided into four schools of *fiqh*, which include the Hanafi, Hanbali, Maliki, and Shafi'i lines of thought. Within these four schools, methods of prayer differ. Depending on the region, Sunni Muslims exercise slightly different methods of prayer based on the juristic school to which they belong. For example, Hanafi Muslims perform the *takbir* portion of the obligatory prayer differently from Hanbali Muslims (i.e., Hanafi Muslims do not generally raise their hands when reciting the *takbir* before prostrations, while the Hanbali Muslims raise their hands to their shoulders when reciting the *takbir* before prostrations).

Similarly, the number of authentic imams varies depending on the type of Shi'i Islam. Shi'i Islam consists of several subsects including the Twelver, Ismaili, and Zaidi groups. Within the Ismaili group exist additional divisions: Musta'lis and Nizaris. The primary political difference between Sunni and Shi'i Islam rests in the idea of hereditary lineage and succession of the caliphate and imamate. Whereas Sunni Muslims believe that a caliph should be elected from the community based on merit, Shi'i Muslims believe in the religious legitimacy of a hereditary imamate originating with Muhammad.[27] This difference in orthodoxy and orthopraxy also affects each sect's interpretation of Islamic economics. Of the estimated one billion Muslims worldwide, approximately 90 percent are believed to be some type of Sunni orientation with the remaining 10 percent subscribing, or self-identifying, as Shi'i.[28] Accordingly, most of the legal positions taken in this study naturally include a Sunni predisposition.

According to El-Gamal, the Hanbali school permitted the use of deferred payment structures similar to a forward sale contract.[29] Both the Hanbali and the Hanafi schools permitted silent partners within the *mudarabah* partnership contract; however, the Maliki and Shafi'i schools considered them impermissible.[30] El-Gamal argues that the prevailing governance rules with regard to the type of financial capital that is permitted to be used in forming *mudarabah* partnership contracts is a synthesis of Hanafi, Hanbali, and Maliki jurisprudence.[31] Separately, the Maliki school places special importance on the proscription of *riba*, considering it one of the gravest sins.[32] El-Gamal adds, "[M]ost surviving Sunni schools have chosen to follow the rules of Islamic legal theory as established by Al-Shafi'i, who declared that '*ijtihad* is *qiyas*' (i.e., the only permissible form of juristic inference is through analogical reasoning)."[33]

The variegated juristic opinions of whether interest is forbidden or marginally permissible crosses both sect and school, often simply for lack of alternative options. For example, El-Gamal cites Ayatullah Sistani, a Shi'i cleric who has condoned the use of conventional financial products.[34] Similarly, Yusuf Al-Qaradawi issued a *fatwa,* or religious judgment, recommending Muslims to finance home purchases through conventional interest-based mortgages.[35] While this study is not intended to determine or affix any religious legal opinion to a specific school of thought, it is important to note that when making such judgments they are not universal or representative of one homogenous Muslim community. Instead, like all vibrant and thriving religious traditions, issues are evaluated with differing lenses, which ultimately result in differing conclusions.

Organization

This book is organized into six separate chapters including this introductory chapter. Each of the following chapters, except for Chapter 6, examines a specific *riba*-free component of the Islamic Moral Economy.

This first chapter is titled "Introduction" and it prefaces the remaining chapters and contextualizes the research and arguments of this book within the broader scholarship of Islamic economics and finance. More specifically, it articulates the goal of studying the subject from a religious studies perspective, with a singular focus on permissibility and impermissibility of the various Islamic banking and insurance contracts and instruments in use today.

The second chapter is titled "What is *Riba*?" and it addresses the differing definitions and exegetical interpretations of the term. Chapter 2 also illustrates the pervasive and ubiquitous presence of *riba* in both conventional and Islamic economics. This chapter also examines the fractional reserve banking model and its inextricable connection to *riba*.

The third chapter is titled "*Riba*-Free Money" and it examines historical modes of exchange, especially money used in pre-Islamic Arabia and other Islamic civilizations in history. More importantly, Chapter 3 discusses the solubility of fiat currency and exogenous money supplies in an Islamic Moral Economy.

In the fourth chapter, this book reviews most of the major Islamic financial structures used by Islamic banks and financial institutions. Additionally, there are several figures and diagrams that are meant to explain and illustrate the banal, yet sometimes innovative ways Islamic financial contracts ostensibly or totally avoid *riba*.

The fifth chapter is dedicated to the study of Islamic insurance or *takaful* and its various ancillary instruments and structures; these structures are further explained through the use of diagrams and illustrations. The concept of regulatory and supervisory bodies is also elaborated on in Chapter 5.

Finally, Chapter 6 offers a review and summary of all the topics discussed throughout the book. More importantly, it offers a conclusion or recommendation on how contemporary Islamic banks can contribute to the establishment of an Islamic Moral Economy within the context of mainstream and near unanimous understandings of the constraints Islam imposes on economics and finance.

It is important to note that this book does not delve into the quantitative proofs regarding the efficacy of any given Islamic financial instrument and its consequent ability to achieve the utopian ideals of justice, equality, and fairness. Instead, this book's recommendation uses the framework of *shari'ah* and assumes that *riba* is proscribed and offers alternatives by which Islamic money, banking, and insurance can become soluble with Islamic doctrines of *riba*-free economics.

2

WHAT IS *RIBA*?

Islamic banking and finance is predicated on a narrow definition of *riba*, which is interpreted as "usury" or "financial interest." Within the economic context, *riba* can also be understood as "unearned" capital or wealth, "illogical increase," or an "unfair" or "unequal exchange" between two parties.[1] If we define *riba* solely in this manner, we find that its proscription is very similar to Judaism's restriction of *ribit*, and Christianity's limited prohibition of usury and interest.

In Judaism, the practice of charging interest is forbidden between two Jews; however, it is permissible for a Jew to charge interest to a gentile (see Exodus 22:25-27, Leviticus 25:35-37, Deuteronomy 23:19-20, Nehemiah 5:10-11, Psalms 15:5, Proverbs 28:8, Jeremiah 15:10, and Ezekiel 18:7-17 and 22:12). In Christianity, however, the practice of charging and collecting financial interest is somewhat unclear. Several biblical verses proscribe the practice in keeping with Jewish law, whereas verses from the books of Matthew and Luke paradoxically promote usury (Cf. Matthew 25:25 and Luke 19:23 with the Old Testament verses cited above).

The proscription of *riba* is multifaceted and incorporates philosophical, theological, and social justifications. Many economic scholars argue that interest-based financing and fiat currencies with flexible money supplies are the reason for the turbulent ebb and flow of expansion and contraction in the real economy. While the issue of interest contributing to a cyclical economy that expands and contracts is limited to marginal thinkers within conventional economics and a majority of Muslim economists, the idea that money supplies effect economic growth and contraction is widespread. Milton Friedman established the monetarist school of thought, which advances the idea that the role of money plays a significant role in the real economy. In economic expansions, money is easily obtainable; in economic contractions, the lack of money results in further eco-