Preface

Mankind is faced with a number of serious problems which demand an effective solution. The prevalence of injustice and the frequency of financial crises are two of the most serious of these problems. Even though a great deal of effort has been made around the world to reduce injustice, particularly by the welfare states, and also to minimize the frequency and severity of financial crises, both the injustice and the financial crises continue to prevail everywhere in different forms and varying degrees. This causes misery to a large number of people, and particularly the underprivileged. They continue to suffer from economic and financial instability, unemployment, poverty, and lack of adequate need fulfilment.

There are certainly a number of reasons for the financial crises as well as the injustice. It is not the purpose of this book to get into a discussion on all of these. However, two of the most important of these reasons are the excessive expansion of credit and its inequitable allocation. While a great deal of effort has been, and continues to be, made to increase the strength, efficiency and stability of the financial system, not enough attention seems to have been given to the need to make it more equitable. Since the financial institutions mobilize a vast pool of resources from all sectors of the society, the dream of creating a 'just' society may continue to remain unrealized unless the credit extended by them on the basis of these resources serves the interests of all sectors of the society in an equitable manner.

This raises the question of what can be done to not only minimize the frequency and severity of the crises but also make the financial system more equitable. This book is a humble attempt to answer this question. It consists of an 'Introduction' along with a selection of eight of my papers, most of them published in reputed international journals. Four of these papers are on Islamic economics and the other four on Islamic finance. Together they may be able to create a better impact than what they could do individually.

Banks are profit-making institutions. Their own capital is, however, relatively very small. Their primary reliance is on the resources mobilized by them from a vast spectrum of depositors. There are, however, a number of ways in which the banks can utilize these resources to earn profit. How these resources are utilized by them is bound to have a significant impact on the realization of the society's cherished goals, including not only minimization of the frequency and severity of financial crises and realization of a higher rate of growth in output as well as employment, but also ensuring greater justice in society. While making a reasonable amount of profit is bound to be one of their prime objectives, realization of their society's cherished goals needs also to carry a substantial weight in their decision making. Even though a number of the ways in which they utilize these resources may be more or less equally profitable, only some of them may be able to contribute more effectively to the realization of their society's cherished goals.

Therefore, the question is, which of these ways should receive priority. A socially more acceptable preference may be to give priority in the use of the banks' resources to those ways that can help promote not only financial stability and a reasonably high rate of economic development but also greater justice in society. Unless the promotion of justice also carries a significant weight in the utilization of the banks' resources, it may not be possible to make a more meaningful contribution towards the goal of removing hunger, poverty, unemployment and disease. Even though this goal has always existed, it has gained crucial importance after a rise in social tensions that became reflected in the 'Occupy Wall Street Movement' which took place in New York on 17 September 2011. This has intensified the realization that ensuring justice is indispensbale for promoting peace and social harmony in this world. The actualization of justice needs therefore to be considered a matter of utmost concern for all human institutions, and the financial system cannot be an exception.

The financial system does not, however, appear to be attuned to the realization of this goal. It has a built-in tendency towards promoting economic inequality by mobilizing resources from a vast spectrum of society and making them available primarily to a relatively much smaller spectrum. This may also be acceptabe if the credit is granted for purposes that help benefit a large spectrum. This does not, however, seem to be the case. The resources that the financial system mobilizes get used for any purpose, including gambling and speculation in the stock, commodity and foreign exchange markets, production of weapons of mass destruction, luxury goods and status symbols used primarily by the rich, and even pornographic material, when resources needed for the production of some of the goods and services needed by millions of people for a more comfortable and productive life are not available adequately.

While there may be no objection to the effort of banks to earn a reasonable amount of profit, this needs to be done within the framework of promoting justice and helping their society realize its humanitarian goals. The logic behind this expectation is that, since the banks mobilize their vast pool of resources from a large spectrum of the population, it is fair to expect that they would utilize these resources in a way that also helps serve the interests of a large spectrum of the society. This does not necessarily mean that the resources mobilized by banks should be made available to a large number of people. All it means is that these resources should be utilized by them effectively in such a way that the benefit extends to a large number of people by helping promote the kind of economic development that leads to general well-being through a number of ways, including expansion of employment and self-employment opportunities as well as the supply of need-fulfilling and investment goods and services.

This does not, however, seem to be taking place. The resources that the financial system mobilizes become generally available to a relatively small spectrum of high net worth individuals and firms as well as governments without giving due consideration to the use of these resources for fulfilling the people's needs, promoting employment and self-employment opportunities, and solving the society's economic problems. The primary consideration seems to be to make money without giving any significant consideration to the fulfilment of the genuine needs of their society. The consequence is that adequate resources are not available for expanding job opportunities as well as the supply of housing, education, vocational training, and other need-fulfilling and investment goods and services.

This accentuates the need for a meaningful reform of the financial system in a way that would enable the society to solve its problems and realize its humanitarian goals. For greater clarity one may take the example of a banker who is confronted with the demand for credit from two equally creditworthy parties, one from a golf partner who wishes to purchase a luxury yacht and the other from businessmen who wish to import textbooks and uniforms for school children or medical supplies for hospitals. Which of these should receive priority if the resources are limited: his golf partner or the schools and hospitals?

The vision of the Islamic financial system needs to be to transform all human activity, including banking, into a 'blessing' (*rahmah*) for mankind as envisaged by the Qur'an in verse 21:107. This repudiates the idea that 'Islamization' of the financial system can be accomplished by merely introducting some cosmetic changes in the conventional financial system through the employment of 'mark-up' instead of 'interest' without making any worthwhile contribution towards the resolution of the society's serious problems and helping realize some of its crucial goals.

The primary purpose of this book is, therefore, to help fulfil this need without turning banks into charitable institutions. It consists of an introduction plus eight papers, most of which were published in reputed international journals. Even though it is not necessary to get permission for the republication of the author's own papers in his own book, I tried and was able to obtain the permission for most of them. In this respect I am grateful to Professor Robert Whaples, Professor Suzy Howell, Professor Morris Altman, Professor Kosugi Yasushi, and Professor Kabir Hassan for allowing me to include in this book my papers previously published by them. I also wish to thank Mr Iqbal Khan for helping me get permission from Dr S. Nazim Ali for a paper which was published previously by the Islamic Finance Project, Harvard Law School.

I am also grateful to Dr Ahmad Muhammad Ali, President of the Islamic Development Bank (IDB), Dr Abdul Aziz alHinai and Dr Ahmet Tiktik, both Vice Presidents of the IDB, and Professor Azmi Omar, Director General of the Islamic Research and Training Institute, IDB, for the encouragement and support they have all provided unstintingly for the writing and publication of these papers. Without such support, it may have been difficult to write a number of the papers which have been included in this book. I am also grateful to my wife, Khairunnisa, for the help and encouragement she has always provided by taking over a number of household chores which were a part of my domestic responsibilities. Last but not the least, I owe a great deal to Shaikh Mohammad Rashid for the efficient secretarial assistance he has provided over a long period to enable me to not only fulfil my official responsibilities but also to complete this book.