THE DESTRUCTIVE LOGIC OF INTEREST: THE FALLACY OF PERPETUAL GROWTH

With a Discussion of Reformist Action by Islamic Banks

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Abstract: This paper seeks to discuss the historical narrative of interest, tracing how its societal legalization led to a shift that paved the foundations for our modern day financial architecture. With modern money being institutionalized as interest bearing debt, it posits that the destructive logic of perpetual growth leads to, amongst other things, the ‘transmutation’ of Western Europe, its Colonialist impulse, Globalization and the Privatisation of the Commons. Associated with these factors are the myriad crises facing the modern age, all connected to the financial system, such as resource depletion, distortion of fair trade, displacement of rural populations, global poverty, deforestation and the eradication of local ecosystems. The paper proposes that any serious reformation of the financial system has to start with removing what lies at the heart of its growth imperative, namely: interest.

“Anyone who believes that exponential economic growth can go on forever on a finite planet must either be a Madman or an Economist.”

-- Kenneth Boulding

Introduction

If there were any lessons to be learnt from the global financial crisis of 2008, it was that our current financial system is unsustainable and cannot last forever. Despite this realisation and the numerous after-effects that followed, such as the persistent economic downturn, global recession and the European sovereign debt crisis, instead of taking heed we have seen a return to the rhetoric of the “growth” mantra. It seems that amidst standard talk of regulatory reform, increased capital ratios, limits on leverage, new liquidity requirements and the new and improved Basel III; the following contention has been ignored: our financial system is unsustainable precisely because it was founded upon usury (read: interest), itself an unsustainable practice premised on the fallacy of perpetual growth.

Today the notion that the 2008 global financial crisis was a manifestation of systemic symptoms and underlying structural problems has found increasing consensus in the advocacy of both academics and financial professionals alike (Stiglitz, 2012 & Lietar et al, 2010). Amidst a convergence of crises spanning the finance, energy, health care, and ultimately the environment; the connecting factor has become increasingly apparent: money (Eisenstein, 2007).
Interest’s Destructive Logic: Perpetual Growth

Modern money essentially only comes into existence through lending at interest, meaning that “at any given time the amount of money owed is greater than the amount of money already existing” (Eisenstein, 2011). As the money-producing institutions do not create the accompanying interest charge, the ‘perpetual gap’ between the collective debt owed and the amount of money present “drives us into competition with each other and consigns us to a constant, built-in state of scarcity” (Eisenstein, 2011). Crucially any future money itself comes into existence as interest-bearing debt (thereby perpetuating the gap), entailing “the creation of money creates a future need for even more money” (Eisenstein, 2011).

This is where the system’s penchant for continual growth becomes manifest, as such “new money does not come from mining more gold and minting more coins.” Instead, “It appears every time a bank or other institution makes a loan... which quantifies a judgment of one’s ability to compete for money and therefore to pay back a loan with interest. In today’s system, money does not exist without debt, debt does not exist without interest, and interest drives us to earn more and more money” (Eisenstein, 2007). If the money supply does not grow, “then a percentage of wealth-holders corresponding to the prevailing interest rate must go bankrupt” (Eisenstein, 2011). There is no neutrality within an interest-based system, “the choice is between growth and collapse, not growth and stability” (Douthwaite, 1999, p.28-29).

This stark choice between economic collapse and a perpetually growing money supply means that in practice, fiscal policy becomes a balancing act between these two extremes. On the one hand, there is the need to continually grow so as to prevent collapse and on the other there is a cap on growing too much, for when money is created, “in amounts exceeding the ability of the economy to create new goods and services, the result is inflation” (Eisenstein, 2007, p. 269). This conundrum traps the entire global economy in a trajectory of seeking “non-inflationary economic growth—an increase in the production of goods and services... [and] the relentless conversion of life into money” (Eisenstein, 2007, p. 269).

Modern money thus has “crisis and collapse built into its basic design”, for the very reason that it “seeks interest, bears interest, and indeed is born of interest” (Eisenstein, 2010). With the destructive logic of ‘perpetual growth’ enshrined as its necessary design feature, the effect of this ‘logic’ on various nations and institutions reveals “the progressive conversion of nature into products, people into consumers, cultures into markets and time into money” (Eisenstein, 2012a).

The Logic of Interest and the Colonialist Project

Arguably the dimension of seeking ‘perpetual growth’ was the major factor in inducing the colonialist impulse, as readily available capital provided the
backdrop to an era of plunder. It was primarily Genoese and German bankers that funded Spanish and Portuguese exploration of the Americas and the importation of New World gold and silver (Douthwaite, 1999). Likewise, it was the innovation of the world’s first central banks of Holland and England that acted as the effective monetary counterpart to their nation state’s chartered joint-stock companies; funding colonialist expedition under the remit of trade. Indicatively, the two East India Companies would not have been able to function as efficiently without a supportive credit system through their standard national banks. Citing the ‘United Dutch East India Company (VOC)’ Ferguson notes, “Once Dutch bankers started to accept VOC shares as collateral for loans, the link between the stock market and the supply of credit began to be forged. The next step was for banks to lend money so that shares may be purchased with credit. Company, bourse and bank provided the triangular foundation for a new kind of economy” (2009, p.133).

The result, as Graeber (2011) notes was that, “Starting from the baseline date of 1700, then, what we see at the dawn of modern capitalism is a gigantic financial apparatus of credit and debit that operates – in practical effect – to pump more and more labor out of just about everyone with whom it comes into contact, and as a result produces an endlessly expanding volume of material goods ... At every point, the familiar but peculiarly European entanglement of war and commerce reappears – often in startling new forms ... Almost all of the bubbles of the eighteenth century involved some fantastic scheme to use the proceeds of colonial ventures to pay for European wars. Paper money was debt money, and debt money was war money, and this has always remained the case” (2011, p. 346).

The growth imperative and resultant scrambling for territory among European powers would lead to dire consequences for much of the wider world. Using Africa as an example, Douthwaite (1999) cites how by the end of the 19th century, close to ninety-six percent of the second-largest and second-most-populous continent would be incorporated into the profit-making remit of a Western European state. By way of illustration, he notes, “By the end of the (19th) century France had secured 4 million square miles, Britain 3 million and Germany, Portugal, Belgium and Italy about 900,000 each. Only two countries – Liberia and Ethiopia, just 4 per cent of a continent the same size as the United States, Australia, India and China put together – were not incorporated into the supply and marketing system of a major power” (1999, p. 38-39).

Douthwaite (1999) contends that the First World War could be attributed to this “growth imperative” in that populous European powers such as Germany “had come rather late to the territory-grabbing game and was unhappy with what it had got” (1999, p. 39-40). Accordingly, the aftermath of the war and formal
dismantling of empires would entail that opportunities for overt imperialist expansion were to recede, necessitating more “subtle forms of exploitation” (Douthwaite, 1999, p. 38).

The Logic of Interest and Corporations

It is no coincidence that Joint-stock corporations were created at the beginning of the colonial period (Graeber, 2011, p. 449). Tracing history from the first major modern corporations such as the Muscovy (Russian) Company (chartered in 1555), through to the two East India Companies (The British and Dutch, both chartered in 1600’s), they were direct facilitators of the most expansive military colonialisventures of their times. For a century, one such private, profit-seeking British corporation governed India, using military force where necessary, such as that to “shut down the (more efficient) Indian cotton export trade” (Graeber, 2011, p. 347). This “peculiarly European entanglement of war and commerce” was built on a direct link between the word’s first stock markets (in Holland and England) and the military ventures of their parent companies (Graeber, 2011, p. 346).

The facilitation of such military fetish was only possible, in that the credit produced by the banks was on hand to feed it in a manner unprecedented. This was because “The creation of central banks represented a permanent institutionalization of that marriage between the interests of warriors and financiers that had already begun to emerge ... and that eventually became the foundation of financial capitalism” (Graeber, 2011, p. 364). The key to the rise of the Corporation, was thus precisely in its being able to combine the capital, and therefore the economic power, of unlimited numbers of people, all being supported against the backdrop of the money-creating powers of banks, in facilitating military endeavour (Bakan, 2005, p. 8).

By the final decade of the seventeenth century, Corporations evolved to overtake more traditional forms of partnerships deemed inadequate for financing the new large scale industries of industrialization (Bakan, 2005, p. 9). This burgeoning wave of new Corporations meant that their number in post-revolutionary America, between 1781 and 1790, would increase from 33 to 328 (Bakan, 2005, p. 9). Keeping with this trend, industrial undertakings would become more and more capital-orientated, for example railway and infrastructure construction would not have been able to function and develop at the scale they did without the significant number of Corporations facilitating them. Illustratively, in England, between 1825 and 1849, the amount of capital raised by joint-stock companies, increased from £200,000 to £230 million, more than a thousand-fold (Bakan, 2005, p. 10).

Thus the Corporation arose as a direct creation of interest’s growth imperative; in keeping with the theme of “perpetual growth” its function was to maximize
the role of capital, to become efficient ‘profit-making machines’ (Bakan, 2005). According to Armor, Hansman and Kraakman (2009) all Corporations would eventually possess five distinct, core, structural characteristics, each intricately geared at optimizing profit, namely: (1) legal personality, (2) limited liability, (3) transferable shares, (4) centralized management under a board structure, and (5) shared ownership by contributors of capital (2009, p. 7). Collectively, “these characteristics have strongly complementary qualities for many firms. Together, they make the corporation uniquely attractive for organizing productive activity” (2009, p.7).

With “productive activity” being a synonym for maximization of profits, this very over-riding function of the “growth of money” has led to the Corporation being termed both “psychopathic” (Bakan, 2005) and “destructive” (Korten 2010) in its orientation. The destructive logic therein has been described by former Harvard University Business School Professor David Korten as one of ‘nurturing the growth of money at the expense of life’. He notes, “The publicly traded, Limited Liability Corporation is more accurately described as a pool of money with special legal rights and protections dedicated to self-reproduction ... Only the money, which the corporate officers are legally bound to serve, has rights ... Management’s real focus is on the money, not the shareholders. In effect they are hired by money to nurture its growth and reproduction even at the expense of life” (Korten, 2013).

With the modern form of Corporations consisting of typically combinations of thousands, even hundreds of thousands, of broadly dispersed, anonymous shareholders; responsible ownership is arguably stifled in favour of the profit motive6 (Bakan, 2005, p. 14). In his book, The Corporation: the pathological pursuit of profit and power, Canadian Law Professor Joel Bakan presents a series of striking examples illustrating how profit maximization is consistently commercially justified to effect a series of humanitarian disasters. From child labour in developing world sweatshops, to the use of pollutant externalities, and the disturbing trial of Anderson v General Motors (GM) wherein the latter was found to have factored in potential human fatalities as part of its “cost-benefit analysis” (Bakan, 2005, p.64); the words of “money having to grow even at the expense of life” have a ring of truth to them.

Today, practically all economic activity in the world is carried out under the corporate form (Bakan, 2005, p. 112). Of the world’s largest 100 economic entities, 51 are corporations and 49 are countries (Anderson & Cavanagh, 2000). This structural bias towards “money’s growth” pre-empts the best of intentions of those who work in them, despite recent discourse on the social responsibility of Corporations, the bottom-line remains the same7.
The Logic of Interest and Financial Capital

The Bretton Woods system initially sought the ‘control of capital movements’ through the use of a fixed exchange rate as all U.S. currency held outside the country was redeemable at $35 per ounce of gold. The stated desire of a fixed exchange rate was to allow for the full freedom of cross border trade, though its effects were short-lived. On August 15, 1971, “United States President Richard Nixon announced that foreign-held U.S. dollars would no longer be convertible into gold – thus stripping away the last vestige of the international gold standard ... By doing so, Nixon initiated the regime of free-floating currencies that continues to this day” (Graeber, 2011, p.361).

Whatever his reasons were, “The immediate effect of Nixon’s unpegging the dollar was to cause the price of gold to skyrocket ... The result was a massive net transfer of wealth from poor countries, which lacked gold reserves, to rich ones, like the United States and Great Britain, that maintained them” (2011, p. 362). With the global system of credit money entirely unpegged from gold, the world entered a phase of financially unprecedented history, the amount of money banks could create by making loans was essentially only limited by their own reserves – leading to a phase perhaps being best termed as ‘growth mania’ (Daly, 1974).

The unfettered growth imperative of interest would progressively destroy and distort more aspects of trade in this era than any other. As Eisenstein (2009) states, “the credit bubble that is blamed as the source of our current economic woes was not a cause of them at all, but only a symptom. When returns on capital investment began falling in the early 1970s, capital began a desperate search for other ways to maintain its expansion. When each bubble popped – commodities in the late 1970s, S&L real estate investments in the 1980s, the dotcom stocks in the 1990s, and real estate and financial derivatives in the 2000s -- capital immediately moved on to the next bubble, maintaining an illusion of economic expansion.”

The removal of the dollar peg and the subsequent deregulation of domestic and international finance (Tucker, 2007), meant that commercial banks were able to lend in a manner unconstrained. Citing the UK as an example, the Earl of Caithness in the recent 2009 Banking Bill debate noted, “UK money supply has grown from £31 billion in 1971, when President Nixon closed the gold window, to in excess of £1,700 billion today. Let us consider the implications of those last two figures. They mean that every year since 1971 the banking system has created, on average, for its own use, in excess of £44 billion. That is more per year than the entire money supply which had, until 1971, sustained our economy since recorded history and through two world wars” (House of Lords, 2009).

The exponential money growth prompted by commercial banks from the 1970s onwards is illustrated in the case of UK by Figure 1 below:
This new dawn of "the financialisation of capital meant that most money being invested was completely detached from any relation to production of commerce at all, but had become pure speculation" (Graeber, 2011, p.376). This speculation in turn, would seemingly come at a cost as Lietar and others note that: "According to the IMF, between 1970 and 2010 there were 145 banking crises, 208 monetary crashes and 72 sovereign-debt crises; in other words, a staggering total of 425 systemic crises. An average of more than 10 per year! These crises have hit more than three-quarters of the 180 countries that are members of the IMF, many of them being hit several times" (2012, p. 12).

The ensuing ‘financialisation of capital” could be largely said to be twofold: the trading of capital on the foreign exchange markets and the trading of ‘positions on capital’ on the financial derivatives markets. In discussing both, Lietar and others (2012, p.11) claim: “Today’s foreign exchange (forex) and financial derivatives markets dwarf anything else on our planet. In 2010, the volume of foreign exchange transactions reached $4 trillion per day. One day’s exports or imports of all goods and services in the world amount to about 2% of that figure.” In that this entails that “98% of transactions on these markets are purely speculative” Lietar chooses to refer to the modern global economy as “the Global Casino” (2012, p.12).

(Source: Positivemoney.org)

Figure 1: Fluctuation in UK Money Supply through Commercial bank created money
This increasing rift between the financial markets and the real economy is what prompts the likes of David Korten (2010) to author his “Declaration of independence from Wall Street”, wherein he proposes his agenda to move from “Phantom Wealth to Real Wealth” (2010, p.1). Therein, he states that “Asset bubbles create only phantom wealth that increases the claims of the holder to society’s real wealth and thereby dilutes the claims of everybody else” (2010, p.32); a ‘fallacy’ he later ascribes to the erroneous belief that “interest grows faster than trees” (2010, p. 32).

The growth imperative of interest having contributed to the further stripping of capital into derivatives (options, futures, swaps, etc.) would lead to a situation wherein these instruments would come to dominate the vast majority of trade. The net result of derivatives being standardized and sold ‘over the counter’ (OTC), mostly by banks has meant that “the total notional amount of over-the-counter derivatives still outstanding totaled an eye-popping $604.6 trillion in June 2009, compared with an estimated 2009 gross world product of $ 58 trillion” (Korten, 2010, p. 118). Illustrative of the ever-widening gap between the financial and real economy, this was over eight times the entire world’s annual GDP in the same year!

All of this has contributed to the volatility of the financial markets wherein repercussions of ‘waves of credit’ has been described by Lietar (2012) as being more akin to that of a ‘financial tsunami’ than that of a calm sea. According to the London based think-tank, International Financial Services London (IFSL): “During the financial crash of 2008, the global total of asset-backed securities issued and sold to investors fell by 79 percent to $441 billion, as overleveraged borrowers, banks and investors exited the market” (IFSL, 2008).

This era of unregulated casino-style financial manipulation may be considered the final stages of the ‘unfolding of a process centuries in the making’ (Eisenstein, 2010). The reasons for this being plainly connected to the destructive logic of perpetual growth, are that “the supply of money – and the corresponding volume of debt – has for several decades outstripped the production of goods and services that it promises ... Faced with the exhaustion of the non-monetized commonwealth that it consumes, financial capital has tried to delay the inevitable by cannibalizing itself. The dot-com bubble of the late 90s showed that the productive economy could no longer keep up with the growth of money. Lots of excess money was running around frantically, searching for a place where the promise of deferred goods and services could be redeemed. So, to postpone the inevitable crash ... The new financial goods and services that arose were phony, artifacts of deceptive accounting on a vast, systemic scale” (Eisenstein, 2010).

The resultant accent on privatisation, like the process of capital stripping and cannibalizing itself, would seek to perpetuate growth; but, at what cost?
The Logic of Interest and the Concept of Property

The whole process of money creation as interest bearing debt merely postpones the day of reckoning by deferring the need to create new goods and services into the future. This in turn creates a pressure to find more things that can be sold, the resultant accent on privatization means that “Life itself has become a consumer item” (Eisenstein, 2010).

Whilst fair markets recognize the role of private property and enforceable property rights; the growth imperative of interest leads to a more sinister manifestation of liberal doctrine. As Eisenstein (2011) says, “Because of interest ... to make new money to keep the whole system going, we have to ... create more 'goods and services'. The principal way of doing so is to begin selling something that was once free. It is to convert forests into timber, music into product, ideas into intellectual property, social reciprocity into paid services. Abetted by technology, the commodification of formerly nonmonetary goods and services has accelerated over the last few centuries, to the point today where very little is left outside the money realm .... It is why drinking water has been the number-one growth category in beverage sales.”

During the ‘Water Wars’ fought in Bolivia in 2000 and 2005, Crane and Matten (2010) state that the Bolivian government granted monopoly rights to a private water corporation in the now infamous Law 2029 which ensured that “people were not allowed to use water for free out of their wells or even to collect rainwater” (2010, p. 86).

Eisenstein’s (2011) central assertion is that interest effectively causes money to seek to privatise four broad categories of the common wealth comprising natural, social, cultural, and spiritual capital, as it “converts the unique and sacred into the monetized and generic.” It is the two factors of “interest-bearing debt and systemic growth pressure” that collectively entail that, “the destruction of a forest to create 100,000 board feet of lumber is, preposterously, counted as an increase in wealth. The forest no longer contributes to soil stability, oxygen production, climate stability, biodiversity protection, and so on, but those losses are not included in the price of a plank of lumber. Together, these two factors drive the conversion of the natural commons everywhere into money” (Eisenstein, 2012).

The ascription of Property Rights to a host of previously unsold phenomena supports Eisenstein’s assertion. Today forms of natural capital barely known to have existed have become private property as multilateral agreements such as the International Property Rights (TRIPS) have effectively forced developing countries to extend property rights to indigenous seeds and plant varieties. Unfortunately the allocation of corporate property rights to individual plant genes has already potentially impacted agricultural practices that two thirds of the world relies upon for their livelihoods (Shiva & Holla-Bhar, 1996).
In tandem with the drive to patent and privatise indigenous cultural and local knowledge (Shiva & Holla-Bhar, 1996), property rights claims have also conspired to deny viable treatments and cures that would save lives in epidemic proportions. When the 39 pharmaceutical corporations chose to sue the South African government in its effort to import and produce cheaper generic HIV/AIDS drugs for its 4.7 million dying HIV patients, they were merely following the “growth imperative” embedded within the logic of their organizations. Today six corporations own 70% of patents on staple food crops (ActionAid, 2004), with the electromagnetic spectrum (Crandall, 2008), sequences of genetic DNA (Kennedy, 2002), and, even the earth’s capacity to absorb industrial waste having been privatized (Eisenstein, 2011).

Often forgotten, such “privatisation” does not stop at the level of new “goods”, there is also a simultaneous pressure to increasingly monetize and provide new “services”. This has contributed to the destruction of community. As Eisenstein (2012) says, “In our current system, economic growth means the conversion of nature into product and human relationships into services. It is widely recognized, at least among environmentalists, that Earth cannot sustain much more of the former. Less understood is that the expansion of services bears a limit as well, that we witness today as the atomisation of community, the disintegration of civic culture, the enclosure of the cultural commons, and the deskilling and helplessness of nearly the entire population. There is little left that we do not already pay for.”

The End of Growth

The most important financial development during the phase of ‘growth mania’ was that of ‘securitisation’. Described as the financial practice of pooling various types of contractual debt, it allows for investors to fund debt through debt. As Figure 2 below shows, the development of four deeply interconnected financial markets were all premised on the concept of ‘securitization’. These markets in turn allowed for an unregulated “shadow banking system,” made up of hedge funds, money market funds, investment banks, pension funds, and other lightly-regulated entities; underpinning the financial system as a whole. Collectively “shadow banking” symbolises the failure of the financial system in its imperative for perpetual growth. With the total amount of such unregulated money to be estimated between $70 to a $100 Trillion (Fiaschi, 2013); the figures indicate anything from 30% to more than half of the world’s total money supply are unaccounted for11. Illustrating the “money madness” that engenders a spirit of mass insider trading, collusion and collective fraud has like the regulated system it feeds off reached its limit as well.
The systemic “end of growth” has long been in sight. Richard Heinberg, Senior Fellow of the Post Carbon Institute, states that “growth is over because of a convergence of three factors—resource depletion, environmental impacts, and systemic financial and monetary failure” (Heinberg, 2011). At the threshold of a crisis of our own making, we have reached an impasse in our ability to grow. Eisenstein says, “There is little more we can convert. Technological progress and refinements to industrial methods will not help us take more fish from the seas – the fish are mostly gone. It will not help us increase the timber harvest the forests are already stressed to capacity. It will not allow us to pump more oil the reserves are drying up. We cannot expand the service sector – there are hardly any things we do for each other that we don’t pay for already. There is no more room for economic growth as we have known it; that is, no more room for the conversion of life and the world into money” (Eisenstein, 2010).

Arriving at the gradual exhaustion of the remaining supplies of accessible petroleum, the onset of “Peak Oil”, depletion of over fifty percent the world’s fisheries, destruction of rain forests, acidifying oceans, disappearing species, threatened food chains, changing climate; there is little left to supply the

*Figure 2: Illustrating the ‘Financialisation of Capital’ introduced by Interest*
“growth” machine. In its place the former administrator of the United Nations Development Program, James Gustave Speth, asks what he calls the big question, namely, “How can the operating instructions for the modern world economy be changed so that economic activity both protects and restores the natural world?” (Speth, 2008).

The Role of Islamic Finance

When Mufti Taqi Usmani (2008) wrote his landmark paper on Sukuk and their Contemporary Applications, he opposed the fact that most Islamic investment certificates (Sukuk) were effectively structured as Bonds through their guaranteeing the return of principal, lack of asset ownership and display of similar cash-flow mechanics. He wrote, “The mechanisms used in Sukuk today...render the Sukuk exactly the same as conventional bonds in terms of their economic results. Islamic banks were not established so that they could offer the same products, and engage in the same operations, as conventional banks in the prevalent interest-based banking system” (Usmani, 2008). With the issuing of an AAOIFI directive prohibiting the characteristics outlined in Mufti Taqi’s paper, one may have expected a change in Sukuk dynamics. And yet, practically every single Sukuk issued since has had the same characteristics, i.e. that of a bond. Mechanics and justification aside, there is a reason why Sukuk display bond-like characteristics; it is that they are essentially issued in a bond market (See: Figure 2).

Most Islamic Finance practitioners will readily concede that the story of Sukuk is echoed across almost all Islamic Finance products. Today, practically every single Islamic Finance product finds its origins in an economic, risk and cash-flow sense from a commercial equivalent. The fundamental problem Islamic Finance faces is that it is trying to impact a system based on the negation of interest within the organizational structure, law, regulation and general market framework that was founded on its very logic. No wonder Mufti Taqi in the very same paper was driven to write, “Islamic financial institutions have now begun competing to present themselves with all of the same characteristics of the conventional, interest-based marketplace, and to offer new products that march backwards towards interest-based enterprises rather than away ... Oftentimes these products are rushed to market using ploys that sound minds reject and bring laughter to enemies” (Usmani, 2008).

Thus the main criticism against mainstream Islamic Finance from those within and outside the industry is that the current practice of reductive focus on transactional validity, as opposed to the wider dynamics and market, remit they operate in has unwittingly co-opted Muslims into the very logic they should oppose. Instead of providing a viable alternative, as Maulana Akram Nadwi...
states, “the instruments and transaction contracts that are billed under Islamic finance are only just Islamic and only in the latter, symbolic sense: they build or propose legal solutions on the pattern of terminology and contracts ... without any regard for whether the general outcome to which these contracts contribute is even tolerable, let alone desirable” (Nadwi, 2013).

As such, mainstream Islamic Finance is not formulated towards answering Speth’s big question; its operational concern instead of proposing an alternative to the destructive growth imperative has effectively been to normalize it under an ‘Islamic’ pretext. It is important to note that this has happened notwithstanding the sincere intentions of many of its practitioners to bring about a genuine change; like Corporations the structural elements of greed and profit maximization at all costs embedded within the industry discount the good desires of those within.

Despite this, recent times have seen more genuine initiatives in Islamic commerce, perhaps more in keeping with that first conceived by the early generation of Islamic economists16.

Reforming Islamic Finance

Whilst this paper has sought to be diagnostic without necessarily being prescriptive, it will conclude in providing one such way mainstream Islamic Finance can rectify its organizational structure to effect change consistent with an emergent contemporaneous de-growth movement17. Perhaps the most impressive aspect of Islam’s medieval economy was the role of Awqaf (plural: Waqf); the practice of charitable endowments that was systematised to such a degree that entire nation state economies were supported through them. Historically such privately run endowments provided services throughout the Muslim world in a manner akin to contemporary welfare states; such as food, housing, health and education – all decentralized and provided at practically zero cost to the State (Çizakca, 1998). The Cash Waqf, consisting purely or partially of cash provisioned for a variety of purposes, was historically, in economic terms, the closest precedent to Islamic banks. Cash Awqaf often contributed non-interest bearing loans to the public as well as each other through innovative means not entirely dissimilar from modern day Islamic Banks (Çizakca, 2004). Whilst contemporary times have seen this institution cease to play an effective role for a variety of reasons ranging from under-development, colonization and the establishment of national states wherein Waqf-controlled assets came to be centralized; its revival under Islamic Finance could potentially play a central role in the de-growth movement.

Scholars such as Çizakca (1992) recommend that Islamic banks be obliged by the government, (or by regulatory authorities such as AAOIFI), to allocate a certain portion (e.g. 5%) of their investment portfolio per annum to the purchase of Waqf certificates (being certificates with a right to the income and not ownership
in the underlying assets, as per Waqf principles). The allocation and management of social capital by Islamic banks and the revival of community orientated, decentralized Awqaf; could literally be a ‘match made in heaven’. Contemporary scholars such as Sadeq (2005) and Kamali (2005) argue precisely for this mode of action in their stating that the successful and professional management of such Trust-based Awqaf community projects could be best orchestrated professionally by Islamic Banks.

Whilst Islamic banks, being commercial banks, would find it difficult to transform the structure of their balance sheet portfolios, as that would risk compromising deposit or savings usually mandated to be protected by state regulatory authorities; such Waqf funds, in a manner akin to investment funds could effectively operate as off-balance sheet activities (See Figure 3 below). This would be particularly feasible, as most Islamic banks operate a mandated charity account, thereby allowing them to add seed money to the fund as charity in addition to managing the funds with a profit generation incentive.

![Figure 3: The Waqf Fund as an Off-Balance Sheet Activity](image)

The net-effect would be to enable Islamic banks to embody a de-growth dynamic under their mainstream growth one. Recent developments in the industry indicate cause for optimism. From Pakistan’s Meezan Bank inspired Ihsan Trust to Malaysia’s Waqaf An-Nur Corporation Berhad’s (WANCorp) model of a corporate waqf; Islamic Finance is gradually learning to focus on the wealth-creating core at the very heart of the capitalist system, the role of interest-based money and the Corporation. By previously ignoring the growth narrative
of usury and the institutions that arose out of it, Islamic Finance’s intelligentsia have ignored the fundamental Islamic command of paying heed to direction, as the Qur’an asks:

“So where then are you going?” [Qur’an, 81:26]

In answering this question it may help to reflect that it is no coincidence that the implied meaning of Riba, the word for usury in Islam, is ‘destructive growth’ and the meaning of Waqf is literally to ‘stop it’.

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Notes

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1. The demarcation between Usury and Interest is historically at least, a false one. The papal position before Henry VIII’s 1545 “An Act Against Usurie” was that usury was the sin of any amount of interest charged on a monetary loan. This was in keeping with scholastic theologians of Christendom such as Thomas Aquinas who saw usury as an abuse of the natural essence and function of money. Thus the allowance for ‘non-usurious’ rates of interest was a later development introduced by the moral relativism advocated by Christian reformists such as...
Calvin (1509–1564) and Luther (1483–1546) and eventually impacted by the Church of England. This paper adopts the pre-reformist position in considering usury and interest alike and uses the terms interchangeably with no difference intended, except where interpretative difference occurred historically, in which cases the relevant distinction will be made explicit.

2. The fragility of the global financial system is illustrated by impending hyperinflation, currency collapse, and depression waiting for the day when the American dollar can no longer be sustained (Eisenstein, 2007).

3. Peak Oil and the dependency of all aspects of our economic infrastructure and food supply on fossil fuels is a significant challenge when one considers that no conventionally-recognized alternative energy source can possibly hope to replace oil and gas any time soon (Eisenstein, 2007).

4. Recent times have seen an epidemic rise of autoimmune diseases; heavy metal poisoning, electromagnetic, chemical, and genetic pollution. These factors aligned with the degeneration of the modern diet, the toxicity and impotence of most pharmaceutical drugs causes significant cause for concern (Eisenstein, 2007).

5. Climate change, global warming, desertification, coral bleaching, tree death, topsoil erosion, habitat destruction, irreversible loss of biodiversity, toxic and radioactive waste, PCBs in every living cell, swaths of disappearing rainforests, dead rivers, lakes and seas, increasing slag heaps and quarry pits all point to the fact that the planet the next generation will inherit will be very different to one we currently live on (McKibben, 2011).

6. It may be worth paying heed to the former founder of Body Shop, Anita Roddick, her company being one of the first to prohibit the use of ingredients tested on animals and one of the first to promote fair trade with third world countries (Bakan, 2005, p.51). Losing control of her company’s directional policy after floating it on the London Stock Exchange, she had this to say, “You go onto the stock market ... and the imperative is to grow – and by a small group of people’s standards, financial investors who are gamblers ... like in a casino”, she called the whole process, “A pact with the Devil” (Bakan, 2005, p. 52).

7. Despite talk of the Triple Bottom Line in People, Planet and Profit; decisions taken for the first two can only be acted upon if there is justification for the third. As Milton Friedman says, “There is but one social responsibility for their shareholders, to make as much money for their shareholders. This is a moral imperative. Executives who choose social and environmental goals over profits – are, in fact, immoral” (Bakan, 2005, p. 34). Similarly concepts such as that of “Enlightened Shareholder interest” and “Corporate Social Responsibility” justify behaviour only on the grounds that in the long term they will increase shareholder profits. Thus mainstream economic discourse retains the bottom line of profits as the sole maxim for management to pursue.

8. Graber (2011, p. 364) alludes that, “Nixon floated the dollar in order to pay for the cost of war in which, during the period of 1970-1972 alone, he ordered more than four million tons of explosives and incendiaries dropped on cities and villages across Indochina ... The debt crisis was a direct result of the need to pay for the bombs, or to be more precise, the vast military infrastructure required to deliver them.”

9. For more details on TRIPS, visit: http://www.wto.org/english/tratop_e/trips_e/
trips_e.htm [Accessed 26 May, 2014].


11. Though initially estimated to make up 25 to 30 percent of the total financial system according to the Financial Stability Board (FSB), a regulatory task force for the world’s group of top 20 economies (G20); later estimates in 2010 and a 2013 paper by Fiaschi (2013) posited the size of the shadow banking system to have been over $100 trillion in 2012.

12. “Peak Oil” is often misunderstood to refer to the total exhaustion of petroleum resources. In fact it just signifies the period when the production of oil achieves its maximum rate before beginning its inevitable decline. This peaking and decline of production has already been observed in thousands of individual oilfields and in the total national oil production of many countries including the U.S., Indonesia, Norway, Great Britain, Oman, and Mexico (Heinberg, 2011).

13. AAOIFI (The Accounting and Auditing Organization for Islamic Financial Institutions): Is an international autonomous non-for-profit corporate body that prepares accounting, auditing, governance, ethics and Shariah standards for Islamic financial institutions and the Islamic Finance industry as a whole. (See: http://aaoifi.com)

14. Most Sukuk issued since Mufti Taqi’s paper and AAOIFI’s resolution rely on the dispensation provided to Ijarah contracts, wherein similar repurchase agreements at face value are deemed tolerable. In practice, genuine asset risk pertaining to Ijarah assets is likewise mitigated, as most such Sukuk are “asset based”, implying a nominal ascription to assets through repurchase agreements (not true sales), rendering them effective debt obligations conducive to the ratings of credit rating companies.

15. This could be posited as the real reason why Organizational Tawwarruq though effectively deemed non-Shariah compliant by AAOIFI is in widespread use across Islamic Financial Institutions; i.e. it has to mimic an interest based loan for short-term liquidity requirements (Khan, 2009). Similar arguments could be extended to a whole plethora of Islamic Finance products.

16. In the late 1960s and early 1970s, pioneering Islamic economists (Baqir al-Sadr, 1968; Mawdudi, 1969; Chapra, 1970 and Kahf, 1973) sought to place the Islamic Economic system as one that would promote universal brotherhood and justice, equitable distribution of income and individual financial freedom through the fulfilment of basic human and spiritual needs for all.

17. As a reactionary movement to the growth imperative built into our contemporary financial system, there has arisen a counter alternative financial narrative premised on the principles of de-growth. As the name implies, this narrative proposes a system that incorporates the ecological limits of the planet, precluding and countering the structural need for its endless growth in consumption. From Hernan Daly’s Steady State Economics, Tim Jackson’s Cinderella Economy (Jackson, 2011, p. 197) to the contemporary revival of Gift Economics, including
Islamic Gift Economics (Setia, 2011a); academics and activists alike are realizing the many limits to economic growth.

18. The Meezan Bank of Pakistan, in their founding of the Ihsan Trust (www. ihsantrust.org), have instituted a Cash Waqf that provides development microfinance, benevolent loans, and educational grants for financial assistance; all as the charitable arm of the Bank itself (i.e. utilizing its seed money).

19. The Waqaf An-Nur Corporation Berhad (WANCorp) is essentially a corporate waqf by Johor Corporation (JCorp), itself a State Investment Corporation in the state of Johor, Malaysia. Amongst the flagship initiatives of the corporate Waqf are: owning and managing a chain of 17 clinics and a full-fledged hospital, providing start-up capital for Microenterprises, Disaster relief and the management of a chain of seven mosques catering to over 15,000 worshippers (Obaidullah, 2014).