Book Review

Islamic Law and Finance


This book is a collection of essays presented at a conference held in April 1988 and organized by the Center of Near and Middle Eastern Studies and the Law Department, School of Oriental and African Studies, University of London.

Since the mid-1970s, there has been a significant revival of fundamental Islamic values in several Muslim countries throughout the world. Indeed, a number of Muslim (or perhaps, Islamic) countries like Iran, Pakistan, and the Sudan have recently taken practical steps towards the total Islamization of their economic and financial structures. Among the basic characteristics of an Islamic financial (banking) system is the prohibition of the payment or receipt of a predetermined (fixed) interest rate which is viewed as usury and thus prohibited. As an alternative, the Islamic financial system operates under the general principle of profit-loss sharing, which effectively transforms banks into equity-based (investment) firms.

As Mallat correctly points out in his preface, the Western notion of profit maximization does not control the Islamic system. Rather, it is the Shari'ah which primarily governs Islamic finance. However, some contributors to the book, notably William Ballantyne in his introductory chapter, appear to doubt the feasibility of the Islamic system and its ability to operate in contemporary economies. He argues that "what is required in today's climate, is [among other things] a restructuring of the Shari'a to fit Western economic concepts" (p. 9—emphasis added).

Nevertheless it is my belief, and perhaps the belief of many Muslim scholars in the field, that such a view is unacceptable, for it seems to be in direct conflict with the core of Islam. A basic tenant of Islam is that the Shari'ah cannot be changed or restructured to satisfy other lines of thought. Indeed, voluminous contemporary research now exists that demonstrates the viability and relevance of pure Islamic teachings to today's complex economic environment. Examples of such research include Chapra (1985, 1991); Khan (1986); Habibi (1987); Darrat (1988); Darrat and Suliman (1990); and Darrat, Suliman, and Bashir (1991).

The view that the Islamic economic system is superior to the contemporary Western interest-based economic system is not totally unique with Muslim scholars. Western economic thinkers have also shared a similar view. For example, prominent American economists like Henry Simon (1948) and
Charles Kindleberger (1985) have proposed certain banking reforms that would effectively eliminate the fixity of interest rates in the Western banking system in order to minimize its risk and avoid the looming banking crises. Even more recently, the Wall Street Journal published an article on May 9, 1991, entitled, “Islam and the U.S. Banking Crisis,” in which the author argues that the prohibition of a fixed interest rate and the profit-or-loss principle underlying the Islamic banking system may provide a practical solution to the current American banking crises and the astronomical cost of the FDIC (Federal Depository Insurance Corporation).

Aside from the above major misconception, the volume contains an interesting collection of essays relating to the recent experience of many Muslim countries with Islamic banking and finance. The volume is divided, after a brief introductory section, into two main parts. The first part deals with the legal aspect of law and finance in Islam, while the second part focuses on its financial side. Each part comprises four essays, giving a total of eight essays. The essays discuss a variety of legal and financial issues in Islam, though the book’s main preoccupation is with Islamic banking.

The book is recommended reading for any student of Islamic economics, especially those interested in examining the Islamic experience in some Muslim countries. Thus, whatever theoretical and empirical weaknesses it may have, the book performs a useful function and is a welcome addition to the literature on Islamic economics.

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References


