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# BOOK REVIEW

## ISLAMIC CAPITALISM AND FINANCE: ORIGINS, EVOLUTION AND THE FUTURE

*by Murat Çizakça, Edward Elgar Publishing, 2013, 325 pp., ISBN 978-0-85793-762-9.*

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The book "Islamic Capitalism and Finance: Origins, Evolution and the Future" by Turkish Professor Murat Çizakça (Professor of Islamic Finance, Comparative Economic and Financial History) was published in 2013 (paperback version). This book explores key issues within Islamic capitalism and finance, shedding light on whether the Islamic system can indeed be called 'capitalist', the principles on which the system was built, the institutions that were consequently developed, how they function and have evolved, and, perhaps, most importantly, whether they can be modernized to meet today's needs. An essential guide to the past, present and future of Islamic economy and finance, this compelling book will prove to be of particular interest to academics and researchers of economics, finance, economic and financial history and political science.

The introduction chapter focuses on the value systems behind the institutions. The following Chapter 1 introduces two approaches to Islamic Economics and Finance such as *sharī'ah*-based approach and *sharī'ah*-compliant approach. The author argues that modern Islamic finance is not built directly from the *sharī'ah* (*sharī'ah* based approach) but rather from the Islamically modified conventional banking (*sharī'ah* compliant approach), hence resulting in high costs, low profits and most importantly, a dilution of respectability. If Islamic finance is to emerge as the heart of a viable alternative capitalist system, it must progress from being *sharī'ah* compliant to being *sharī'ah* based. While the former briefly means borrowed from the West after being made compliant to the *sharī'ah,* the latter simply means not borrowed from the West but evolved from the original sources of Islam.

Chapter 2 describes the basic principles and eight axioms of Islamic capitalism. In Chapter 3, the author touches on entrepreneur financing and the medieval Islamic business partnerships. The nature and principles of Islamic partnership contracts such as *muḍārabah, ʻinān, mufāwaḍah* and *wujūh* are explained clearly.

Chapter 4 covers the evolution of medieval Islamic business partnerships in the Islamic world and the West. Two important derivatives of partnership contracts, namely, multiple *muḍārabah* and expanded *ʻinān* are explained.

Chapter 5 studies what the classical sources of Islam, the *Qur'ān* and the prophetic traditions, *aḥādīth*, have to say about commerce and what institutions have emerged as a result of these teachings in Islamic history.

Chapter 6 discusses the emergence of a fundamental component of public finance, the state (or government) borrowing from the public. The author argues that the problem appears to be particularly difficult in view of the interest prohibition in the Islamic world. Indeed, how can the government of an Islamic country borrow much needed funds from the public in an environment where the interest bearing loan transactions are prohibited by the *sharīʻah*? The author first looks into taxes, and then introduces the origins of modern *ṣukūk*.

Chapter 7 touches on the tool of voluntary redistribution of wealth – *waqf*. The categories of *waqf*, the cash *waqf*, the real estate *waqf*, *waqf* of stocks are discussed in detail. The author concludes this chapter by discussing the evolution from *waqf* to unit trusts. In Chapter 8, the author exclusively touches on the *waqf* of stocks. As examples the Turkish *waqf* reform and the Koç Foundation, the Johor Corporation Malaysia, the Mannan Model of Bangladesh and the Permodalan Nasional Berhad (PNB) of Malaysia are evaluated. The economic role of *waqf* is also explained. Finally, the Islamic unit trust funds and their Islamicity from the *sharīʻah* perspective are discussed. As an appendix, the author compared the Chinese Tang and the Islamic *waqf*.

In Chapter 9, the birth and evolution of modern Islamic banking are presented. The five pillars of Islamic Finance, the origins of Islamic banking, the modus operandi of Islamic banking are discussed. Some selected products of Islamic banking such as modern *murābaḥah*, the commodity *murābaḥah* and its variant organized *tawarruq*, the *baiʻ bithaman ājil* (BBA) or another form of *murābaḥah* are evaluated. As a final touch, the author discusses the reserves in Islamic banking.

Next, in Chapter 10, the possible ways of Islamic State or government borrowing from the public are elaborated. First of all, the author explains the dilemma of Islamic state and challenges of contemporary Islamic states. Then he describes the legitimate sources of taxes and public borrowing in the Islamic world. As a historical example, how the *Esham* helped the Ottomans to borrow from the public is explained. The modem applications such as the Turkish revenue participation shares, the first Malaysian Global *ṣukūk*, and *ṣukūks* in Dubai, Bahrain, Germany and the Netherlands are discussed. Another important financial institution, *takāful* (Islamic insurance) is analyzed in Chapter 11. The author provides the historical background of *takaful* and subsequently discusses the modern *takāful*. The *wakālah* model and family *takāful* exclusivity are discussed. Finally, the development of the *takāful* industry is presented.

Chapter 12 focuses on Tabung Haji as one of the most successful institutions for financing and organizing the modern pilgrimage. The establishment of Tabung Haji and its success story is shared by readers. Another important discussion on the Islamic gold dinar is presented in Chapter 13. By combining the interest prohibition in the *Qur'ān* with the rulings of Aḥmad Ibn Ḥanbal, Muḥammad al-Shaibānī and Ibn Taimīyah, some of the greatest classical jurists, the author deduces the position of Islam regarding money: Anything that is generally accepted by the public can fulfil the role of money. Thus money is, primarily, a medium of exchange and not a commodity. The price of this money (interest) must be zero. The author opposed the idea of gold dinar by giving 11 reasons in this chapter. As important reasons, he argues that introducing the Islamic Gold Dinar is not only un-Islamic because of its worsening impact on the rate of interest, it is also of no practical value since it cannot control inflation; besides that, since the Islamic world is a minor producer of gold, introducing the Islamic Gold Dinar would create unshared uncertainty, and therefore *gharar*, on a massive scale.

The *Maqāṣid Al-Sharī'ah* (the objectives of Islam) and its relation to Islamic banking are discussed in Chapter 14. The eight building blocks of financial stability are evaluated and the author recommends that future Islamic finance persons should recognize the theoretical merits of Islamic finance as espoused by the *sharī'ah.* Chapter 15 examines venture capital from the Islamic perspective and introduces the possible model of Islamic venture capital. The liability and asset sides of venture capital are examined. Especially, the author explains the importance of venture capital in Muslim countries. He presents a new model, which will combine some of the most important institutions of Islamic finance – *waqf* of stocks, Islamic venture capital and micro-finance. It is envisaged that by combining these powerful institutions in its structure, this simple model may play an important role in eradicating poverty, enhancing entrepreneurship and developing human capital in Islamic countries.

The author ends his book by discussing democracy and modern Islamic capitalism in Chapter 16. He first provides a brief history of the development of *Maqāṣid Al-Sharī'ah*, followed by an attempt to re-interpret it. By re-interpreting *Maqāṣid Al-Sharī'ah*, the author reaches the conclusion that in an ideal future Islamic society not only the basic freedoms observed in every modern advanced society such as human rights, freedom of thought and press, freedom of worship, freedom from confiscation of property exist, it is also the most profound duty of any Islamic state to provide these freedoms. Therefore, he proposed adding another component to *Maqāṣid Al-Sharī'ah* which is democracy. He is making this proposal, which hopefully will receive a positive reaction from global Islamic scholarship.

The chapters in this book have fulfilled the objectives the author has set out to achieve. I would like to conclude this book review by quoting Abbas Mirakhor: "It was a humbling experience to read the product of such a remarkable feat of scholarship. It is all at once an exploration in analytic history and a complete text of Islamic finance theory and application. It is also one of the most succinct renditions of the evolution of Islamic finance embedded in a comprehensive account of the particularities of economies as diverse as Malaysia and Turkey. This is a unique contribution to Islamic finance and Islamic economic history. It has been a rewarding learning experience. It is truly a breath taking effort."