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Faith and Finance: Value-Guided Pursuit of Interests

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Introduction

From time immemorial, there has existed an important relationship between faith and finance among different civilizations Although contemporary conventional wisdom separates faith and finance, this division has not served modern society well.[1] Faith impacts finance through motivation and value-orientation, which, in turn, influences wealth creation as well as the use of wealth for enhancing wellbeing.

All wealth is jointly produced by both natural and man-made elements. Natural inputs such as land, air, water, minerals, sunlight and other forms of energy need to be combined with human resources, such as ideas, accumulated knowledge, new skills, trust, hope and sympathy for a sustainable wealth creation. Some forms of wealth creation, such as partnerships, necessitate sharing wealth among those involved in its creation. Product-sharing, profit-sharing, renting and wage contracts all involve a distribution of wealth, although renting and wage contracts are more vulnerable to disparity among the parties involved. The rules regarding sharing joint products are usually put in place by regulators. The regulators are called upon to ensure fairness in sharing joint products through dedicated legislations and periodically issued guidelines to streamline market practices. The regulation of business practices is a well-established tradition dating back to the earliest periods of history. Its earliest forms were the obligation to fulfill promises and tell the truth. Not tampering with socially approved weights and measures and not indulging in clipping metallic coins soon followed.[2]

Natural elements, which include faith-inspired values, reflect morality in human relationships. In the absence of faith, moral values have to be anchored to pragmatism, depriving morality of the strength needed to prevent predatory practices. To assert that these values reflect the evolutionary necessity to preserve and promote vital interests ensuring survival does not

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contradict their essentially moral nature. There need be no conflict between morality and the pursuit of survival. Faith provides the trust needed to remove any fear of dissonance between life-enhancing values and survival interests. By increasing trust, morality reduces transaction costs and increases efficiency.

Therefore, this chapter examines the dynamics of value-guided pursuit of interests through the relationship between faith and finance. It makes a case for the inextricability of faith and finance in this pursuit, as the ethical dimensions of business is becoming more prominent than ever in the modern world. Thus, it is argued that faith has the strong potential to positively influence financial markets. Such efforts toward molding the human behavior in accordance with moral values would positively impact the global financial markets in the long run. These efforts would ultimately address the faltering ethical standards in global business.[3]

The Islamic Tradition

Though there are other worldviews on how faith positively impacts finance, this chapter primarily focuses on the Islamic tradition. According to Islamic teaching, since the beginning of time, God has recommended guarding our nature against excessive desire. God gave mankind the essential teaching of *tawhid*, the exclusive oneness and omnipotence of God, along with basic moral guidelines to foster a moderate and peaceful society. Among the teachings of the prophets, who relayed this message, was the recommendation for societies to behave justly in all economic interactions. In the Quran, God relates the story of Prophet Shu'aib who said:

> O my people! Worship God! You have no other *Ilah* (god) but Him. Verily, a clear proof (sign) from your Lord has come unto you; so give full measure and full weight and wrong not men in their things, and do not do mischief on the earth after it has been set in order. That will be better for you, if you are (true) believers (7:85).[4]

Prophet Shu'aib's advice is repeated in a later chapter, a sign of its importance:

> O my people! Worship God, you have no other *ilah* (god) but Him, and give not short measure or weight. I see you in prosperity and verily I fear for you the torment of a Day encompassing. / And O my people! Give full measure and weight in justice and reduce not the things that are due to the people, and do not commit mischief in the land, causing corruption. / That which is left by God for you (after giving the rights of the people) is better for you, if you are believers. And I am not a guardian over you. (11: 84, 85, 86)

First, it is important to note that the guideline for economic justice immediately follows the call to belief; its juxtaposition indicates that economic justice is largely based on belief from the Islamic perspective. This belief includes fear, love and respect for God that, in turn, necessitates that one respects the rights, including economic rights, of fellow human beings. Second, Prophet Shu'aib notes that his people may enjoy temporary *prosperity* from unethical economic practices, yet this delusion can lead to social disequilibrium and corruption if they refuse to adhere to God's tenets. He points to the essence of faith and notes that people have the responsibility to protect others from allowing this profit to delude them. In another noteworthy example in the Quran, *Surah Al-Mutaffifun* (The Chapter of the Defrauders) focuses on economic justice and harmony:

> Woe to *Al-Mutaffifun* (those who give less in measure and weight). / Those who, when they have to receive by measure from men, demand full measure, / And when they have to give by measure or weight to (other) men, give less than due. (83: 1, 2, 3)

This example points to another symptom of greed—selective application of rules. It is often human nature to accept ethical rules, but to apply them only when it benefits the individual. The above verses clearly suggest that these divinely legislated economic guidelines must be interpreted and applied holistically *and* impartially. Some of the greatest social ills have arisen from certain individuals getting more than their due and denying others their rights, or exempting themselves from ethical rules of justice. The Islamic conception of justice prevents such unequal treatment.That is not to say that Islamic principles are meant to curb financial practices through these rules; rather, faith and economics promote financial success in a way that is healthy for the individual and society. The infusion of morality into economics enables this healthy financial activity. We saw this example through the life of the Prophet Muhammad, a merchant known as *Al-Amin*, the honest, even before his prophethood. His wife Khadijah, one of the wealthiest traders in Mecca, was also known for her just dealings, as were many Companions of the Prophet, such as Abdur Rahman bin Auf, who achieved financial success while adhering to Islamic principles. Even some later Islamic empires followed this faith-finance unity. For instance, the earliest Muslims came to India as traders, in a *shari'a*-guided financial system that stretched through parts of Asia, Africa and Europe.[5]

In the 19th, 20th and 21st centuries, however, there has been a gap between faith and politics due to the separation of church and state mostly in western countries.[6] Faith has often been replaced by interest in impressive growth in a society where there is disparity in wealth distribution. Today's mega-cities, divided into luxurious living quarters with shiny suburbs on one side and dark, dilapidated slums lacking basic amenities such as clean drinking water and schools on the other side, are largely a product of economics that has purged faith and morality. Despite the claim that these economic principles are guided by reason, modern economic ideologies have led to a most unreasonable scenario—what is aptly called the global village.

Flowing from the traditional understanding of faith and finance in the Islamic tradition, there has been some revival in emphasizing the ethical values of financial transactions.[7] This is what is now known as Islamic finance.[8] The revival of Islamic finance did not occur until the 1960s and it is important as we discuss the future of Islamic finance that we understand its basic purpose as a value-guided pursuit of interests. In other words, while Islamic finance legitimizes profit-making, it reinforces such practice with moral values. This is a confluence between money and morality.

Faith impacts finance through answers to questions such as why produce and for whom to produce. In Islam, it is believed that the strength of one's faith is reflected in the intensity of one's efforts to produce. It is also reflected in what one does with one's earnings. The nature of our faith determines where we stand in the broad spectrum from exclusive pursuit of self interest to reaching out to all humanity. Faith broadens the scope of and widens the horizon for these productive efforts. The realistic middle ground (to which most of us stick) is to avoid harming others while serving one's self-interest, and to aspire to do good to others if and when circumstances call for it. Faith does this through generating a moral obligation toward others. Such moral obligation is a cardinal part of modern business ethics.[9]

However, all societies have not generated this moral obligation. Though there are large corporations across the world that are philanthropic and indeed donate part of their wealth to charity, the pursuit of self interest as a means to social well-being has practically disentangled the nexus between faith and finance. The natural tendency of faith to generate morality is ruptured by false notions about the efficacy of amoral behavior in delivering social good. The overriding focus on shareholder value maximization has disregarded other stakeholders such as customers, employees and society at large. A moral approach to finance has the potential to take a stakeholder approach, to be focused on the long-term, and to address the issue of compensation based on fairness and equity. Faith emphasizes inclusive growth while vested interests care only about impressive growth.[10]

The cause of affliction lies in a moral deficit in the contemporary structure of social, political and economic edifice. This moral deficit lies in the lack of concern for the good of others, which sometimes degenerates further into exploiting others in pursuit of one's own gain. The moral deficit itself is caused by the absence of faith; sometimes a weak faith or a faith diluted by confusing worldviews produces the same result: impotent faith incapable of moral uplifting. A robust faith brings into focus the oneness of mankind as owing existence to the same Creator. Brotherhood, equality in dignity, and respect for God-given resources of the environment and of human relations, all belong to this focus and are sustained by it. Regaining this focus is imperative.

Ground Reality and Desired State of the World

Going forward one needs to explore two parallel concepts: the actual conditions pertaining to faith-finance relations in contemporary society and the potential of faith to correct finance's current course. I begin with the latter, the potential of faith to ameliorate the contemporary economic crisis. The nature of finance is too complex to issue a simple list of "dos" and "don'ts" in the name of faith. Its ever-changing nature defies any list of prohibitions and obligations to function well in all places and times. However, the crucial values that promise to help secure fairness in changing conditions are: the concern for others' well-being, the will to abstain from harming others even at the cost of personal sacrifice, and the willingness to submit to enacted social regulations. Most of the recent adversity in financial markets is rooted in the absence of these values.[11] For example, the Chicago school, which has been influential since the early 1980s, openly warns against firms and individuals trying to care for others. The ruling dogma is that one best serves society by serving oneself.[12] No wonder the other two values, the will to abstain from harming others and a willingness to abide by rules, also evaporated under the encouragement of unlimited self-interest. Given this environment, who would not twist rules to make them serve one's own interest?

The answer necessitates pondering over the quest for fairness in financial systems. In the absence of regulations capable of ensuring fairness, it is an understanding of morals that matters. People who want to behave will find ways to do so, if not straight away then through experimentation. They may even find ways to constrain deviants and minimize the loss of social harm due to individual perfidy. Much has been made of lack of full information to economic decision-makers in debunking the idea of caring for social good.[13] The reality is that there is no way to have full information about future values. The falsity of the assumption that market mechanisms can somehow solve this human predicament has been exposed by a succession of crises. Man must try to compensate for the inevitable information deficit by experimentation, pooling of available information and sharing the consequences of ill-informed decisions. One can do this at the individual level as he or she has been doing at the societal level. Faith is a positive aid insofar as it creates an incentive to cooperate for the social good.

People of faith have learned some lessons in the past during the quest for fairness. These lessons deserve to be our starting point in a similar quest today. As I proceed to summarize them, I beseech you not to quibble over the variety of interpretations and controversies surrounding the circumstances in which they are applicable. I would also like to underline the fact that these constitute the first steps to be taken in man's search for a just and fair financial system, and by no means are sufficient to usher in a wholly just society.

Pillars of Fair Finance

The prerequisites of fairness in finance include the prohibition of interest, fraud (in its myriad forms), gambling and transactions involving excessive uncertainty (*gharar*). These prohibitions should be viewed from the perspective of private ownership, freedom of enterprise and the supervisory role of the state as guardian of the poor and weak. Faith encourages charitable giving, which includes lending to the needy and expecting to receive no more than what was given. Regarding business loans, shifting all risk onto the borrower is repugnant to faith; encouraging partnership and profit sharing suits faith. Gambling is playing with chance. Financial transactions that thrive on trade involving excessive risk are examples of gambling. Some activities are surrounded by excessive uncertainties to an extent that contractual relationships built around them are problematic. Such contracts are not transparent in offering the same information to all concerned, and because just sharing is missing, it is better to avoid these contracts.

In Islam the jurists have worked hard to translate the three principles listed above—prohibition of interest, prohibition of gambling and minimization of *gharar*—into rules governing business relationships. But the ever-changing nature of these relationships, which are largely shaped by changing technologies, makes it impossible to use an unchanging net of rigid rules. Innovation in ways of doing business necessitates making new rules, thus the process of rule-making must go on!

Protecting the weak from the strong and the poor from the rich necessitates some socially imposed restraints to human freedom, including freedom of enterprise. Securing fairness would, however, need more than imposing restraints. That is where the values mentioned above—concern for others, readiness to limit one's potential gains and following democratically enacted laws—become relevant. We need to harness human ingenuity to positively enhance justice and equity, not only to prevent injustice. Faith is capable of doing so.[14]

Faith Versus Cult

Faith knows no land, race, language or culture. But people of faith sometimes develop strong attachments to one or more of these to the extent that they identify their religion with a particular land, race, language or culture. As a result, faith loses its power to generate moral values overriding narrower interests. This provides an answer to the second query made above: the actual condition relating to the faith-finance nexus. In today's world, faith has had little influence on finance since faith has been made a tool of national, racial and other social ambitions.[15] Religion is the expression of faith, translating faith's demands into individual rules of conduct. Over time these rules have often been twisted to suit particular interests.

The rejuvenation of faith necessary to transform the current financial system would first involve the disentangling of faith from other narrower loyalties such as state or citizenship. Faith in its purest form—that is faith detached from state, citizenship, etc.—has the capability to cut across all ideologies and promote morality. By creating positive sympathetic relationships with others, faith would make men accountable and responsible to each other. But faith in its current state—faith that is made subservient to nationalism or imperialism—fails to do so. Impure faith creates an artificial distinction between morality and faith. Loyalty to a nation or race, for example, can dictate certain ethics and priorities that are generally in conflict with those of another nation or race. Faith cannot impact finance unless and until barriers, including the major barrier of human greed, are removed.

Islam's contribution to universalizing faith-generated morality lies in pushing back these barriers to their proper secondary positions. The best periods of Islamic history were the early periods when tribal or racial loyalties were kept in check and morality reigned supreme.[16] Conversely, the worst period occurred when tribal and racial identities surpassed morality in the creation and sharing of wealth. The resilience of the Islamic morality suggests the need to review the financial system in light of Islamic ideals of justice and equity (*adl* and *ihsan*). The 50-year-old movement of Islamic banking and finance is a recent example.

Diluting Faith's Mandate

The original position of people of faith was that charging interest on consumption loans to the needy was considered immoral, while charging interest on commercial loans was considered unfair as it amounted to shifting risk to the borrower. As is well known, this position was later modified by many faith groups to allow moderate rates of interest on commercial loans.[17]

The distinction made between loans for consumption purposes (which do not result in anything marketable) and loans for productive purposes has no basis in the texts to which these faith groups adhere. This was supposedly done on pragmatic grounds to facilitate financial transactions between owners of money capital and users of money capital for creating additional wealth. It was argued that interest payment was needed to compensate for the lender's loss of opportunity to profitably employ their capital, ignoring the fact that no opportunity for guaranteed profit existed.[18] Man's environment is characterized by uncertainty of future value productivity of capital, as Frank Knight demonstrated in his 1921 book *Risk, Uncertainty and Profit*.[19] Furthermore, any legitimacy accorded to interest in one sector permeates throughout the economy with the passage of time.[20] Islam eliminated that possibility by declaring excess payment above the initial amount lent as prohibited *riba*. As the Quran says:

> Believers! Have fear of God and give up all outstanding interest if you do truly believe. But if you fail to do so then be warned of war from God and His Messenger. If you repent even now, you have the right of the return of your capital; neither will you do wrong nor will you be wronged. (2: 278–80)

The Quran does not recognize the distinction between low and high rates of interest or between loans for business and loans for need-fulfillment. The presumption that commercial loans were not prevalent at that time has no basis in history.[21] On the contrary, *riba* in seventh century Arabia was overwhelmingly common in commerce. This is underlined by the declaration made by the Prophet Muhammad in his last Hajj sermon canceling all interest owed to his uncle, Abbas bin Abdul Muttalib. Abbas advanced money capital to date growers in Medinah as well as to grape growers in Taif. Failure to pay at the time the loan was due then justified an increase in the amount to be repaid.

Some have tried to grant legitimacy to interest arguing that it is analogous to rent. Unlike money, which must first be spent to acquire real goods and services, rented goods like machines and real estate are useable right away. Islam, like other religions, allowed people to charge rent as a price for *usufruct*. Jurists often absolve the lessee from the obligation to pay rent should the rented property lose its ability to provide the expected *usufruct*.

Legitimacy of profit and rent is hedged with the provisions directed against monopoly and hoarding in order to maintain fair competition. The rest is largely left to the market functioning under the watchful eyes of the social authority. Abu Bakr, the first ruler succeeding the Prophet Muhammad, described the ruler's duty as protecting the weak from the strong.[22]

Speculation in financial markets often takes the form of betting on the uncertainty of the outcome of future events. Regulators must realize that such trading in risk is no more than gambling and serves no legitimate financial purpose. As such, regulators should prohibit such trades and they should closely examine all associated financial instruments, such as derivatives, for characteristics of uncertainty.

Conclusion

Faith has the potential to influence financial markets by molding human behavior in accordance with moral values. Thus, people of faith have devised institutions to realize the ideal of a just society, through means such as the Islamic finance framework and other faith-based initiatives introduced in the Christian world. Rapid technological changes necessitate adapting these institutions in order to realize social goals while the institutions continue to innovate in financial markets. These rapid changes constantly present new challenges for regulators, so the quest for fairness in finance becomes a continuous process.

Endnotes

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