

MY SAY: Consider the Islamic financial option

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Article

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The global economic system continues to be plagued by a loss of confidence as markets worldwide plunge further, some hitting their lowest level in recent times. Meanwhile, the risk of deflation and recession is becoming real again.

Japan's recession-hit economy is reportedly worsening, as is the US economy. These, predictably, will be followed by others in the coming months if nothing concrete happens soon. All this is too ironic as it was only in mid-September that the then Republican presidential candidate, John McCain, announced: "The fundamentals of the economy are strong." Hours later, Lehman Brothers filed for bankruptcy — the largest in US history — and the Dow dropped 500 points, which only goes to show how volatile the situation is.

Although several hundred billion dollars have been sunk into the US economy, there are few signs of recovery. Instead, there is growing impatience with the current system that has allowed the worst to happen. Some have come out to admit that the time has come to put things "right" again.

After all, the 1944 Bretton Woods Convention, which was responsible for setting up a system of rules, institutions and procedures to regulate the international monetary system during World War II, has shown signs of collapsing since 1971. This followed the US suspension of converting dollars to gold.

Indeed, there is now a Commission of Experts on Reforms of the International Monetary and Financial System that is signalling that patchwork is no longer acceptable. Rather, there has to be a new global financial architecture. This time, developing countries are demanding more transparency and fairness.

Malaysia is vocal about this, judging from the statement issued on the eve of the Asia-Pacific Economic Cooperation leaders summit on Nov 22. Deputy Prime Minister Datuk Seri Najib Tun Razak was quoted as saying: "I will state Malaysia's stand for a more open global financial and trading system without any form of protectionism and inward-looking bias." This invariably includes the over-hauling of the International Monetary Fund and the World Bank, the monsters of the 1944 Bretton Woods Convention that took shape under the exploitative tutelage of the rich and powerful nations.

In the search for an alternative, no stone should be left unturned, including the Islamic system. Bank Negara Malaysia governor Tan Sri Zeti Akhtar Aziz, who was recently appointed to the commission, in fact was quoted as saying that Islamic finance, as a growing part of the international financial system, has the inherent ability to deal with the current financial crisis. According to her, the Islamic system is less vulnerable to over-exposure to risks associated with excessive leveraging and imprudent risk-taking due to its inherent strengths and supporting structures.

"The practice of risk-sharing provides the impetus for Islamic financial institutions to conduct the appropriate due diligence and maintain explicit requirements for disclosure and transparency," she said.

This should not spring any surprises on anyone since more and more banks, including major international ones, are now adapting to the Islamic concepts and principles of banking and finance. Once alien, terminology such as muamalat, mudharabah, sukuk and wakala are now acceptable international services and transactions that give greater financial resilience.

On top of this, as emphasised by law lecturer Alice de Jonge of Monash University in a recent colloquium co-organised by Monash's National Centre of Excellence for Islamic Studies, Islamic finance is more in tune with the socially beneficial role of financial institutions.

"Islamic models begin with the premise that the role of a financial institution is to promote the overall well-being of society," she was quoted as saying. She added that she was "aware of the exploitative aspects of conventional financial systems".

Hence, there is now an opportunity to fully explore and appreciate the Islamic financial system, where money is not considered as a commodity per se. It is regarded as "a store of high value" backed by gold as proposed by the gold dinar project in the wake of the 1997/98 Asian financial crisis.

The introduction of Islamic gold dinar as a gold-based currency for international trade (at least in the Muslim world), for instance, could provide a medium of exchange more stable than the US dollar, and may co-exist with, if not replace, the US dollar eventually. This is more so because paper money has been demonstrated, on many occasions, as being an instrument of default and fraud.

A decade ago, this fact was discussed in a presentation at the American Muslim Social Scientists in Chicago.

The paper, titled The Dinar: Indispensability of Hard Money to the Islamic Monetary Regime, argued that "far from being a 'barbaric relic' (as John Maynard Keynes allegedly characterised it), gold is the natural monetary entity that has provided an equitable monetary policy, free from the arbitrary or self-serving manipulations of central banks and politicians".

The author, Imad-ad-Dean Ahmad, contends that soft currencies (tokens, paper) are all subject to the manipulation of governments seeking to engage in deficit spending or bankers seeking to increase their interest revenue through fractional reserve banking.

Interestingly enough, he cited the US Federal Reserve notes currently in use, which for some decades now have been payable in, not gold or silver coins, but Federal Reserve notes of other denominations.

Under Alan Greenspan, the Federal Reserve pursued a tight monetary policy that succeeded in easing America's serious inflation problem, but not without a cost.

Imad's assertion was that Greenspan's so-called prudent judgement was fortuitous and that it would only last as long as God willed it.

While some argue that current events may not mark the end of capitalism, its golden age is surely over. As the ideology begins to loosen its grip on the upkeep of the global financial system, so does its monopoly.

Without prejudice, it is time to allow other more enlightened systems to emerge and co-exist as we desperately attempt to save the international community from collapsing. Here, the Islamic option, as a whole or in part, must be seriously considered.

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