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ECONOMÍA

AN INTEREST-FREE ECONOMY. A COMPARISON BETWEEN CAPITALISM AND ISLAMIC ECONOMICS

Alexandra Garabajiu Prividiuc

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Historia económica y desarrollo

Henrike Galarza Prieto

Francisco Javier Husillos Carques

Resumen

El interés es un elemento clave en el sistema económico capitalista, y es ampliamente utilizado en la economía global actual. Sin embargo, esta práctica estuvo prohibida durante un largo período en la historia en las sociedades cristianas porque se consideraba un pecado, inmoral y perjudicial para la sociedad. A pesar del hecho de que esta prohibición del interés se menciona en los libros sagrados de las tres religiones abrahámicas, el judaísmo, el cristianismo y el islam, esta práctica fue finalmente aceptada por judíos y cristianos para promover el comercio y el crecimiento económico. La eliminación de la prohibición de intereses permitió el surgimiento del capitalismo en las sociedades cristianas occidentales, que extendieron este sistema económico por todo el mundo a través del imperialismo. Sin embargo, cuando las antiguas colonias lograron la independencia, el capitalismo occidental comenzó a ser cuestionado y se desarrollaron teorías económicas alternativas. La economía islámica es una de las alternativas al capitalismo. Una de las características más distintivas de la economía islámica es la prohibición del uso de intereses. Las instituciones financieras islámicas ofrecen productos sin cobrar tipos de interés y, en cambio, dependen de la participación en las ganancias y pérdidas. El capitalismo y la economía islámica se basan en principios opuestos. El uso o la abstinencia de transacciones basadas en intereses está relacionado con la moral y la religión, y los principios del capitalismo no se alinean con los valores culturales en ciertas sociedades. Por lo tanto, las prácticas capitalistas como el uso de los intereses no son necesariamente las mejores para la economía en todas las sociedades.

Palabras clave: interés, capitalismo, cristianismo, islam.

Summary

The interest is a key element in the capitalist economic system, and it is widely used in today's global economy. However, this practice was prohibited for a long time in history in Christian societies because it was considered sinful, immoral, and detrimental for the society. Despite the fact that this prohibition on the interest is mentioned in the holy books of the three Abrahamic religions, Judaism, Christianity, and Islam, this practice was eventually accepted by Jews and Christians to promote trade and economic growth. The elimination of the interest ban allowed for the rise of capitalism in the Western Christian societies, who spread this economic system around the world through imperialism. Nevertheless, when the old colonies achieved independence, Western capitalism started to be questioned and alternative economic theories were developed. Islamic economics is one of the alternatives to capitalism. One of the most distinctive characteristics of Islamic economics is the prohibition on the use of interests. Islamic financial institutions offer products without charging interest rates, and instead, they rely on profit and loss sharing. Capitalism and Islamic economics are based on opposing principles. The use of or abstinence from interest-based transactions is related to morals and religion, and the principles of capitalism do not align with the cultural values in certain societies. Therefore, capitalist practices like the use of interests are not necessarily the best for the economy in every society.

Key words: interest, capitalism, Christianity, Islam.

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1. INTRODUCTION

The interest rate is a key element of the modern capitalist economic system since it allows for the accumulation of capital that can be used to make large investments (Bayindir & Ustaoglu, 2018). Moreover, conventional banking is characterized by the use of interest rates, which the bank charges to its clients to generate profit and compensate for the risks of the transactions (Erb, 2009). However, the use of interest rates that is so common in conventional economics used to be prohibited in many Western[1] countries, and this prohibition is found in the holy books of the three Abrahamic religions: Judaism, Christianity, and Islam (Bayindir & Ustaoglu, 2018). Sauer (2002) explains that the reasons for banning the use of interest rates were based on religious principles and the view of money. Christians, for instance, believed that this practice destroyed solidarity in the community and could easily lead to usury and did not support the idea of making money out of money.

As Bayindir & Ustaoglu (2018) mention, despite the fact that the interest ban was present in the three Abrahamic religions from the beginning, only Muslims still condemn this practice today, whereas the Jewish and Christian societies allow it as a necessary element of the capitalist economic system that dominates the world, and especially the West. We find several Islamic financial institutions in Muslim and non-Muslim countries that offer products and services without charging interests. These institutions have been created in the last fifty years, and during this period of time, the market of Islamic finance has experienced a rapid growth, especially since the nineties (Erb, 2009).

The objective of this study is, first, to analyse the origin of the interest rate and its role in the development of the capitalist economy, and second, to present an alternative interest-free model: the Islamic economic system. To do so, on the one hand, a short historical review of the evolution of the use and legitimation of the interest rate and its relationship with the religion is carried out, and a study of the role of interest rates on the emergence

[1] By "Western" we mean the predominantly Christian countries in Europe and North America, that are nowadays considered to be among the most developed countries in the world.

and development of capitalism is conducted. On the other hand, the principles of Islamic economics are explained and contrasted with those of capitalism.

The first part in this study comprises a historical review of the use of interests throughout history, starting from the oldest civilizations until the rise of modern capitalism. We explain that the first ban on interest was introduced by Judaism, the oldest of the three Abrahamic religions, and how it was lifted over the time in Jewish and Christian societies. We focus especially on the evolution of the use of interest rates in the Christian world[2] because the modern capitalistic economic system emerged in Christian countries. We explain how the rise of Protestantism led to the acceptance of the use of interest rates in Christian societies and paved the way for the rise of capitalism, that was later established in other parts of the world through colonization.

The following section introduces Islamic economics and explains the basic principles on which such an economy is built, with special emphasis on explaining how an economy can function without the need to legitimise the use of the interest rate. Then, different financial instruments that do not contain interests and which are used by Islamic financial institutions are presented as real examples of alternatives to conventional banking, as well as a brief review of the emergence of Islamic institutions in the last decades.

In the last section, we make a comparison between the Islamic and the capitalist economic models. We explain the main differences between a system where the interest rate is legitimate and plays an important role in the accumulation of capital, and a system where the interest rate is prohibited and does not have any role in the economy. Finally, we draw our conclusions from this study.

[2] By "Christian world" we mean the group of countries that have been predominantly Christian since the Middle Ages, mostly in Europe.

2. THE HISTORY OF INTEREST-BASED TRANSACTIONS AND THE RISE OF CAPITALISM

Financial transactions have always been part of human interaction. As Homer & Sylla (1996) explain, credit was common in ancient and medieval times, and there is evidence about the use of interest-bearing loans by the first great civilizations in history. The oldest known legislation on loaning was presented by Hammurabi of Babylon around 1955 to 1913 BC, and it is argued that the bank-temples of that time were the first financial institutions in history (Bayindir & Ustaoglu, 2018). Interest rates[3] in ancient Sumer (Mesopotamia), Babylonia, Greece, and Rome used to be fixed by law. Each civilization established certain interest rates that were considered reasonable at their time. Something similar happened in other old nations such as China or India, although their banking was less developed than that in the Mediterranean nations during classical times and the Middle Ages (Homer & Sylla, 1996).

According to Mills & Presley (1999), the first mention of an absolute prohibition of interest in history is found in the Jewish holy scripts. We can find in Deuteronomy (23:19) the following passage: "Do not charge your brother interest, whether on money or food or anything that may earn interest. You may charge a foreigner interest, but not a brother Israelite.". The three Abrahamic religions, which are Judaism, Christianity, and Islam ban interest-based transactions (Bayindir & Ustaoglu, 2018). Nevertheless, only Islam maintained this prohibition until today.

The credit system during the Medieval (5th to 15th centuries) and Renaissance Europe (14th to 17th centuries) was highly influenced by the Church doctrine, which set restrictions on usury because it was considered a sin (Homer & Sylla, 1996). However, throughout that time, Christians went from forbidding this practice to slowly adopting it. Regarding the Jews, there is evidence that interest-based transactions with foreigners were historically a major source of revenue for them. It is argued that they preferred this business activity due to the high earnings related to it, and that the importance of

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[3] We refer to interest as the excess amount charged over the principal of a loan.

education in their religion allowed them to acquire the mathematical knowledge which facilitated the practice of usury for them. Despite the principles of solidarity and charity emphasized in the Torah (the Jewish holy book), religious institutions eventually lifted the ban on interest to promote commercial relations (Bayindir & Ustaoglu, 2018).

The following historical analysis is centred on the evolution of the use of interest rates in Christian societies since the modern capitalism that is discussed in the subsequent sections emerged in these nations before it was established in other parts of the world. As Weber (1967) explains, the rise of capitalism in the Christian world was linked to the Church reforms introduced by Christian Protestants. They believed that the use of interest rates was beneficial for the economy and the society. After the Christians lifted the ban on interest, they experienced an unprecedented economic growth, and the modern capitalism was born.

2.1 The history of interest in the Christian society: from prohibition to acceptance

The economy in today's majority-Christian countries functions with the interest rate as a key element in the financial market. Nevertheless, the use of interest was not always allowed in Christian societies throughout history. In fact, it used to be prohibited by Christians before the sixteenth century (Sauer, 2002). Bayindir & Ustaoglu (2018) explain that the ban on interest was first introduced in 325 AD, and it affected the majority of commercial activities and transactions. The use of interest was not allowed during the entire scholastic period, when Christian theologists were mostly influenced by philosophers such as Aristotle and St. Aquinas.

According to Sauer (2002), the ban on interest was based on two elements. On the one hand, it was based on the prescriptions of sacred text, which views the use of interest as unfair because it leads to hoarding and erodes social solidarity. We find different passages in the Bible that warn people about usury. For instance, "He that hath not given forth upon usury, neither hath taken any increase (…) he is just, he shall surely live, saith the Lord God" (Ezekiel 18:8), or "(…) lend freely, hoping nothing thereby." (Luke 6:35). On the other hand, as Tinker (2004) explains, early Christianity was deeply influenced by the Aristotelean ideology, which placed the human being at the centre of the Universe and ordered everything else around. Regarding the concept of money, Aristotle claimed that it is only a medium of exchange and it is not productive, therefore money cannot produce money (Tinker, 2004). Sauer (2002) also mentions that capital goods, from the old Christian perspective, had a value in use because the ownership of a good was distinguished from the ownership of the services provided by that good when using it. This distinction was not made in the case of money since it was considered just a medium of exchange that represented the value of the exchanged products or services but did not have value in itself. The services or the use that an amount of money could provide were not distinguished from owning that amount. Therefore, paying for using a good, like for instance paying a rent for a house, was an acceptable form of income but paying an interest rate for "using" a quantity of money lent was not conceived. As Bayindir & Ustaoglu (2018) mention, the only function of money was to measure the value of other goods.

Different political, social, and economic events which occurred during the 16th, 17th, and 18th centuries changed the Christian world completely, and with it the conception of money and the ethical view on the use of interest rates (Tinker, 2004). As Allen (2011) and Amatori & Colli (2013) explain, a major phenomenon that happened in Western countries during that period of time was the privatization of communal lands, which meant the creation and liberalisation of the land market. For the first time, free markets for land were created in England in the 16th century. Furthermore, an important agricultural revolution started when innovation and institutional arrangements allowed for a sustained increase of agricultural productivity. Before, farmers only produced enough food for subsistence, and after the agricultural transformation their productivity increased, which generated a surplus of food. As a result, fewer farmers were needed to produce food and many people moved from villages to the cities. In addition, salaries increased and so did demand and consumption. This caused an increase in the amplitude of the market, and together with the modernization of transport, it fostered the creation of national markets (Allen, 2011; Amatori & Colli, 2013). All these changes allowed European Christian societies to move from subsistence to market economies, and according to Tinker (2004) this changed the view on money, which started to have a value in use. From that new perspective, the prohibition of interest was not considered reasonable anymore. Therefore, this practice was legitimized and institutionalised, although it remained highly regulated.

Tinker (2004) argues that the privatization of communal lands and the institutionalization of the right to private property changed the mentality of the Western people. The community based on partnership, mutual aid and obligations to the society started to place a greater focus on individual rights, self-interests, and private property. In addition, Amatori & Colli (2013) mention that throughout the 16th, 17th, and 18th centuries, serfdom was abolished in the different European Empires, which caused the release of the labour force. This fact allowed for the creation of the labour power required for building a capitalist system.

Allen (2011) and Amatori & Colli (2013) explain that the modernization of transports was another important phenomenon during that period of history in the West. Different innovations decreased the costs of the means of transportation and increased their speed. This favoured markets integration and fostered trade. Europeans expanded trade overseas and developed maritime routes which allowed for the creation of commercial networks. The world economy was born. Moreover, the growth in trade generated an enterprise spirit and a capital accumulation that later served to finance industrial investments during the First Industrial Revolution. The same happened in the 19th century, when many banks were created in European countries such as Germany or France which financed the great industrial expansion that occurred in those countries before the First World War. According to Bayindir & Ustaoglu (2018), the need for financial capital was the main factor for the dependence on interest-based transactions.

The role of the Church in the society changed from the 16th century. As explained by Pope (2019), in early Catholicism, Christian elites were considered as the moral guides of the common people, as something necessary for human development, and their authority allowed them to dictate social norms. People respected them since they believed that they knew what was best for the community. This is what Tinker (2004) calls “Catholic paternalism”, a principle that was often used to justify the accumulation of wealth and power in the hands of nobility and the Church in the Medieval era. From this paternalistic point of view, charity was regarded as an act from the top to the bottom of the society rather than an egalitarian and mutually respectful gesture. Moreover, Christian clerics preached severe prohibitions on moneylending and the use of interest, but this was contradictory to the exaggerate amount of wealth that the clergy and the Vatican concentrated. This controversy within the Catholic Church became evident with time, and the Christian principle of paternalism was undermined until becoming totally suppressed after the Glorious Revolution in 1688 (Tinker, 2004). After that, the monarchy took the governing power that the Church used to have during the Middle Ages. From a religious point of view, individuals became "artisans of their own destiny", as it was said by Pope Paul VI (Pope, 2019). This idea emerged from Protestantism and led to the evolution of human control over nature and the population.

Protestantism emerged in the 16th century as a new church independent from the papacy of Rome. This church was first established in Geneva, and then in Scotland, the Netherlands, and England during the 16th and 17th centuries. This movement believed that making money out of money was not sinful, and thus interest-based transactions were allowed. Protestants claimed that the interest ban only applied on agricultural activities, and given the changes in the economy, the prohibition had to be reconsidered (Bayindir & Ustaoglu, 2018). Furthermore, Protestant scholars argued that many interest-based loans were used by manufacturers who promoted social welfare, and therefore, there was no negative impact on poverty. Another argument that Protestants used for the elimination of the interest ban was that it allowed to accumulate the necessary large amounts of capital for investments that ultimately would result in a positive contribution to the society (Bayindir & Ustaoglu, 2018).

The Church needed to adopt the use of interest for transactions involving currency trade in order to finance commercial activities in Venice, that was an international trade capital in Europe at that time. The banking sector was first institutionalised in Venice, laying down the foundation for the modern financial system. The Catholic church became more permissive regarding interest-based transactions and changed the law several times during the 17th and 18th centuries, gradually erasing the interest ban. The expansion of trade in the Christian world and the growing need for financial resources led to the justification of interest-based borrowing and interest collection (Bayindir & Ustaoglu, 2018). After the elimination of the interest ban, which hindered the accumulation of capital, the Christian world started to experience an important economic development. This was especially remarkable in Protestant-majority countries like the Netherlands, that experienced a significant economic development starting in the 17th century, and by the beginning of the 19th century it had the highest GDP per capita in Europe (Allen, 2011).

2.2 The rise of capitalism in Christian societies

Different forms of trade, moneylending and banking have existed in all civilized countries throughout history. However, the West has developed a form of capitalism which had never emerged elsewhere, and which Weber (1967) calls "the rational capitalistic organization of (formally) free labour". Although the principles of capitalism such as individuality and a materialistic view of the world are contrary to the traditional Christian values, societies in the Occident somehow adjusted to capitalism and became the leaders in this economic system. According to Weber (1967), economic success is largely dependent on culture, and he argues that the rise of Protestantism in some European countries facilitated economic development because Protestantism made people more laborious and rational.

The Western form of capitalism has been largely influenced by modern sciences based on mathematics and rational experiments, and according to Weber (1967), rational book-keeping is one of its key elements. Although algebra and calculation already existed before in other parts of the world, modern arithmetic and book-keeping were not developed anywhere else as in the Occident, and this was due to the favourable economic conditions, the social structure, and the rational constitution of law and administration with formal rules (Weber, 1967).

Weber argues that the construction of the rational organization of the industry and labour so characteristic of a capitalistic economic system would not have been possible without the separation of business from the household. In capitalism, there is a strong distinction between the actors in the economy who own capital and those who provide their labour force in exchange for a wage. These two components are necessary to conduct any activity that will generate profits. Furthermore, labour and capital are characterised for being mobile, so they can move in space and change from one activity to another. Fulcher (2015) additionally mentions that the labour force also has an important role in consumption. He states that "wage labourers cannot themselves produce what they need or may wish to consume, they have to buy it, thereby providing the demand that activates a whole range of capitalist enterprises”.

Other elements that are also required for the success of capitalism in a society are the establishment of institutions and legislation that facilitate the transformation of all kinds of assets into capital (Fulcher, 2015), as well as the existence of a surplus population that can be hired for low wages (Weber, 1967). According to Fulcher (2015) and Weber (1967), the presence of the above-mentioned factors in the West is what allowed for the rise of modern capitalism.

However, the development of capitalism did not just involve the establishment of a new type of economic system, but also a profound cultural change that was tightly related to the rise of Protestantism. We have explained how the interest ban in Christian societies was lifted with the emergence of the Protestant movement in the 16th century, which supposed a reformation of the Church and allowed for an economic growth that was not seen before in the Christian world. As Weber (1967) explains, Protestantism brought an unprecedented control of the Church over the life of individuals, regulating their conduct in all aspects of private and public life.

Weber (1967) argues that religion and ethics have a great influence on conduct, and that is why Christianity, and more specifically Catholicism, was at first an obstacle to the adoption of capitalism in Western societies. As already mentioned, old Christianity, like Judaism and Islam, strongly condemned usury and promoted solidarity and charity. Thus, in order for people to be able to accept the use of interest and embrace the capitalistic practices, the religious principles had to change. As Weber (1967) argues, the development of economic rationalism depends on the capacity and inclination of people to embrace certain rational practices, and this is the reason why the rise of modern capitalism in the West also required a change in education and culture.

According to Weber (1967), capitalism is based on the notion that economic acquisition is not anymore the means for the fulfilment of human needs, but it is the purpose of life, which is attained by “making money”. This principle causes a feeling of duty to excel in the individual’s professional activity and earn money. “Labour must be performed as if it were an absolute end in itself, a calling.” This type of feeling of duty is connected with

Christianity, which also calls people to accomplish their obligations, and as Weber mentions, it requires a vigorous process of education for people to acquire this attitude.

Weber found at his time that in all the Christian countries where Catholicism and Protestantism coexisted the vast majority of business leaders, capital owners, and highest-skilled labour were Protestant, while only few Catholics took part in capitalistic enterprises and the share of Catholics among the skilled workers was smaller. He believed that these occupational differences were due to the type of education facilitated by the religious environment. Similarly, the particular propensity to develop economic rationalism in Protestant societies was not just due to temporary political and historical conditions, but mainly to the nature of their religious beliefs, which awakened the spirit of hard work and progress.

The rise of modern capitalism in the Western Christian societies was thus a consequence of the combination of several factors in the society. On the one hand, the economic, technical, and institutional environment were favourable for the proliferation of capitalistic enterprises. On the other hand, and most importantly, the religious principles, education, and culture changed in favour of economic rationalism. The elimination of the Christian prohibition on interest was necessary for the rise of capitalism, a new economic system where the use of interests made possible the accumulation of large amounts of capital (Bayindir & Ustaoglu, 2018).

2.3 The expansion of capitalism, colonization and globalization

The capitalist system that was originated in the Western Christian societies and led them to an unprecedented economic development expanded overseas, and with time, it has become the predominant economic model in the world. The colonization of many societies around the world by the Christians and the contemporary pressure for globalization has led many non-Western countries to adopt Western customs (Bayindir & Ustaoglu, 2018). From the economic perspective, this means the adoption of capitalist practices and the use of interests.

The first European empires were established in the 16th century, namely the Portuguese and Spanish, and later, the northern European nations like the English and Dutch also became important imperialists in the 17th century (Allen, 2011). According to Liodakis (2005), imperialism allowed for the development of capitalism as an international system. Betts (2004) explains that the expansion of capitalism overseas was triggered by the need to search for new markets and resources and argues that the emergence of imperialism was based on economic reasons. As he mentions, the division of the society between the exploiting capitalists and exploited proletariat that is characteristic of the literature on capitalism became a separation of the nations in the world between colonizers and colonized.

Allen (2011) argues that the Industrial Revolution in the West in the 18th century and the integration of the world economy caused the de-industrialization in Asia and the Middle East since manufacturing became more cost-effective in Europe. Thus, the countries that could not compete with Western firms had to restructure their labour forces and specialize in agriculture to export primary products. The decreasing costs of international transactions intensified the competition between countries and resulted in the underdevelopment of the Third World. Furthermore, the wars, slavery, and abuses by the colonialists had devastating effects on the indigenous population and their economy (Allen, 2011).

Globalization refers to the increase in interdependence among national markets for the creation of a unified world market (Albritton et al., 2001). The rapid globalization during the last three decades has led to a global economy where national states have less supremacy and countries are more dependent on each other through complex economic and political relations. This has been possible thanks to the great progress in information and communication technologies and the reduction in transportation costs. The expansion of transnational corporations and the development of supranational institutions like the World Bank, the International Monetary Fund (IMF), the World Trade Organization (WTO), the United Nations (UN), or the Organization for Economic Co-operation and Development (OECD) are considered the successors of imperialism. Furthermore, there is evidence that the main policies established by these transnational institutions promote the interests of capitalist transnational corporations (Liodakis, 2016).

Most economic theories and frameworks existing and taken into practice nowadays come from the West, and as Dr. Ahmed (2012) mentions, they have a secular and capitalistic nature. This view does not correspond with most of Asian societies, which are more collectivist and committed to religion. Yu et al. (1994) explain in their book the importance of cultural values in economic development and the difference between those of the Western societies and those in East Asian and other non-Western countries. The authors argue that social success is subjective to the social values in a country, and therefore, the values that motivate economic development are different across nations. What motivates Western communities that value individualism does not correspond with the morals in East Asian countries, which give more importance to cooperation in the family. Thus, economic development is achieved differently in both parts of the world due to the divergence of cultural values. Hofstede's cultural dimensions framework also shows and measures these differences across nations. He found that people in some societies, which he names "individualistic", tend to care for themselves and their immediate relatives only, whereas people in other societies, which he calls "collectivist", feel more responsible for taking care of the well-being in the whole family and the community (Hofstede, 1980). Thus, capitalism is not necessarily the best economic system for every society since the cultural and religious values may differ from one nation to another and they have an important impact on the economic development.

According to (Liodakis & Liodakēs, 2010), Western capitalism is characterised by being totalitarian. It does not completely embrace diversity. As Tinker (2004) mentions, "the totalizing mission of Western capitalism" views "colonized identities" as "primitive and in need of civilizing". The rise of imperialism and capitalism created a general conviction that the European civilizations are superior, and their development is to be followed by the rest of cultures (Walsh, 2005). This view resembles to the principle of paternalism in Christianity. Such attitude was seen during the period of colonialism, when the expansion of European empires was considered as a mission of spreading Christianity and bringing civilization to the native people (Allen, 2011).

In addition to politics and economics, European imperialists also colonized the creation and diffusion of knowledge. As Walsh (2005) explains, the official establishment of imperial languages, like Spanish, French or English, in the colonies promoted the invisibility of the indigenous languages and made it more difficult to contribute intellectually and make intercultural exchanges using these national languages. Moreover, in Europe and North America there is a tendency to disregard contributions from non-Western cultures. Pollard & Samers (2007) explain that the production of Western knowledge is characterised by an unconscious Eurocentrism, which is mostly seen in the use of historical experiences in North America and especially Europe as a model to measure and understand the world. Walsh (2005) also illustrates how the European hegemony in the creation of knowledge has been historically tied to capitalism, since the portrayal of the European way of doing things and its political, social, and economic achievements as superior facilitated the establishment of capitalism in other parts of the world.

In the postcolonial era, the knowledge from non-Western countries started to gain more recognition against a universal truth, and the Western views started to be questioned (Pollard & Samers, 2007). Many historians and researchers recently started to recognize the important role which Arabic scholars, philosophers, and scientists played in the European era of the Enlightenment and the scientific revolution during the 17th and 18th centuries, a fact that was often disregarded by famous scientists like Newton (Freely, 2010). Moreover, capitalist practices have been challenged and alternative systems have emerged in the last decades. This is the case of Islamic economics and Islamic finance, which defend its own values and principles different from those of capitalism and better align with the religious beliefs of the billions of Muslims throughout the world. One of the capitalist practices that Islamic economics is opposed to is the use of interest. In capitalism, it is a key element that allows for the accumulation of capital, whereas in Islam this practice is strictly prohibited (Bayindir & Ustaoglu, 2018).

3. AN INTEREST-FREE ECONOMY BASED ON ISLAM

The economic principles on which the Islamic economic system is based are part of the Islamic law and have always been part of the Islamic moral and social philosophy. On the second half of the 20th century, when the last European colonies achieved independence, Muslim countries became separate states and were faced with the need to develop their economies and societies independently of Western dominance (Chapra, 1996). However, there was a lack of economic theory developed in the Muslim world[4] and there were no countries with an established Islamic economic system. Therefore, as Bayindir & Ustaoglu (2018) explain, in light of the Western success and its dominance in the global economy in the last centuries, the majority of Muslim countries opted to follow the same steps for development as in the West and tried to create a similar economic system, considering the potential advantages of interest practices. Thus, many Muslim countries have adopted the Western economic system as an attempt to integrate in the global economy. The majority of Muslim scholars have justified this arguing that there is a need for new arrangements to manage the issues in the present world, presenting similar justifications to those used by Jews and Christians before eliminating the ban on interest (Bayindir & Ustaoglu, 2018).

Capitalism, as already mentioned above, has been imposed as a global economic regime through a process that started in the 16th century with the rise of the European Imperialism. Although capitalism is now the leading economic system in the world, it does not mean that it is the optimal for every society, since cultural values must align with the economic system in a country for it to function successfully (Yu et al. ,1994).

3.1 Principles of Islamic economics

An Islamic economic system is based on the principles of Islam and aims at achieving economic development while applying the Islamic law and respecting the obligations and restrictions established by it. Islam does not provide a comprehensive theory in economics, but it ordains to obey certain rules that must be taken into account when conducting business and managing the resources in an economy. Chapra (1996) explains that Islamic economics, as a religious and cultural conception, has its origins in the very birth of Islam in the seventh century. Since then, Islamic economics as a doctrine has gradually developed among Muslim jurists, historians, philosophers and politicians over the centuries.

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[4] By "Muslim world" we mean the group of predominantly Muslim countries, most of them located in Asia.

"Islam" literally means "peace attained with the submission to God", and a "Muslim" is "one who submits to the will of God". Islam is not only a religion, but also a way of life (Dima et al., 2014). The Quran provides guidelines for every aspect of life and gives instructions on how people must conduct themselves with others and behave in certain situations in a way that pleases God, being this the main goal.

A Muslim must fulfil five commandments which are known as "the five pillars of Islam" and are essential in the religion. They are the following:

1. The declaration of faith. The first step to converting to Islam is the declaration of faith, which consists of reciting the basic creed of a Muslim known as *shahada*: "There is no god but Allah, and Muhammad is the messenger of Allah."[5] After this statement, what makes a person a true Muslim is the acceptance and practice of the following four obligations.
2. The ritual prayer. Every Muslim is called to pray five times a day, during all the days of his life, before dawn, at noon, in mid-afternoon, immediately after the sun goes down, and before midnight.
3. To pay the tax for the poor (zakat). Every Muslim living above the subsistence level must pay an annual tax on his property. Zakat is a principle of great relevance in Muslim life and economy that inculcates egalitarianism and justice.
4. To fast in the month of Ramadan. Ramadan is the ninth month of the Islamic lunar calendar during which every Muslim is obliged to fast and is considered the main means of purification of the body and spirit.
5. The pilgrimage to the Holy Kaaba of Mecca. It is an obligation for every Muslim at least once in his life as long as he has the possibilities. The holy place to be visited is the Great Mosque that is located in Mecca and that surrounds the Kaaba, the holiest place for Muslims that means "The House of Allah" (Horrie & Chippendale, 1994).

[5] The word "Allah" in Arabic means God. It is an exclusive word which refers to the one and only God.

Islam is characterized by being universal, since it is considered that the Quran was revealed as a message for the humanity. The axis around which the universality of the entire Islamic religion revolves lies in the belief of a single and absolute God (Nasr, 2008). This is the principle of tawhid ("oneness"). It also implies that it is not possible to distinguish between the secular and the religious spheres of life, since everything is part of one unity. Following this concept of oneness, the religious community (the ummah) is also viewed as one unified group that is responsible for staying together and representing and preaching Islam in the best way. Regarding the area of business, there is a special emphasis on the public accountability of firms. Their decisions and actions should take the interests of the community into account. Furthermore, the economic activities of the companies should preserve the natural environment and must not harm it since, like everything, it is a creation of God and we, humans, are responsible for respecting and preserving it (Dima et al., 2014). Islam allows and encourages trade which generates profit. However, it also introduces certain rules so that not every transaction is permitted. Thus, it is not allowed to conduct businesses related to the production or distribution of pork meat, alcohol, prostitution[6], or other unlawful activities in Islam (Bayindir & Ustaoglu, 2018).

Islamic economics is built on the shariah (Islamic law), which is based primarily on two doctrinal sources: the Quran and the hadiths ("traditions") of the Prophet Muhammad. The Quran is the word of God that was revealed to His Prophet Muhammad as a message for the entire humankind. With about three hundred and fifty legal verses, it constitutes the first reference in the Muslim world (Nasr, 2008). It is regarded as an integral philosophy of life, and therefore constitutes the set of basic laws on which the Muslim must sustain his daily life. In the economic sphere, the Quran devotes countless verses to the legislation of commercial behaviour and to the description of lawful and illicit activities. In this way, it represents the main source of what we know as modern Islamic economics, and the precepts and rules that it supports (Horrie & Chippendale, 1994). The hadiths are the compilation of the sayings and recorded acts of the Prophet Muhammad and his early followers and represent the second legislative source to which Muslims turn.

[6] The consumption of pork meat, alcohol, and prostitution are prohibited by the shariah.

They include sentences, sayings, actions, and even attitudes of Muhammad in certain situations.

A distinctive characteristic of Islamic economics is the prohibition of interest ("riba" in Arabic), which has been an important element in the financial transactions from the beginning of history. This is one of God's rules which the humankind must implement, and it is included in the shariah. We can read in the Quran Chapter 2. Baqarah, verse 275: "Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say "Trade is [just] like interest." But Allah has permitted trade and has forbidden interest. So, whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to [dealing in interest or usury] - those are the companions of the Fire; they will abide eternally therein."; and verse 276: "Allah destroys interest and gives increase for charities. And Allah does not like every sinning disbeliever." Many aspects of the shariah regarding charity, the use of interest, and money are extracted from this chapter of the Quran (Bayindir & Ustaoglu, 2018). Some of the rulings derived are that receiving or paying a determined amount above the principal is forbidden and it is not allowed to make money from money. From an Islamic perspective, the money is just a medium of exchange and thus, it does not have an intrinsic value nor a productive capacity; but rather, it is the human action in the form of labour that creates value and is productive. The value of money is related to its use, which does not only mean its utility, but also the consequent effect on other individuals, the entire society, and the natural environment (Tinker, 2004). This is a similar view to that of Christians before the 16^{th} century, as already discussed in previous sections. Furthermore, the use of interest is considered immoral, and one of the reasons is that this practice is subject to abuse and deception. It is also believed that the use of interest leads to an inequitable distribution of resources in the society, which is incompatible with the Islamic ethics (Bayindir & Ustaoglu, 2018).

Furthermore, the shariah states that the lender of money must share in the profits or losses arising from the operation for which the money is lent, speculation is prohibited, and firms must look for a reasonable profit. As already explained above, Muslims are required to give zakat, which is the Arabic word for "charity", and this is one of the five pillars of

Islam. However, this is not mandatory for everybody, but only for all those who possess certain level of wealth (Chapra, 1975).

Chapra (1975) explains that Islam emphasizes the equitable distribution of income as part of the Islamic commitment to achieve social welfare and universal justice. This principle originates from the fact that God has given everything to man to be happy and prosperous, and therefore it should not be accumulated in a few hands. It is for this reason that Islamic economics seeks to reincorporate a system of redistribution of income and wealth so that each individual is guaranteed a decent and respectable standard of living. According to Chapra, this resource redeployment program consists of three parts:

1. To minimize the unemployment rate and ensure that all work is well paid according to the effort it requires.
2. The payment of zakat, which directly redistributes wealth from the rich to the poor.
3. The fair division of the assets of a deceased person, following a specific formula that does not allow these assets to accumulate in a few hands.

Although Islam emphasizes equality and equity in the distribution of wealth, it admits that there are some richer than others and that the system is minimally unequal. The purpose of Islamic economics is that all individuals achieve a minimum level of well-being and from then on, each one grows on his own merits, with his ability and capacity (Chapra, 1975). Society must therefore assume the fact that there are individuals with fewer capabilities and resources than others, so it is an obligation to redistribute wealth and balance the system. Thus, zakat is not regarded as almsgiving, but a right that the poor have over the rich, and therefore it is stipulated in the shariah as an obligation, whereas charity, although also obligatory, is paid additionally according to the will and generosity of each believer (Horrie & Chippendale, 1994). We can read in the Quran Chapter 2. Baqarah, verse 277: “Indeed, those who believe and do righteous deeds and establish prayer and give zakat will have their reward with their Lord, and there will be no fear concerning them, nor will they grieve.”

3.2 Financial instruments without interests

After explaining the principles of Islamic economics and the prohibition of interest in Islam, this section presents some financial instruments that are used by Islamic banks. The main difference with conventional financial products is the absence of interest rates. Erb (2009) explains that an Islamic bank as a financial intermediary and money administrator has the same function as a traditional bank. The main difference is that Islamic banks do not charge interests. Their operation and profitability are based on the participation in profits and losses with their clients. This means that the financier, in this case the bank, must share the risks without leaving the entire burden of losses to the entrepreneur. As a principle, the financier and the entrepreneur must share profits and losses equally. As Erb (2009) explains, a traditional bank does the opposite, that is, with the desire to ensure constant profitability, the entrepreneur or debtor assumes all the risk regardless of the result of the investment. Although Islamic economics recognizes that without risk there is no gain, its commitment is to avoid unnecessary great risks and uncertainty. Therefore, the bank intervenes in the process as a partner, and not only as a simple lender that mortgages and regardless of the results, charges the stipulated interest. The way in which Islamic banks function not only allows for sharing and decreasing risks, but also allows banks to generate profits in relation to the risk assumed and stimulate greater discipline in the financial system by motivating financial institutions to assess risk more carefully and to supervise more effectively the use of funds by those who acquire them. However, as Erb (2009) mentions, Islamic banking can win, but it can also lose, something that hardly happens with conventional banking.

The type of contracts that Islamic financial institutions offer are based on profit and loss sharing (PLS). In these contracts, one party provides capital and the other conducts a project that is expected to generate profits. A share in the profits or losses is agreed in advance, but the provider of capital cannot arrange a predetermined interest rate. The investor is allowed to receive a reasonable return from the project carried out by the entrepreneur, and if there are losses, these are also shared between the two parties (Pollard & Samers, 2007). Khan & Mirakhor (1994) explain that, from an Islamic perspective, it is unjust that one who lends money to an entrepreneur only gets in return a small fraction (represented by the interest rate) of the value created from the use of the lent money. Some of the financial instruments in Islamic banking are:

- Murabaha. This is considered a debt contract in Islamic style (Abuamria, 2006). In this contract, the bank buys a good that the customer requires and then re-sells it to the customer at a pre-agreed profit. In this case, the bank looks for the lowest price of the product, purchases it, and offers a price to the customer with a mark-up. The latter can accept or reject to buy the product, and if the client accepts, the ownership of the good is transferred to him, agreeing to pay for it in instalments without interest. If the customer is unable to pay at certain moment, he is accountable only for the agreed sale price. From the Islamic perspective, the mark-up is considered as the price for the service. Murabaha usually involves small profit margins and is mostly used for short-term and low-risk investments (Pollard & Samers, 2007).
- Musharakah. This is a partnership contract where the bank and the participating entrepreneur jointly contribute capital in a company or project. It is similar to what we conventionally know as joint ventures. In this case, the bank and the entrepreneur must agree in advance on the distribution of profits in proportion to the capital contributed. It is not allowed to set a fixed amount of profit or loss, but a percentage according to the participation of the capital. In the event that one of the parties breaches the contract or there is negligence, it will have to assume the losses (Abuamria, 2006).
- Mudarabah. This contract, like the musharakah, is a widely used variable return instrument, however it presents a distinction in terms of the contribution of the parties. In this case, the lender, the bank, contributes with all the necessary capital in the project, and the other part, the entrepreneur, contributes with the work and administration. Regarding profits, these will result from the net profit distributed between the parties, according to percentages that must be previously established in the contract. In case of loss, a fair settlement must also be reached. In general, the bank will assume the losses when these are less than the capital invested, while the entrepreneur will not receive any reward for his contributed work. However, in practice, the entrepreneur usually voluntarily assumes a part of the losses in order to gain the confidence of his lender in future contracts. This type of contract involves great risk for the bank as an investor, but it is a completely calculated risk. As in the rest of the investment contracts, the bank, in order to approve the

financing, carries out a complete study of the viability of the project. This study ranges from an economic, legal, financial, technological analysis, to the verification of its compatibility with Islamic laws (Abuamria, 2006).

- Iyara ("lease"). This is an agreement whereby a party leases a short-term or long-term asset, with a specified amount. Similar to the conventional instrument known as leasing, the iyara allows a bank to buy a good at the request of its client and then lease it for a set period. According to the shariah, the owner of the property, the bank, must assume the risks associated with its ownership and must also comply with all the obligations inherent in the lease of a property, such as maintenance, repair, improvement, etc. (Abuamria, 2006).
- Takaful. This is the Islamic equivalent of insurance. It is an alternative risk-sharing instrument that allows a transparent exchange of risks, pooling individual contributions for the benefit of all subscribers. In this case, the insured donates, instead of paying, hoping that when an accident happens the takaful company and its partners will help him in the same way. Conventional insurance is based on the exchange of uncertainty. Instead, takaful is based on the idea that an individual's uncertainty can cease to be as risky with respect to a larger number of similar individuals. That is, it is a type of insurance that by combining the risks of a large number of people, reduces them to a minimum, and thus covers them obeying the shariah (Casa Árabe, 2010).
- Qard al-hasan. This is an interest-free loan. It is used to provide financial assistance to institutions with financial difficulties or to provide humanitarian assistance to particular individuals (Pollard & Samers, 2007). This type of charity loans is exhorted in the Quran, so they represent an obligation for the bank. For this reason, most Islamic banks have a fund designated for qard al-hasan, which are intended for people with scarce resources. The bank is only allowed to charge a fixed and minimum fee for administrative expenses, regardless of the volume and duration of the loan (Abuamria, 2006).

3.3 The emergence of Islamic financial institutions

Despite the dominance of capitalism in the global economy and the widespread use of interests, Islamic banking and finance have managed to emerge as an alternative to conventional banking for those who do not support the use of interests. Over the last twenty years, there has been a rapid growth of Islamic finance in Arab countries and around the world (Chapra, 1996). There are currently several research centres dedicated to the study of Islamic economics and finance, such as the Islamic Foundation in Great Britain, the International Centre for Research in Islamic Economics in Saudi Arabia, the Islamic Research and Training Institute that is part of the Islamic Development Bank (ICB), and the Islamic Economics Research Bureau in Bangladesh, among many others.

As Abuamria (2006) explains, the independence of Muslim nations from the colonial empires was a key factor that allowed for the development of Islamic economics and finance. Muslim populations craved not only political, but also economic, cultural, and social independence. The need to recover a Muslim past and heritage appeared and a process of various forums began that deployed several initiatives. Consequently, different intellectual currents developed whose objective was the Islamization of the different disciplines of human knowledge, including economics and finance. Its purpose was to offer alternatives for political, economic, and social development against the values imposed by the West as the only form of progress. In 1976, the International Conference on Islamic Economics, held in Mecca, Saudi Arabia, was considered the first attempt to formalize the economic science of Islam and create a complete theory of Islamic economics. Later, in 1983, the Islamic Foundation published the first bibliographic compilation on Islamic economics, and from then on, first in Iran and Egypt and then in other Muslim countries such as Turkey, Malaysia and Indonesia, the theory of Islamic economics began to be practiced by the so-called Islamic banks. However, the first formal conceptualizations of the newly called Islamic economics did not appear until the nineties of the last century as a new economic initiative and theory different from capitalism (Abuamria, 2006).

The creation of the Islamic Development Bank in 1973, based in Jeddah (Saudi Arabia), was the first institution focused on Islamic Finance. However, there are some disputes on whether the practices and instruments that it offers are in full compliance with the Islamic law, and this problem exists in other Islamic financial institutions as well (Bayindir & Ustaoglu, 2018). This is the reason why several organizations have been created to regulate their practices. Some of the dominant regulatory institutions in Islamic banking and finance are the Accounting and Auditing Organization for Islamic Financial

Institutions (AAOIFI), established in Manama in 1990, which develops international Islamic banking and finance standards; the Dow Jones Islamic Market Index, first launched in Bahrain in 1999, which provides a stock index for all the enterprises that comply with the shariah; and the Islamic Financial Services Board, created in Kuala Lumpur in 2002, which establishes international standards for organizations implicated in the regulation and supervision of Islamic financial services (Pollard & Samers, 2007).

As Erb (2009) mentions, between the 1970s and 1990s, Islamic banking was characterized by being mainly commercial and local, serving Muslim retail clients in their respective countries. However, since the late nineties, it began to evolve into the investment business with new and innovative financial services. Islamic banking became increasingly innovative, with much more complex instruments and structures according to the needs of the modern world.

According to the data published by Puri-Mirza (2022) in Statista, there were already 428 commercial Islamic banks in 2019, and Islamic banking comprised a total of 1.99 trillion U.S. dollars in assets, which is a share of six percent of the total global banking assets. Despite representing a minor share in the world financial market, Islamic banking and finance is becoming more common in the major metropolitan centres in Western Europe and North America, and the demand for Islamic financial products and services continues rising (Pollard & Samers, 2007).

Many Islamic financial institutions based in Muslim-majority countries also operate in other countries that are not predominantly Muslim. Additionally, several interest-based banks in Europe and North America have started to offer Islamic financial products (Pollard & Samers, 2007). Some examples of pure Islamic banks that only offer Islamic banking and financial products are Al Rayan Bank PLC, established in London (UK) in 2004; and Al Baraka Banking Group, founded in Manama (Bahrein) in 1978. As already mentioned, there are also several interest-based banks that also offer shariah-compliant financial products such as HSBC Amanah, established in New York (US) in 1996; and Lloyds TSB, founded in London in 1765.

Pollard & Samers (2007) explain that customers resort to Islamic banking and finance especially for religious reasons, but also for other ethical reasons. For instance, the Al

Rayan Bank PLC in the UK targets both Muslims and non-Muslims by promoting itself as an ethical bank that rejects investments in drugs, alcohol, tobacco, and weapons. Regarding the bankers and financiers, the main reasons to engage in Islamic banking and finance appear to be religion and profits according to Pollard & Samers (2007). However, they also argue that some of the downsides of Islamic banking and finance are the lower profitability compared to interest-based banks, the difficulty to innovate in financial products due to the lack of global accounting standards and regulations, and the lack of knowledge of Islamic financial instruments among Muslims. Interest-based banks can compute their returns using the agreed interest rate in a transaction, whereas this is not possible in the case of PLS contracts. Pollard & Samers (2007) argue that the uncertainty in the returns from PLS transactions is one of the reasons why this type of contract is not widely used by Islamic banks. In addition, entrepreneurs who expect high returns might be discouraged to engage in PLS since the profits will have to be shared. In addition, Ahmed (2012) also argues that there is a lack of awareness of Islamic banking and finance due to the influence of the Western culture, a lack of practicing Muslims, a lack of research in this area, and a lack of institutional support.

4. COMPARISON BETWEEN CAPITALISM AND AN ECONOMIC SYSTEM FOLLOWING THE ISLAMIC LAW

The concepts that originated capitalism were freedom, rationality and individualism, being these the basic principles of the system. As Dobb (1967) explains, capitalism sees the human being as a free being who can act rationally to achieve maximum profits. For this reason, the system not only allows, but promotes the individual to act freely, in a free market, without restrictions or interventions. Thus, capitalists are free to decide what activities to perform. The basic principles of capitalism derive from the book by Adam Smith, considered the intellectual father of capitalism, published in 1776: *The Wealth of Nations: An inquiry into the nature and causes of the Wealth of Nations*. According to his theory, the market flows according to a mutual free and individual agreement between producer and consumer, the law of supply and demand. Smith also argued that one of the characteristics of the system is to make the market an instrument of allocation of resources and automatic regulation of productive activity, and he spoke of the "invisible hand" of the market as a factor of automatic regulation of the great prices in the economy. Furthermore, he believed that the laws of the market are "natural laws" that should not be formulated by the State, but should be born from social life itself, that is, supply and demand, free competition, the appetite for profit, private initiative, and the freedom to undertake business.

There is an important difference between capitalism and Islam regarding the ownership of wealth. From an Islamic perspective, the wealth that human beings hold in the form of goods and money does not actually belong to them but to God. They are just entrusted with it by God, the real owner of everything, and therefore, people must use this wealth in a way that would please God (Bayindir & Ustaoglu, 2018). It is permissible to hold any form of wealth, and people also have private property rights. However, each individual is responsible for using their wealth in a way that benefits their own needs and interests as well as those of the society. Islam teaches that people are not supposed to waste money or accumulate excessive amounts for selfish purposes. As Bayindir & Ustaoglu (2018) explain, this view is based on the principle of tawhid ("oneness"), which is fundamental in all Abrahamic religions. This principle recognizes God's dominion over everything in the universe, and people must submit to God's will rather than their own desires.

Capitalism is also characterized by individualism and the protection of private property. Since there is no relation with God, individuals consider that whatever they own is entirely theirs and they have the right to use it however they want. In a capitalist system, rights rather than obligations and personal accountability rather than public accountability are stressed. Being self-interested and disregarding society's needs is socially acceptable (Bayindir & Ustaoglu, 2018).

In contrast, the Islamic law places a greater focus on the community and the public accountability of producers and transactors. As explained in the previous section, it is important to consider the community interests and to preserve the environment (Dima et al., 2014). Islam encourages the establishment of a world order where all individuals are united by the bonds of brotherhood and affection as creations of one God. This unity refers to the principle of tawhid, already mentioned above. In the economic field, this concept is seen from the perspective of cooperation and collaboration. Therefore, although religion speaks of a brotherhood among all beings on earth, Islamic economics refers rather to a brotherhood between different countries, which, although they are culturally, economically, and politically different, they must cooperate with each other in order to achieve a balanced well-being (Chapra, 1975).

The capitalist system is based on the philosophy of economic rationalism, which considers that individuals' actions are determined by the maximization of personal utility functions. As Fulcher (2015) explains, capitalism consists on investing money to make profits, and the capitalist's goal is to achieve a monetary gain by any means, regardless of the nature of the activity. There is no consideration of the environment or social interests since firms just look for profit maximization.

Islam admits that in an economically prosperous life, human beings can easily detach themselves from their spiritual side and convert material value as the only end. That is why moral values are given such a great importance, because they are the only reasons that allow the human being to maintain a balance between the spiritual and the material aspects of life. Therefore, according to the perspective of Islamic economics, no society can maintain moderate economic development if it does not do so within a moral framework where social interests are as important as individual interests (Chapra, 1975). Morality cannot be separated from the economy, as well as the material and spiritual aspects of life are not independent in Islam. The difference between the worldview of capitalist economy and the theory of Islamic economics is that for the former, economics is a completely independent science, with its own laws, based solely on calculation and statistics (Chapra, 1996). On the contrary, Islamic economics has its roots in its own normative body, the shariah, which unlike the first model, caters to both the physical and spiritual needs of the human being. Unlike the traditional secular model, the theory of Islamic economics considers that the well-being of the population does not depend solely on the maximization of wealth but requires the satisfaction of both material and spiritual needs of the human being. Islamic economics as a theory and academic discipline, is defined by Chapra as an economic branch of knowledge that is concerned with achieving the welfare of the human being and his society through the fair allocation and distribution of scarce material resources, based on Islamic doctrine, and emphasizing individual freedom. Thus, while conventional economists look at the economy from the perspective of production and commercial exchange, Islamic economics looks at it from the point of view of realization of social objectives (Chapra, 1992). Chapra affirms that achieving an adequate rate of growth is the objective of every economy, but to do so within an adequate moral and social framework, is a characteristic that only the Islamic economy possesses (Chapra, 1975).

In the capitalist economic system, money has an intrinsic value itself and it is possible to produce money from it. This is done by lending money and charging an interest rate for it, which allows the lender to accumulate capital. Brugger (2009) explains that capital that people possess in the form of money or other liquid assets, such as bonds, debentures, and stocks, are considered financial or speculative capital. The main function of financial capital is to make money with money. Its owners will make decisions to increase their profits in the form of return on capital, which can occur in different ways: interest, discounts, dividends, and capital gains. The central idea is to have wealth in the form of money and make it grow. Productive capital is linked to a company that is known to the agents who are investing in it and is part of a real economy, while financial capital can be transferred from one investment to another without knowledge of the company in question, using only the criteria of profitability and risk of the asset. Smith (1776) defined capital as the engine of the economy and the most precious value in economic life. According to him, capital is no longer just money that serves for the exchange of commodities, but money can give more money, so that its end is not just subsistence but increasing profit.

Moreover, Smith argued that the wealth of the isolated countries depends on their total productive capacity, understood as the sum of the individual work of the inhabitants in all the productive sectors. Therefore, capital accumulation must be based on savings and on the benefits of the cost-price difference of sale. As Heilbroner (1985) mentions, the drive to accumulate capital is inherent in human nature and the reason why the human seeks wealth through productive activities. However, accumulated assets do not necessarily have a specific purpose since they might not cover basic needs. That is, capital is no longer just a means to subsistence, but the very end and impulse of economic activity. Heilbroner (1985) also argues that the assumption that capitalism makes about the accumulating impulse of the human being legitimizes a kind of social war in which each individual must seek and fight for his own benefits. In a world with limited resources and a free and unrestricted market, the struggle for capital accumulation has allowed wealth to be concentrated in fewer and fewer hands, and at the same time poverty to increase further (Heilbroner, 1985).

As explained in the previous section, the use of interest, which allows the accumulation of capital, is prohibited in Islam. Islamic economics aim at achieving an equitable distribution of resources against the accumulation of wealth in few hands. This is the reason why it is mandatory to pay zakat, which is a direct way to redistribute income, and it is highly encouraged to give charity.

Table 1. Opposite principles in capitalism and Islamic economics.

Capitalism	Islamic economics
Freedom of the individual Rights rather than obligations Free market (invisible hand)	Principle of tawhid Entrusted with it by God Each individual is responsible
Self-interested Individualism Personal accountability	Brotherhood (unity) Cooperation and collaboration Public accountability
Economic rationalism Material value (monetary gain) Profit maximization	Material and spiritual aspects of life “Adequate” rate of growth
Money has an intrinsic value Make money with money	Money is a medium of exchange Prohibition of interest
Capital accumulation	Equity (redistribution)

Source: Own-elaborated summary of all the contents covered in this section.

Regarding the role of the interest rate, we have found that the capitalist economic system needs the use of interests because from the capitalistic point of view, capital is the engine of the economy and the most precious value in economic life (Smith, 1776). The accumulation of capital is essential. According to Brugger (2009), the main function of financial capital is to make money with money, and this can be done with interests, discounts, dividends, and capital gains. The central idea is to have wealth in the form of money and make it grow. This role of the interest rate in the capitalist system is based on the view of money as a productive asset. From the capitalist perspective, money has an intrinsic value and thus it is possible to produce more money with it.

In the Islamic economic system, however, the use of interests is forbidden, and economic development can be achieved without it. In Islam, the use of interest is immoral because it is believed that this practice is subject to abuse and deception, and it leads to an inequitable distribution of resources (Bayindir & Ustaoglu, 2018). This is incompatible with Islamic economics, which aims at achieving an equitable distribution of resources against the accumulation of wealth in few hands. The concept of money also differs from capitalism. From an Islamic perspective, the money is just a medium of exchange, and it does not have an intrinsic value nor a productive capacity. It is the human action in the form of labour that creates value and is productive (Bayindir & Ustaoglu, 2018). Moreover, the value of money is related to the effects on other individuals, the entire society, and the natural environment that are derived from its use (Tinker, 2004).

5. CONCLUSION

This study shows that the use of the interest rate is related to moral principles. The three Abrahamic religions, Judaism, Christianity, and Islam banned the use of interest rates and considered it as an immorality from the beginning, as it is written in the holy scripts of the three religions. However, only Islam has maintained this prohibition until today. Jews and Christians lifted the ban on interest over the time to promote trade. The religious reform introduced by Christian Protestants in the 16th century justified the use of interests arguing that it promoted social welfare. Indeed, after the Christians lifted the ban on interest, they experienced an unprecedented expansion of trade and economic development. Nevertheless, this was also due to other factors such as technology development and a favourable political and institutional environment.

Protestants not only lifted the ban on interest but also promoted certain principles which constituted the basis of capitalism, such as rationalism and individualism. Thus, the change in religious principles, education, and culture in favour of economic rationalism together with the economic, political, and technical transformations which happened during the 16^{th}, 17^{th}, and 18^{th} centuries led to the rise of modern capitalism in the Western Christian societies. Moreover, capitalist practices were spread to other parts of the world by Christian imperialists, and that is the reason why capitalism is dominating today's world economy and the use of interest rates is common and widely accepted.

In contrast, we have presented an alternative interest-free economic model based on Islamic economics. This economic theory is concerned with achieving social welfare through the fair allocation of resources, based on the Islamic teachings. One of the characteristics of an economic system following the Islamic law is the prohibition of interest-based transactions, and nowadays many financial institutions offer products which obey this rule. We have presented several examples of Islamic financial instruments which show how it is possible to finance economic activities without the need of charging interest rates, such as Murabaha, which is similar to a debt contract and consists on a resale with a stated profit; Iyara, which is a leasing contract without interests; or Takaful, which is an insurance contract based on mutual support. The main difference with conventional financial instruments is that, in Islamic finance, the profits and losses derived from the transaction or economic activity are shared between lender and borrower at a previously agreed percentage.

We have found that there are several opposing principles in capitalism and Islamic economics that explain the different views on money and the legitimation –in the case of capitalism– and prohibition –in the case of Islamic economics– of the use of interests. We conclude that the role of the interest rate in the capitalist economic system is fundamental. It allows for the accumulation of capital by banks, money lenders, investors, and other financial institutions. Money is viewed as a productive asset, and making money from money and accumulating capital is the main economic purpose in capitalism.

However, the theory on Islamic economics and the practice of Islamic finance by banks and other financial institutions demonstrate that there are alternatives for the capitalist practices and that the economic system could be built in a different way, based on principles such as brotherhood and cooperation instead of individualism, and equity instead of capital accumulation. The principles of capitalism do not concur with the cultural values in some societies, and therefore, capitalism should not be the only economic system. Similarly, the use of interest rates is not a requirement in the economy but an option.

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