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ECONOMY & SOCIETY A VIEW FROM THE SOCIOLOGY OF BANKING

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ABSTRACT

The present article is a short and, at the same time, an interesting discussion about sociology of banking. Some comparison of economic philosophy and economic policy in Islam with those in other systems or schools has been carried here. It tells us that historical study of banking shows that banks (and bankers) have normally had politically strategic patronage networks, and introduction of Islamic government, with it defined purpose and role, changes the balance for majority of customers, and the nation in general.

As an established society breaks up and enters the stage of transition, its intellectuals and policy-makers become aware of the economic problems and opportunities, and work out philosophies and policies related to their ideologies.

Different modern economic systems and philosophies are usually identified or labelled according to the three major alternatives of Laissez Fair capitalism, Socialism, and Communism. The emotional content of these terms is high and tremendously significant for relations among members within the nation.

It is important that we understand how the implications of economic philosophy and economic system, including the banking strategy influence our thoughts and emotions, and that we distinguish between these philosophies and the realities of the various economic arrangements which they are intended to

explain and justify. Only thus can we clarify our thinking about the controversial isms of our day, and distinguish what is essential to each system from what is a matter of convenience or technique.

It is necessary to consider the central concerns of economic philosophies. Each of the major economic philosophies or systems (of principles for guidance in economic practical affairs) does three things: first, it condemns the established economic arrangements; second, it outlines a completely new set of arrangements; and third wherever a new set of arrangements are accepted, the philosophy is employed to explain and justify it.

These economic philosophies, and systems implied by them, may approach their subject from one of three points of view: from that of the individual striving to obtain wealth, income, and security; from that of groups striving for wealth and security for themselves;

and from that of nations striving to achieve national economic goals such as the highest possible national income of the fastest rate of growth.

Islamic economic philosophy and economic policy, in the eyes of its thinkers and theorists, has the claim of being a new alternative. It is not ready to emphasize one of these points of view at the expense of the others, but aims at a central problem: the proper balance between them thus tries hard for an equilibrium between individual freedom and social control. This concern may not be spelled out, but it is always there, at least implicitly. This is true also about the banking system and monetary policy.

Islamic economic philosophy is to offer some principles concerning who shall make the economic decisions of society; how wealth and income should be distributed; who should bear the social costs of production; what the ultimate purpose of economic striving should be, and by what means people are or should be motivated to achieve this purpose. All these are related to Banking system, Banking policy, and Banking practice.

The above mentioned considerations go far beyond the pure economic realm. Because of the social (and not merely economic) significance that the application and realization of Islamic ideology in economic contexts, including banking, entails for the community and particularly Islamic community in strengthening the spirit of solidarity and unity in thought and action, the study of impacts and consequences of the implementation of Islamic banking system at the social level (including political, cultural, mental) would be important.

Of the three approaches in economic philosophy I referred to earlier, in recent decades and specially in the last few years, the first one has been on the rise. The socialistic, nationalistic and group oriented economies have welcomed the hegemony and expansion of capitalist individual oriented economic philosophy and specially policy. The Eastern Europe developments is an example.

As a result, the basis against which any challenge should stand, is more or less the first philosophy, the original framework of which is called Classical Economic Theory.

According to classical economic theory, which received its first authoritative formulation in Adam Smith's *The Wealth of Nations*, published in 1776, the operations of a free market, which regulates itself, would provide the most efficient means for maximizing production and satisfying human needs.

Such a view of the market, however, presumed both a set of values and an institutional system within which free exchange could occur. Both buyers and sellers, it

was assumed, were trying to maximize their income and would therefore be motivated to act in a rational fashion. In fact, such motivations are neither universal nor built into human nature. Although the pursuit of gain can be an important component in economic activity, and even the predominant goal, it is not the only value or concern that enters into work or exchange. A theory that assumes, the universal pursuit of self interest, however, justifies unrestrained self-seeking, the removal of any cultural restraints upon economic endeavors, and the maintenance of institutions which facilitate the operations of a free market. What distinguishes capitalism from other economic systems, it should be noted, is not the pursuit of self-interest, which is widespread and perhaps found everywhere, but the institutionalization of this pursuit as normal and socially desirable.

Although most economic theorists take the underlying institutional framework as given, the free market could function as expected only under certain conditions. The rights of private property had to be accepted and protected by the state, which would conscientiously avoid interfering with the economic activities of individuals. Agreements once made had to be honored, or enforced. Buyers and sellers were to be of roughly equal strength, and no one could exert monopoly control over the supply of goods. Not only it was necessary for capital to be free of restraints, so that it could move from one use to another, as demand changed, but labor also had to be free to shift from job to job, a condition that could be met only by allowing the price of labor (that is, wages) to fluctuate in response to supply and demand too, these conditions have rarely, if ever, been fully satisfied.

The society subject to classical economic theory in which maximalization of income is defined as innate and self-interest institutionalized, and also within which the conditions of free market not being present, i.e. the capitalist society, easily becomes fragmented, polarized, and far from being just and fair, it functions on the basis of socio-economic conflict (the consequences with which Islam can not agree).

More significantly, perhaps, participants in a free market are frequently not of equal strength, a fact which affects the bargains they make. An individual worker with no resources and nothing to sell but his labor, must, as Marx pointed out take whatever wages are offered. Unless there are external, that is, governmental, controls or workers are organized, wages are determined by the laws of supply and demand; they rise when there is a labor shortage and decline when there is a surplus. If one or a few large enterprises dominate an industry they can set prices arbitrarily without concern for individual or communal needs or

for the ability of individual consumers to pay, unless government actively intervenes in the economy.

The role of government, in fact, has rarely been as detached as laissez-fair ideology would have it. One of Marx's important contributions was the observation that an "impartial" state that merely maintained law and order so that individual enterprise could continue to function in effect protected those with greater market power. By defending and enforcing the rights of property the state assured the advantages of others against those without property. Moreover, as long as the state as dominated by those who were in higher economic levels-landowners, bankers, manufactures, merchants-governmental policies could be shaped to their advantage.

Because the free market was accompanied by democratic political institutions, the role of government in economic life has been a central political issue. Those who stood to gain from an unregulated economy governed by the "invisible hand" analysed by Adam Smith tried to keep government out of business. In the early nineteenth century, for example, legislation was passed in England against combinations of workers to seek higher wages. With the emergence of "big business", the rhetoric of competition and the free market was used to attack restraints upon the freedom of businessmen to act as they chose. But the problems created by the free market have led in all the capitalist countries of Western Europe and North America to a "welfare state" and the active participation of government in the operations of the economy.

Because of the emphasis on self-interest and the tendency of the market economy to reduce social relationships merely to the "cash-nexus", no one was responsible for those unable to work or to find jobs or for those with inadequate incomes. The fluctuations of the economy, "normal" in a free, competitive system, inevitably produced casualties-unemployment, business failures, farmers unable to sell their crops. Moreover, as John Kenneth Galbraith has pointed out in his provocative critique of the "affluent society", many of the services and facilities needed in an urban setting schools, parks, roads, municipal housekeeping-have been inadequately supported; they are not readily provided by profit-seeking private enterprise, and the public prefers to spend its income on private consumption rather than to pay taxes that will be used for the common wealth. These problems however, have generated pressure for remedial efforts that could come only through government action-social security, minimum-wage legislation, medicare, unemployment insurance, and workmen's compensation.

In the Western economic philosophy since long time ago egalitarianism and egalitarian reform is

considered to be in contradiction and opposition to development and economic growth. Unfortunately, this idea has been transferred to the mentality of decision-makers in the under developed nations-including Islamic countries-through the native intellectuals or by the foreign advisors. This general pessimism and objection to the egalitarianism and socio-economic justice has been in line with the idea of priority of production over distribution: "production goes before distribution".

It is true that egalitarian reform policies have been implemented in almost all developed countries especially after WWI, countries now known as "Welfare States", but both the classical economists and the propagators of these reforms generally maintained the traditional assumption that a price had to be paid for the egalitarian reforms-the price that the Third World cannot and should not afford (With the expense of the economic growth) according to them and their advisors in the Third World countries. As far as they themselves (The West) were concerned the reforms were considered worth their price because they were dealt with in terms of reaching a greater degree of social justice, the necessity of which was widely felt and paved the way for its parliamentary approval.⁽¹⁾

As Gunnar Myrdal points out; "in the Third World, inequality and the trend toward rising inequality stand as a complex of inhibitions and obstacles to development and, consequently, there is an urgent need for reversing the trend and creating greater equality as a condition for speeding up development". Then, in the developing countries one of the most important factors played down, consciously or unconsciously, in the national development planning has been the question of equality,⁽²⁾ the fact which as a result has played the role of an obstacle to a concrete socio-economic growth. This is the case and a sad fact concerning most, though not all, of the underdeveloped nations, while the realization of equality in the society and the implementation of anti-poverty programs would lead to the following advantages, all of which necessary and helpful for an overall national development:

- a- Equality leads to exaltation of health, education etc for the majority of people in the Third World, improving their efficiency in the national construction process.
- b- Equality enforces the national ideology and strengthens the solidarity, coherence, and unity among people and motivates commitment for the nation-building.
- c- Equality, including economic equality results in the social equality and the establishment and maintenance of a just political system necessary, specially in the Third World,⁽³⁾ for a real

development.

On the contrary, poverty and its immediate consequence i.e. inequality blockades development in its six important directions:

- 1- Scientific-technological development.
- 2- Economic-commercial-organizational development.
- 3- Political-legal development.
- 4- Cultural-intellectual development.
- 5- External-international development.
- 6- Sociological (social) development.

In other words, the absence of equality projects itself, negatively, on different aspects of development process; through (one by one concerning the above 6)

- 1- lack of enough professionals and trained labour force
 brain drain
 transfer of technology problems
- 2- poverty misconsequences
 class polarity & antagonism
- 3- minority powerful layer ≠ majority powerless mass
 lack of freedom
 lack of stability
- 4- illiteracy, widespread unawareness
- 5- foreign domination as a result of internally differentiated nation
- 6- inequalities ⇒ lack of solidarity, health, immigration, crime...

In contrast to the Western ideologies mentioned before according to which production is before and prior to distribution and the result of which has been the deepening poverty and increasing inequality, Islamic “Banking without interest” can be interpreted as an emphasis on both, i.e. on distribution too. This means that the two concepts of production and distribution are taken into account. It is interesting that Mudaraba and Musharaka articulate the concept of production while the fact of being non-interest is an equalizing and anti-poverty measure relating to wealth distribution.

Moreover, to stop the negative aspect of capital based economy, Islam does not accept the passive role for the state that classical economic Theory suggests. It demands intervention by the state, including in the domain of monetary and banking policy, with two aims in mind: the economic justice, and, the social cohesion and solidarity in the direction of perfection. As a matter of fact, in the nations practicing Laissez-fair ideology, the state did not remain neutral.

The division between politics and economics that

marked the nineteenth century has gradually diminished. The allocation of resources, the rate of technological progress and economic growth, the level of economic activity, and the monetary policy detail, are now in Western Europe and the United States the result of a complex pattern of political decisions, managerial actions, and individual choices, all related in diverse ways to one another. Government policy is designed to influence the level of consumption and corporate policy through tax rates, government spending, and regulatory actions, while management takes into account or is constrained by the actions of government agencies.

In the Soviet Union, China, and elsewhere, of course, the separation of government and business disappeared almost completely although there remained significant parallels in the structure and organization of the complex and elaborate technology of modern industry. The Russian executive also had some measure of freedom of action, necessarily, in the direction of the economic enterprise, even though he must work within guidelines set for him by central government agency and enforced by an elaborate structure of controls.

In any modern socio-economic system, the conflict between centralized authority and planning on the one hand and the need for autonomy and some measure of freedom of action at various levels within the structure on the other is likely to be a continuing (and basically unresolved) problem. In the Soviet Union, many of the major problem stem from overcentralization; the recent reorganizations represent efforts to deal with these problems. In the United States, the absence of effective controls constitutes a major source of difficulty in maintaining the economy, and the society as a whole, at desired levels of activity and growth. The ways in which this continuing tensions is dealt with reflect not only economic concerns and political interests of various groups within each society but also ideological commitments and value orientations.

Bearing these in mind, Islam would, and should, preoccupy itself with the lines to be drawn between the contexts & categories of autonomy, measures of freedom as well as control-and the ways to implement them so to be in line with the ideological teachings and values, and to enhance the social unity, stability, mobility and growth. Islamic banking's rejection of the practice of Riba or usury, as well as its profit-sharing arrangements with depositors and borrowers must be interpreted in this line of economic philosophy-no matter the past or present shortcomings in policy or implementation causing deficiency in proving it. Principally, Islamic bank, with partnership⁽⁴⁾ as the basis of its function, promotes the value of man and human labor, and stands against the tyranny of capital fetishism.

Historical Study of Banking since the Middle Ages shows that banks (and bankers) have normally had politically strategic patronage networks. This patronage has translated, and will translate, itself into a politico-socio-economic bargain; generally not for but against the mass of customers interest. The introduction of Islamic government, with its defined purpose and role, as the patron for the banking system, changes the balance for the majority of customers, and the nation in general. Moreover, culturally and politically, its implementation encourages and problemes public faith in tradition, ideology and utopia; keeping the people, then, more prepared mentally and practically for resistance, tolerance, cooperation, unity, construction, and with a hope for better future.

NOTES

1. In fact only in recent years and only in the most welfare states this idea emerged that the welfare reforms instead of being costly for a society in reality facilitates a more steady and rapid economic growth.
2. While officially and verbally almost all underdeveloped countries declare greater equality and equalization as their goal.
3. Because of the socio-historical stage in which they are.
4. Throgh Mudaraba and Musharaka.

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