

Book Review

Islamic Banking in Pakistan: The Future Path

By Muhammad Akram Khan. Lahore: All Pakistan Islamic Education Congress, 1994, 94 pp.

The book under review is a revised edition of Muhammad Akram Khan's *Islamic Banking in Pakistan*. In this slender yet eloquent volume the author, who has many other published works in the field of Islamic economics and finance to his credit, examines a cornerstone of government policy during the early 1980s: the Islamization of banking in Pakistan. He gives a candid and coherent account of this major development and asserts that it failed because of the lukewarm attitudes of the administration and political leadership as well as because of the perverted outlook of the bureaucrats, elites, and bankers. In the final analysis, he suggests some concrete measures that are designed to help policy makers and strategists in reconstructing the financial institutions within the framework of Islamic laws. The subject matter of this book has been divided into six chapters, which are preceded by Muzaffar Hussain's preface and followed by concluding remarks, endnotes, an exhaustive bibliography, and an index.

In chapter one, Akram provides an historical overview of the process of Islamization of banking, makes some important observations, and draws logical conclusions. He points out that the Council of Islamic Ideology, a constitutional body consisting of scholars of all shades and schools of thought, categorically prohibited interest (*ribā*) in all of its various forms. However, no sincere effort was ever made by the government to eliminate interest and to build an interest-free economy. The process of Islamization, which was initiated in the early 1980s and slowed down during the latter part of the decade, finally came to a complete halt in early 1992. The government, instead of invigorating the Islamization process, filed an appeal in the Supreme Court against the Shari'ah Court's decision calling for the abolition of all interest-based activities by June 1992.

In chapter two, the author goes to the roots of the problem and shows that a lack of political will was the single most important factor causing the systematic failure of this experiment in Pakistan. He shows the futility of inconsistent policies and inappropriate strategies pursued by the State Bank of Pakistan, such as allowing banks to continue interest-based operations side by side with interest-free activities. Given freedom of choice, banks and other financial institutions showed a much higher interest in such interest-based financing techniques as

mark-up and buy-back agreements and little or no interest in such modes of finance as *mushārah*, *muḍārah*, and *ijārah*, all of which are based on Islamic principles associated with profit-loss sharing. He observes that the situation was aggravated further when the government excluded the management of public finance from the jurisdiction of the Shari'ah court and continued its own interest-based activities as usual.

In chapter three, the author offers several thoughtful suggestions regarding the entire financial system's restructuring. He proposes the transformation of commercial banks and saving institutions into investment banks. His idea of institutionalizing interest-free loans (*qard ḥasan*) through a credit card system marks a significant departure from the traditional Islamic approach. However, his argument that a certain percentage of profits on credit sales could meet the operating costs of this interest-free lending activity appears very weak. In addition, there is the possibility that the institutionalization of interest-free loans may not be acceptable to a large majority of Muslim scholars and economists.

In chapter four, Akram describes a wide variety of financial instruments and details the mechanism through which business financing can conform to Islamic norms. His flow charts provide an excellent exposition of the operations of financial institutions based on Islamic principles. Chapter five highlights the role of Islamically oriented financial institutions in the development of an interest-free financial base. The idea of creating an independent auditing and accounting system to ensure proper recording and reporting of business profits and losses is insightful and telling.

In chapter six, the author discusses important issues related to the management of public finance and makes some valuable suggestions. The suggestion that deficit financing should be discontinued at whatever cost, however, is not sound. In general, economists favor a periodically balanced full-employment budget and leave room for deficit financing. To make sure that deficit financing should not become a permanent feature of the budget, the legislature may impose restrictions on government spending. This chapter ends with the following—and unexplained—assertion: "Interest is an economic phenomenon and needs an economic solution." Throughout the book, interest has been discussed as a financial issue. Hence, his hypothesis, which defines interest as an economic variable, appears problematic and possibly untenable.

In concluding remarks, Akram summarizes the findings of this case study and calls for the fundamental change of the financial system. He infers that Pakistan needs to change direction and that could be possible if people show eagerness and the government demonstrates its resolve in putting Islamic principles and ideals into practice.

Although this book deals with the Pakistani experience, the striking account of the process of Islamization and the proposed Islamic solutions to problems in the real world offer important lessons and insights for policy makers and strategists in other Muslim countries as well. I would be less than honest if I did not commend Akram for his intellectual contribution, which is timely, fascinating, and inspiring.

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