

Professor Iraj Toutouchian believes that Islamic Finance can Save Capitalism

Can Islamic Finance Save Capitalism?

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/EINPresswire.com/ -- Dr. Iraj

Toutouchian, an Iranian-American with a PhD in Economic Theory from Texas A&M University and distinguished Islamic finance expert and professor believes that Islamic finance can save capitalism.

The following are the words of Dr. Toutouchian himself [in 2009] regarding the global financial system.

“It was once believed that the capitalist economy would be self-regulating and self-correcting, but the intensity and frequency of economic fluctuations have made even the most ardent of

economists withdraw from such claims. The greed and selfish consumption that underlies the system has disturbed the ecological balance in a way that poses a massive threat to all mankind, a threat whose magnitude could have never been imagined by the great architects of the Scientific Revolution. Despite the scientific community’s repeated warning about the vast potential for catastrophe, the

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irresponsible exploitation of natural and human resources is perpetuated by a system, which secures the benefit of a few at the expense of the overwhelming majority of the planet’s population. There is a rising tide of public dissatisfaction and disgust with such behavior. The “Greed is good” mentality, which has predominated in the capitalist world, particularly since the 1980’s, is under challenge,” Iraj Toutouchian. Furthermore, high interest rates and inflation coupled with decreasing investment and increasing unemployment have caused stagnation and downturn in the US economy.

“In spite of lowering interest rates to historically low levels on several occasions in recent years, the Federal Reserve has failed to stimulate investment. This is not surprising since, as we saw earlier [in the book, 2009], what determines investment volume in the new output capacity is the prospect of gaining investment profit in the future. Recent events should help persuade Western Economists (both Keynesians and Monetarists) that investment is not a function of interest rate and should stimulate them to search for another factor, a factor that is responsive in normal as well as in risk conditions. This search should direct them toward interest-free (Islamic) Banking, where interest rates are replaced by profit rates and attention is given to both the supply side and the demand side simultaneously. We should bear in mind that business cycles are rooted in money and are related to



interest, which is the result of speculation,” Iraj Toutouchian.

What money can be in an economic system without interest and the socio-economic harms inflicted by interest by itself and through speculative activities constitutes the kernel of Toutouchian’s book (2009).

“The two main issues that should concern all economists are those of equity (Justice) and efficiency. Between the two lies a trade-off area. Under capitalism, the emphasis is on efficiency and equity is a spill over that will somehow emerge in the process of economic growth. But consider the position in the United States, where ‘the richest 1 percent of households owns 36 percent of all the wealth ...[and] wealth inequality has a Gini coefficient of 0.82, which is pretty close to inequality.’ (Wolff 2003: 1-2) Where is the equity in that, and why is it that after the passage of more than 200 years justice has not yet emerged?” Iraj Toutouchian.

“In Islamic economics, the rights of people and those of ‘things have been defined prior to and after the distribution of wealth and justice as an uncompromising goal for all members of the community. Where there is justice, through cooperation, as social scientists like Rawls and Gauthier interpret it, all things are in their proper places and it is not difficult to demonstrate that this produces optimality. The resulting corollary is that simultaneous access to both stable prices and full employment is attainable. Meanwhile, the natural course of affairs, which results from the application of justice, will create a state of equilibrium between human psychological needs and the surrounding environment (something the capitalist economy has been unable to attain).

History shows that ever since mankind achieved this understanding of justice, he has struggled against interest – a struggle that pre-dates Christ by hundreds of years. (In this regard, note that usury was repugnant to Aristotle.) The economic literature throws up many examples of serious thinkers who rejected interest. Rolls tells that Proudhon believed that ‘interest being abolished, exploitation through property is abolished, too’ (Roll 1961: 244). In the serious scientific discussions of zero interest in the 1930’s, Gesell came up with the idea of ‘stamped money’ as a means of omitting interest from the economy (Gesell 1934: 129-41). In 1947, Maurice Allais reached the conclusion that the optimum real interest rate is zero. Professors Pesek and Saving (1967) argued that if money were to bear interest, it would cease to be used as money. Professor Friedman (1969), too, reached the conclusion that zero nominal interest rate is a necessary condition for efficient resource allocation. Later, economists working for the U.S. Federal Reserve showed that, under certain conditions, zero nominal rates of interest are both necessary and sufficient conditions for efficient resource allocation (Cole and Kocherlakota 1998:2-10).

These results come as no surprise to Muslim economists. Yet, the question remains as to how banks would operate under these circumstances. If Friedman’s proposal (Friedman 1966:339) of a legal reserve ratio of 100 percent for the purposes of economic stability is adopted, what form will banking assume? Despite their efforts, none of these economists has yet found an answer to this vital question and mankind has paid a heavy price for this failure” Iraj Toutouchian. He further sees the core of the conundrum lying in how we should manage the role of money and under what circumstances.

Toutouchian argues that the Islamic model of economics is the safest and least costly of all, a view that is perhaps reinforced by the fact that an increasing number of capitalist economies are now turning their attention to Islamic economics and, in particular, to Islamic banking. FAAIF supports the efforts of Dr. Iraj Toutouchian.

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