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# Introduction

MUSIC HUMMED FROM the speakers. It was time for the rock stars.

Rock-star shariah scholars, that is. To the deep, chant-like strains of devotional music,<sup>1</sup> three experts in Islamic law<sup>2</sup> walked on stage to address a convention hall packed with finance professionals at the sixth annual Kuala Lumpur Islamic Finance Forum. The scholars—one Bahraini, one Malaysian, and one Saudi—drew a larger crowd than any of the other VIPs, including bank CEOs and the prime minister of Malaysia. These three were among the international scholarly elite of Islamic finance: around a dozen experts in Islamic law most sought after to sit on the shariah boards of financial institutions around the world and dubbed “rock-star scholars”<sup>3</sup> by reporters and bankers.<sup>4</sup> Shariah boards are panels that certify that Islamic financial products adhere to Islamic law. Without a shariah board’s fatwa of approval, firms cannot market their financial products as truly Islamic.

Elite shariah scholars get celebrity treatment at conferences. During the question-and-answer period at the Malaysian event, audience members addressed the august scholars deferentially, using the honorific “sheikh” or, to the panelists with PhDs, “doctor.” After the panel ended, small crowds thronged the scholars. Bashful attendees settled for a handshake; bold ones proffered a business card, though they rarely received one in return. Some asked to snap selfies with a scholar. Queues formed as people sought the scholars’ opinions on finer points of Islamic commercial law and business ethics. The scholars chatted with their questioners politely but expeditiously before walking briskly to business meetings or hopping in a black car to the airport. Top-tier shariah scholars are busy people. They log a lot of frequent-flyer miles.

Shariah scholars set the rules for what counts as Islamic in Islamic finance. To be Islamic, or “shariah-compliant” in industry lingo, financial transactions must avoid things the scholars deem sinful or unethical. This includes alcohol, pork, pornography, tobacco, weapons, the sale of debt (as in bond trading), the sale of risk (as in derivatives trading), payouts based on an uncertain future event (like insurance and options), and selling something you don’t own

(short selling). The scholars also ban ambiguous or poorly understood contracts, like the arcane, dubiously structured collateralized debt obligations that helped trigger the 2008 global financial crisis. Most consequentially of all, they ban interest: both receiving it and paying it.

While these rules may sound straightforward in theory, applying them in the twenty-first century can be challenging. Shariah scholars navigate the ever-increasing complexity of contemporary finance. One day they scrutinize a billion-dollar initial public offering (IPO), and the next day a syndicated Islamic financing involving investors from five countries and a special-purpose vehicle in the Cayman Islands. They also evaluate the byzantine methods Islamic bankers devise to make their transactions interest-free. For example, since shariah, as the scholars interpret it, requires all financial transactions to be based on an underlying asset, shariah scholars inspect intricate systems for electronically trading vast quantities of palm oil, palladium, mobile-phone airtime, and even seating capacity on airlines. Vetting such products and transactions is not just a matter of applying settled rules, either. If law is philosophy applied to changing times, Islamic law is no different. In evaluating financial instruments, the shariah scholars of Islamic finance ask questions that experts in religious and secular law have posed for centuries: “When does the public interest impinge on contracts freely entered into?” “When may lawful means be used to contravene the apparent spirit of the law?”<sup>5</sup> and even “What is money?” The scholars’ judicial decisions, known as fatwas, authorize transactions that earn bankers millions. Yet the scholars’ fatwas also impose shariah-compliance requirements that can cost the bankers millions to meet (see chapter 6).

Elite shariah scholars’ certification authority stretches across borders, regulating some of the most powerful financial institutions in the world. The most prolific scholars sit on dozens of shariah boards around the globe, earning millions of dollars a year in honoraria and advisory fees. They oversee firms from Kuwait to Kazakhstan and from Singapore to South Africa, from domestic Islamic banks and boutique investment houses to titans of international finance like HSBC and Deutsche Bank. They advise Dow Jones and Morgan Stanley on which stocks are Islamic enough to be included in their Islamic stock indexes. They also sit on government shariah boards at central banks and securities commissions, issuing rulings that regulate entire countries’ financial sectors. The top shariah scholars in Islamic finance are powerful ethical arbiters of a booming global industry.

Not everyone appreciates the shariah scholars, however. Some Muslims assume all shariah scholars are priggish and pushy, whether they work in Islamic finance or not. “Whatever the [scholars] say to do, I’ll do the opposite,” sneered Mahira, a twenty-five-year-old fashion-magazine editor in Karachi

wearing ripped jeans and Converse sneakers. “It’s my life, not theirs.” I asked Mahira how Islamic banks avoid interest. “They don’t,” she retorted. “They lie.”<sup>6</sup> Other Muslims simply find Islamic finance perplexing. No matter where I go, when new Muslim acquaintances hear that I study Islamic finance, they ask me one question more than any other: “What do *you* think? Is Islamic finance really Islamic?” (Non-Muslims ask, “What’s Islamic finance?” or, occasionally, “So you study how terrorists move money using hawala?”)<sup>7</sup>

The biggest source of confusion and critique is that from an economic perspective, Islamic finance overwhelmingly simulates “conventional” (i.e., non-Islamic) interest-based finance.<sup>8</sup> The shariah scholars facilitate this “interest simulation” because of the way they interpret Islamic law. They authorize combinations of trades and leases that allow financial institutions to reproduce most economic characteristics of interest-bearing products. In the language of economist Al Roth, the Islamic-finance industry constitutes an attempt to circumvent the constraints that repugnance imposes on markets.<sup>9</sup>

As a simplified example of interest simulation, imagine that you want \$10,000 to remodel your kitchen. You don’t have the money now, but you know you’ll have it in a year, once you’ve received your annual bonus at work. You go to a conventional bank, which offers you a one-year loan at 10 percent interest, meaning you would owe the conventional bank \$11,000 in one year. However, for religious reasons, you don’t feel comfortable taking an interest-bearing loan. So you turn instead to an Islamic bank, which arranges an alternative (see figure 6.3). First, the Islamic bank buys an asset from a broker for \$10,000. (The asset can be nearly anything worth around \$10,000, so long as it meets some conditions.) Second, the Islamic bank sells the asset to you for \$11,000 on credit: you receive the asset now and will owe the Islamic bank \$11,000 in one year. Third, you sell the asset for \$10,000 to a different broker from the first.

The result of this transaction, known as *tawarruq* (which I ungracefully translate as “cashification”), is that you now have \$10,000 in your pocket and will owe the bank \$11,000 in a year. From an economic perspective, this arrangement simulates the \$10,000 loan at 10 percent interest that the conventional bank offered you. However, from a religious perspective—at least according to shariah scholars who permit *tawarruq*—you and the bank have avoided sin. For technically, the Islamic bank has not charged you interest. Instead, it has earned a *profit* of \$1,000 by buying a product at a lower price (\$10,000) and selling it to you at a higher price (\$11,000). And as the Quran states, “God has permitted trade but prohibited usury.”<sup>10</sup>

By designing techniques similar to this, automating them using the electronic infrastructure of commodities markets and stock markets, and stringing them together in serpentine combinations, firms can engineer Islamic

financial products that simulate the effects of most major types of interest-bearing financial products. These include Islamic analogues of unsecured loans (like the above), secured loans<sup>11</sup> (such as mortgages and auto loans), savings accounts, time deposits (also known as certificates of deposit, or CDs), trade finance, commercial paper, money-market funds, bond funds, index funds, leveraged real-estate funds, project finance, convertible bonds, forwards, options, swaps, asset-backed securities, mortgage-backed securities, and credit enhancement, among others. From household banking to investment banking, from trade finance to mergers and acquisitions, most of the bestiary of conventional financial services is now available in Islamic form.

Interest simulation is only the most prominent example of an anxiety-inducing convergence<sup>12</sup> between Islamic finance and conventional finance that has transpired in the half century that the Islamic-finance industry has existed. Many Islamic banks are subsidiaries or divisions of conventional banks, which leaves potential customers wondering how Islamic they could be. Moreover, Islamic products often cost the same as their conventional analogues. It is not uncommon to find a conventional bank that offers a five-year auto loan at a 4.5 percent interest rate and an Islamic bank in the same country that offers a five-year Islamic auto financing at a 4.5 percent profit rate. The difference in terminology—profit rate versus interest rate—signals to some believers that the Islamic bank, instead of lending money directly to the consumer at interest, profits through less sinful means. But to others, the similarities smell fishy. In Lahore, prospective customers ask: “If Islamic banks offer the same prices as conventional banks, and link their profit rates to KIBOR [Pakistan’s national benchmark interest rate] just like conventional banks do, aren’t they just charging interest?”<sup>13</sup> Shariah scholars respond that price is just a number: if I sell grape juice at the same price at which my neighbor sells wine, my juice does not suddenly turn into wine. While such logic makes sense to some, it seems casuistic to others. An Egyptian cartoon captures this cynicism (figure 0.1).

This example of KIBOR and grape juice throws into relief a tension fundamental to Islamic finance. Evaluating the ethical valence of a financial transaction is a subjective and philosophical venture, a sketch necessarily executed in shades of gray. If I sell an investment product that pays investors a guaranteed return, and then each day, I set that return equal to a benchmark interest rate, am I effectively paying interest to the investors? There is no sure answer. The answer we choose depends on how we define interest and usury, which in turn depends on our conception of money and our vision of the good society.<sup>14</sup> Yet rulings in religious law, like rulings in secular law, are written in black and white. They carry the weight of moral certitude, and the more widely they are applied, the more indelible they become. They get written into state



FIGURE 0.1. On the right, above the caption “usurious bank” (*bank ribawī*, referring here to a conventional bank), the banker says “10 percent interest.” On the left, above the caption “Islamic bank!” he says “10 percent interest, with God’s permission [*bi-idhni-llāh*]!” The Islamic banker sports a beard, holds prayer beads, and has a prayer bump (*zabibah*) on his forehead, suggesting an ardent and perhaps ostentatious performance of piety. Credit: Abdul-Rahman Najmuddin.

regulations, into the design of financial products, into algorithms that screen stocks for shariah-compliance, and into Islamic-finance textbooks. Thus, the moral reasoning of elite shariah scholars on subtle philosophical problems crystallizes into the ethical blueprint for an entire global industry and becomes a taken-for-granted part of the financial ethics of millions of Muslims who take Islamic finance seriously. The Islamic-finance industry is institutionalizing and normalizing industry shariah scholars’ financial ethics.

Yet the tension between the formal rules demanded by states and markets on the one hand and the complexity and contingency of jurists’ hermeneutic work on the other never disappears completely, for there is never agreement on what the good society is. Each Islamic financial instrument becomes a microcosm of debate about the nature and ethics of money, credit, and prices. This makes Islamic finance fascinating.

Opposition to the Islamic-finance industry does not arise only from people like Mahira, the Converse-wearing fashion-magazine editor, who do not want Islamic law anywhere near their financial lives. The industry and its powerful shariah scholars also face opposition from quarters that endorse Islamic governance of the economy. This includes a vocal contingent of religiously minded academics, known as moral economists or Islamic economists, who sometimes chide the scholars for allying too closely with the banks they certify and for squandering Islam’s potential to foment economic development. Most

moral economists feel interest simulation in Islamic finance has gone too far and that a different Islamic practice called profit-and-loss sharing holds more promise for promoting equitable growth and building a just and morally upright Islamic society. Many of the moral economists believe free-market capitalist finance in Muslim-majority regions would benefit from Islamic brakes, but that bankers and lawyers are engineering their way out of these brakes with the shariah scholars' permission.

The shariah scholars respond that they are defending the "Islam" in "Islamic finance" by respecting the classical legal tradition while adapting to the challenges facing twenty-first-century Muslims. To justify interest simulation, they turn to a classical maxim of Islamic law, which states that if transactions are not clearly Islamically unlawful (i.e., *ḥarām*, sinful), no human may ban them in the name of Islam: only God may do so. While some shariah scholars working in the industry concede that interest simulation has become excessive, they often say it is up to states and firms to reform laws and corporate behavior. The scholars consider themselves theorists of sacred law, not policymakers. They assert that they cannot do in God's name what God has not explicitly authorized—though state regulators may and should do so in the name of good policy, and corporate boards in the name of corporate social responsibility. In practice, this means the shariah scholars circumscribe the "Islam" in "Islamic finance" mostly to the contractual form of a transaction.

Interest simulation lies at the heart of debates and struggles that recur throughout this book: debates about what it means to be financially pious. Some defenders of Islamic finance support the measured use of interest simulation because it puts Islamic finance on a playing field more level with conventional finance. Others insist that widespread interest simulation is a social boon, for it grants pious Muslims access to the fruits of financial modernity instead of shackling their capital to sin or keeping it out of circulation. Yet most Muslims who patronize Islamic banking did not keep their money under the proverbial mattress before they opened an Islamic account. Instead, they switched over from conventional interest-based banking. Whether this means Islamic finance is unnecessary or essential for Muslims depends on your point of view.

In addition to being influential certification agents, the shariah scholars have rejuvenated an entire branch of classical Islamic law. For a millennium, Islamic transactions law<sup>15</sup>—the study of commercial and civil obligations under shariah, including business, trade, and finance—had been a thriving sphere of Islamic legal theory and practice that adapted to changing economic conditions and needs.<sup>16</sup> Until the eighteenth and nineteenth centuries, Islamic transactions law resolved business disputes, structured long-distance trade, and governed financial affairs (even if not universally or consistently).<sup>17</sup> However, once European colonial administrators and indigenous modernizers

decided that commercial law and financial law were too important to leave to religious scholars, Islamic transactions law lapsed. Now, thanks to the shariah scholars of Islamic finance, Islamic transactions law suddenly matters again after a century of lassitude. Knowing this branch of law now offers a path to a professional middle-class lifestyle for thousands of shariah scholars who, without the Islamic-finance boom, might have become workaday imams preaching in the local mosque and teaching schoolchildren to recite the Quran.

Criticism and cartoons notwithstanding, the shariah scholars have remained for half a century the supreme ethical gatekeepers of Islamic finance. Indeed, as this book shows, they have grown more powerful as more capital has flowed into the industry and an emerging epistemic community has entrenched their interpretations of shariah. The market acknowledges their influence: elite scholars can receive honoraria and advisory fees of as much as \$300,000 a year for sitting on one financial firm's shariah board, and the world's most prolific elite scholars have been known to sit on as many as 85 shariah boards.<sup>18</sup> Moreover, they have helped establish Islamic finance as one of the most active domains of research and debate in influential international forums of Islamic law, alongside other hot areas such as Islamic bioethics.<sup>19</sup> While cynics accuse industry scholars of "selling out" as money pours into Islamic finance, there is evidence that the scholars are now imposing *more* restrictions on capital than they did before and scrutinizing shariah-compliance *more* scrupulously than in the past. Pithily: More capital, more shariah.

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This book tackles two paradoxes. First, hundreds of millions of Muslims consider interest repugnant and sinful—and yet patronize Islamic finance, which simulates interest. To be sure, religious institutions have long dealt in interest. Temples, monasteries, and churches lent at interest in ancient Babylon and Rome, medieval Christian Europe, and early modern China, Japan, and south India.<sup>20</sup> And religious authorities have often promised that sums donated will come back multiplied, as do Prosperity Gospel televangelists who solicit "seed money."<sup>21</sup> Many others have portrayed finance as a road to godliness; the inventor of the limit order book<sup>22</sup> thought stock markets would instantiate Calvinist moral perfection. Nonetheless, interest simulation in Islamic finance is especially baffling. If something looks and acts like interest, how are so many convinced it is not? After all, interest simulation is no secret: Islamic banks explain openly how they do it. And the industry serves not just ordinary consumers, who could in theory be duped, but sophisticated corporations and savvy billionaires. So how have they all come to patronize it? What leads them to "buy" it—in both senses of "buy"?

Second, there is a multi-trillion-dollar Islamic-finance industry present in over 100 countries—but no Christian-finance industry,” “Hindu-finance industry,” or “Buddhist-finance industry” of comparable scale. Admittedly, Islamic finance has its cousins: Christian mutual funds screen out sin stocks just as Islamic mutual funds do, and a Jewish contract<sup>23</sup> designed by Talmudic scholars redefines all bank loans in Israel as joint ventures. But there is no true analogue to Islamic finance: no cohesive, technically sophisticated, global religious-finance *industry*. So what’s the deal with Islam? Is something about it singularly simpatico with contemporary finance?

My answer to both questions is the same: it’s the shariah scholars.

It is the shariah scholars, I argue, who are most responsible of all stakeholders for making Islamic finance a commercial success in the late twentieth and early twenty-first centuries. It is they who make contemporary religion compatible with contemporary capitalism. They do so in part by advancing practical interests: they make Islamic finance profitable for firms, affordable for consumers and investors, and politically palatable to states. While the bread of the Islamic-finance industry has many ingredients, the shariah scholars are the yeast: without them, the industry would not have risen as it has. It might still be religious finance, just as unleavened bread is still bread, but it would be very different: less profitable, less global, and less capable of offering Muslims a vast palette of financial products as convenient and price-competitive as those available in conventional finance.

Yet the shariah scholars do not simply facilitate interests; they *intellectualize* Islamic finance, making it a spiritually meaningful universe that is not governed by magical forces<sup>24</sup> but by rules that humans have the ability to comprehend.<sup>25</sup> Thus the sacred canopy<sup>26</sup> the scholars weave is of a unique sort. It is not transcendent and mystical, like the worldview of Sufi poets and adepts. Nor is it charismatic, held together by fiery sermons or toothy televangelism. Nor is it ritualistic or magical. Rather, the scholars’ conception of religious virtue is theoretical and analytical. The shariah scholars endow capitalist finance with religious meaning by embedding it in expertise: specifically, expertise in classical Islamic law and their capital-friendly readings of it. Theirs is a cool, academic, and highly technical piety, a law professor’s way of seeing and being in the world. Yet it is religious nonetheless, for it leaves no doubt that our financial behavior in this world will shape our futures in the next, and our fates on the Day of Judgment.

As decision makers, agenda setters, and gatekeepers of legal knowledge, the shariah scholars make capitalist Islamic finance more than just an industry or a certification system. Islamic finance has become an epistemic community—in business lingo, an “ecosystem”—that produces and enshrines a capital-friendly form of Islamic expertise. Yet it is even more than that. Islamic finance

has become a *social world* whose diverse elements work together to make contemporary financial markets morally and spiritually meaningful spaces. In this social world, one can be more religious by being more economically modern, and more economically modern by being more religious. Under the shariah scholars, Islamic finance is a religious capitalist modernity.<sup>27</sup>

### Face-to-Face with the Scholarly Elite

When I showed up at the Kuala Lumpur conference, none of this was in my head: I was just trying to get shariah scholars to talk with me. After the crowd around Sheikh Nizam Yaquby dissipated, I saw my chance. I speed-walked toward the bespectacled Bahraini scholar, intercepting him as he was strolling out of the conference hall in his white ankle-length *thawb*. “Sheikh Nizam, *al-salāmu ‘alaykum*,” I said, greeting him politely in Arabic. I proffered the Arabic side of my business card—the card that introduced me in two languages, with strategic ambiguity, as a “graduate researcher” rather than “graduate student.” “*Wa-‘alaykum al-salām*,” he replied, before continuing in flawless English: “How can I help you?”

To my amazement, the sheikh and I sat in the hotel lobby and talked for over an hour.

I pushed Yaquby, asking him tough questions. How did he justify the millions of dollars that elite shariah scholars earn each year? He asked why this should be a problem when highly paid corporate lawyers and business executives make millions more than leading shariah scholars do. And he noted that as the son of a Bahraini merchant family, he could have made more staying in the family business.

I had reason to listen to Yaquby with a critical ear. I had spoken with many people who found fault with the scholarly elite, accusing them of profiting excessively from their certification work, of arbitraging their big names, and of playing fast and loose with Islamic law. One industry-veteran-turned-critic compared the elite scholars to medieval Catholic priests who sold indulgences, offering “get-out-of-jail-free” cards to believers who engaged in the sin of usury but didn’t want to go to hell. In this critic’s mind, industry shariah scholars authorize financial practices that are dubious from a shariah perspective. To him, the scholars lift the anxiety of financial sin off Muslims’ shoulders while allowing them to enjoy the profit and convenience of modern interest-based finance. “Everyone wants to go to heaven, but no one wants to pay for the ticket,” he inveighed.<sup>28</sup> The industry veteran had especially choice words for Nizam Yaquby, in whom he saw all that was wrong with the scholarly elite.

Yet I admit that getting so much time with Yaquby lifted my ego, which had been clobbered by rejection after rejection when I requested interviews with

less prominent scholars. I felt like a small-market sports reporter who had tried to squeeze in a question edgewise for an NBA superstar, then scored an hour-long sit-down. Everybody in international Islamic finance knows who Yaquby is. He sat on the most shariah boards of any scholar in the world when I spoke with him: by one count in 2010, eighty-five boards—and probably more today. He certifies sukuk (Islamic “bonds”)<sup>29</sup> and syndicated loans worth billions of dollars. His time, like that of a top international lawyer or consultant, was worth thousands of dollars per hour. As a graduate student doing fieldwork, mine was worth approximately zero.

Yaquby has mastered the art of making his interrogators laugh. “Some people claim that Islamic finance imposes extra costs and conditions just to produce outcomes identical to those of conventional finance,” I pointed out. “What do you say to them?” He responded to my question with a question: Had I noticed that most of these people were economists? “You see, the economists who say this, they want to reduce everything to economics: to transaction costs. But that’s not how religion works.”

Yaquby persisted with the Socratic method. “Which costs more: Being married or paying someone for sex?” Having never experienced either, I was still muddling through the math when he gamely answered his own question. “Being married, of course! You pay for a house, and a car, and clothes, and your children’s school—for years and years! Honestly, it never ends. But if you pay someone for sex, you pay for one night, and *khalāṣ*.”<sup>30</sup>

By that logic, he continued, religion should promote sex work over marriage. “But no religion in the world says that. Why not?” he asked.

I was starting to catch up with this lightning-fast game of call-and-response. “Because there are other benefits to marriage that can’t be measured in transaction costs,” I replied.

For a second, I found myself wondering whether Gary Becker would agree, and whether Becker applied rational-choice theory in the bedroom.

Yaquby flashed an impish grin. “Yes,” he said, satisfied that we had both arrived at a rational conclusion about the suprarationality of religion, and had fun in the process. “You see? So if everything is about transaction costs, then you can come to all kinds of conclusions.”<sup>31</sup>

However one feels about the elite shariah scholars of Islamic finance, one thing is clear: their prominence as regulators of a young, fast-growing industry is curious and unusual. But do they really matter as much as the celebrity treatment makes it seem? How exactly have they, and the hundreds of less prominent shariah scholars, contributed to the industry’s growth? And what does all this tell us about the relationship between religion and modern capitalism? These questions lie at the heart of this book.

## A Young, Booming Industry

The breadth of Islamic financial products is remarkable. Around the world, ordinary households save money in Islamic savings accounts. When they need credit, they turn to Islamic credit cards, Islamic mortgages, and Islamic auto financing. Islamic insurance<sup>32</sup> covers their homes, cars, health, and lives. They buy stocks using Islamic mutual funds, Islamic micro-investing apps, and Islamic indexes like the Dow Jones Islamic Market and the S&P 500 Shariah. The wealthy place their millions in Islamic private equity and invest in land through Islamic real-estate trusts. They retain Islamic wealth-management advisors to manage their money and Islamic estate planners to convey it to their progeny. Corporations raise funds via billion-dollar Islamic “bonds” and Islamic corporate financings, structured and underwritten by global banks like Goldman Sachs, Morgan Stanley, and Credit Suisse. They manage risk using complex Islamic derivatives such as profit-rate swaps and Islamic cross-currency swaps, designed by Islamic-finance specialists at some of the world’s largest law firms. And governments rely on Islamic project finance to ensure that highways, airports, and power plants get built. In short, everyone from middle-class families to billionaires, corporations, and governments can now be financially Islamic in myriad ways.

This proliferation of Islamic products and services has been matched by spectacular growth. As of 2022, the Islamic-finance industry comprised just over \$3 trillion in assets, and around 0.65 percent of world financial assets. This makes it larger than the entire financial sector of Eastern Europe,<sup>33</sup> South America, or India, and comparable in size to the U.S. Social Security trust fund (\$2.9 trillion) and the global hedge-fund industry (\$4 trillion).<sup>34</sup> World Islamic financial assets have grown even faster than world financial assets in general (figure 0.2 and table 0.1). Even during the 2008–9 financial crisis, Islamic finance kept growing fast while conventional finance faltered.

Islamic finance has a global footprint too. The industry is well-developed in the Arab Gulf states of the Gulf Cooperation Council (GCC),<sup>35</sup> as well as in Malaysia—a world leader in the issuance of sukuk (*ṣukūk*; Islamic “bonds”)—and its tiny hydrocarbon-rich neighbor Brunei (figures 0.3 and 0.4). However, Islamic financial institutions operate in over 105 countries. Dubai, Kuala Lumpur, Riyadh, and Bahrain have been Islamic-finance hubs since the 1980s, with international financial centers such as London, Singapore, and Geneva vying to join them. Offshore-finance jurisdictions such as Jersey and Luxembourg have long attracted Islamic finance, since their laws and regulations favor the complex special-purpose vehicles and asset flows that Islamic-finance lawyers design to comply with shariah (figure 0.5). Iran

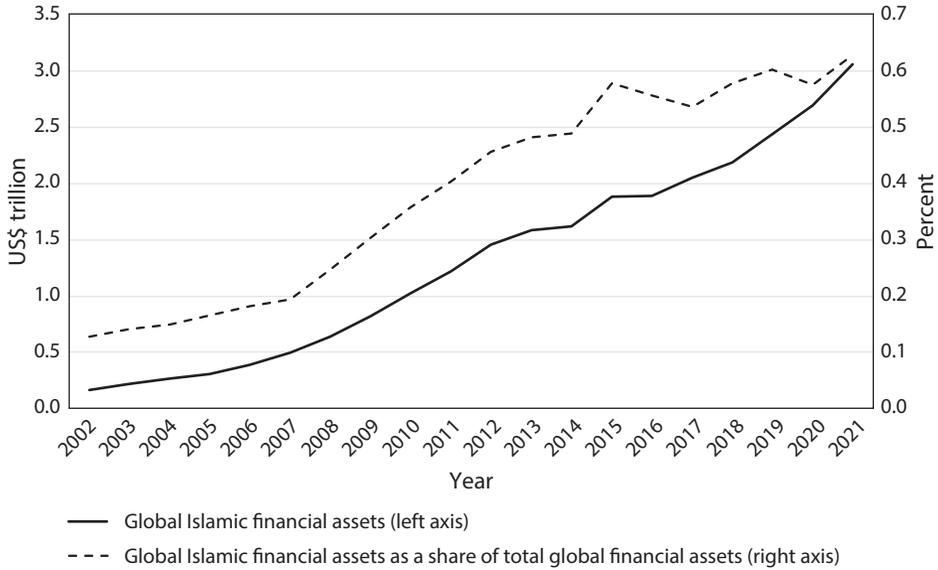


FIGURE 0.2. Global Islamic financial assets, 2002–21. Author calculation.

TABLE 0.1. Islamic Financial Assets by Region and Sector, 2021 (US\$ billion)

Region	Islamic Banking Assets	Sukuk Outstanding	Islamic Funds Assets	Takaful Contributions	Total	Region as Share of World Total (%)
Gulf Cooperation Council	1,212.5	332.3	46.0	12.7	1,603.5	52.4
Southeast Asia	287.5	390.3	37.5	4.7	720.0	23.5
Middle East and South Asia	477.1	26.9	22.0	5.6	531.6	17.4
Africa	58.2	1.8	4.0	0.6	64.6	2.1
Others	68.8	24.4	45.1	0.7	139.0	4.5
<b>Total</b>	<b>2,104.1</b>	<b>775.7</b>	<b>154.6</b>	<b>24.3</b>	<b>3,058.7</b>	<b>100.0</b>
Asset Class as Share of World Total (%)	68.7	25.4	5.1	0.8	100.0	

Source: Islamic Financial Services Board 2022.

Note: Region shares sum to 99.9 percent instead of 100.0 percent due to rounding.

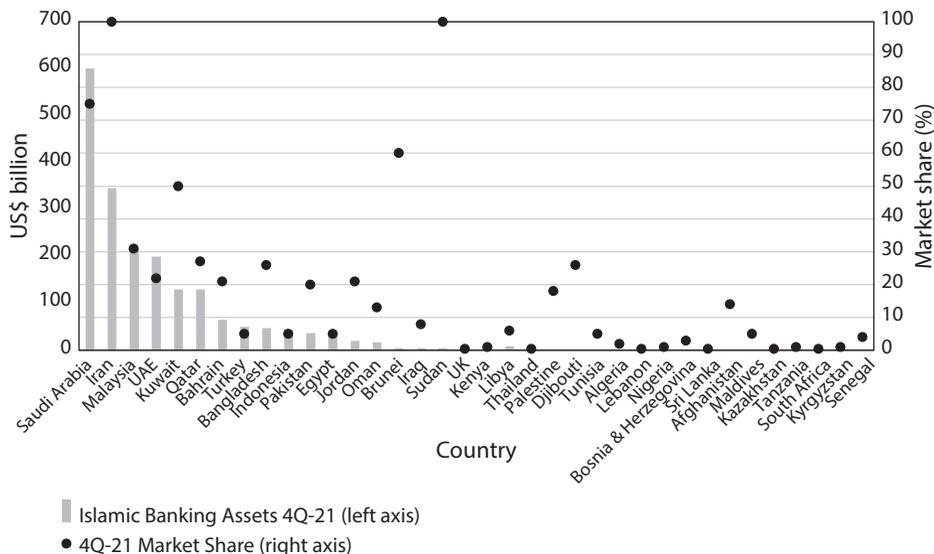


FIGURE 0.3. Domestic Islamic banking assets by country and their share of all domestic banking assets, 2021. *Source:* Islamic Financial Services Board 2022, 17.

and Sudan are special cases, as governments there outlawed conventional banking in the 1980s and 1990s, respectively, making their domestic banking sectors fully Islamic. State leaders from many other countries—including Nigeria, Kazakhstan, Oman, Indonesia, Australia, and Japan, to name a few—have arrived later to the game. For governments with substantial domestic Muslim constituencies, promoting Islamic finance serves to communicate religious bona fides. But even for countries without many Muslims, Islamic finance can be a lucrative on-ramp for Arab Gulf capital. Thus the globalization of Islamic finance proceeds due to a blend of economic, political, and religious motivations.

### Interest Simulation

Interest is the lifeblood of modern capitalism, so doing finance without it sounds well-nigh impossible. At the small scale, I have trouble imagining how my wife and I would get by without our credit cards, car loan, and mortgage. At the large scale, a world without bonds seems alien too, for the bond market shapes every aspect of the global economy. How would companies raise money to grow? How would governments afford to build bridges and schools? The folksy Washington political consultant James Carville once reflected on

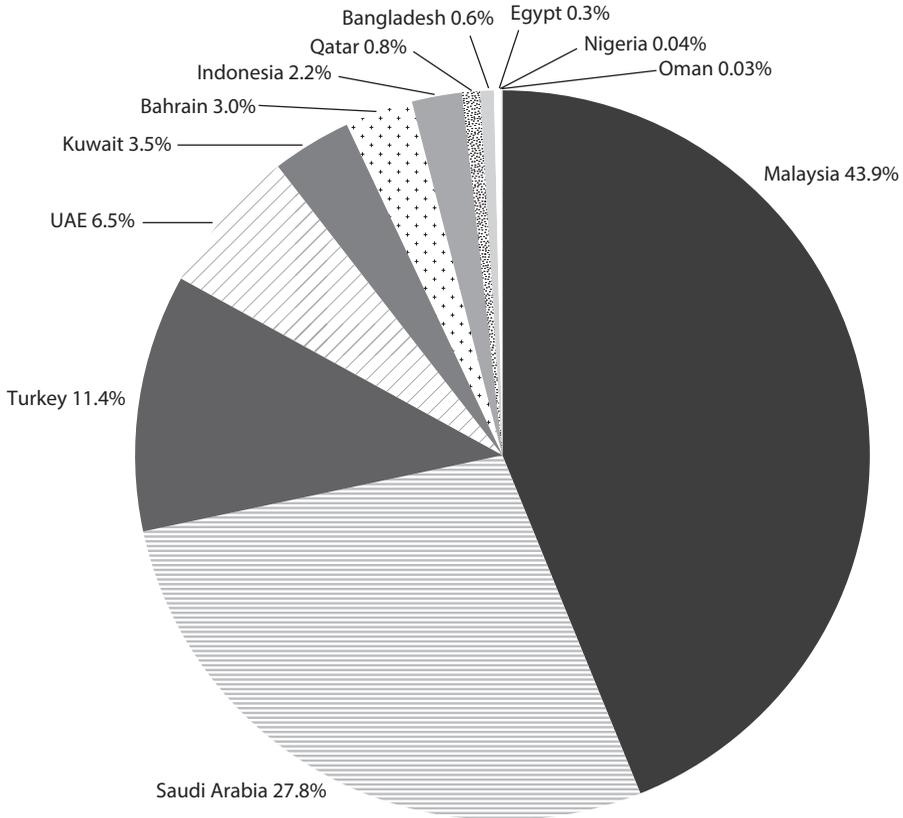


FIGURE 0.4. Corporate sukuk issuances in 2021 by jurisdiction of originator: share of world total. *Source:* Islamic Financial Services Board 2022, 28.

the ubiquity and power of bonds. “I used to think if there was reincarnation, I wanted to come back as the president or the pope or a .400 baseball hitter,” Carville mused. “But now I would like to come back as the bond market. You can intimidate everybody.”<sup>36</sup> Bonds are everywhere, after all. Interest is everywhere.

Yet maybe a world without interest wouldn’t be so bad. As Carville claimed, and as David Graeber has shown,<sup>37</sup> interest is inseparable from intimidation. Do we want a world that runs on intimidation, where investors bully national governments and moneylenders drive families into misery? In Argentina, public spending has been held ransom for over two decades by U.S.-based “vulture” hedge funds, which bought Argentina’s bonds on the cheap in the early 2000s and have since threatened to ruin its credit rating if

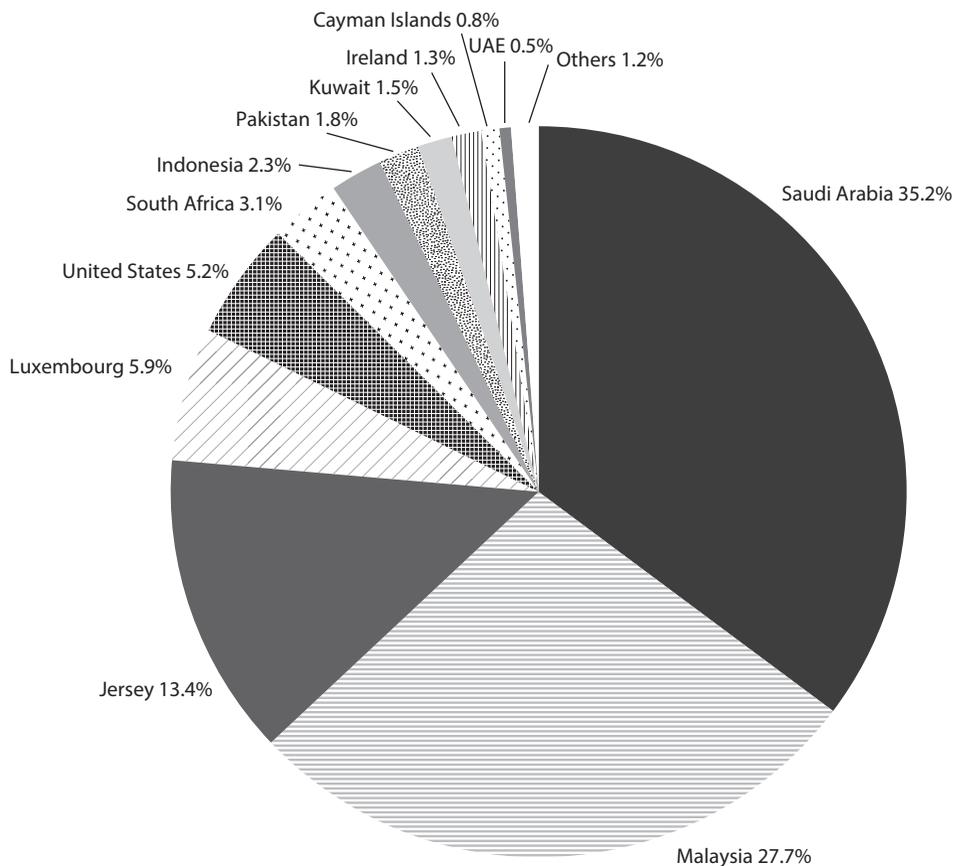


FIGURE 0.5. Islamic fund assets by domicile: share of world total, 2021.  
Source: Islamic Financial Services Board 2022, 43.

they do not get their pound of flesh. From Thailand to Greece to Ecuador, debt crises have ushered in the International Monetary Fund’s austerity chemotherapy, which treats the cancer of insolvency by slashing welfare nets and sacking teachers and nurses. In India, ten thousand farmers commit suicide every year when harvests fail, buried in mountains of interest-bearing debt they have taken to buy fertilizer and genetically modified seed.<sup>38</sup> And in the United States, twenty years after starting college, half of student borrowers still owe more than \$20,000.<sup>39</sup>

The metaphor “falling into debt” speaks volumes: debt is a hole, and interest is the shovel we get to dig ourselves out. Loans are ostensibly tools that will allow us to better our condition, investing in fertilizer, seed, or a college

education. But loans come with interest, and as that interest compounds, we get mired further in debt. And as our financial position worsens, the interest rate we must pay in the debt market rises, for lenders consider us a riskier proposition. The “tool” becomes a trap, and the more we rely on it, the deeper our difficulty and more hopeless our condition.

So does Islamic finance offer an interest-free alternative that humanizes capitalism? Naturally, the answer depends on how Islamic financial institutions go about avoiding interest. They do so in two main ways. From an economist’s perspective, the first way differs radically from interest-based lending, while the second approximates interest-based lending closely. I limn them here in broad strokes, as I do when discussing my research with a stranger next to me on an airplane.

The first way to extend financing while avoiding interest is *equity-based*. People in the Islamic-finance industry call it “profit-and-loss sharing” (PLS). Imagine that you need \$1 million to launch and run a pizzeria. I give you the \$1 million, and then you and I split any profits according to a formula we have agreed upon in advance: 60 percent of profits to me and 40 percent to you over the next five years, for example. If at the end of this period the pizzeria has lost money, I, as the investor, bear all the losses. You lose nothing but the time and effort you have put in. This is basically how private equity and venture capital work.

When my airplane seatmates learn how the equity-based approach works, they immediately see how it differs from interest-based lending. “It kind of seems more fair,” they reason. The promise of profit motivates the entrepreneur to work hard. Yet if the pizzeria fails due to an unexpected circumstance like a pandemic, liability falls entirely upon the party that has money: the investor. This logic ostensibly favors entrepreneurship and innovation while having a socially progressive cast. Since the early twentieth century, proponents of a modern Islamic economic system have supported the equity-based approach to Islamic finance, with many today still considering it an ethical holy grail.

The second way to avoid interest is *debt-based*; it is what I call “interest simulation.” Imagine now that you want to buy a car that costs \$50,000. (For simplicity’s sake, let’s pretend there is no down payment.) If you had no qualms about paying interest, you could approach a conventional bank and request a \$50,000 car loan, to be paid in 60 monthly installments of \$1,000 each over the next five years. Thus, you would pay a total of \$60,000 to the conventional bank, which works out to an interest rate of 7.42 percent. However, an Islamic bank offers you interest-free shariah-compliant financing instead. There are several interest-simulating techniques Islamic banks use for auto financing. In one technique (figure 0.6), the Islamic bank buys the car

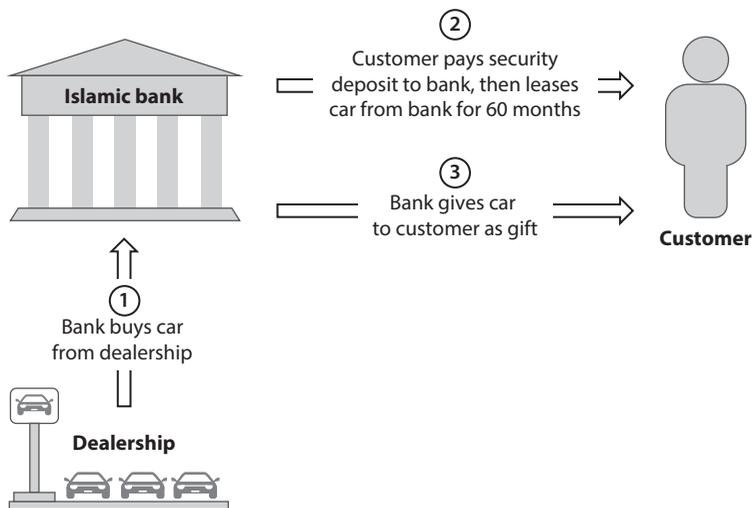


FIGURE 0.6. Islamic auto financing based on lease (ijara) contract.

from the dealership for \$50,000, then *leases* it to you for the next five years for \$1,000 per month. After five years, the Islamic bank gives you the car as a gift or sells it to you for a nominal amount, like \$1.

In another technique (figure 0.7), the Islamic bank buys the car from the dealership for \$50,000, then *sells it to you on credit* for \$60,000, which you pay in 60 monthly installments of \$1,000 over the next five years.

Whichever of these interest-simulating techniques you choose, the Islamic auto financing’s impact on your pocketbook is identical to that of the conventional bank’s interest-bearing auto loan: you end up paying \$60,000 across 60 monthly installments of \$1,000 for a car that costs \$50,000 now.

When I explain the interest-simulating debt-based approach, using cocktail napkins and airline snacks as props, my seatmates react differently. “Wait . . . how is that not interest? That’s totally interest!” many exclaim. Some, including Muslims, conclude that Islamic finance is a scam. Some people even grow indignant, like Larry, a financial advisor from Connecticut who banged his meaty fist on his tray table, sprinkling me with Biscoff dust.

The shariah scholars who work in Islamic finance certify both approaches to avoiding interest as shariah-compliant. Some industry scholars assert that the equity-based approach is ethically preferable to the interest-simulating debt-based approach, even if both are Islamically lawful. Others consider them equally virtuous. But what really matters for the industry’s commercial success is that the shariah scholars permit interest simulation at all. Interest simulation

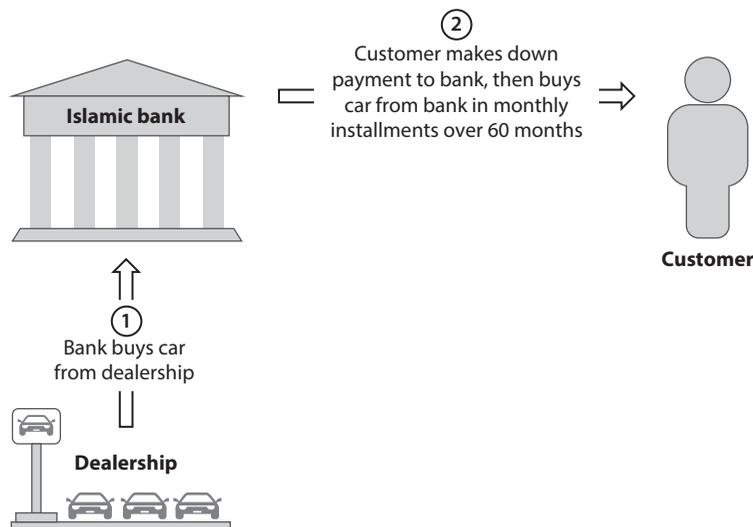


FIGURE 0.7. Islamic auto financing based on markup-sale (murabaha) contract.

has proved far more convenient and cost-effective for banks, more appealing to customers, more workable for government regulators, and better able to keep the fledgling Islamic-finance industry afloat than the equity-based approach. As chapter 1 relates, interest simulation therefore won out in the late 1970s and 1980s, becoming the business paradigm for Islamic finance, even if many shariah scholars hoped it would be only a stopgap before Islamic finance could move earnestly toward equity-based finance. Today, firms overwhelmingly practice Islamic finance using interest simulation.

### Fiqh-mindedness

To understand the context in which interest simulation may make ethical sense for some Muslims, it helps to understand “fiqh-mindedness,” a concept central to this book. Fiqh-mindedness<sup>40</sup> is not an organized movement, a sect, or an official creed. Rather, it is a way of being religious and a conception of legitimate authority about religious knowledge. It exists around the world, among both Sunni and Shi‘a Muslims, and in Muslim-majority and Muslim-minority societies. Since the 1970s, it has grown more prevalent with the worldwide Islamic revival.

Fiqh-mindedness is a mode of piety that takes Islamic law seriously as a normative ethical code governing everyday life. (By “mode of piety,” I simply

mean a way of striving to act in a religiously virtuous manner.) Fiqh-minded believers see religion not just as faith, community, big abstract principles, and ritual but also as a vast matrix of formal rules derived through systematic juristic methodologies. It is the interpretation of Islam embraced by the ulama (religious scholars) and those who consider them authoritative. Contemporary fiqh-minded believers (a) turn for guidance about religious virtue to Quranic revelation and to the hadith literature, which comprises thousands of records of sayings and deeds attributed to the Prophet Muhammad; (b) hold scholarly training in the classical Islamic sciences in high esteem and consider it vital for accurate interpretation of those sources; (c) engage with scholarly knowledge through modern institutions such as universities, shariah courts, mass media, and social media; and (d) consider scholarly knowledge normative in many spheres of everyday life. Fiqh-minded Muslims might consult scholarly opinion on matters ranging from correct prayer, pilgrimage, and dress to business dealings, inheritance, family life, education, and grooming.

Fiqh-minded piety does not encompass all of contemporary Islam. In the fiqh-minded conception, knowledge of Islamic jurisprudence or access to knowledgeable jurists' opinions is indispensable for adopting shariah as a normative framework for daily living. Fiqh-mindedness therefore parts ways with much Islamic-modernist thought, which tends to treat Islamic jurists and their scholarship as legalistic, obscurantist obstacles to piety and progress.<sup>41</sup> Although the world's fiqh-minded Muslims cannot be counted precisely, Rume Ahmed estimates that they represent 15 to 20 percent of all Muslims.<sup>42</sup> Fiqh-mindedness is better understood as an orientation toward particular sources of scriptural authority and exegetical expertise than as a clear-cut membership group.

Regardless, a significant percentage of Muslims today refer, at least occasionally, to the views of Islamic jurists (also known as "shariah scholars") for guidance. These scholars participate in contemporary social and political debates,<sup>43</sup> and some have millions of social-media followers. According to the *Muslim 500*, compiled by a Jordanian think tank, six of the world's ten most influential Muslims are Islamic jurists.<sup>44</sup>

Yet incorporating fiqh-mindedness into one's religiosity does not necessarily mean accepting interest simulation as Islamically lawful or Islamic finance as superior to conventional finance. One reason is that there are some shariah scholars outside the Islamic-finance industry who do not endorse interest simulation or particular forms of it. In Egypt, several of the most prominent shariah scholars have publicly asserted in the past several decades that Islamic finance is no better than conventional finance, including two grand muftis of Egypt—a grand mufti is the highest government-supported shariah scholar in a country—and two rectors (shaykhs) who have led al-Azhar, one of the most

storied Islamic universities in the world.<sup>45</sup> Being *fiqh*-minded also does not mean turning into an automaton who does not reason on one's own or no longer sees the world through the filter of "common sense."<sup>46</sup> For some *fiqh*-minded Muslims, that can mean embracing Islamic interest simulation for offering convenient yet pious financial alternatives incomparably more virtuous than the anxiety-inducing sin of usury. For others, it may raise serious doubts about Islamic finance, which is endorsed by some shariah scholars but criticized by others.

## Methods

This book draws on extensive field research. At its core are 291 interviews with a total of 303 people based in 20 countries, with most interviews conducted between 2013 and 2023 (but some as early as 2009) and 2023 (but some as early as 2009). Most interviewees were based in—but sometimes not citizens of—the five countries where I spent the most time: Pakistan (114 interviewees), Saudi Arabia (76), Malaysia (37), the United Arab Emirates (26), and the United Kingdom (18). Other interviewees were based in Australia, Bahrain, Canada, Curaçao, Indonesia, Iran, Japan, Jersey, Kuwait, Luxembourg, Oman, Qatar, Turkey, the United States, and Yemen. The methodological appendix describes the interviewees in more detail, as well as why and how I secured interviews with them.

Sixty percent of the interviews for this book were expert interviews: semi-structured conversations with people I targeted for their knowledge of Islamic finance. The experts fell into four categories, in descending order of frequency. The first and most numerous were "practitioners," such as bankers, lawyers, management consultants, shariah consultants, shariah auditors, accountants, fund managers, commodities brokers, fintech entrepreneurs, representatives of credit-rating agencies, and Islamic-microfinance managers. Second, there were shariah scholars, including some who sit on shariah boards (the panels overseeing Islamic financial institutions), some who work in the internal shariah departments of Islamic financial institutions or as independent shariah advisors, and some who were outside Islamic finance altogether and opined about it. I interviewed a significant portion of the internationally elite "rock-star" shariah scholars; those who work in Islamic finance will recognize their names in the text and the endnotes. I also interviewed many other shariah scholars, ranging from those renowned in particular national markets to those just starting their careers in Islamic finance. I also heard most of the world's dozen or so international elite speak at conferences. The third group comprised representatives of government organizations (mostly central banks and securities commissions) and multilateral organizations. These interviewees

mostly represented Saudi Arabia (where I spoke with the governor of the central bank), Pakistan, Malaysia, Oman, and Iran; I also interviewed officials at the Islamic Development Bank in Jeddah and attended a World Bank conference in Washington on Islamic finance. The fourth were observers who sat outside or adjacent to the industry, such as moral economists, other academics, and journalists. With most interviewees, at least part of the conversation concerned shariah scholars.

The other 40 percent of the interviews for this book were with customers at Islamic banks and other members of the general public. All of these interviews took place in Pakistan or Saudi Arabia, the two countries I compare in chapter 7. The interviewees' familiarity with Islamic finance ranged from technically knowledgeable to clueless, and their attitudes toward Islamic banks and the shariah scholars who certify them ranged from strongly supportive to ambivalent to deeply cynical.

I also engaged in many activities beyond interviews that augmented my expertise in Islamic finance. During graduate school, I interned at the Islamic-finance desk of a leading Malaysian law firm. Over the subsequent years, I attended over 80 talks and panels about Islamic finance and Islamic commercial jurisprudence at conferences, training courses, and workshops held in Pakistan, Saudi Arabia, Malaysia, the United Kingdom, Qatar, the United States. To understand Islamic education in Pakistan better, I toured two of the country's most prominent madrasahs. Further details appear in the methodological appendix.

I also conducted site visits to branches of Islamic banks in Pakistan and Malaysia, and had my research assistants do the same in Saudi Arabia and the United Arab Emirates as per my training. In all four countries, our activities included "mystery shopping": asking questions of bank staff as if we were potential customers interested in opening an account. I have also reviewed documents extensively and even examined the marketing strategies that appear in Islamic banks' television commercials. These too are described in the appendix.

Through this range of activities, I developed a thorough understanding of Islamic finance's technical mechanics, contractual structures, shariah regulation and certification by shariah scholars, "secular" government regulation and legislation, sectoral segmentation (across capital markets, retail and commercial banking, corporate banking, insurance, wealth management, risk management, and other domains), organizational structure, business strategy, profitability drivers in major national markets, and marketing. I have also come to understand the cultural and intellectual world of the shariah scholars, and while I would never purport to possess the depth of expertise in the classical Islamic sciences that they accumulate over many years of study, I can speak

with them comfortably about the technical details of their work and judicial decisions. Just as importantly, I have learned how ordinary people who do not work in the industry talk and think about usury, Islamic finance, and shariah scholars.

## Structure of the Book

Each chapter of this book answers one or more questions about a different way that industry shariah scholars make Islam and capitalism compatible. Chapter 1 (“Origins”) opens by observing that from the late nineteenth century through the late twentieth, Muslim intellectuals and leaders harbored many different visions of what an Islamic financial system could look like. Yet today, the term “Islamic finance” refers singularly to the capitalist Islamic-finance industry. So what happened? What exactly is this “capitalist Islamic finance” that became dominant? Why did it appear when and where it did—in the Arab Gulf region in the mid-1970s—and then succeed in spreading worldwide?

Chapter 1 identifies scholar certification, interest simulation, and a liberal mode of state involvement as the defining features of the new form of Islamic finance that appeared in the midst of the 1970s’ oil boom and that differed from past attempts to build Islamically inspired systems of savings and credit. I call this trio of features the “Gulf model” of Islamic finance because it originated in the hydrocarbon-rich Arab Gulf economies. The unique economic, political, social, and world-historical circumstances of these countries—especially Saudi Arabia, the United Arab Emirates, and Kuwait—in the 1970s and early 1980s explain how the term “Islamic finance” became synonymous everywhere with the Gulf model. Instead of emerging out of crisis, as many financial trends did in the latter half of the twentieth century,<sup>47</sup> the Islamic-finance industry grew out of a condition of political stability (underwritten by U.S. political and military hegemony) and unprecedented wealth (served by bankers and brokers from New York, London, and Western Europe hunting abroad for returns). The simultaneity in the 1970s and early 1980s of the oil shocks, global Islamic revival, the inception of global financial expansion,<sup>48</sup> and a “spatial fix” in labor<sup>49</sup> sending bankers of the Global North toward the Global South accounts for the liberal cast of the Islamic-finance industry.

So does the Islamic-finance boom merely represent the triumph of northern capitalist ethics over southern religious ethics—with the scholars’ complicity? Chapter 2 (“Ethics”) argues no. It asserts that the scholars’ Islamic finance, although thoroughly intertwined today in capitalist institutions and interests, is grounded in an Aristotelian-scholastic view of money that differs radically from the dominant modern view. Religious jurists in Judaism,

Christianity, and Islam shared this Aristotelian-scholastic view throughout the medieval and early modern periods, coming to remarkably similar conclusions about what kinds of transactions were sinful and what kinds were religiously acceptable. All three arduously defended a strict ban on non-zero interest while authorizing various accommodations that allowed merchants to conduct business. However, Jewish rabbinical authorities and Christian scholastics and reformers eventually jettisoned or “accommodated away” the red-line ban on interest. This explains why a large, distinctive “Islamic finance” sector can flourish on the basis of an easy-to-understand ban on interest, whereas the marketing case for a “Jewish finance” sector or “Christian finance” sector is harder to make.

How do Islamic banks and other firms practicing Islamic finance make money? Chapter 3 (“Profitability”) demonstrates how shariah scholars have applied the scholastic conception of money and usury to twenty-first-century finance, authorizing various forms of interest simulation that make Islamic finance profitable. The chapter opens by walking the reader through a branch of a hypothetical Islamic bank: a composite of the many Islamic bank branches I have visited around the world. The guided tour highlights similarities with, and differences from, conventional bank branches. The Islamic bank’s advertising and aesthetics position Islamic finance as subtly and ambiguously Islamic; the authority of shariah scholars is almost invisible. Nonetheless, the scholars’ interpretations turn out to be tremendously consequential for the bank—in the back office, where the structuring and execution of financial products happen. The chapter proceeds to describe the most common Islamic financial products, highlighting ways in which their interest-simulating structures facilitate profitability and allow Islamic banks to claim ethical superiority over conventional banks—but trigger moral debates too. Ultimately, interest simulation and the system of certification by shariah boards also advance profitability by affecting corporate strategy. The chapter identifies three self-reinforcing circuits at the level of strategy that have spurred the dramatic growth of capitalist Islamic finance: the “cost loop,” the “conversion loop,” and the “technocratic loop.” Without the shariah scholars, none of these loops would function as well.

Why do people “buy” Islamic finance, both in the literal sense of paying for Islamic financial products and in the metaphorical sense of considering it superior to conventional finance? Who takes the scholars’ opinions about finance seriously, and why? Chapter 4 (“Legitimation”) tackles these questions by showing how shariah scholars legitimate Islamic financial products and institutions. The shariah scholars’ legitimacy stems partly from their classical religious training, their professional and educational pedigrees, their skills in Arabic and English, and their ability to present a “business habitus.” However,

the way they transfer their own legitimacy to the products they certify differs in different segments of the market for Islamic finance. In “low” Islamic finance, which serves ordinary households and small businesses, shariah scholars provide moral legitimacy,<sup>50</sup> reassuring customers that they are avoiding sin. In “high” Islamic finance, which caters to large corporations, governments, and the ultra-rich, scholar certification provides pragmatic legitimacy<sup>51</sup> by reducing the risk of disagreements over shariah in big-ticket transactions. The growth of international high Islamic finance since the late 1990s has amplified the power of around a dozen scholars, the so-called “rock stars” who form the international scholarly elite, cementing their status as “super-legitimizers” atop the scholarly pyramid.

How do the shariah scholars who work in Islamic finance adapt Islamic law to capitalists’ financial needs? Chapter 5 (“Justification”) explores the range of techniques scholars use to justify interest simulation, some of which stretch mainstream convention in classical Islamic law. Industry scholars’ fatwas achieve two outcomes. First, they minimize otherworldly risk:<sup>52</sup> by taking interpretive responsibility on their own shoulders, they lift it from the shoulders of clients. Some Islamic-banking customers feel that if they go to an Islamic bank and buy a product that turns out not to be halal (Islamically lawful), “the shariah board will go to hell” in their stead.<sup>53</sup> Second, shariah scholars minimize disruption to capitalists. They do so by coding capital<sup>54</sup> in the language of Islamic law: that is, they protect the rights of firms and families with wealth to invest it and preserve it as they wish.

The shariah scholars who work in the Islamic-finance industry can achieve these outcomes not only because Islamic law has a history of adapting to changing economic circumstances but also because industry scholars’ close relationship with capital has entrenched them as the dominant experts in the Islamic law of finance. In countries where Islamic finance is popular, shariah scholars outside the industry may disagree with some of the industry insiders’ interpretations, but they tend to avoid criticizing the insider scholars vociferously in public. Instead, the outsider scholars defer to the insiders as subject-matter experts within the increasingly autonomous subfield defined by Islamic financial expertise. In this way, the growth of Islamic finance as an industry has strengthened the authority of shariah scholars who specialize in it, granting them the space to “do their own thing.”

The wide, malleable range of interpretive logics and techniques applied by shariah scholars speaks to Islamic law’s flexibility in protecting the industry as a project—and not just the interests of individual firms. For example, shariah scholars’ interpretations occasionally take into account what “looks bad” or “looks good” in the eyes of laypersons who know little about shariah. They are aware that scrupulous adherence to the law will not suffice to maintain the

reputation of Islamic finance if the average Aishah or Ahmad on the street considers it bogus. Moreover, shariah scholars tolerate certain instruments they might otherwise consider Islamically dubious so as to meet the Muslim ummah's<sup>55</sup> need under modern economic conditions for easily accessible, sin-free financing. While Islamic law has long demonstrated an ability to code and preserve capital reliably,<sup>56</sup> this ability reaches new heights of technical complexity and accommodation to modern financial markets in contemporary Islamic finance.<sup>57</sup>

If shariah scholars do so much to align Islamic law with the interests of firms, investors, and customers, are they merely agents of capital? In other words, has religion in Islamic finance capitulated to market forces? Chapter 6 ("Restriction") argues no. Although they legitimate and justify capitalist Islamic finance, shariah scholars also impose constraints on it that cost capitalists real time and money. They intervene in centimillion-dollar transactions, occasionally just days before they are to be executed, frustrating partners at the world's largest investment banks. Shariah scholars who sit on shariah boards also oversee a bureaucratic apparatus of shariah-compliance officers and shariah auditors who serve as the long arm of their law, monitoring products, transactions, customers, and even sales staff for shariah-compliance. All this restriction keeps Islamic finance Islamic. Without it, capitalists could push the shariah envelope as far as they wanted. Islamic finance would go the way of scholastic Catholic finance and scholastic Jewish finance, effectively permitting nearly any transaction and ceasing to have a distinctive, marketable religious identity. Instead, as in some other sectors such as kosher foods that are certified by religious scholars,<sup>58</sup> the shariah scholars' authority and the bureaucratic apparatus beneath them produce real consequences for violators.

Yet there is a twist: when shariah scholars reject certain arrangements as noncompliant, entrepreneurial product engineers stand ready to address the scholars' concerns. As the epistemic and business community surrounding scholar-certified Islamic finance has grown, legions of start-up founders, app developers, commodities brokers, and other innovators have designed platforms and services to apply and monitor shariah-compliance ever more minutely and efficiently, hoping to meet powerful shariah scholars' expectations. Thus the scholars' imprimatur does restrict capital, but eventually, it also creates new business opportunities for nimble innovators and generates new and more efficient platforms for interest simulation. The logic of shariah-compliance and the logic of capital's relentless creation of new market possibilities reinforce each other.

What shapes country differences in the development and character of Islamic finance? Chapter 7 ("State and Society") argues that the prestige of shariah scholars in a country, their social standing, and the degree of consensus

that they are legitimate experts in *fiqh* (Islamic jurisprudence) explain much of the difference in the success of Islamic finance in Saudi Arabia and Pakistan. Building on the notion that stable and contentious politics produce different outcomes for private ethical-certification regimes,<sup>59</sup> and that the country-specific dynamics of political competition shape the development of Islamic finance,<sup>60</sup> this chapter shows how widespread *fiqh*-mindedness among the populace, a political culture amenable to pragmatic-juristic interpretations of usury, and state and corporate institutions that stabilize and reinforce the pragmatic-juristic perspective paved the way for capitalist Islamic finance to blossom in Saudi Arabia. There, usury is widely understood first and foremost as a problem of individual piety. The Saudi state treats it as such, taking a hands-off approach that allows the banker-scholar alliance to proceed smoothly with interest simulation. By contrast, in Pakistan, where *fiqh*-mindedness is less widespread, the authority of shariah scholars as a group is regularly challenged and even disparaged. Usury is widely perceived to underpin inequality and subjugation, from the village to the capitalist world-system. The political culture situates welfarist-economistic understandings of usury within contentious Islamist politics, and judges, legislators, and financial regulators sometimes seek to curtail interest simulation. Capitalist Islamic finance therefore faces headwinds. Chapter 7 thus melds cross-national comparison with the globally oriented historical sociology presented in chapter 1 (“Origins”).

Does capitalist Islamic finance change the way people see and behave in the world religiously? Often, it does not. In fact, as this book reveals with interview data, most customers patronize Islamic banks when they happen to be a good option for the usual nonreligious reasons, such as low price and efficient service. Likewise, sovereign and corporate issuers of Islamic “bonds” (*sukuk*) around the world, including in countries like Germany, the United Kingdom, and Japan, are motivated almost entirely by the desire to tap deep pools of Middle Eastern capital cheaply and quickly. That said, there are also many customers who turn to Islamic finance because it alleviates their anxiety about the sin of usury.

Yet beyond these two sets of participants—the “secular” ones and the “sin-avoiding” ones—lies a core constituency for whom engagement with the Islamic-finance industry foments a novel form of *fiqh*-minded piety. For this dedicated few, I argue, Islamic finance has become a “form of life.”<sup>61</sup> Most are employees of Islamic financial institutions, but some are customers. In their eyes, practicing capitalist Islamic finance scrupulously according to industry shariah scholars’ prescriptions offers a way of striving to being religiously virtuous in the financial world. The book’s conclusion describes my encounters with these believers. Crucially, their devotion does not manifest as slavish

repetition of the scholars' fatwas. Instead, they become eager students of capitalist Islamic finance, training effortfully to grasp its legal principles and to apply its methodologies. They report being motivated not so much by fear of sin but by the joy of learning and self-improvement. Theirs is a cerebral, scholastic form of piety, one consonant with the technical and theoretically rational world of capitalist finance. And because of this dedicated core, I argue, Islamic finance is more than a successful industry: it is a way of being in the world, as well as a community of people who inhabit that way of being. In this form of life, capitalist finance is allowed to exist, but it must continually, in every process, submit itself to a fiqh-minded Islamic way of being and to the authority of the scholars.<sup>62</sup>

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