Homo Economicus and Homo Islamicus, Revisited: Islamic Finance and the Limits of Economic Reason[1]

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This paper examines some characteristics of efforts to make Islam compatible with capitalism. It asks what limits, if any, exist on the extension of economic rationality that is characteristic of conventional finance and neoliberalism more generally? In so doing, I argue that a contrast between homo economicus and homo Islamicus is useful insofar as it draws attention to the different approaches to the problem of the extension of economic rationality as it pertains to both conventional and Islamic finance. To highlight this distinction the paper draws on two ethnographic research projects I have undertaken to compare efforts to reconcile Islam and economic action. The first is an attempt to inculcate Islamic values among corporate employees under the presumption that such values are conducive to economic productivity and efficiency. The second is the attempt to create a viable system of Islamic finance that adheres to religious limits on economic action as an explicit alternative to conventional finance. I conclude that one of the chief obstacles faced by Islamic finance is the fact that it is in competition with conventional finance which is governed to a greater degree by considerations of efficiency and economic rationalization.

Keywords: Islam, globalization, Islamic finance, economic rationality, neoliberalism

Introduction

In what is perhaps the best recent scholarly overview of contemporary Islamic finance, *Islamic Finance and the Global Economy*, Ibrahim Warde dismisses the utility of an opposition between two of what the sociologist Max Weber called “ideal types.” Professor Warde argues that the “Homo Economicus versus Homo Islamicus contrast is now largely irrelevant” claiming that these are “normative rather than descriptive” appellations that do not accurately capture the empirical reality of either conventional or Islamic finance (Warde 2010, 45). I greatly admire Professor Warde’s scepticism toward what he terms “ideological” arguments. Furthermore, I think his call for attention to the practices of Islamic finance, rather than the theory of Islamic finance, is of utmost urgency in scholarly approaches to this emerging form of economic action. However, in contrast to his claims, I argue that an opposition between homo Islamicus and homo economicus is still useful and that, properly defined, it points to one of the most significant differences between Islamic and conventional finance and the human actors that are presumed in each system. My central argument is that the distinction between these two types is useful because it illuminates one of the central questions facing the present and future of human beings:

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what limits, if any, are possible in the extension of economic rationality to multiple domains of human life.

In advancing this argument, I would like first to make a few methodological points. First, and most importantly, when I refer to the homo Islamicus and homo economicus, I do not refer to any human essences that prefigure history, culture, or language. That is to say, I am not arguing that there are any innate characteristics of either "economic humans" or "Islamic humans" that endow them with natural or quasi-natural characteristics. Rather, my methodological starting point is that humans largely make themselves and each other, through the institutions, technologies, and other tools that they develop in the course of living and reflecting on how one should live. This is essentially a constructivist position that draws on the speech act theory of J.L. Austin and his followers as well as the analysis of the project of subjectification developed in the work of Michel Foucault (Austin 1962; Butler 1997; Foucault 1983; Foucault 1997; Rabinow 1986). However, it is not a radically constructivist position in that I do not presume that humans have complete agency to remake the world in whatever way that they desire. Human action is conditioned by a variety of already existing technologies, infrastructures, and *agencements* (Caliskan and Callon 2010, 8-10), the existence of which human beings are often only dimly aware or, in many cases, totally ignorant.

Therefore, I use the terms homo Islamicus and homo economicus in a different manner from the way that they are deployed by those of the essentialist persuasion. That is to say, I do not presume that either figure exists *apriori*, but rather that they are the effects of a certain configuration of knowledge, technology, infrastructure and so forth that then configure human action and relationships. Thus, I do not assume that either of these figures exists *by nature*. There is no self-interested, rational actor who represents human beings in their natural form. Similarly, there is no altruistic, rightly-guided, actor who exists before history, culture, or language. Rather a particular set of institutions, technologies, and apparatuses must be formulated to bring these beings into creation. In this sense the models, formulas, and contracts used in finance (whether conventional or Islamic) are not descriptions of the world, but actually means of bringing a world (and the human subjects that populate it) into being.

Let me give a brief example of how this works in conventional finance. I draw on the work of the science studies scholar Donald MacKenzie who has shown how economic theories about finance actually create financial markets and the practices through which they are constituted (MacKenzie 2003). MacKenzie argues that before a market for derivatives trading can exist, traders must have some rudimentary idea of what the risks of participating in such a market might be. Because such a derivatives market was relatively new market in the 1970s, traders did not have a sense of the risks of participating in such a market. Thus, before the derivatives market could take shape, traders need some way to comprehend the risks involved. As MacKenzie describes, the Black-Scholes formula was the intervention that made a market in derivatives possible.

Because the same equations were used so ubiquitously throughout the market, the assumptions embedded in the formulae about how the market functioned appeared rational. Market participants were all, so to speak, playing from the same script. As the anthropologists Greg Downey and Melissa Fisher have written "just as novels and newspapers circulate within an interpretive community equipped to understand them, exotic financial creations like equity-based derivatives and currency swaps depend on and presuppose a community that invests them with value…derivatives' values were grounded in cultural assumptions about social realities that might easily change, not unbending economic law" (Downey and Fisher 2006, 10). Thus, the creation of a new technology (the B-S formula) makes possible a new configuration of action. Traders make derivatives trades based on their interpretation of the risks and benefits in a particular transaction grounded in their understanding of the formula and its associated equations.

Following MacKenzie's approach, in this essay I am interested in the ways in which homo Islamicus and homo economicus are produced in order to demonstrate that Islamic finance presupposes a different economic actor than conventional finance. This is due to the fact that there are limits on economic action in Islamic finance that are absent in conventional finance. I will illustrate the particular approach to economic rationality in Islamic finance by comparing two research projects that I have conducted that both concern Islam, economic action, and globalization. Ultimately, I am not particularly attracted to the label homo Islamicus, because I think that it runs the risk of being too often misread, but in this paper it serves as a convenient shorthand to point to the way in which Islamic finance constitutes a human actor who is configured quite differently from that in conventional finance.

Two examples of reconciling Islam and capitalism

I would like to demonstrate how the opposition between homo economicus and homo Islamicus has framed two of my research projects. The first project analyzes "spiritual reform" initiatives in Indonesia that sought to inculcate Islamic ethics among corporate employees to make their firms more globally competitive. The second examines efforts to make Malaysia's capital Kuala Lumpur the central hub in an Islamic financial alternative to the conventional system of banking and finance centered in New York, London, and Hong Kong. In both projects, the participants in my research seek to introduce religious, and specifically Islamic, ethics into economic practice. However, the manner in which this is done and the assumptions about the relationships between Islam and capitalism greatly differ. In both examples the participants in my research sought to represent the economy and then shape the practices of market actors in an attempt to elicit practices commensurate with their definitions.

From faith in development to developing faith

In my book, *Spiritual Economies: Islam, Globalization, and the Afterlife of Development*, I analyzed efforts to introduce Islamic ethics into corporate workplaces in Southeast Asia as a means of enhancing productivity and transnational competitiveness and to eliminate widespread corruption (Rudnyckyj 2010). Spiritual reformers sought to develop Islamic faith to resolve Indonesia's development crisis. In so doing they were posing a question that has long been asked by anthropologists: how do cultural norms inflect economic action (Geertz 1963; Mauss 1990; Peacock 1978)? However, this was not abstract question. Those who sought to enhance the Islamic practice of corporate employees did so to better equip Indonesian companies to compete in an increasingly global economy. They promoted a set of ethics they identified as intrinsic to Islamic practice and conducive to greater efficiency, productivity, and competitiveness. This entailed nothing less than the creation of a theoretical model of human nature and the deployment of sophisticated practices and technological means to instill this model in Indonesian workers.

Based on over two years of empirical research, the bulk of which was conducted at a massive state-owned steelworks in western Java called Krakatau Steel, I analyzed how corporate managers and human resources trainers found their company confronted by increasing transnational economic integration and sought to address this problem by introducing a training program grounded in moderate Islam. The company is located in Banten at the western edge of the island of Java. Banten is a new province founded in 2000, but based on the boundaries of an early modern Islamic sultanate.

Historically, Krakatau Steel was absolutely central to the project of faith in development that was a key tenet of the regime of the long-time strongman Suharto. The company was a focal point in the nationalist project of modernization. According to the prevailing developmentalist logic purveyed in blueprints for modernization like Walt Rostow's *Stages of Economic Growth*, Krakatau Steel was part of a complex of institutions that would deliver progress, in the form of industrialization, economic growth and increased living standards, to Indonesia. The company was initially funded with Soviet development aid and technological expertise. Although it went dormant following the military coup of 1965 that brought Suharto to power, it was resuscitated in the early 1970s as a centerpiece of national modernization under the import substitution industrialization prong of Indonesia's New Order development strategy (Hill 2000; Rock 2003). The company produced a material that was viewed as absolutely critical to the state's nationalist project of modernization that I refer to as faith in development. It occupied an iconic position in the nation receiving frequent visits from the Indonesian President and other official dignitaries.

The 1998 Asian financial crisis, the end of the Suharto regime, and the increasing integration of Indonesia into wider global economic circuits called faith in development into question. From the 1970s until the mid-1990s, Krakatau Steel had been the recipient of hundreds of millions of dollars in state development funds. For years state investment guaranteed the company's viability as it was able to keep up to date with advances in steel production technology. However, such investment was brought to an end in 1998 after the near bankruptcy of the Indonesian government. Tariffs on imported steel that had long protected the company from international competition were fully eliminated in April 2004. Furthermore, new legal protections for workers offered unprecedented possibilities for political mobilization by factory employees, including the formation of a new labor union. Finally, and perhaps most ominously for some employees, the Indonesian government has proposed privatizing Krakatau Steel, which could trigger sweeping job losses for members of a workforce that previously were able to count on lifetime employment.

Given the wide-ranging changes taking place, the company's existence could no longer be justified according to its status as symbol of modernization, development, and industrialization. One foreman in the slab steel plant explained to me that prior to the late-1990s the "the social was the most important and profit was secondary," but "now profit is number one and the social mission [*misi sosial*] is number two." He said that this "social mission" was premised upon "*padat karya*," which literally translates as "dense work" and refers to the practice of hiring more workers than necessary to operate businesses. At Krakatau Steel, a thinly veiled debate pitted those who sought to preserve the company's earlier mission to "support the livelihoods of the masses" [*hajat hidup orang banyak*] against those that desired to make the company competitive in an increasingly global steel market by subjecting its operations and workforce to stricter cost-benefits standards.

At stake in the imperative to efficiency was the rationalization of a latter day incarnation of what Clifford Geertz called "work spreading." At Krakatau Steel, patterns of work spreading were evident in one especially intensive portion of the production process where molten steel is cast into solid slabs, weighing 10 to 30 tons each. Other company employees explained that workers in the slab steel plant were more "hot-headed" and attributed their emotional volatility to the dusty, deafening, sweltering climate of the plant. Hariyanto had the arduous task of ensuring the smooth exchange of molten steel from giant ladles into the massive casting machine. He took turns with a co-worker in half-hour blocks to monitor this transfer. The heat and noise generated in this portion of the steel-making process made it a physically demanding job, but Hariyanto said that rotating the job with another employee made it tolerable because the hardship was “divided in two” [*dibagi dua*]. Although the work was difficult and under compensated, he told me that it was better than anything else he could find. He was aware, however, that the job could likely be performed by a single employee and feared that his position would be made redundant should privatization occur.

The tension between the company’s social mission and its business mission was increasingly acute. One general manager told me that a Booz, Allen, and Hamilton management-consulting audit of the company advocated releasing one-quarter of the company’s total workforce, corresponding to at least 1500 (out of roughly 6000) permanent, full-time positions. Some Krakatau Steel employees suspected that privatization would lead to the elimination of a substantial number of jobs. Managers often cited the practice of work spreading as the underlying reason for poor job performance at the company, claiming that employees at the company lacked motivation because they knew that they were superfluous.

To address the problem of employee motivation and prepare for privatization, Krakatau Steel managers sought to develop the Islamic faith of employees by contracting a Jakarta-based company, the ESQ Leadership Center, to implement Emotional and Spiritual Quotient training at the company. The creator of ESQ, Ary Ginanjar, has developed an elaborate system, called the “ESQ model,” that suggests that a work ethic conducive to business success is present in the five pillars of Islam and the six pillars of Muslim faith (*iman*). He has drawn other ideas for the program from business management and life coaching sessions, like *The Seven Habits of Highly Effective People*, that have greatly expanded in North America, Europe, and Asia in recent decades (Thrift 1998; Thrift 1999). Through the multi-day training sessions that his company offers, Ginanjar stresses that Islamic piety should not only be restricted to religious worship. Rather, Islam should animate all of one’s worldly activity, from interactions with one’s family to everyday work in the world. Ginanjar explained that “at the root of Indonesia’s political and economic crisis is a moral crisis” and said that “although most Indonesians are Muslims,” they do not adhere to the tenets of Islam “so at the moment here religion is only like a ritual...just a ritual without spirituality.”

At Krakatau Steel ESQ training sessions were held once or twice per month. They were most often held in the large multi-purpose room of the factory’s education and training center. The sessions usually ran from Friday through Sunday. The first two days started at 7:00 a.m. and lasted until just before the *Maghrib* prayers, which usually begin around 6:00. The third day included the program’s dénouement, which consisted of a simulation of three of the events that take place during the *hajj* pilgrimage to Mecca: *tawaf*, the circumambulation of the *kabbah*, the *sa’i*, a ritual that consists of running seven times back and forth between the hills of Safa and Marwah in Mecca, and finally the stoning of *jamrat al-aqabah*, in which pilgrims hurl rocks at three representations of the devil, symbolizing the rebuking of demonic temptation. This final day ran until almost midnight.

The training was structured through a sophisticated Microsoft PowerPoint presentation, consisting not only of graphs, charts, tables, and a litany of bullet points, but also with spliced film clips, colorful photographs, and popular music. The information conveyed was culled from a variety of web sites, including those of the Harvard Business School. The training was delivered primarily as an interactive lecture in which the main trainer would alternate between

engaging with the audience in the familiar style of a television talk show host and proceeding to deliver fiery and profoundly emotive lectures asking for collective atonement from Allah.
Ginanjar draws evidence for the commensurability of Islam and what might be called the ethics of globalization by instructing participants in these programs that the five pillars contain lessons for business success. Thus, the fourth pillar of Islam, the duty to fast during Ramadan, is reinterpreted as a model for "self-control." Based on this principle ESQ seeks to inculcate the duty to constrain this-worldly desires in order to ensure other-worldly salvation. Corruption was a chronic problem at SOEs and was attributed to an uncontrolled desire for material wealth.

ESQ sought to represent self-management as a divine injunction to remedy this rampant corruption. The third pillar, the duty to give alms (*zakat*), was taken as divine sanction for "strategic collaboration" and exercising a "win-win" approach in both business transactions and relations with co-workers. This principle was illustrated with an interactive exercise in which each participant paired up with another, shined his or her shoes, and then reciprocally paid the other for the service. A common critique of employees of state-owned enterprises was their poor customer relations. The exercise was intended to illustrate the importance of serving, rather than being served, for employees of a modern corporation.

In just five years ESQ grew spectacularly. Although Krakatau Steel was one of the first companies to embrace it, the program has now spread across Indonesia to some of the country's most prominent governmental institutions and state-owned firms including Pertamina (the national oil company), Telkom (the country's largest telephone company), and Garuda (the nation's flag air carrier). Current and former military generals also are avid participants in ESQ and several sessions have been held at the Army's officer candidate training school in Bandung (SESKOAD). Recently ESQ has met its goal of becoming a national movement, establishing branch offices in 30 out of 33 Indonesian provinces. In late 2005 the ESQ Leadership Center broke ground for a 25-story office tower and convention center in south Jakarta funded in part through investment shares sold to past participants. When I returned to Indonesia in December 2008, large-scale spiritual training programs were being conducted in the already completed conference center portion of the building. Finally, ESQ has "gone global," the first overseas ESQ training was held in April 2006 in Kuala Lumpur and, in 2007, regularly scheduled ESQ trainings were being delivered in Malaysia on a bimonthly basis. Mahatir Mohamed, the former Malaysian Prime Minister, recently endorsed the program. In addition ESQ has been held in Singapore, the Netherlands, Australia, Brunei, and in late 2008 Ginanjar brought the program to Houston and Washington, DC.

Malaysia and the globalization of Islamic finance

A second research project I am engaged in focuses on efforts by government officials, *shariah* scholars, and corporate managers to make Kuala Lumpur the "New York of the Muslim world." The problem facing this network of experts is the inverse of that faced by those in my previous work. Rather than interpreting Islam in such a way to make it conducive to capitalism, they seek to organize economic action to conform to Islamic requirements. In the first case, spiritual reformers sought to emphasize aspects of Islam that were conducive to globalization. Anxieties regarding Southeast Asia's economic crisis and transformations in government policy spawned efforts to introduce religious practice as a means of inculcating economism and calculative reason among corporate employees. In contrast, in Islamic finance, a central problem is to create alternative economic practices that are grounded in Islamic moral prescriptions regarding economic practice. Thus, rather than seeking to formulate and inculcate what in some respects looked like an Islamic version of what Max Weber called “the Protestant ethic,” a key objective for experts in Islamic finance is to create an alternative to globalization that conforms to *shariah* principles.

The observation and attention to religious ethics is a key question, but instead of representing hard work, accountability, and self-discipline as Islamic values, proponents of Islamic finance seek to enable a more prosaic set of commercial practices. The focus is on ensuring that certain requirements in the Qur’an and the hadiths can be followed in executing business practice. The main criterion for creating these forms is that that they adhere to the Qur’anic injunction against *riba*, which is sometimes translated as usury, but most often as interest (El-Gamal 1999; Maurer 2005, 10). Indeed for Islamic finance professionals, the issue has been settled and *riba* is taken to mean interest in any form, whether it is exorbitant or not. A common claim among those engaged in Islamic finance is that in one *hadith* the prophet Muhammad stated that “collecting interest is a sin worse than committing adultery [*zina*] 36 times.” This assertion is often repeated by Islamic finance professionals. In working to eliminate interest, they seek to enable devout Muslims to conduct economic action that is complicit with the requirements of a virtuous Islamic life, thereby enhancing one’s qualifications for otherworldly salvation. Some proponents argue that Islamic finance requires instruments that will enable economic practices compliant with other Islamic prescriptions beyond just prohibiting interest. These include promoting risk-sharing and equity-based (rather than debt-based) mechanisms of finance.

A further difference in the way in which the practice of Islamic finance differs from that which I called a spiritual economy lies in the perspective that each network takes toward economic integration. In the attempt to cultivate an Islamic work ethic, spiritual reformers took globalization as a given insofar as they sought to equip corporate employees with the tools to better compete with firms outside Indonesia. In contrast, proponents of Islamic finance see inherent flaws in the organization of the global economy and seek to develop an alternative to it. These flaws are religious, inasmuch as much as what they refer to as “conventional finance” does not ascribe to Islamic prescriptions for morally correct economic action. However, they also view the instability of interest-based capitalism as critically flawed. In several conversations I had with Islamic finance experts they asserted that because it provides less room for speculation and investments must be tied to real, tangible assets (as opposed to investments in capital itself), Islamic finance is more stable than its conventional cousin. Thus, proponents of Islamic finance take globalization not as a given, but as something with inherent defects and to which an alternative must be devised that enables its participants to enter into heaven.

Efforts to merge Islamic and economic practices reveal the recursive relationship between rationalization and globalization as they are at once the cause and effect of one another. In my project on spiritual economies, the compulsion to compete with producers outside of Indonesia required increasing the productivity of employees. Corporate managers sought to resolve this predicament by creating a spiritual economy in which the alteration of work practices and the development of a work ethic grounded in Islam would elicit greater efficiency and cost-effectiveness. This process is recursive because a global market requires that commodity producers, no longer protected by the tariffs and subsidies that enable a national market, match the gains in efficiency and productivity of their international competitors. Thus, globalization creates a sort of vicious cycle, in which producers are continually forced to reduce costs and increase output in order to respond to their competitors.[3] Failure to do comply with this imperative toward economization will result in failure, unless one is insulated from this cycle through by the protection of the state in the form of tariffs or subsidies.

In contrast, the rationalization of labor is not the ultimate objective in the effort to create an integrated system of Islamic finance. Islam is mobilized not to elicit greater economic efficiency and productivity, but rather to implement an alternative type of rationality not solely focused on the imperative to efficiency, productivity, the elimination of corruption, and the reduction of costs. Furthermore, Islamic finance has not emerged in response to a clear market need but has relied on extensive external investment. Indeed, in Malaysia, the nation with perhaps the most well developed Islamic financial system, the state rather than the market has played the leading role in promoting Islamic finance. This has involved creating certain incentives for existing financial institutions to establish Islamic operations, but it has also involved encouraging existing conventional banks to open first Islamic windows and later, after these windows were established to again transform them into full-fledged subsidiaries with separate balance sheets and a firewall between funds and accounts. Efforts to make the economic practices of (some of) Malaysia's citizens conform to *shariah* requirements has occurred as part of a state imperative to promote Islamic finance rather than on the basis of market demand.[4]

The fact that Islamic finance puts limits on the economic bottom line inasmuch as it is not based on the premises of lowest cost or greatest efficiency, but rather on ensuring adherence to *shariah* prescriptions creates a quandary. Islamic finance is in competition with conventional finance, but the playing field between the two is by no means level. Conventional finance can follow the dictates of economic rationalization, while its Islamic version must adhere to external constraints (Maurer 2010, 34). Furthermore, conventional finance is entrenched and has achieved an economy of scale far more efficient than that of Islamic finance. The tools of conventional finance—things like loan contracts, bond structures, stock markets, and so on—have already been developed and are widely understood. The research and development process to create new financial instruments and institutions is far less costly in the conventional system than in the Islamic system. Islamic finance is still in the costly and time-consuming process of devising workable financial instruments.

An example of the infrastructure that Islamic finance professionals are creating is visible in the effort to make liquidity available to Islamic banks for overnight and short-term loans. The Malaysian stock exchange launched a vehicle to perform this function called the Bursa Suq Al-Sila' (Dusuki 2010). This is a commodity trading platform specifically dedicated to facilitate Islamic liquidity management and financing by Islamic banks. Bursa Suq Al-Sila' was designed as an alternative to enable Islamic financial institutions to access short-term capital to balance their books without resorting to the interest-bearing overnight liquidity market that conventional banks use. Using Malaysia's most important agricultural export commodity, crude palm oil, as an underlying asset, the exchange enables institutions and individuals seeking to comply with *shariah* restrictions can access capital without participating in interest-based lending. Obviously this is just one example of the infrastructure that must be created to found a *shariah*-compliant system.

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[3] Some authors have labelled the reduction of regulations that occur as part of the process to reduce the costs of production as "the race to the bottom" (Schram 2000; Tonelson 2002).

[4] This is not to suggest that there is a lack of demand for Islamic financial services in Malaysia. Rather, it is to emphasize that the growth of Islamic finance in the country cannot be attributed to the demands of the market alone.

Furthermore, some observers have noted that Islamic financial instruments can be quite cumbersome in comparison to conventional financial instruments. Bill Maurer has described the complexity and "fractal" like quality of the accounting practices conducted in Islamic finance in comparison to conventional accounting practices (Maurer 2005). Rather than a balance sheet listing credits and debts, the books for Islamic banks have "nested" accounts that overlap with one another in long chains. Ultimately, Islamic finance is governed by the dictates of *shariah* prescriptions like avoiding interest, distributing risk equitably, and improving social values. Thus, while economic rationality is still relevant, it is not the bottom line for Islamic finance in the same way that it is for those in conventional finance.

Further obstacles lie in the fact that the entrenchment of conventional finance is supported by subsidies that are so normalized that they have come to be part of the assumed way in which the system operates. Hamza,[5] an executive of an Islamic financial firm with 15 years of experience, saw the de facto subsidies in the conventional system made it impossible for Islamic finance to compete. He said that the interest-based banking system is subsidized through three primary mechanisms: deposit insurance, lenders of last resort (Central Banks), and tax breaks on interest-bearing debts. He argued that deposit insurance creates irresponsible economic practices because it discourages a bank's customers from performing due diligence. Because deposit insurance guarantees deposits, customers do not read the financial statements of banks and fail to ensure that their banks are acting responsibly with their deposits. They rely on the government to insure the viability of banks. In contrast, he told me that an Islamic financial system demands that customers conduct far more "due diligence" on the institutions that they do business with and spend more time monitoring the activities of their banks. Similarly, he said that government guarantees for dominant financial institutions created systemic failures. Perhaps obviously, he pointed to the 2008 financial crisis prior to which banking CEOs had convinced themselves that the United States Central Bank (the Federal Reserve) would come in and bail out troubled banks should they encounter difficulties. With a smile he invoked the assertion by political leaders in the United States that certain institutions were "too big to fail" as justification for such subsidies "They don't worry about risk…you could see it in the financial crisis, when the CEOs of banks didn't even know what kind of instruments they had invested in!"

Introducing economic reason

In both of these projects a central problem I have sought to address is: what are the limits to economic reason and calculative rationality? This interest has developed from my interest in the increasing ubiquity of neoliberalism as the dominant means of organizing economic action. I have approached neoliberalism as the introduction of economic calculation into domains of human life that were previously insulated from (or considered outside of) the imperative toward economic rationalization (Foucault 2008; Shore and Wright 2000). In documenting what I called "spiritual economies" I sought to understand how Islamic practice was interpreted as conducive to enhancing corporate productivity and efficiency and eliminating widespread corruption. Thus, spiritual reformers sought to enhance the Islamic practice of corporate employees to economize their activity at work.

My research on Islamic finance has revealed an alternative perspective on the problem of economic rationalization. In Islamic finance, religion is not invoked as a means of rationalizing economic action. Instead it is recognized as putting certain limits on the spread of economization. This is evident in the fact that, for the most part, proponents of Islamic finance

[5] To comply with human research ethics prescriptions I refer to all individual interviewees by pseudonyms.

do not frame their claims for the benefits of Islamic finance in terms of its greater economic rationality.[6] To the contrary, most proponents of Islamic finance assert that meeting *shariah* requirements is the chief objective of Islamic finance. If one is a devout Muslim and believes that practicing interest-based finance will inhibit one's ability to achieve eternal salvation in the afterlife, then one's economic actions carry weight far beyond the bottom line. A different set of calculations, which are not economic, enter into play. Thus, whereas in my project on Islam and development, the religion was reinterpreted as conducive to rational economic action, in my current project Islam places certain limits on the forms of economic action in which one can legitimately engage.

However, there is a double bind in which practitioners of Islamic finance are enmeshed. On one hand, they recognize that Islamic finance differs fundamentally from conventional finance insofar as the bottom line is not economic, but instead has to do with questions of morality and adherence to divine law. On the other hand, they assert that Islamic finance must demonstrate that it can "compete" with conventional finance. Indeed, the Malaysian state assumed that Islamic finance must prove its competitiveness when it initially established the national Islamic banking system in the early 1980s (El-Din and Abdullah 2007). Whereas countries like Iran, Sudan, and Pakistan attempted the wholesale transformation of their national banking systems from conventional to Islamic in one fell swoop, Malaysia adopted a much more measured "dual banking system" model, in which the newly established Islamic system would operate alongside the conventional banking system that the country inherited from the British. The presumption that the Islamic system is in competition with the conventional system persists among many proponents. For example, as Dato' Razif, the Deputy Governor of Malaysia's Central Bank who holds the Bank's Islamic finance portfolio, proclaimed in a speech marking collaboration between the Malaysian and Bahraini stock exchanges, "Efforts, time and resources must be pooled among the Islamic finance community to expand the industry and compete healthily with the larger conventional finance markets" (Razif Abdul Kadir 2010).

Furthermore, the Central Bank has sought to spur growth and innovation by opening its borders to competition from Islamic financial institutions based outside Malaysia. These include the Gulf-based companies Kuwait Finance House, Asian Finance Bank, and the Saudi-based Al-Rajhi bank, which proclaims itself as the world's largest Islamic bank. Malaysia is the first jurisdiction to allow foreign firms to operate in the country, and the governor of the country's Central Bank, Zeti Akhtar Aziz, expressed optimism that "the new entrants…will have the opportunity to bridge the two regions [Southeast Asia and the Middle East], participate in the growing Islamic banking industry as well as tap new markets in Malaysia and in the region, and promote healthy competition thereby contributing to elevate the industry to new levels of dynamism" (Aziz 2005). The focus on competition demonstrates the difficulty that proponents of Islamic finance have in resolving the problem of the imperative toward economic rationalization. While Islamic finance attempts to accommodate other rationalities outside the economic, in practice it is always already enmeshed in a state of affairs in which Islamic finance must compete with conventional finance which is premised on economic reason. Thus, it must compete in the terms of a system to which it seeks to present itself as an alternative.

[6] Although there are those who assert that Islamic finance is more economically rational than conventional finance. For example, Hamza, the executive cited above, asserted that because Islamic finance eschewed implicit subsidies like deposit insurance it was the "true free market model." He argued that a bank system premised on *mudaraba* (profit-sharing) contracts would "more accurately price and distribute risk."

The fact of competition and the vastly unequal starting points of conventional finance and Islamic finance were evident in versions of a story that was repeated to me in different settings no fewer than three times during my fieldwork in Malaysia. The central theme of these accounts illustrates how the market reason inherent in conventional finance structures the finanscape[7] in which Islamic finance must compete. The story involved an Islamic finance professional arranging an investment fund for a client in the Middle East. Usually the client was from Saudi Arabia, but I also heard variations of the story in which the client was from the United Arab Emirates as well. According to the story the client expressed interest in investing some capital and phoned an Islamic financier to find out the scale of returns that he would make on an investment with their firm. The financier reported that his firm could sell him an Islamic bond (*sukuk*) that would pay a six percent return on his investment, whereupon the client responds that he can make eight percent on a bond offering comparable security in the conventional market. Since the financier is unable to guarantee a lucrative return, the Muslim investor decides to eschew the Islamic system and chooses to invest his capital in the conventional market.

Interestingly, in none of the various renditions of this story that I heard did the banker emphasize that investing in the Islamic system would better enable the investor to get to heaven according to the revealed word of Allah and the examples set forth by the Prophet Muhammad. Clearly worldly profits took precedence over otherworldly salvation in the calculations of this perhaps apocryphal investor. But the example points to the broader paradox faced by Islamic finance. It is premised on the conviction that concerns other than economic calculation should be considered in economic action. However, it finds itself in a global finanscape in which the rules of the game have been founded on economic rationalization. In this sense, Islamic finance finds itself seeking to advance non-economic (or extra-economic) values in a landscape that is already created by the presumption that efficiency and productivity are best served through competition. Unless there is substantial non-market support for Islamic finance from the state or transnational institutions, its growth (and perhaps its survival) will be constrained by the logic to which it sets itself in opposition. This is again an illustration of the post-colonial paradox, whereby post-colonial nation-states wind up replicating the very forms and structures to which they established themselves in opposition (Anderson 1983; Spivak and Morris 2010).

The challenge of economic reason

Although the focus that the participants in each of the research projects described above differed, they both confronted globalization and the economic rationality upon which it is premised as a problem. Both the project of spiritual reform and efforts to create an Islamic alternative to the global financial system involved reflection and action on something that the participants in these projects identified as globalization. For proponents of and participants in spiritual reform it was a threat that had to be addressed in order to ensure the viability of state-owned enterprises. In contrast, Islamic finance professionals seek to create an alternative form of globalization that is not premised on what they see as the fundamentally immoral practice of charging interest. In both cases then globalization is not an analytical category used by the analyst to describe the world, but rather something that those who participated in these research projects used to understand their own predicaments, diagnose these conditions, and devise solutions or alternatives to them. The formation of a spiritual economy revealed the recursivity between economic rationalization and globalization. In order to compete with businesses outside

[7] I use Appadurai's notion of finanscape here to describe the sphere of financial action that cannot be isolated within the discrete space of sovereign nation-states (Appadurai 1990).

Indonesia, spiritual reformers devised a form of Islamic practice conducive to economic rationalization. Any improvements in productivity and efficiency made in Indonesian firms in turn have effects on their competitors, inspiring an ever intensifying cycle of efforts to optimize production processes.

In research on Islamic finance a focus on economic rationalization also offers the possibility to reflect on and think critically about the morality of interest. Although it lasted for centuries in the West, the debate over the morality of interest and the potentially detrimental effects of interest on human life had largely disappeared by the middle of the 19th century. However, Islamic finance raises this question anew. Some Islamic scholars argue that Islamic finance has merely created mechanisms that (while complicit with the letter of the injunction against interest) fail to conform to the spirit of *shariah*, leading to the creation of instruments such as *murabaha* (cost-plus contracts) that mimic conventional financial instruments and in fact open a “back door” to interest. Whether or not this is the case is for the most part a matter of perspective and definition, but what is perhaps most significant is that Islamic finance raises the question of the morality of both interest and the vast network of social relationships in which subjects of interest are enmeshed.

Finally both projects center on the question of what, if any, limits exist on the extension of economic rationality? In Islamic finance the bottom line is ultimately not what is most efficient and productive, but what conforms to the moral limits on economic action. Practitioners claim that there is a certain threshold past which economic rationalization cannot pass, no matter what, because interest is immoral. From this perspective, whether it is more efficient is immaterial.

Conclusion

In this paper I have argued that homo economicus and homo Islamicus are useful “ideal types” through which we can understand some of the key differences between Islamic finance and conventional finance. These figures do not represent any natural or intrinsic features of human beings. Rather, they are created by the instruments that comprise the economic arrangements of which they are part. These arrangements are premised on certain moral principles that endorse certain forms of comportment and foreclose others. In so doing, certain practices and types of action are enabled and other practices cannot be enacted.

In my view the challenge faced by Islamic finance lies in the assumptions about what constitutes viable economic action. On one hand, Islamic finance could replicate existing financial instruments translating them into Islamic terms. In addition to *murabaha*, instruments like *tawarruq*, create forms of economic action that resemble (or even mimic) those of conventional finance. The advantage is that these technologies do not require a redefinition of fundamental assumptions about capitalist economic action. On the other hand, Islamic finance could try to create an economic systems grounded in instruments that emphasize risk-sharing and partnership, instead of the individualization of risk, rational self-interest, and calculative maximization. However, doing so would require rethinking fundamental assumptions about economic agency. Therein lies the difficulty in formulating an alternative to conventional finance and the economic theory upon which it is premised. However, it is not an impossible task. The first step in formulating an alternative would be to recognize the homo economicus is just one of an infinite number of possible human figures.

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