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”Islamic Finance” After State-Sponsored Capitalist Islamism

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Abstract

During the late part of the nineteenth century CE, nationalist-Islamism emerged as a theology of liberation from the realities of European colonialism under which most Muslims lived. This form of Islamism survived into the mid twentieth century, without significant thought being lent to the possibility or desirability of a so-called “Islamic finance.” Indeed, juristic developments during this period justified conventional financial practices, and many nationalist movements aimed merely to replace European financial institutions with indigenous ones focused on boosting domestic and regional economic development. Shortly after independence, and under the influence of global currents, the liberation theology of nationalist-Islamism mutated into a socialist-Islamism that focused on self reliance to defeat poverty and continued economic dependence of Muslim-majority countries.

To counter this theology that threatened their regimes, oil monarchies used their relatively limited petrodollar resources to promote a religious-identity form of pan-Islamism based on the incoherent mid-century thought of Mawdudi and his followers. Then, starting in the 1970s, ample petrodollar flows, and their recycling, fueled a state-sponsored capitalist-Islamism that included adoption of this incoherent mid-century thought into a so-called “Islamic finance” industry. The rise of this industry may thus be attributed to four forces: (i) governments seeking to appease Islamist sentiments in areas that did not threaten their post-colonial timocracies; (ii) emerging middle classes who favor formulaic religious-identity Islamism, and simultaneously seek to join the upper (increasingly financial and legal) rungs of society; (iii) advances in financial engineering that made it easy to replicate contemporary financial practices using medieval contracts; and (iv) recycling of petrodollars from Muslim economies with limited absorptive capacity. The last two forces created the methods and funds to power so-called “Islamic finance,” while the first two provided advantages and space for its personnel and client-base.

As the petrodollar age and its concomitant brand of capitalist-Islamism come to an end, Muslim middle classes and timocracies retain the incentives to sustain the fiction that powers this industry. However, the impending demise of petrodollar-supported capitalist-Islamism, failures of which begat twenty first century terrorist-Islamism, incentivizes them to find another outlet for Muslim liberation theology. This amplifies manifold the risks (and potential, but limited, benefits) of “Islamic finance.”

1 Historical Background

The industry that exists today under the name "Islamic finance" is an offspring of late twentieth century legal arbitrage and Islamist identity politics. The religious-legal need for such an industry was debunked thoroughly in late nineteenth and early twentieth century Muslim thought, as Muslim societies sought political and economic independence from European, especially British, colonialism. In this regard, Muslim societies struggled to adopt Western education and social methods, including development of their own financial sectors. The quest for economic independence included the establishment of indigenous banks and corporations, with increasingly diminishing levels of Western support.

Various approaches coexisted in the late nineteenth and early twentieth century forms of Muslim liberation theologies, some of which championed greater reform through westernization, such as the Turkish *tanzimat* and the Indian efforts of Syed Ahmed Khan, while others, including, most famously, Jamal al-Din "Al-Afghani," favored greater independence (c.f. Keddie, 1972, 1983). Muslim jurisprudence that emerged during this period was highly rationalist, and aimed primarily at legitimizing Western financial practices, including banking and the establishment of corporate forms, which were necessary for the programs of all modernizers. Remnants of this jurisprudence have survived into the twenty-first century pronouncements of official and prominent religious scholars, but have generally been shunned by Islamists of all stripes.

Borrowing heavily from Christian liberation theologies of the mid-twentieth century, nationalist-Islamism mutated into a socialist-Islamism, which is exemplified politically in the career of Gamal Abdel-Nasser, and juristically in the writings of the Muslim Brotherhood's most prominent jurist, Mohamed El-Ghazali, among many others; c.f. El-Ghazali (2005), and the later contrast between Islam and Capitalism in Qutb (1993, 2000). The prominent Syrian scholar Mustafa El-Siba'i (1960) wrote the most comprehensive Islamic embrace of Soviet-style nationalization, which, together with Nasser's pro-Arab-republic component of socialist-Islamism, posed significant dangers to the Arab oil monarchies' political and economic models, as well as the geopolitical cold-war interests of their Western patrons. Oil monarchies countered the socialist-Islamism threat with a pan-Islamist program to export their own forms of legalistic and apolitical Islamism, exemplified in Al-Badri's (1965) rebuttal of Al-Siba'i (1960).

One of the earliest Islamist experiments in finance during the mid twentieth century was the German-inspired cooperative Mit Ghamr village banking experiment by Ahmed El-Naggar. The focus of this initiative was, characteristically, on local community development, and the mechanics of finance were conventional (although, in what was very likely a revisionist history after the emergence of so-called "Islamic banking" in the late 1970s, El-Naggar, who became a celebrity in this field, before becoming disillusioned with it, claimed that his German sponsors had forced him to charge and pay interest). Consistently with Nasser's socialist program, the Mit Ghamr village bank was nationalized into the Nasser Social Bank, providing El-Naggar with further incentive to adopt the political-economic agendas of alternate patrons in Arab oil monarchies; c.f. El-Naggar (1993). In this regard, although it had been understood, as Rodinson (2007) suggested during the 1960s, that there was no intrinsic incompatibility between Islam and Capitalism, Nasser had chosen to champion the view that "Islam is 100% socialist;" c.f. Said Aly and Warner (1982).

With the advent of massive petrodollar flows in the 1970s, the pan-Islamic program of the Arab oil monarchies included the export of an "Islamic finance," championed within the United Arab Emirates in the form of Dubai Islamic Bank, and in other countries by the Saudi Prince Muhammad Al-Faisal and businessman Saleh Kamel. Interestingly, while Saudi Arabia promoted so-called "Islamic banking" in Egypt, Turkey, and other countries, the brandname was not tolerated within the Kingdom itself until very recently, and only in reaction to large petrodollar outflows to financial centers in Bahrain and UAE. The latter were only the nearest countries that aimed to benefit from the nexus of petrodollar recycling and capitalist-Islamism. Malaysia, Turkey, and other countries also aimed to reconfigure their financial sectors to become more attractive destinations for Islamist-minded petrodollars, while the bulk of petrodollar recycling was accomplished according to the plan devised by Henry Kissinger in 1973, mostly through New York banks that lent the funds to sovereign states in Latin America and elsewhere. During the early 1980s, a number of Western corporations also sought to attract cheap petrodollar capitals, including in the form of "Islamic finance," especially as the Federal Reserve raised interest in 1982. Eventually, oil prices collapsed after the ensuing recession, contributing to the sovereign debt crisis of the mid 1980s, as oil-reserves used as collateral for various countries' borrowings of recycled petrodollars declined in value.

Seeds of the current formulaic "Islamic finance" can be traced to this period. Thus we can see in the compendium of *Fatawā* by the Shari'a board of Al-Rajhi investment corporation (which was not allowed to practice in Saudi Arabia using an "Islamic" brandname, but nonetheless was then, as now, the strictest adherent to classical Islamic jurisprudence) two consecutive opinions in 1991, the first forbidding the sale of gold on credit, and the second allowing the sale of platinum on credit; c.f. Al-Rajhi (2010, #100 and #101, pp. 170-1). The latter was thus utilized to synthesize an interest-bearing loan to a Western corporation, which had no interest in purchasing the platinum. This rudimentary type of financial engineering created a credit facility through the purchase and then credit sale of a commodity that would be easily resold by the prospective borrower on the spot market. The structure was superficially a *murabaha* financing (markup credit sale) agreement, which had been controversial in the late 1970s, resulting in a heated public debate between Drs. Yusuf Al-Qaradawi and Rafiq Yunus Al-Masri, but became increasingly accepted for retail secured financing of actual automobile or real estate purchases; c.f. Abu-Zeid (2004).

This, in turn, set the stage for more creative financial engineering methods to enable recycling of the second wave of petrodollars after the second Iraq War in 2003. This second wave of Islamic finance, which included the rise of elaborate structures for so-called *sukuk*, was also a golden opportunity for the armies of English and American legal arbitrageurs who had honed their skills on financial engineering methods aimed at minimizing tax incidence for corporations. Those financial engineers had been stigmatized by the scandalous failure of Enron in 2000, and needed other markets wherein to practice their craft.

The capitalist-Islamism exemplified in today's Islamic finance cannot survive the imminent demise of petrodollars. It has been eclipsed by a terrorist-Islamism, which first emerged in the low oil price period of the late 1990s, before the second Iraq War, and has surged again in recent years after the collapse of oil prices in 2014. It is no surprise that Ossama bin Laden, the architect of the worst terrorist attack on New York City in 2001, had denounced the fall of oil prices during the 1990s in his letter to Saudi King Fahd as "the greatest theft in history," c.f. Lawrence (2005, p. 272), and his targeting of the World Trade Center, as a symbol of global capitalism, was also not coincidental. The fact that bin Laden's "golden chain" of terrorist finance relied heavily on "Islamic finance" institutions is also not a surprise, c.f. Prados and Blanchard (2007), because of the higher presumed level of trust and solidarity within intersecting Islamist social networks, and the "layering" like methods of Islamic finance.

Another clear link between terrorist-Islamism and so-called "Islamic finance" is exemplified in the darker side of Islamic finance's most widely respected Deobandi "Shari'a scholar,"

M. Taqi Usmani, who has been a longtime supporter of the Afghani Taliban. His overt advocacy for offensive jihadism in the last chapter of his *Islam and Modernism*, which was re-published in English in 2006 by Adam Publishers in New Delhi, caused great alarm, especially after attention was drawn to it in a *Times* article; c.f. Norfolk (2007). The anti-modernist, anti-rationalist, message of Usmani's book is consistent with the legal arbitrage nature of the industry for which he has been the foremost pseudo-religious legitimizer.

In this regard, it is no surprise that the methods of so-called "Islamic finance," which merely add superficial degrees of separation between borrower and lender through third parties and traded assets, are identical in many respects to the layering methods of money laundering and terrorist finance. Tolerance of so-called "Islamic finance," therefore, provided governments an opportunity not only to recycle plentiful petrodollars, but also to have a smaller corner of finance on which to focus their efforts in trying to infiltrate and trace Islamist social networks that may sponsor or enable terrorist activities.

Although capitalist-Islamism and terrorist-Islamism have coexisted over the past twenty years, as the former was enabled by the second wave of petrodollars following the second Iraq War, the end of petrodollars means that we are left only with terrorist-Islamism. The highly inefficient medieval-jurisprudence-arbitraging "Islamic finance" industry cannot survive without capitalist-Islamism, which, in turn, cannot survive without petrodollars. However, as Max Weber has noted around the turn of the previous century, institutions rarely die, because they reinvent themselves to serve different purposes. In this regard, "Islamic finance" cannot survive to serve only terrorist-Islamism, because the latter would no longer have the apparently safe cover behind recycled petrodollars and capitalist-Islamism. Therefore, to imagine how the industry can evolve in coming years, we need to envision what other forms of Muslim liberation theology (or Islamism) are likely to fill the vacuum that will be left by capitalist-Islamism. It would be valuable to all humankind if this emergent Islamism can also diminish or eliminate the scourge of terrorist-Islamism, and, to the extent that Muslim and Western governments may agree on this goal, we may be able to limit the range of potential ascendent Islamisms that would be tolerated by those powers.

Understanding the co-evolution of Muslim liberation theology and Western conceptions of justice (socialist in the mid twentieth century, and corporatist legal arbitrage since the late twentieth century) can be helpful in forecasting how Muslims' conceptions of justice may evolve. However, this is a larger research program, well beyond the scope of this paper, which aims only to understand the likely shape of Islamic finance after the age of petrodollars. I fear that there is insufficient data at this time even to envision the latter. However, by tracing the evolution of Islamisms, and understanding the incentive structure that enabled the emergence of today's legal-arbitrage form of "Islamic finance," it may be possible to predict that the current partnership of financial engineers and religious ideologues will come to an end in the near future. The latter are likely to get caught in the dragnet targeting terrorist-Islamism, and the former will fail to find petrodollar-fueled financial-engineering fees to justify the risk of association with the industry and its increasingly narrower social network of Islamist support. Attempting to predict when this shift will take place, and what will replace it, are also more difficult tasks that require different data and tools than I use in this paper.

2 Why There Was No "Islamic Finance" Before Petrodollars

The incoherent writings of Mawdudi and his students and followers during the mid twentieth century postulated an ostensible difference between Islamic and conventional finance that glorified silent partnerships (*mudaraba*) as ideal forms of fair finance, which they contrasted with conventional finance. Of course, partnerships predated Islam and had continued in conventional finance. However, a model that exclusively relies on partnerships failed to provide a practical alternative to debt finance, for obvious moral hazard and adverse selection reasons, and had very shaky juristic grounds. As El-Gamal (2016) has argued, the silent partnership model (wherein profits are shared with the entrepreneur at agreed ratios and losses are borne by the investor) was characterized by many classical jurists as *ijara bi-l-gharar* (or hire with uncertain wages), and, indeed, the contract form can easily lend itself to exploitation of workers by forcing them to carry unwanted risk (of profit sharing) even when they expect to receive an average absolute payment lower than their market wages.

It was for this reason that many distinguished twentieth century Azhari scholars, including most notably the jurist and legal theorist Abdul-Wahhab Khallaf, suggested legitimizing conventional bank transactions, and deemed them to be fairer by fixing the rate of return on investment (including bank loans and deposits in this category). This was one of the main rationales provided in a famous Azhar Islamic Research Institute fatwa on the same, and supported by elaborate scholarly analysis to dismiss all prophetic traditions quoted against the position; c.f. El-Gamal (2006) and the translated fatwas, quotes, and references therein.

Because I had covered the Azhar fatwa and the earlier juristic analyses on which it was based elsewhere, I would like to focus the remainder of this section on a much earlier thorough analysis that showed how banking practices were legitimized very early in the twentieth century. The thought process during that period was summarized in a lengthy fatwa issued by a number of scholars in Hyderabad, India, and forwarded to the Syrian scholar Rashid Rida, who was a close associate-student of Muhammad 'Abduh. The latter, of course, was the first holder of the office of Grand Mufti of Egypt and the most famous student of Jamal el-Din "Al-Afghani" during his stays in Egypt and France. It is clear that the fatwa was sent to numerous scholars around the world, but we have its text and commentary by Rashid Rida thanks to his publications in *Al-Manar* and the subsequent publication in Rida (1986).

The text of the Indian fatwa is rather lengthy (ibid., pp. 19–72). It progressed in four stages: In the first and second, its authors argued, following in the footsteps of a long tradition in the relatively rationalist Hanafi jurisprudence, that the term *riba* (mistakenly translated as "interest" in Islamist discourses) was mentioned in the Qur'an abstractly, and that its explication was provided in prophetic traditions, but did not expand the range of forbidden transactions. In this regard, Qur'anic commentary and exegesis had long established that the *riba* mentioned in the Qur'an is exclusively the *riba al-jahiliya* (unjustified increase in credit during the pre-Islamic age of ignorance; which was only practiced by increasing the amount of matured debts, not as stipulated increments over principal at the inception of a loan). The Hyderabad scholars then proceed in the third and fourth parts of their fatwa to argue that a prespecified interest at the inception of a loan is not the forbidden *riba*, and that the juristic analogy used to forbid it is defective and/or non-binding in the modern age. A partial translation of their conclusions, together with their reasoning based on Qur'anic exegeses as well as scholarly analyses of the prophetic traditions and juristic analyses, follows (p.32, ibid):

> *Thus it has become clear that a defined benefit stipulated as a condition in loans is not a form of the riba mentioned in Canonical texts, since the verse mentioned the term only generally and abstractly – so that the desired meaning cannot be understood from the verse itself – and the Hadiths [Prophetic traditions] that explain the term are all restricted to sales and no other contracts. Thus, our jurists explicitly stated that riba is only effected in sales and not in voluntary contributions. Perhaps what they meant to say is that it is not the riba that was mentioned in Canonical Texts.*

[The authors cite lengthy evidence here from ibn Rushd's *Al-Muqaddima*, wherein he explained 'Abdullah ibn 'Umar's prohibition of a stipulated increase at the inception of a loan explicitly not as a direct application of the Textual prohibition of *riba*, but rather based on analogical inference. They also cite Al-Baghawi making the same argument: that prohibition of interest on loans is inferred by analogy, not by direct application of the Cannonical Texts of Qur'an and Hadith].

Proof for this assertion is also probided by [Al-Kasani] in Al-Bada'i', wherein he forbade a stipulated increase in loans by saying: "because the stipulated increase is similar to riba." In this regard, that which is characterized as "similar to riba" cannot itself be characterized simultaneously as riba . . .

As for the Hadith reported in Bulugh al-Maram on the authority of Ali, which everyone among the commoners and the elect have been narrating: "every loan which brings a benefit [to the lender] is riba," this Hadith cannot be used to explain the Qur'an, since it is not well authenticated, and thus has no foundation. In this regard, ibn Hajar said: "[the chain of narration for this tradition] includes Al-Harith ibn Usamah, whose narrations are not accepted" . . .

They provided several other references to Hadith scholars – including Al-Zayla'i, Abi al-Jahm, Al-Bukhari, Al-Nasa'i, and ibn Al-Humam – who rejected the Hadith due to other weak links in its chain of narrators. In particular, ibn al-Humam said that the best one can say about this doctrine is that it is based on the views of the Prophet's companions, and they only agreed that interest on loans was reprehensible – which implies that it is not *riba*, otherwise they should have concluded that it was forbidden. They also dismissed the facts that Al-Ghazali and his teacher Al-Juwaini accepted this Hadith as valid, citing Al-Shawkani in *Nayl Al-Awtar*, who dismissed the claim because they were not experts in Hadith authentication.

In his commentary, Rashid Rida accepted the main scholarly analysis of the Hyderabad jurists – that the prohibition of interest on loans cannot be said credibly to rely directly on Qur'an or valid prophetic tradition. Thus, he agreed with them that its prohibition was based on reasoning by analogy conducted by early companions of the prophet and later jurists. Such analogical reasoning could be overruled in the modern era based on changes in institutions and social needs. Thus, Rida concluded that the juristic analysis of the progressive jurists cannot be deemed invalid. In other words, the conclusion very early in the twentieth century was that the mechanics of banking were not necessarily problematic for Muslims. There is no doubt that Rashid Rida and his contemporaries knew and approved of the efforts to establish indigenous banks, like Tal'at Harb's Banque Misr, in order to finance development and industrialization; c.f. Davis (2014). The legacy of nationalist-Islamism was not to reject the tools of capitalism, but rather to use them for domestic development and economic independence from colonial powers and their banks – an agenda that succeeded to some limited extent.

3 How So-Called "Islamic Finance" Emerged since 1970s

However, what followed in the wake of independence in the 1950s and 1960s was the development of Arab socialism, which resulted in the nationalization of some of the existing banks, including Tal'at Harb's industrialization-enabling Banque Misr and Ahmed El-Naggar's village community bank in Mit Ghamr. As Islamists increasingly defined themselves in contrast to the Arab-socialist regimes, an economic component of their separatism was to characterize all banks, including state banks, intentionally pejoratively, as "ribawi."

Thus, the Iraqi jurist and activist M. Baqir Al-Sadr (1981) wrote a juristic treatise on how to create a non-Ribawi bank in an Islamic society, and the Jordanian former banker Sami Humud (1976) devised some of the simplest and most practical trade-based means to restructure bank loans. As mentioned in the introduction, those simple financial engineering devices eventually gave rise to more sophisticated forms of structured finance, especially during the second major petrodollar wave in the twenty first century.

So-called "Islamic finance" is first and foremost a Gulf-state-sponsored form of capitalist-Islamism, which was embraced by many other states, both Muslim and otherwise, who were competing for recycled petrodollars. Like other forms of exported Islamism (some more violent than others), the sponsors structured this style of Islamism mainly for export. Thus, Saudi Arabian princes and businessmen sponsored "Islamic finance" in other parts of the world, but were not allowed to operate Islamic banks within Saudi Arabia until the latter was forced to accommodate it because of large private flows to Bahrain and UAE. Before then, the routine answer was that all institutions in Saudi Arabia (including banks) were already Islamic.

Recycled-petrodollars recipient governments were generally happy to accommodate Islamic finance to varying degrees, beyond the obvious financial reasons, also to appease their own domestic Islamists in an arena far from threatening politics. In some countries, like

Malaysia and Turkey, Islamist-friendly governments additionally used the growing industry to enrich and empower their own power bases (ethnic Malays and the MUSIAD business association in Istanbul, respectively). In others, like Tunisia and Egypt, secular-minded rulers allowed limited penetration of the industry to appease their Islamists, and simultaneously to gain a better understanding of their social and financial networks. Western governments in Europe and North America have also found the industry to be useful for the same reasons as those secular-minded regimes in majority-Muslim countries.

In countries like Malaysia and Turkey, and increasingly in countries under more secular-minded regimes, Muslims could benefit from this industry's growth both as clients and as practitioners. In the event, Muslims' comparative advantage on the practitioner side was generally limited to retail asset-gathering and the regulatory infrastructure. They worked in partnership with incoherently-pietist marketing by specialized "Shari'a scholars." The latter constituted the most important marketing vehicles for entrepreneurial efforts to create an isolated market segment of religiously-insecure Muslim clients for this industry, in which they had a comparative advantage. Despite the obvious rationale for this business model, there is scant evidence that so-called Islamic finance has increased financial access and intermediation in Muslim populations. In this regard, the industry's proponents have been very defensive in their argument that their role is not developmental, but merely to "allow pious Muslims [who can afford to pay their fees] to live according to the dictates of their religion."

In propagating a formulaic/juristic understanding of classical Islamic jurisprudence and its potential contemporary applications, proponents of so-called Islamic finance have been aided in their quest by the patterns shown in Pew opinion survey results tabulated in Tables 1 through 5 in the Appendix. These show (Tables 1 and 2) that local, national, and official Imams and Sheikhs in Muslim countries (the norms of whom were copied by Islamic finance "Shari'a scholars") were deemed to be authoritative figures who guide Muslims in different countries to lead their lives. This was reinforced by the views that Shari'a is mostly divinely revealed (Table 5), and that it should be enforced strictly, or based on principles (Table 4) that are doubtless interpreted by the same quasi-clergy groups vested with sacred authority (Tables 1 and 2). Needless to say, petrodollar-powered proponents of the industry were able to influence financially the opinions of official and private local religious authorities.

Once the clientele, retail workforce, and brandname juristic authorities of a formulaic-juristic finance industry were in place, the field was ripe for legal arbitrageurs – mostly London and New York based bankers and lawyers, who had previously honed their financial engineering skills to arbitrage tax laws in Western jurisdictions. Especially after the failure of Enron resulted in stricter regulation in these legal arbitrageurs' main domain, they were happy to find a goldmine in so-called "Islamic finance," which was flush with cheap petrodollar liquidity. Earlier, they had taken a company like Enron's debt and interest payments off balance sheets for tax advantage and to boost stock prices with misleading pro-forma financial reports. Now, they could use the same lease-buy-back and similar methods with offshore special purpose vehicles to relabel debt and interest for a different audience and potentially higher fees.

4 After Petrodollar State-Sponsored Capitalist-Islamism

The structures of Islamic finance have been clearly flawed throughout their history, but Gulf monarchies generally did not allow high-profile defaults, such as the recent Dana Gas sukuk debacle, to take place during the peak years of capitalist-Islamism. As I've argued in the previous section, this expensive fiction was possible as long as petrodollars were plentiful to attract legal arbitrage talent and cover up the failures of their flawed structures. Western governments also were willing to support the industry for both its advantages in petrodollar-recycling and intelligence gathering on overlapping Islamist social networks. Gulf monarchies have now changed their attitudes as petrodollars decline, while frustrated Islamist expectations has given rise to terrorist-Islamism and other threatening manifestations of political Islam.

As Gulf monarchies seek to undermine the forces of political Islam, which overlap substantially with the most recent forces of terrorist-Islamism, they find themselves equally compelled to undermine the forces of capitalist-Islam, which had been empowering the same groups. Thus, for example, they have chosen to undercut Dr. Hussein Hamed Hassan, the long-term chief Shari'a scholar of Dubai Islamic Bank, and the primary structurer of the Dana Gas sukuk that have been allowed to fail. Hassan has been a leader of the Muslim Brotherhood who presided over the parliamentary spectacle of approving a short-lived Egyptian constitution during the difficult year of Muslim Brotherhood government. As the Emirates and Saudi Arabia fight the Muslim Brotherhood on all fronts, including the boycott of Qatar and attempt to silence her satellite TV station Al-Jazeera, which has been very friendly to the group, they are, not surprisingly, beginning to undermine the "Islamic finance" industry which has empowered and helped to enrich the same Islamist groups within their borders and beyond.

Therefore, capitalist-Islamism is coming to an end together with its various features, of which "Islamic finance" has been a prominent one. This is the case because the petrodollar fuel for the industry as currently configured is vanishing quickly, and the social networks that the industry has empowered are the same ones that have contributed to terrorist-Islamism in response to growing economic and political pressures. Nonetheless, as Max Weber taught many years ago, institutions are remarkably resilient and find ways to redefine their raison d'être and to survive by fulfilling other functions. Without a doubt, the next mutation of Islamism will determine the direction in which "Islamic finance" will mutate, although the latter may also play a limited role in influencing the shape of the former.

Unfortunately, attempting to forecast the nature of this next mutation is difficult because we lack sufficient data, both in terms of detailed measurement of sentiments and of having such measurements over a sufficiently long time period. The forecasting task requires a more tedious analysis of intellectual and popular writings to understand earlier mutations of Muslim liberation theology (the four Islamisms discussed earlier: nationalist, socialist, capitalist, and terrorist) and suggest potential directions for the next mutation. Nonetheless, it seems safe at this stage to predict that the formulaic/juristic "Islamic finance" that we have observed over the period of petrodollar-and-state-sponsored capitalist-Islamism will soon decline and mutate into other forms that serve heretofore unknown future forms of Islamism.

As the former exporters of capitalist-Islamism and its broader religious-legal worldview, most prominently Saudi Arabia and her Gulf neighbors, continue their soul searching to find an alternative modern-world Muslim worldview to champion, we are likely to suffer through a period of continued confusion in Islamist circles. In many respects, the situation today is similar to that in the early twentieth century, when westernizing modernists and nationalist-Islamists parted ways and left us with the current state of conflict. Modernizers today face the same problems that "Al-Afghani," 'Abduh, Rida, Mawdudi, and others faced as they tried to find a feasible middle between the fastest path to modernization (which is unlikely to work today, as it was then), one the one hand, and "authenticity" to the Muslim tradition and its "salafi" reconstructed fictions, on the other.

Although it is tempting to think that the earlier middle-way program of nationalist-Islamism could have worked, it is likely that it carried the seeds of its own mutation within itself. Thus, Rashid Rida was much more intent on saving the tradition from modernizers than his teachers – who saw modernization as the ultimate goal and authenticity to the tradition as a necessary means to that end. In the event, intellectually, Rida served as a bridge between the type of salafism that ʻAbduh had in mind (based on how progressive he deemed the earliest Muslims to have been) and the eighteenth century Arabian version of salafism, which yearned to freeze society in a presumed seventh century mould. In the meantime, politically, the Muslim Brotherhood sought power in ways that enabled a small group of young and impressionable officers to transform the program into the socialist-Islamism of the mid-century. The financially ascendant oil monarchies adopted Rida's version of salafism to empower the capitalist-Islamism with which they countered the threat of socialist-Islamism, and they have dominated Muslim religious discourse to this day.

Needless to say, the current situation is very different from the early twentieth century, both in terms of the different mix of centralization and decentralization of religious authority, and the realities of a Muslim world that was getting surprisingly richer in the past century and that is likely to revert to a much poorer state soon. Those, respectively, are the same problems that have made terrorist-Islamism very difficult to defeat ideologically and financially.

Those forces also mean that "Islamic finance" is likely to evolve in ways that cannot be controlled by its former petrodollar masters, both because they are beginning to endorse a different ideological model and can no longer afford the legal and financial infrastructure that made other governments and communities follow their lead. Some homegrown models, such as mutual housing cooperatives, formal or informal credit unions, and the like, may regain some advantage in leveraging the "Islamic finance" brandname, and they may thus contribute to greater financial integration and modernization of marginalized Muslims in various countries. Although this is far from the ideal of teaching Muslims that there is nothing intrinsically un-Islamic about modern financial practices (and, indeed, that what is often marketed to them as Islamic is in fact overpriced and inferior in every other respect, and, therefore, provably more un-Islamic), it may be a feasible second best from a financial standpoint.

The risks of such a distributed system of religious authority and financial empowerment are also obvious, especially because it emerges at a time when terrorist-Islamism is at its peak. This suggests that financial regulators and law enforcement agencies would be well advised to play a proactive role in steering and monitoring such grassroots initiatives, both to provide entrepreneurs in this domain valuable technical assistance and access to the broader financial sector, and to prevent terrorist-Islamists from abusing the social and financial capital of the much larger populations of Muslims struggling to reconcile their religious tradition with modernity. This may be a costlier risk-management approach than the one championed by the anti-terror industry, and contrary to the myopic self-interest of participants in that lucrative industry, but it may also be more effective in hastening the transition away from today's dominant paradigm of terrorist-Islamism, which has arisen from the ruins of the failed capitalist-Islamist paradigm.

In this effort, Muslim-majority and other governments should be very careful, because attempting to engineer the next mutation of Islamism may backfire in the same manner that state-sponsored capitalist-Islamism has mutated into today's terrorist-Islamism. It is best to think of this problem in terms of dynamic optimal control, albeit in an environment where the target is unknown. The most aggressive anti-terror approaches and the most ambitious modernization approaches use static models that aim at minimizing immediate damage or maximizing immediate reward, without regard for the (often predictable) consequences of their interactions with social forces that react dynamically. Unfortunately, this means that engagement at all levels with the forms of Islamism that exist today, reprehensible and/or incoherent as they may be, remains important.

5 Concluding Remarks

The analysis that I have provided here is in many respects tentative and overly simplistic. The various brands of Islamism have coexisted in many times and places. For example, many of Mawdudi's Pakistani followers have exhibited prominently a mix of three of the four forms: nationalist-Islamism (their animosity to India, minority sects within the country, etc.), capitalist-Islamism (cynically marketed by a succession of corrupt kleptocrats), and terrorist-Islamism (both within and outside their borders). Likewise, it is very rare to find only one isolated form of Islamism in any large Muslim country or population. Moreover, the transitions to and from socialist-Islamism were clearly influenced by much broader international developments, mainly in Latin America and Asia. This suggests that a more comprehensive and/or sophisticated analysis would have to take into account the global environments in which Islamism is likely to mutate next. However, the main conclusions of this very limited analysis are unlikely to change: capitalist-Islamism is in its final days; terrorist-Islamism is thriving, but hopefully not for long; "Islamic finance" will change; and we need to continue to monitor it and, whenever possible, nudge it in less damaging directions.

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Appendix – Pew Data (Global Attitudes Survey, various years; and "The World's Muslims," 2012)

Table 1: Pew GAS 2006 – Percentages Responses: Please tell me which one of these you trust the most to offer you guidance as a Muslim? (Institutions outside such as Azhar, Saudi Imams)

	Local Imam/ Sheikh	National Religious Leaders	Religious Leaders on TV	Imams and Institutions Outside	None
Great Britain (Muslims)	42	4	4	28	16
France (Muslims)	26	18	6	31	19
Germany (Muslims)	18	25	3	12	32
Spain (Muslims)	26	5	4	30	30
Egypt	29	30	22	16	3
Turkey	27	37	6	7	16
Indonesia	60	30	3	4	2
Pakistan	46	19	6	11	7
Jordan	25	24	25	26	0
Nigeria	64	13	3	11	9

Table 2: Pew GAS 2006 – Percentages Responses: Please tell me which one of these you trust the SECOND most to offer you guidance as a Muslim?

	Local Imam/ Sheikh	National Religious Leaders	Religious Leaders on TV	Imams and Institutions Outside
Egypt	15	21	29	26
Turkey	27	21	7	7
Indonesia	23	45	20	6
Pakistan	14	28	12	10
Jordan	28	19	19	30
Nigeria	20	26	13	20

Table 3: Pew GAS Percentages Responses: Is the influence of religious leaders very good, somewhat good, somewhat bad or very bad in (survey country)?

Country Year	Pakistan 2009	Pakistan 2015	Turkey 2010	Turkey 2015	Egypt 2012	Egypt 2013	Tunisia 2012	Tunisia 2013
Very good	20	27	7	19	36	30	14	12
Somewhat good	43	45	33	22	47	45	36	34
Somewhat bad	18	14	16	18	9	14	27	27
Very bad	11	4	25	23	7	12	14	17
Don't know	9	10	18	18	1	0	8	11
Refused	2		1		1	0	1	0

Table 4: Pew GAS 2015 Percentages Responses: Which of the following comes closer to your view on laws following the teachings of the Qur'an?

	Strictly	Principles Only	No Influence	DK/Refused
Turkey	13	38	36	13
Jordan	54	38	7	2
Lebanon	15	37	42	6
Palest. ter.	65	23	8	4
Indonesia	22	52	16	9
Malaysia	52	17	17	15
Pakistan	78	16	2	4
Burkina Faso	9	27	60	4
Nigeria	27	17	42	14
Senegal	49	33	16	2

"Laws should not be influenced by the Qur'an" choice is significantly higher for people with secondary education or more.

Table 5: Pew 2012 "The World's Muslims" Percentages: Which comes closer to your view?

	Sharia law is revealed word of God	Sharia law is developed by men, based on revelation	Both	DK/Ref
Albania	24	18	8	50
Bosnia-Herz.	52	39	4	6
Kosovo	30	33	3	35
Russia	56	25	8	12
Azerbaijan	53	36	4	6
Kazakhstan	44	31	11	15
Kyrgyzstan	69	20	6	5
Tajikistan	60	33	6	1
Turkey	49	28	4	19
Uzbekistan	52	19	6	23
Indonesia	54	39	4	3
Malaysia	41	35	7	18
Thailand	52	20	2	26
Afghanistan	73	21	4	1
Bangladesh	65	25	7	2
Pakistan	81	8	2	8
Egypt	75	20	3	3
Iraq	69	25	4	2
Jordan	81	18	1	0
Lebanon	49	38	11	1
Morocco	66	13	8	14
Palestinian terr.	75	16	4	5
Tunisia	66	25	6	3