FROM PIETY TO PROFIT: SHARIAH SCHOLARS AND THE RISE OF ISLAMIC FINANCE

Ryan CALDER, *The Paradox of Islamic Finance: How Shariah Scholars Reconcile Religion and Capitalism* (Princeton, Princeton University Press, 2024, 347 p.)

What is Islamic finance? When asked this question by non-experts, Ryan Calder admits giving a short—yet somewhat incomplete—answer, broadly defining it as economic transactions that avoid the charging of interest [101-102]. But is this really what makes finance Islamic? Did the US turn to Islamic finance when interest rates hit zero per cent after the Fed unrolled quantitative easing programs in the aftermath of the 2008 Global Financial Crisis?[1] That would be hard to argue and, clearly, this is not a sufficient answer. At least Calder was not fully convinced by it, prompting him to spend more than ten years researching this fundamental question. The result is an analytically engaging page-turner with an innovative argument. In "The Paradox of Islamic Finance" Calder proposes that it is a core group of Shariah (i.e. Islamic law) scholars who act as *God's technicians* that give financial transactions their Islamic character [105]. Just like the key role played by economists in the rise of neoliberal markets due to their ability to formulate and promote economic models that shaped policy-making [Fourcade and Babb 2002; Fourcade 2006][2], Islamic finance retains its religious character thanks to scholars who have not only managed to build a globally networked epistemic community but also actively worked towards creating scalable products that deliver economic (and moral) profit. This flexibility challenges Weberian approaches to Islamic law regarding its alleged rigidity and demonstrates the religious scholars' ability to innovate extensively within the boundaries of capitalism [141-142].

The book engages with two central paradoxes that anchor the discussion. First, many Muslims who view interest as a sinful practice seem to be comfortable with Islamic contracts that openly simulate interest. Second, while the Islamic finance industry has grown substantially over

[1] I would like to thank Lena Rethel for this point.

[2] Marion FOURCADE-GOURINCHAS and Sarah L. BABB, 2002. "The Rebirth of the Liberal Creed: Paths to Neoliberalism in Four Countries," *American Journal of Sociology*, 108 (3): 533-579; Marion FOURCADE, 2006. "The Construction of a Global Profession: The Transnationalization of Economics," *American Journal of Sociology*, 112 (1): 145-194.

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recent decades, there is no similar comparable case with a particular religious commitment [240]. How do we explain these curious trends? Calder unpacks these puzzles by building on extensive field research, deriving insights from 291 interviews with 303 individuals across 20 countries conducted between 2013 and 2023 [20]. Spread over nine chapters, the results show how Islam and capitalism have become increasingly intertwined under late neoliberalism, leading to the exponential growth of the Islamic banking and finance industry.

A superficial look at the details of Shariah-compliant contracts may give the impression that Islamic financial transactions are the same as conventional ones: indeed, more cynical analysts argue that the entire design is simply an expensive charade that masks interest as we know it.[3] But Calder shows that the new meaning and legal justification shed by a select group of experts on the generation of profits is what makes it different with a religious connotation. Rather than a natural affinity between Islam and capitalism, the pivotal role played by Shariah scholars rooted in a particular legal tradition—which Calder terms "fiqh-mindedness"—has upheld the ideational engine that greases the wheels of a very neoliberal Shariah interpretation.[4] This concept is central to understanding how these scholars operate and maintain their influence within the industry. The adaptability of Islamic finance is possible within this framework, which enables an elite group of experts to combine multiple legal instruments, including those borrowed from English common law, to justify modern practices that include a heavy dose of financial engineering such as *tawarruq* (cashification).[5]

Importantly, fiqh-mindedness rests on an Aristotelian understanding of money and interest. Under this epistemology, interest simulation is not exactly *faking it*, as many critics argue. Rather, it is an instrument used to genuinely avoid a violation of commutative justice where *taking something for nothing* is not allowed [88]. Thus, an axiomatic approach to religious codes grounds these scholars in reinterpreting existing rules and accommodating new products while maintaining adherence to Islamic

[3] For example, see the interview with Timur Kuran, "Islamic Finance Sits Awkwardly in a Modern Business School" Financial Times, July 22, 2013.

[4] In the book, fiqh is defined as "Islamic jurisprudence, or the science of Islamic law; the human endeavor to study and implement God's normative system (shariah) on earth by combining revelation and reason" [Calder 2024: xxi]. According to Calder "fiqh-mindedness is a mode of piety that takes Islamic law seriously as a normative ethical code governing everyday life" [Calder 2024 18].

[5] Tawarruq "is an application of markup sale that simulates the economic effect of unsecured interest-bearing loans (i.e., cash loans in which there is no collateral)" [Calder 2024 60].

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jurisprudence. This is not without its challenges, as scholars must constantly balance industry expectations of profitability with religious principles. In that sense, the elite scholars, whom Calder describes as "rockstars of Islamic finance", are central to the industry's operation [135]. They not only provide moral and pragmatic legitimacy but also redraw the boundaries of Shariah compliance, occasionally rejecting proposed innovations that challenge existing codes and interpretations [170-171]. This performative boundary-making is one practice that helps them maintain their status and decision-making power within the professional community.

Indeed, there is a strong performative side to being an elite Shariah scholar. While Calder's interviews point to a shared commitment where many scholars view their position as a *calling*, when questioned about their rather high pay rates, "calling" quickly becomes a "job" for which they are paid "just like auditors or lawyers" thanks to their unique specialization in Shariah [138]. In order to demonstrate their expertise, it is common for them to occasionally refuse to certify proposed innovations. As Calder documents, scholars do not approve any contract that comes their way in order to accelerate profit-making; they also reject a few, especially when the proposals go "too far." In their role as navigators, scholars redraw these boundaries while consolidating their indispensable status. Therefore, applying measured restrictions that "cost capitalists real time and money" [170] is necessary for reproducing the scholars' legitimacy by way of creating "new opportunities for profit and new, more efficient strategies for interest simulation." [171].

Too much innovation reaches its limits when the proposed product poses a clear danger to the reputation of the scholars. In that sense, scholars are not only protecting others from sinning but also protecting themselves and reaffirming their professional relevance. Public rejections are opportunities for Shariah scholars to distinguish themselves from a growing number of rising experts who seek influence and status as more and more graduates join the industry ranks. The book provides several examples of this performativity, including the case of the renowned scholar Taqi Usmani from Pakistan, who rejected nearly all Sukuk contracts (i.e. Shariah-compliant bonds) as not permissible in 2007. Usmani's decision was based on the argument that the mechanisms used in designing Sukuk contracts rendered them essentially identical to conventional bonds in terms of their economic implications [178]. This performative act of boundary-making—while shocking to the entire Islamic finance community—eventually reinforced Usmani's authority as he portrayed himself as the protector of the ethical integrity of the transactions, implying that everyone else was chasing profit while he was doing his job, following his calling.

The Limits of Expert Influence and the Rise of the Gulf Model

As Calder shows, a tightly woven expert community is a necessary but not sufficient condition to create, build and maintain a global industry that operates on religious and moral principles. Indeed, other rival expert groups, such as moral Islamic economists, have failed to achieve the same level of prominence despite their visibility and networks within academia and beyond. The book explains this contrast due to moral economists' inability to integrate their alternative welfarist model into global financial circuits under neoliberalism. While the predecessors of this group played a prominent role in writing the initial texts that promoted an alternative banking model with an emphasis on redistribution in the early 20th century, those who opposed the neoliberal turn later were sidelined or lost their policy relevance due to the incompatibility of their ideas with industry-friendly changes [59]. By contrast, Shariah scholars offered multiple *proofs of concept*, which facilitated the growth of the industry as global financialization deepened. In doing so, these scholars were able to carefully avoid tensions and contradictions faced by experts in maintaining their authority, thereby avoiding a *crisis of expertise* [Eyal 2019][6] while crafting a performative script to work with as they strike a bargain between neoliberal practices and Islamic law.

The elite scholars today owe much of their influence to the three pillars that support their collective legitimacy. Fiqh-mindedness is one important component. The others include postcolonial developmentalism and a national political consensus that approves their expert status. While the individual legitimacy of Shariah scholars depends heavily on pedigree and their market-friendliness, where some (e.g. Malaysian scholar Mohd Daud Bakar) declare an open commitment to "Taylorist self-optimization" that Byung-Chul Han [2015][7] would identify as an individual engine of self-exploitation, they are also motivated by a collective mission to improve the economic status of millions of Muslims, especially in postcolonial societies, by maintaining and generating wealth. Calder marks an important distinction here: the early pioneers

[6] Gil Eyal, 2019. *The Crisis of Expertise* (Cambridge, Polity).

[7] Han Byung-Chul, 2015. *The Burnout Society* (Stanford, California, Stanford University Press).

of Islamic finance and Shariah scholars in the Gulf "inhabited [postcolonial] societies where the fundamental macroeconomic question was no longer how to alleviate poverty by distributing scarce capital but how to invest and circulate suddenly abundant capital" [67]. While elsewhere, such as in Pakistan, the concern was very much focused on pursuing a welfarist implementation of Islamic economics along the lines of developmentalism.

Consequently, the dominance of the "Gulf model" of Islamic finance, originating in the Arab Gulf states in 1975, is based on scholar certification to facilitate transactions and generate more wealth in the post-independence period. This arrangement relies heavily on interest simulation under a limited or restrained state involvement rather than state imposition for Islamist redistribution [30]. The model owes its success to two historical accidents. First, the significant wealth generated by the 1970s oil boom set up the basis for a banker-scholar alliance [43], where some scholars came from wealthy families and were already familiar with the day-to-day complexities of trade operations. Many of these scholars also had degrees in economics and business studies. Over time, this gradual convergence of interests between businessmen, bankers and Shariah scholars has been critical in opening the communication channels, contributing to the organizational capacity of the industry to grow, thanks to systematic consultation that allowed the scholars to better understand sectoral expectations.

Second, the rise of financial liberalization under neoliberalism created new opportunities for wealth generation thanks to the rise of financial engineering. For example, without the financialization of the commodity market, *tawarruq* (cashification) would hardly be possible, and the industry would not have had the opportunity to grow as fast as it did without the broader liberalization reforms in capital markets that made these arrangements possible. Encouraged by these transformations, Shariah scholars have devised new ways in which their interpretation encouraged the proliferation of permissible alternatives.

Under late neoliberalism, where alternative economic proposals were either discarded or deemed unsustainable under a World System with US hegemonic oversight, Gulf-based scholars found it nearly impossible to rely on a welfarist model for preserving and generating more wealth. Moreover, the profit and loss sharing (PLS)-based contracts, long promoted by moral economists as the core pillar of Islamic economics and finance, proved difficult to implement [45], also due to a lack of interpersonal trust [47]. Additionally, the proposed model of the welfarists was seen as too risky because most regulators in the Gulf did not want banks to engage substantively in the trade of non-financial goods and services (which underlies all PLS-based contracts) because the depositors' funds would be put at excessive risk [57]. While postcolonial developmentalism among Sharia scholars was initially shaped by a vision of developing an alternative financial system for Muslims, driven by the principle of redistributive justice, under the influence of Gulf-based scholars, this approach shifted towards prioritizing wealth generation within a financial system designed by Muslims for Muslims. This reinterpretation not only aligned with the growing prominence of the Gulf Model but also helped consolidate the collective legitimacy of scholars who advocated this approach as the ideal path forward.

The Role of the State

As Calder acknowledges, the state plays a key role in the emergence of a national political consensus over the collective legitimacy of Shariah scholars. This is critical not only because creating a new market requires political will and a supportive bureaucracy that is capable of delivering what the industry needs [Apaydin 2018; Rethel 2016][8] but also because the state sets up the infrastructure to connect national industry players with global financial markets [Calder 2024: 155]. When the state is unable to do the latter, the results are disappointing: in Pakistan, where the welfarist model prevailed under Zia-ul-Haq's total Islamization of the financial sector, PLS-based arrangements did not work as intended, and a major crisis followed. In that sense, the book's comparison of the Gulf Model in Saudi Arabia and the welfarist model in Pakistan is quite telling: a *closed-circuit* implementation of Islamic finance reforms along the principles promoted by moral economists simply proved unsustainable as the rest of the world began to liberalize its financial markets. Eventually, following major economic and political turmoil, the government of Pakistan reverted to the capital-friendly Gulf Model [233].

The failure of more radical approaches, such as the experience of Pakistan, underscores the challenges of creating a national economic system completely insulated from global capital networks [233]. Despite the prevalence of a welfarist-systemic view among the public in Pakistan in contrast to a scholastic-transactional view among the Saudi public, the

[8] Fulya Apaydin, 2018. "Regulating Islamic banks in authoritarian settings: Malaysia and the United Arab Emirates in comparative perspective," *Regulation & Governance*, 12 (4): 466-485; Lena Rethel, 2016. "Islamic Finance in Malaysia: Global Ambitions, Local Realities," *in* Juanita Elias and Lena Rethel, eds, *The Everyday Political Economy of Southeast Asia*, (Cambridge, UK, Cambridge University Press).

government had to backtrack on a model predominantly based on prioritizing profit and loss-sharing contracts. This experience has further prompted Shariah scholars to invoke "need, dire necessity, and the avoidance of undue hardship to justify transactional arrangements that make Islamic finance competitive and profitable" [157], where the most urgent need seems to be the survival of the industry under late capitalism [Calder 2024: 160]. In that sense, Islamic finance may appear hard and burdensome from a transaction-cost perspective, but it is "nowhere near as hard as building a completely separate Islamic economic system from scratch that operates outside the capitalist marketplace according to fundamentally different economic principles" [263].

Conclusion

Calder's study convincingly shows that Islamic finance is quite adaptive to financial capitalism, and Shariah scholars continue to work in tandem with product engineering departments even when they initially express reservations. "The more the capital, the more neoliberal the Shariah" is a dictum that could summarize the findings in the book.

As the reader is reminded on multiple occasions, what makes Islamic finance is not simply a rejection of interest and other *haram* practices but how Sharia scholars minimize the otherworldly risks of sinning by embedding new contracts deeply in Islamic law [140]. However, when minimizing worldly risks, they simultaneously operate under a neoliberal rubric that incentivizes Islamic banks to shift the associated costs of new products to customers, investors, and third parties [117]. In that sense, Shariah scholars also stand as critical agents of neoliberal derisking that is market-friendly yet religiously compliant. This raises additional questions concerning the proposed sustainability of the industry—which is often invoked by Islamic finance professionals as they position themselves vis-à-vis conventional finance—in the long run. While Calder observes that the sustainability of Islamic finance over time rests on the commitment of all those who see it as a "form of life" [245] that is, "a shared meaning-making project in which stakeholders invest great hope, and about which they have strong feelings" [254], how far this *form of life* can withstand systemic pressures due to frequent economic crises on a global scale is a question that begs further discussion.

Still, "The Paradox of Islamic Finance" already stands as one of the key classical texts in economic sociology with an original contribution to

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our understanding of the relationship between religion and capitalism in the 21st century. By centering the debate on the critical role of Shariah scholars, Calder provides a comprehensive analysis of how this industry has eventually thrived under late neoliberalism. His work engages with broader sociological literature on the role of experts and market building, offering new insights into the organizational and institutional dynamics of legitimacy, boundary-making, and adaptation in non-Western settings. The book is a must-read for anyone seeking to understand the dynamic relationship between religion, finance, and capitalism in contemporary times.

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