



SESSION N°15

SPECIAL CONCURRENT SESSION

FINANCE WITHOUT INTEREST. TRADITIONAL PARADIGMS AND NEW PERSPECTIVES

Chair

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Abstract

SOURCES FOR A FINANCE WITHOUT INTEREST

The undisputed dogma on which the modern financial system is founded states that money is a commodity, and the rate of interest is its price. The current crisis shows, not only that the prevailing model of finance is unsustainable, but also that it must be thought over radically. There are both historical and logical reasons for thinking that this model of finance admits viable alternatives.

In order to address these issues, two sessions are proposed (14 and 21). The two sessions are strongly interrelated, but may also be attended separately. Presentations will last 30 min. each, leaving one hour for discussion at the end of each session.

Session 14 will be dedicated, in particular, to the following issues.

Keynes: weeding out interest from finance

John Maynard Keynes has been increasingly mentioned since the outbreak of the current financial crisis. His name is often associated with the policy of reflating the economy through monetary and fiscal expansion. This reflects a gross misapprehension of Keynes's actual indications concerning the causes and remedies of economic depression. In fact, as this contribution argues, the main factor of economic imbalances, according to Keynes, was the possibility for the owner of money to withdraw it from circulation as a store of wealth (i.e. as 'liquidity') or to request a compensation for parting with it (i.e. the payment of interest, conceived as a 'liquidity premium'). On this basis, Keynes envisaged a situation, such as the present, in which money could be indefinitely hoarded and high rates of interest could hinder new investments, despite any attempt by central banks and governments to inject more money into the economy. It was this very problem that Keynes attempted to tackle also through his reform proposals, in particular with the plan for a new international monetary system that he designed on behalf of the British government at the end of World War II. In his Clearing Union, international money could not be hoarded and hence there was no scope for international loans. The Clearing Union would thus have provided international trade with the facility of a 'finance without interest'.

Finance without interest: the Islamic approach

Drawing on traditional sources, the presentation will start by touching upon the following issues: what is the Islamic concept of money? Who owns it? How is man entrusted with it, and why should he maintain it? Why has



Allah prohibited squandering and wasting money? Why has Islam imposed upon Muslim to gain provision by themselves? How does provision increase and why debt in Islam is, with few exceptions, not permitted

It will then move on and expounds on what IF perceives as the fundamental flaws in the contemporary monetary system, i.e.: fiat money, fractional reserve requirement, interest rate. These features are thought to set the stage for the expansion of money supply in the long-run even if it is acknowledged that in the short-run it may be checked through monetary policies. In turn, expansion of money supply is perceived as having nefarious effects on the environment; both physical and social

The present state of the debate about the establishment of an Islamic gold dinar system will crown the presentation

Finance without interest: lessons from the current crisis

The current crisis is not simply a liquidity crisis, but, more radically, the crisis of liquidity itself. Liquidity is the name for a relationship of interchangeability between money and credit on financial markets. It involves the reduction of both money and credit to a commodity, and the dissolution of the relationship between debtor and creditor.

Liquidity is the cause both of the unsustainable growth of financial markets in the past decades and of the present intolerable credit squeeze.

However, the unsustainability of liquidity-based finance does not imply the unsustainability of finance as such, but of finance organized in terms of financial markets. In this perspective, it is of the utmost importance to try to evaluate the scope and impact of financial reforms intended to strip from money the character of liquidity, and hence from finance the character of a market, rebuilding finance on the basis of an alternative economic principle.

The name of this alternative principle is clearing. As it will be shown, the clearing principle has to do with the establishment of a measure for the exchanges and for the payment of debts which is not in its turn an object of exchange, and with the restoration of a balanced relationship between debtor and creditor.

Interest-free monetary forms in local contexts

The presentation will address the development of alternative monetary forms and their relationship with socio-economic development at a local scale.

Different monetary forms complementary to official currencies have recently emerged in European and non-European contexts. They have been variously labelled as social, local, alternative monies. However the meaning of these currencies remains to be discussed.

On the one hand, the new monies have been promoted as innovative tools for socio-territorial policies, with a focus on localist, anti-globalist or anti-capitalistic values.

On the other hand, the emphasis on the value of monies as instruments of alternative territorial development runs the risk of overshadowing issues concerning the specific features of currency projects. What is needed is a more accurate reflection on the institutional implications of different types of currencies, in particular, concerning the liability of those who hold them to earn or to pay an interest.

In this perspective, it is interesting to relate local currencies with Islamic finance. The investigation of this relation should focus on both the notion of interest in the history of Western and Islamic finance and the possible development of interest-free complementary currencies in the Islamic world.



Panel description

Author	Affiliation	Paper
Luca Fantacci	Università Bocconi, Milano	J. M. Keynes: weeding out interest from finance
Alberto Brugnoli	Assaif, Milano	Finance without interest: the Islamic approach
Massimo Amato	Università Bocconi, Milano	Finance without interest: lessons from the current crisis
Luigi Doria	IEA, Nantes	Interest-free monetary forms in local contexts

Coordinators and authors Biography

Massimo Amato

Economist and historian. He has been working for over ten years on the history of monetary and financial systems and on the history of monetary thought. He is the author of several books on related issues, and, most recently, of an essay on the current crisis (written with Luca Fantacci).

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Alberto Brugnoli

Arabist, he is a former director of Merrill Lynch Bank Suisse. He is an international consultant on Islamic and ethical finance. Alberto is President and Founding member of Assaif, a not-for-profit financial engineering think-tank that promotes the development of alternative financial instruments.

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Luigi Doria

Fellow (January-June 2009) at the Institute of Advanced Studies of Nantes, he has researched mainly on territorial socio-economic development, territorial policy, the notion of quality and its relationship with calculative practices in the socio-economic domain. He is also interested in the relationship between complementary currencies and local development.

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Luca Fantacci

Economist. His main fields of research are monetary theory and history. He has been teaching for four years, together with Massimo Amato, a course on the history of financial institutions and crises. He is actively involved in the promotion of complementary monetary systems, particularly in the form of community currencies.

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