

Westerners learn basics about growing practice

Seminar explores Islamic finance

By Ken Gewertz
Gazette Staff

The U.S. Treasury Department tapped into Harvard's scholarly expertise last Friday (April 26) when about 100 government officials attended a seminar in Washington titled "Islamic Finance 101."

The seminar briefed staff from U.S. banking regulatory agencies, Congress, the Treasury Department and other parts of the Executive Branch about the segment of the international financial community that conducts its transactions according to Islamic law.

The seminar was chaired by Samuel Hayes, the Jacob H. Schiff Professor of Investment Banking Emeritus at Harvard Business School, co-author of the book "Islamic Law and Finance: Religion, Risk and Return" with Frank Vogel, the Custodian of the Two Holy Mosques Adjunct Professor of Islamic Legal Studies at Harvard Law School.

Treasury Under Secretary John B. Taylor, who delivered an introductory talk, said that the seminar's inception occurred when Treasury Secretary Paul O'Neill visited Bahrain, the hub of the Islamic financial world, and participated in a roundtable discussion on Islamic financial practices hosted by Citibank Bahrain's Islamic Investment Bank.

"The secretary wanted to make sure that we hosted a similar event in the United States to 'demystify' Islamic banking for our colleagues in Washington who may not have exposure to this topic," Taylor said.

According to Taylor, the government's efforts to combat terrorism on the financial front played a part in O'Neill's decision to educate his department about Islamic finance, although the secretary makes a clear distinction between mainstream Islamic financial institutions and organizations that funnel money to terrorist groups.

"We need to understand how these legitimate institutions operate so that we can help strengthen them and prevent terrorists from abusing these institutions," Taylor said.

O'Neill's office contacted S. Nazim Ali, director of operations for the Harvard Islamic Finance Information Program, which collects and disseminates data on the subject. Ali, Hayes, and Thomas Mullins, associate director of the Center for Middle Eastern Studies, helped to set up the seminar, which, in addition to the Harvard participants, included several presenters from Islamic financial institutions.

Islamic financial practices follow *Sharia*, Islamic law based on the Koran. The law specifically prohibits the receipt or payment of interest and any transaction that involves gambling or speculation, a category which includes futures contracts, interest rate hedging, and other financial arrangements common in the West.

In lieu of interest, Islamic institutions pay investors a share of their



Staff photo by Jon Chase

S. Nazim Ali is director of operations for the Harvard Islamic Finance Information Program.

profits. Making a profit is not prohibited under Islam. But Muslims believe that financial relationships should be equal rather than hierarchical. Thus, profit sharing is preferable to interest, which implies the unequal relation of debtor to creditor.

According to Hayes, the amount of wealth under professional management in the Islamic financial sector is about \$200 to \$300 billion, a fairly small quantity in comparison with the global capital market, but still a significant and growing niche.

In addition to Islamic financial institutions, estimated to be about 200 worldwide, many Western banks and investment firms, including Chase Manhattan, Goldman Sachs, Wellington Global Administrator, and ABC Investment & Services Co., have added Islamic finance divisions. Other institutions provide Islamic windows for Muslim customers.

Hayes' interest in Islamic finance began in the early 1980s when he started studying capital flows in the

Gulf area in relation to increases in oil prices. He wrote a number of articles on this topic, which led to the intensive six-year study he undertook with Vogel and to the publication of their book. Hayes has also participated in the annual forum on Islamic finance, organized by the Center for Middle Eastern Studies and the Islamic Finance Information Program. The fifth of these forums took place at Harvard, April 6-7.

According to Hayes, the events of Sept. 11 and the war on terrorism have accelerated interest in Islamic finance, although academic interest in the subject began well before the present crisis.

"Sept. 11 was certainly a wake-up call as to the importance of Islam in world affairs," Hayes said. "People have become much more aware of the activities of Muslims, so I think Sept. 11 has had some impact, but our study of this area has been ongoing for 15 years."

ken_gewertz@harvard.edu

The costs of family leave debated

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children is on welfare.

"It's really a family values issue," said Crittenden. "I don't think any country on the face of the earth talks about family values more than America, and ... no country on the face of the earth does less to really make family life possible."

Massachusetts House Speaker Thomas Finneran presented a muted counterpoint to Crittenden's argument, supporting the idea of family leave while promoting a business-friendly component. He called the economic health of the state's business community "the oxygen" that fuels social health.

"If you layer another cost onto business ... economic opportunity, which we hope to provide for one and all, will be foreclosed or limited in some fashion," he said.

Finneran has proposed a bill that would provide voluntary tax credits to businesses that offer employees half of their weekly wage for up to six weeks following the birth or adoption of a child.

A balanced vision of utopia

Ever the politician, he recognized that his proposal might not satisfy all players.

"As with any public policy, you have the utopian vision, then you have the realistic responsibility of trying to find balance — practical balance," he said. In Massachusetts, that balance will spread the cost of paid family leave among government, business, and employees themselves, he said.

In a lively question-and-answer session, Crittenden and Finneran took small steps toward each other, demonstrating an affinity for issues around child care for infants.

New England Cable News anchor Margie Reedy kept the conversation moving as she moderated a panel of researchers and business people who fielded questions from the audience, some of them politicians or representatives of gubernatorial candidates.

Jim Klocke, vice president of the Greater Boston Chamber of Commerce, portrayed business interests as moving closer to those of paid family leave advocates.

"As an organization, the chamber thinks that our workplace policies need to change the way our world is changing," he said, voicing support for Finneran's voluntary tax credit bill.

Panelists discussed several other paid leave proposals, including ones that would tap unemployment insurance or temporary disability insurance to ease the financial burden of family leave.

Rising to show off her pregnant form, Andrea Silbert, founder and CEO of co-sponsor Center for Women & Enterprise, declared, "I've got skin in the game."

She reminded the audience of the challenging hiring environment of just two years ago.

"We have to think about women as the untapped source of human capital," she said, arguing that family-friendly and business-friendly are not mutually exclusive.

Silbert's closing remarks encouraged participants to maintain pressure on family leave, pursuing policies that would spread the cost among taxpayers, business owners, and families. "I will be phoning in from Massachusetts General Hospital to keep this issue moving from my maternity bed," she said.

beth_potier@harvard.edu