Rent-seeking behaviour and *zulm* (injustice/exploitation) beyond *ribā*-interest equation

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**Abstract**

**Purpose** – The purpose of this paper is to explore the concept of rent-seeking behaviour and rentier state in the context of *zulm* (injustice and exploitation), which is one of the key concerns in Islam in general and Islamic economics and finance in particular.

**Design/methodology/approach** – As a conceptual paper, it draws on the literature of rent-seeking as part of public choice theory and examines the potential vulnerabilities as well as existence of rent-seeking in Muslim-majority countries, where Islamic finance industry primarily operates.

**Findings** – The paper identifies several areas where both actual and potential rent-seeking exists.

**Research limitations/implications** – The paper is conceptual. Based on the analysis presented here further studies can be undertaken to determine the scope of rent-seeking and their impact in Muslim-majority societies.

**Practical implications** – Incorporating rent-seeking in the theoretical and conceptual framework of Islamic economics and finance can enhance understanding about *zulm* and its ubiquitous presence, as Islam has a firm stance to aspire to have a *zulm*-free society.

**Social implications** – Understanding rent-seeking behaviour can help appreciate why corruption, inequality and poverty are so entrenched, and why limiting the discourse to *ribā* (interest) ignores the broader scope of injustice and exploitation.

**Originality/value** – This might be the first focused paper that conceptually deals with rent-seeking behaviour, connecting the discourse about *ribā*-interest equation.

**Keywords** Rentier economy, Rent-seeking culture, Unearned gain, Economic exploitation, *Zulm*-free society

**Paper type** Conceptual paper

**Introduction**

The Islamic finance industry is steadily growing across the Muslim world and beyond. To Muslims, the key appeal of Islamic finance is avoidance of certain major prohibitions, most importantly, *ribā*, generally equated with interest. The Qur’ān is categorical in prohibiting *ribā* and explicitly linking it with *zulm* (injustice, exploitation). The Qur’ān (2:279) specifically mentions that neither party in a financial transaction should inflict injustice nor be its recipient.
The Qur’an’s sternness in prohibiting *ribā* indicates that it is something exceedingly consequential for any society. As evidenced through early Islamic sources, including *hadith* and *tafsir* (exegesis), *ribā* in financial transactions is a life-ruining experience; it puts the weaker party in such a transaction on the path of ruin. The Qur’an calls upon those who persist on *ribā* to get ready for war from God and His Messenger:

And if you do not [give up demanding *ribā*], then be informed of a war [against you] from God and His Messenger. But if you repent, you may have your principal-[thus] deal not unjustly and you shall not be dealt with unjustly. (Qur’an, 2:279)

That warning is why the prohibition of *ribā* must be taken seriously. And indeed, Islamic finance emerged to provide alternatives to help Muslims to avoid *ribā* in modern life. However, not properly understanding it or its scope can lead to legalistic or mechanistic avoidance of *ribā* without avoiding the ruinous impact of unjust, unearned gains at the broader level (Farooq, 2012).

Professor El-Gamal (2005) assessed the modern-day Islamic finance industry to be practicing “rent-seeking Shariah arbitrage”, which:

[...] is a particular form of regulatory arbitrage, wherein a captive market of pious Muslims voluntarily choose not to use certain financial products. Lawyers, in partnership with bankers and jurists, strive to provide them a re-engineered version of those products. (El-Gamal, 2008)

Since then, Islamic economics and finance literature has accrued some references to rent-seeking, but the industry has shunned El-Gamal. Even where his work on rent-seeking is referenced, there is hardly any elucidation on the theme of rent-seeking theory, let alone the rentier economy (Ahmed, 2016).

Whether the Islamic finance industry itself is engaged in some form of rent-seeking (i.e. unearned gains without contributing to the real economy or benefitting the society through wealth creation) is not the bone of contention in this paper. Rather, rent-seeking behaviour is ubiquitous, and rentier economies are common. These terms refer to an entity or state that increases its wealth by leveraging political or legal control over something that already exists, e.g. land, knowledge or money without producing anything; instead, it claims economic benefit by invoking its authority or power. Islamic finance exists and operates within such environments, and thus remains vulnerable. In this paper, rent-seeking behaviour as a concept and theory as well as the dynamics of rentier economies (Held and Ulrichsen, 2012) are presented in the context of Islamic economics and finance in general and in the discourse on the *ribā*-interest equation (Farooq, 2009) in particular. It is also expected that those who are concerned about *zulm* (injustice, exploitation) would take their justified sensitivity to *ribā* to the next level so that the aim would not merely be freedom from *ribā* but also freedom from *zulm*. This is important because while achieving the latter requires achieving the former, achieving the former does not necessarily mean achieving the latter.

The rest of this paper is organised as follows: the second section explains how the unearned dimension of income and wealth is broadly ignored; the concept of rent-seeking behaviour and the rentier economy is thereafter discussed. In the next section, the relevance of rent-seeking behaviour to Islamic concerns about *zulm* is explored. The following section notes some limitations and implications for further research; and finally, the conclusion is presented.

**The “unearned” dimension is broadly ignored**

What is often not clearly understood or glossed over in the *ribā*-related discourse is that besides involving exploitation, *ribā* also has a dimension of *unearned* income or wealth.
Major works on Islamic economics and finance do note in reference to ribā and interest “unearned income” (Masood and Ghauri, 2015, p. 43; Alam et al., 2017, p. 36), “unearned capital or wealth” (Karim, 2010, p. 15), “unearned accretion” (Ballantyne, 2013, p. 277), and so on.

In economics, Taleghani, like Naqvi, views ribā as ‘any automatic increase without productive (however this is defined) labour’. This definition not only encompasses money interest (as was the practice during the time of the Prophet) but also prepaid transactions and credit transactions. In general, we can say that ribā is an unlawful, unearned gain”. (Haneef, 1995, p. 101; emphasis added)

Notably, even in the conventional context, usury has been identified as rent-seeking (Ekelund et al., 1989). Also, in defining ribā, the concept of counter-value is important. Ribā is often defined as a “stipulated excess in a financial transaction without any counter-value” (Farooq, 2012). That is why interest is generally equated with ribā. Interest is understood as a stipulated excess extracted by the lender (surplus unit) for which the borrower (deficit unit), arguably, does not get any reciprocal commercial benefit or value, except the use of the capital with a delayed payment period.

Although the unearned dimension is commonly mentioned, neither its scope nor its implication is properly identified or appreciated. Rent-seeking behaviour and culture primarily relate to this unearned dimension of income, gain or other type of revenue. In the modern world, with its increasing complexity, the widespread and powerful presence of rent-seeking behaviour and culture, often related to the rentier economy, calls for a better understanding of it. If injustice and exploitation (zulm) in general is a fundamental concern, then simply reducing injustice/exploitation to ribā/interest would be myopic.

The term rent as in rent-seeking behaviour is not in the ordinary sense of the word, i.e. rent charged for renting property, an automobile or equipment. It is also not in the sense of a factor payment for land as one of the four factors of production. Rent in this context is used in a special economic sense.

Notably, although the term rent-seeking is a more recent coinage, the concept of unearned income or unjust enrichment is not new to Muslim societies or to fiqh (Islamic jurisprudence). Many practices that impede free and fair functioning of the market – such as iktināz (hoarding) and ihtikār (monopoly) that unjustly and unproductively enrich a privileged few – are prohibited. Contemporary Sharī‘ah-related discourse has been fixated with ribā (interest), gharar (excessive uncertainty) and maysir (gambling, excessive speculation). Unfortunately, it has not emphasised the ubiquitous and serious role and effect of those practices that would be broadly identified as rent-seeking. Thus, although Islamic legal discourse does deal with rent-seeking behaviour and practices, there is a serious gap between modern economic discourse about rent-seeking behaviour and culture, on the one hand, and the pre-modern discourse about prohibited anti-market practices, on the other. Not only modern societies and economies have become more sophisticated and complex but the modern discourse about rent-seeking has also become robust, nuanced and substantive from theoretical and policy perspectives.

**Rent-seeking behaviour and the rentier economy**

The coining of the phrase “rent-seeking behaviour” precedes Gordon Tullock [d. 2014 A.D.], but he is rightfully credited with first devising the concept and developing it as a theory that “bridges normative and positive analyses of state action” as part of public choice theory (Rowley et al., 1988; Tullock, 1989; Tullock, 2005).

In economic literature rent-seeking is defined as the:
[... ] attempt to obtain economic rent, i.e., a portion of income paid to a factor of production in excess of what is needed to keep it employed in its current use by manipulating the social or political environment in which economic activities occur, rather than by creating new wealth. (Information Resources Management Association, 2015)

Put differently, “[e]conomic rent is any payment to a factor of production in excess of the cost needed to bring that factor into production” (Acks, 2018). The theme of rent-seeking behaviour is primarily in economics as well as public choice theory. In simpler terms, the behaviour relates to the pursuit of augmenting one's share of existing wealth without creating any new value or wealth.

An important concept in economics is “economic profit” or “above average profit”. In a competitive market, economic profit serves as a signal to attract new entry, whereas economic loss causes losing firms to exit the market. This means the theoretical long-run outcome of competition is zero economic profit (also known as normal profit) earned on average by the participating firms in an industry. In a dynamic, competitive, entrepreneurial economy, economic profits are generated by creating new products or methods through discovery, innovation or improvement that allows the contributing firm to earn economic profit. This is legitimate and fair return for the entrepreneurial value and wealth creation added to the real economy.

Economic rent (Buchanan, 1999; Johnson, 2006) is quite different from economic profit. Competition can eventually reduce or eliminate economic profit for the advantage of the consumers and broader society. It thus creates more incentive for real value creation, as value creators will earn economic profit at least for a while. However, economic rent is protected by various institutional and legal means that prevent its elimination or reduction. Thus it is unjust and unearned because it thwarts legitimate competition by artificially stifling the market.

Let us elaborate with an example of piracy (Marotta, 2013). A company shipping through the sea is expected to earn, say, 20 per cent profit. Pirates capture the ship and demand 15 per cent extortion money for the sake of safe passage, so the company fulfills the pirates' demand. The pirates' expropriation is an unjust, unearned gain, an example of economic rent, as it contributes no value or wealth creation to the real economy. Notably, piracy is illegal, whereas economic rent is practiced more commonly in a legal environment.

In modern democracies, lobbying by various business entities or constituencies to influence government policies is an example of rent-seeking behaviour. Consider, for example, the case of some of the leading companies in major sectors in the USA. An article in the Harvard Business Review (HBR) makes the case that “[l]obbyists are behind the rise in corporate profits” (Bessen, 2016). Lobbying government cannot be always equated with rent-seeking, and therefore, a distinction should be made between rent-seeking and non-rent-seeking lobbying. However, should not corporate profits be solely from their business activities? Before proceeding further, let us note that we are not talking about ribā or interest, rather profit, which is halāl (permissible). The HBR article identifies non-financial corporations in five industries that had the most concentrated lobbying efforts and impact: pharmaceuticals/chemicals, petroleum refining, transportation equipment/defence, utilities and communications. Indeed, in the US context, these industries together are known as the “rent-seeking sector”, where lobbying plays a vital role.

In 2016, lobbyists in the USA spent more than $3bn on lobbying (Statista, 2018). This is not a charitable contribution, so what do they get out of it? One of the key goals of lobbying is to influence regulation. For example, pharmaceutical companies consider influencing the US Food and Drug Administration, the federal agency that regulates the pharmaceutical industry, vital to the extent that they spend an enormous amount of resources for this
According to the HBR article cited earlier, a major portion of corporate lobbying was to seek regulations that “provided them sheltered markets – rather than competing on innovation”. In such a sheltered or protected market, profits are higher than they would otherwise be. The study shows that regulation and lobbying in the USA have contributed almost as much to corporate profit (1.2 per cent) as the contribution of capital (1.4 per cent) (Bessen, 2016). This means that in generating profit, rent-seeking lobbying is almost as important as capital, which is unjustified in the context of the real economy. From an Islamic viewpoint, profit is *halāl*, but when profits are boosted by activities or actions that are not productive (e.g. lobbying), the companies get economic rent (gain without any additional productivity or value creation). Unfortunately, there are hardly any traces in Islamic economics and finance literature of understanding rent-seeking behaviour in connection with “profit”, except by a rare few who are shunned by the industry.

In the absence of economic rent, costs would have been lower, and prices would have been lower. Therefore, these rent-boosted profits result in a massive transfer of wealth from consumers (regardless of rich or poor) to company shareholders. Those with interest in Islamic economics and finance will note that *ribā* is defined as “stipulated excess without any counter-value”, this stipulation being a key element of *ribā* (Farooq, 2007). In the case of economic rent, with a similarly negative impact on the economy and society, the unearned gain is without any stipulation. In other words, wealth or value transfer occurs without the common people even being aware of it. They are the consumers and the broader society that are the ultimate sources from which such economic rent is extracted. In Islamic finance, there are fundamental concerns about a “stipulated excess” but not about unstipulated excesses that may have as much or probably more harmful impact in terms of *zulum*.

This may be because of the myopic view that Islam is concerned only or primarily about *ribā* in connection with *zulum* (injustice/exploitation). If Islam’s underlying concern is understood to be *zulum*, and indeed it is, then the categorical and stern prohibition of *ribā* can be understood not only in the narrow sense but also with the underlying purpose that Islam wants us to be sensitised against any unjust, unearned gains at the expense of others.

Another rent-seeking example is corruption in the public sector (Coolidge and Rose-Ackerman, 1997; Lambsdorff, 2002; Khwaja and Mian, 2011; Aidt, 2016; Ferwerda et al., 2016). In many countries, it is all too common to award contracts to privileged parties based on bribes (euphemistically, gifts). This is a form of economic rent charged by public officials. Also, public sector contracts are often offered at an inflated cost, which is a rent for contract-winning parties. Such inflated costs are usually covered by taxpayers’ money, resulting in a transfer of wealth from the public without contributing any value to the economy.

The banking and finance sector can be an integral part of such corruption. It is manifested in lending to related parties (i.e. parties related to each other through positions, transactions or other connections, including families, relatives and business contacts that have vested and entangled economic or commercial interests) and/or to state-owned enterprises, the motive being to gain favour from the state. At the same time, less influential sectors are often ignored unless specific directions come from regulators.

In many developing countries, the poor are more vulnerable to the consequences of corruption, and the rich and powerful have an interest in the perpetuation of poverty (Chetwynd et al., 2003; Ndikumana, 2006; Negin et al., 2010). In addition to legitimate profits, they can earn economic rent (Jacobs, 2016).

In this context, the reality that Muslim-majority countries rank high on the global Corruption Perception Index is relevant. The 2017 ranking of selected Muslim-majority countries according to the Index (higher the score, greater is the perceived corruption) is as
follows: United Arab Emirates (UAE) (25), Qatar (33), Brunei (35), Malaysia (56), Jordan (63), Oman (73), Indonesia (101), Bangladesh (146) and Somalia (183) (Transparency International, 2017). If one considers the countries that have Sharī‘ah as their explicit frame of reference and/or are known as “Islamic Republic”, the scenario is even more disappointing, disconcerting and shameful: Saudi Arabia (61), Pakistan (123), Iran (134), Mauritania (150), Sudan (178) and Afghanistan (180).

In many countries, law enforcement agencies are involved in extortion against common people. Such unearned income is not just illegitimate but also immoral and constitutes unjust enrichment at the expense of others (Suzuki and Miah, 2015). Quite ironically, although the religious scholars and other religious voices are vociferous about ribā, there is a deafening silence about other and more widespread forms of exploitation and injustice, probably because of a lack of awareness and understanding in the context of modern complexities.

Apart from the sectors mentioned above, in developed countries, the financial sector has become a swamp for rent-seeking behaviour. The Nobel laureate economist Joseph Stiglitz has argued that “Much of what goes on in the financial sector is rent-seeking” (Stiglitz, 2012a). As examples, he refers to predatory lending, abusive credit card practices, fraudulent conduct, pushing for bankruptcy laws that protect derivatives, whereas workers and others had to “swallow” the losses of the financial sector.

In many oil-rich Gulf countries, labour visas are sold, even though this should not be the case (Kuran, 1996; Louer, 2013; Hertog, 2014). Local sponsors and their agents often pocket the price of a visa, an example of unproductive, unearned income. Similarly, in these countries for expatriates to engage in business, they must have local sponsors or locals to gain a commercial licence. These licence-holding local sponsors earn “rent” on their licence usually without adding any value.

Rent-seeking behaviour encourages seeking income and wealth without work or contribution to value creation in the real economy. The behaviour can be understood as people being interested in getting a larger share of the pie without making an effort or contribution to make the pie larger.

Rent-seeking behaviour and Islamic concerns about zulm
Rent-seeking behaviour can happen even in the Islamic finance sector, where prohibitions such as ribā, gharar and maysir are respected. However, rent-seeking is tolerated, pursued or even facilitated. Part of the problem is that Islamic finance and Islamic commercial law are focused on the transactional level of corruption. From an efficiency and performance perspective, a transaction focus is important. However, in a prohibition-driven industry, where the main focus is on transactions’ compliance in regard to the prohibitions, the consequences related to institutional or systemic behaviour and dynamics are often ignored. Indeed, as mentioned earlier, Islamic finance literature makes frequent reference to “unearned” income, capital, wealth and gain. However, despite avoiding specific and legalistically defined ribā derived from pre-modern legal texts, the ubiquitous presence of rent-seeking behaviour as well as the existence of the rentier economy is broadly ignored.

Although the terms rentier states and rentier economies are used interchangeably, the latter is considered broader in scope. Such economies are in the grip of a few who control the corridors of both political and economic power, where government policies serve the privileged few (Dauderstadt and Schildberg, 2006; Ahmed, 2016). The essence of the rentier society is rent-seeking behaviour and culture that lead to the exploitation of the broader, disadvantaged segment of the population.

As early as 2007, El-Gamal addressed concerns over rent-seeking in Islamic finance through Sharī‘ah arbitrage (El-Gamal, 2007; El-Gamal, 2008); however, the literature and
research have not taken the matter seriously (Garner, 2013). Only rather sparingly does one come across discourse on rent-seeking behaviour in the context of Islamic finance (Facchini, 2011; Abedifar et al., 2013; Suzuki and Uddin, 2014; Akbarabadi and Tavana, 2016; Hasan, 2016; Soto, 2017). It should be noted though that there are some major constraints regarding the theory of rent-seeking. One such constraint is that data that measure the magnitude of rent-seeking are not systematically collected. Accurate and precise data are thus not available. One reason for this state of affairs is that not all rent-seeking is explicitly observed (Laband and McClintock, 2001). Yet, as the theory of rent-seeking has developed as part of public choice theory, the field has advanced considerably.

As rent-seeking theory is yet to be adequately integrated into standard economics texts, it is understandable that newer fields like Islamic finance would have little coverage of this theory. But as articulated in this paper, the concept and theory of rent-seeking are highly relevant from an Islamic viewpoint. In regard to some key prohibitions such as ribā, which relates to Islam’s fundamental concern about zulm, the theory of rent-seeking can provide a more nuanced understanding and insight on “unearned” income, capital, gain and wealth from religious, legal and policy perspectives.

Islamic finance is already handicapped, as it operates in a global environment, structure and system that are not based on Islamic values and parameters. Meanwhile in the literature on Islamic economics and finance, there is sparse but growing recognition of rent-seeking behaviour (Hassan and Mahlknecht, 2011, p. 369). The reason it is not widely addressed is because of the overwhelming influence of legalism; thus, sensitivity is usually directed to things that fall within the ahkām (legal classifications). So far, there is almost no concern, let alone any recognition, from the Sharī‘ah scholars regarding rent-seeking behaviour (Askari et al., 2015, p. 312).

In addition to rent-seeking behaviour, there is also the related theme of the “rentier society” or “rentier economy”, where “citizens are said to have an income without sometimes working” (Krause, 2012; Standing, 2017). Such societies foster and reinforce rent-seeking behaviour and culture.

Even if Sharī‘ah compliance is achieved at the transaction level, Islamic finance in a rentier society is more vulnerable to rent-seeking behaviour. Muslims are supposed to have a strong sensitivity to what is explicitly prohibited, such as ribā, gharar, maysir and others, but rent-seeking behaviour, covering a broad range of activities and transactions, might be considered legal, permissible and often hidden from the broad view of the public.

Consider for example the history of Islamic finance. The initial impetus came after Organization of the Petroleum Exporting Countries hiked the price of oil in 1973 in the aftermath of the Arab–Israeli war. It imposed an indirect oil embargo against a number of countries that supported Israel in the war. Overnight, the price of oil shot up 400 per cent in these countries. Whatever the rationale for this oil embargo, it was a rent-seeking effort.

Benefiting from the windfall profits (a part of rent-seeking) from the oil crisis, oil-rich Gulf countries were flush with oil revenues. Combined with the Islamic fervour that emerged in the context of the humiliating defeat of the Arab forces inflicted by Israel, the time was ripe for some major initiatives in the area of Islamic finance and bringing the Muslim-majority countries together. These gave a boost to the earlier private attempts to introduce Islamic finance enterprises such as Mit Ghamr in Egypt and Tabung Haji in Malaysia in the 1960s. Within two years of the oil crisis, in 1975 to be specific, the Islamic Development Bank was established in Jeddah, Saudi Arabia, and the first full-fledged Islamic bank, Dubai Islamic Bank, was established in the UAE. Notably, countries endowed with abundant natural resources are particularly beset with rent-seeking behaviour. Nobel Laureate Stiglitz explains:
Countries rich in natural resource are infamous for rent-seeking activities. It’s far easier to get rich in these countries by gaining access to resources at favorable terms than by producing wealth. This is often a negative-sum game, which is one of the reasons why, on average, such countries have grown more slowly than comparable countries without the bounty of such resources. (Stiglitz, 2012b, p. 49)

Even more disturbing, one might have thought that an abundance of resources could be used to help the poor, to ensure access to education and health care for all. Taxing work and savings can weaken incentives; in contrast, taxing the “rents” on land, oil, or other natural resources won’t make them disappear. The resources will still be there to be taken out, if not today, then tomorrow. There are no adverse incentive effects. That means that, in principle, there should be ample revenues to finance both social expenditures and public investments – in, say, health and education. Yet, among the countries with the greatest inequality are those with the most natural resources. (Stiglitz, 2012b, p. 49)

There is robust literature available on the relationship between natural resource endowment and rentier economies (Looney, 2004; Baamir, 2016, p. 41; Cowan, 2018, p. 61) and between inequality and rent-seeking (Rodriguez, 2004).

Rent-seeking behaviour is common and rentier economies that provide a fertile environment for it. In such societies, the rich and powerful enjoy rent for themselves. They also foster a widespread rent-seeking culture among the populace by enabling them to pursue rent-seeking activities, whereby they do not have to work or be productive in the real economy to earn their livelihood. The market for “free visas”, commercial licencing that requires a local partner, and the kafalah (guarantee) system (which was supposed to look after migrant labour but in practice is used to treat migrant labourers as captives) are just a few examples of such rent-seeking activities enabled in a rentier economy (Hertog, 2010; Al Sadiq and Wu, 2015; Mezzadra, 2016; International Labour Organization, 2017).

Poor migrant labourers play a vital role in many of these rentier economies. But these already poor labourers, who do the hardest of manual labour, are often subject to not just inhuman treatment but also “wage theft” by the employers/sponsors at the corporate and domestic level (Ross, 2015). Wage theft is a global phenomenon (Korgen and Gallagher, 2013) and regarded as a negative-sum activity (Tullock, 1980). Even big multinational corporations are involved in this wage theft. During 2000-2018, 4,220 cases were filed in the USA alone against “large companies where employers were penalized for wage theft to the tune of $9.2 billion total” (Bobo, 2009; Kramer, 2018). Global icons such as Walmart, FedEx and AT&T routinely and systematically engage in wage theft because, unlike in regular stealing, wage theft pays. The value of the theft (US$9.2bn) is nowhere near the fines paid (a little over US$1bn). The same report also notes that financial companies are no less notorious:

Five of the top dozen companies heavily penalized were banks and insurance firms, including Bank of America, Wells Fargo, JP Morgan and State Farm Insurance. Mega-corporations account for half of the total cases (Kramer, 2018).

Madrick (2017) takes a similar position regarding big companies and Wall Street bankers:

Since the Reagan administration, collective bargaining has been devastated, labour laws have been compromised, implementation has weakened, and wage theft has been widespread. The free market does not guarantee fair pay. ...Rent-seeking by big companies and Wall Street bankers produced fabulous riches for a few, along with inefficient monopoly profits in industry after industry, but workers were hostages to business unregulated by anti-trust oversight or pro-competitive financial regulations. (Madrick, 2017)
The initial momentum and capital for Islamic finance came from a number of rich, rentier states. The first Islamic banks in many Muslim-majority countries were established with capital supplied by rentier states, the members of the Gulf Cooperation Council. Gradually, of course, there were more local initiatives and capital mobilisation to set up new Islamic banks. But the original impact of the rentier economies is undeniable.

It can be argued that regardless of the original impetus and capitalisation coming from the rentier states, it does not mean that the industry itself is rent-seeking. The purpose of this paper is to underscore that while rent-seeking might not be at the transaction level, the institutional environment, the ownership structure and profile and the legal and regulatory system in Muslim-majority countries show strong symptoms of rentier economies. Thus, Islamic finance is vulnerable to facilitating rent-seeking activities and initiatives.

The Islamic finance industry can be vulnerable to rent-seeking in several ways, especially in rentier economies. Consider, for example, that the members of ruling elites are on the boards and/or management of the Islamic financial institutions (consider an Islamic bank or an Islamic investment bank). The members of the ruling elites can also be majority shareholders or in the management. All of these aspects can lead to scenarios where rent-seeking can occur, even though the projects or activities may be Sharīʿah-compliant at the transaction level. These scenarios can become more possible where the ownership of these financial institutions is highly concentrated, as it happens to be in many Muslim-majority countries. What is important to recognise is that injustice against and exploitation of individuals or the public can and does occur that is much more widespread in impact than merely ribā or interest. Furthermore, even though financial transactions are nominally Sharīʿah-compliant, the scenarios described above for Islamic finance (just like any kind of finance) can be an enabler for rent-seeking.

Limitations and implications for further research
A key limitation and challenge related to rent-seeking is empirical measurement. However, beyond theoretical development, considerable development in methodology and measurement has occurred during recent decades (Sobel and Garrett, 2002). Another challenging area in the discourse on rent-seeking is identifying and measuring the socioeconomic cost or impact (Laband and Sophocleus, 1988; Rosal, 2011; Laband and Sophocleus, 2018).

A comprehensive survey of the past 40 years of research in rent-seeking presents a robust resource for the researchers in this subject (Congleton et al., 2008). Regional and country-level studies are growing: Asian countries (Khan and Kwame Sundaram, 2000; Gong and Ma, 2012) and African countries (Coolidge and Rose-Ackerman, 1997; Fischer, 2006) can help gain localised understanding and thus make rent-seeking research more policy-relevant.

One fundamental problem in research on rent-seeking is a lack of transparency in various countries and thus a lack of data. This challenge is no different, if not worse, for many Muslim-majority countries with authoritarian regimes and opaque systems that have little interest in or appetite for transparency. This is why Islamic finance operating in these countries has significant vulnerability to abetting, if not partaking in, public or private rent-seeking enterprises. In addition to dealing with the issues related to data and measurement, the initial priority for the Muslim world is raising awareness about rent-seeking. There is a need to recognise it and incorporate that recognition into a theoretical and conceptual framework to better understand, analyse and address the problems of injustice and exploitation.
Conclusion
This paper with a limited scope is intended to provoke a robust and vigorous discourse about rent-seeking behaviour and culture from an Islamic perspective. Islam and the Qur’ān are categorically and firmly against ẓulm (injustice and exploitation). As Islam cares about having a world based on justice and free from ẓulm, the starting point for the approach should be unjust and exploitative behaviour in general.

Rent-seeking behaviour and culture as part of public choice theory provide a useful theoretical and conceptual framework to understand and address injustice and exploitation in modern times. Considerable development has occurred during the past four decades in both theoretical and empirical research on the topic.

Dealing with rent-seeking behaviour and culture, which is endemic, requires an interdisciplinary and holistic approach, as its scope and effect go far beyond the domain of banking, finance and economics. Education, awareness building, institutional and policy reforms, greater transparency and accountability, people’s empowerment and participation are among factors that can help check the deleterious effects of rent-seeking behaviour.

A narrow focus on ribā/interest may lead Muslims to have a ribā-free world, and Muslims need to pursue this. However, such a ribā-free world may not be a world free of ẓulm. If our understanding, concern and policy frameworks and tools do not take into consideration rent-seeking behaviour and identify and address the ways the behaviour exists in Muslim-majority countries, the Islamic finance industry with its primary presence in these countries remains fundamentally vulnerable.

References


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