Religion in the United States: Focusing on Islamic Interest Free Financing idea for The American Market.

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Abstract

Interest free is not a new idea in the Islamic world. There are many laws in most countries that implement interest free banking. The areas of the world that follow this law are the believers of Islamic background. This trend has migrated out of the native area and the idea has traveled into the global markets of many nations. The principles and real world examples as the author proposed: are that interest-free financing constitutes a feasible alternative for the American market. The discipline that it imposes on the individual can be attractive to Americans, whose poor saving habits and paycheck-to-paycheck spending mentality, coupled with an economy whose cycles follow the interest rate, have left many deep in debt. Interest-free banking may be a welcome alternative for individuals seeking a more conservative approach. On a larger scale, it can also help bring more stability to an economy so heavily based on the interest rate. This idea is already infiltrated in the north American market.

Introduction

A Nation in Debt

This has been the view that the age-old American dream begins when through hard work, anyone can succeed in life. This is based on the freedom given by the United States government. Nevertheless, this dream is nothing more than a nightmare as people become victim of poor work ethics and become part of the generation that focuses on buying with credit (Aggarwal and Yousef, 2010; 28).

This change in households' behavior was examined in a paper by Dynan and Kohn of the Federal Reserve Board. Putting aside constraints on borrowing, some of the factors that can contribute to households' decisions to take on more debt include less patience among consumers, less uncertainty in the economy making the need for reserves less urgent, lower cost of debt, increasing house prices, and changes in demographics. Looking at the real world where constraints do exist, in addition to the factors mentioned above, changes in the economy that reduce these constraints can increase the occurrence of borrowing. Presumably as a result of the emergence of a number of the aforementioned factors, American households began to demand more debt to finance their purchases, as will be evidenced by statistics later (Dynan and Kohn, 2007; 376).

Plague of borrowing on Debt

Lenders saw consumers' increasing willingness to borrow as an opportunity to improve their business by focusing less on their traditional role as creditors collecting on debts, and instead on increasing profits by using different tactics to earn as much as possible from each customer   This new behavior of creditor companies, in tandem with consumers' (Morgensen,2006; 1-3).tendency to think in short-run and borrow as much as possible, has left a large number of American households deep in overwhelming debt. Whether from consumption or mortgages, Americans over the years accumulated a large amount of debt, and a significant portion of their hard-earned money that goes straight to their creditors (Sukkuk, 2010). As a matter of fact, the ratio of all household debt to disposable personal income, a common measure of indebtedness among groups of people, has grown tremendously since 1952 (see Figure 1), with a value of 108 percent in 2004 (Weinberg, 2006; 178-179). This means that Americans are aggregately spending more than they earn in which many of them indefinitely are stuck paying for things they cannot afford and should never have bought.

Comparing debt service (estimated required payments on outstanding mortgage and consumer debt) to disposable personal income (gross income less income tax) produces the debt service ratio, an estimate by the Federal Reserve Board of the portion of earnings spent on debt relief ("Disposable/Discretionary Income", 2008). As shown in Figure 2, neither the debt service ratio nor the financial obligations ratio, which additionally takes car lease payments, rental payments, etc. into account, has changed significantly since 1980 ("Household Debt Rising Fast in the US", 2007). Figure 3 further illustrates the extent of debt held by American consumers, showing the growth of the ratio of household debt to the value of household assets from 1961 to 2002 (Campbell and Hercowitz, 2006; 20-21). Taking both graphs' statistics together, this indicates that while Americans have been accumulating more debt over the years relative to property and income, they are not paying more out of income to relieve these debts, and so they continue to grow.

Turmoil in the Domestic Economy

In turn, one major side effect of the situation described above is that customers, and thus the economy as a whole, have become highly sensitive to shocks in the economy, since holding more in debt and less in assets puts households in a financially precarious position ("Growing Interest", 2010). Households holding a large amount of debt are less able to adapt to changes in real income or in the real interest rate, while those with less debt have more cash on hand and are as a result are less affected by these shocks. The results of this sensitivity to change are not as bad as they may sound. However, since shocks in the interest rate and income level can offset each other (Dynan and Kohn, 2007; 21). But the fact remains that holding a significant amount of debt makes a household’s financial position almost as risky as the market itself, which is not a good place for a household. A household is supposed to be a safe haven for its occupants and this includes financial safety. If a household’s finances ebb and flow with the state of the economy, it is not properly functioning in this particular area. Under the system in place in the United States, creditor companies are implicitly encouraging consumers to spend their money impulsively and irresponsibly, leaving many households naked in this situation.

Identically, while the current state of the American household may be something of a sob story, it may not quite touch the hearts of those without such troubles. However, the story does not stop at the individual household. The economy as a whole is also beginning to suffer, since more people are defaulting, causing more banks to report losses, which in turn affects shareholders (Morgensen, 2008; 1). Eventually, the financial troubles that the credit system has placed on consumers comes back full-circle, and the economy suffers for it. This phenomenon is also illustrated by the IS/LM model of Keynesian economic theory, an example of which can be found in Figure 4 (“IS/LM Model”, 2008). In this model, IS represents all equilibria at which total spending equals total GDP, while LM represents all equilibria between demand and supply for money. The LM curve can be controlled by monetary policy (i.e., the Federal Reserve Board), while the IS curve is influenced by exogenous variables such as government deficits. A shock in the economy that shifts the IS to the right raises both the cost of money (interest rate) and the GDP, affecting one household at a time. Under the traditional interest-charging banking system, credit is a good thing (Weinberg, 2006; 177). and people are encouraged to use as much credit as they can, until they get trapped into an inescapable hole of debt that first hinders their own financial health, and then goes on to affect the economy at large (Shahinpoor, 2009).

Moreover, a more immediate and direct problem inherent in the traditional banking system is that the practices go against some of the principles of certain religions, including Islam, which is currently the second-largest religion in the world, after Christianity, and is growing quite fast (“Islam”, 2008). With a growing market both internationally and within the United States, as immigration and conversion figures have been significant in recent years, it would be prudent to offer services for this group of people domestically rather than letting them take their business outside the country (“Islam in the US”, 2008). This will be discussed further in a later section.

Potential Cure

Above all, the American banking system as it is inadequate, not only because it fails to serve a growing population, but also because of the effects it has on many of its captive customers, and ultimately on the economy at large. Given these problems, Author proposes that American banks add to their service lines the option of interest-free financing, in which loans are more realistically estimated. Author recognizes that there will be difficulty in making a switch, given the habits of American consumers and the scarcity of profit potential by creditors in interest-free financing, but author believes that its potential benefits outweigh the “negative” aspects. By making loans more realistic as to the consumer’s ability to pay, the consumer will be able to live with less debt relative to income or assets owned, and will be more able to satisfy outstanding debt. This, in effect, will benefit the banks by securing more return on debt, which will transfer to the shareholders. Of course profits to creditors may not be quite as high as they are under the current system, but there will be more stability in performance, and much less volatility. As the effect transfers from one party to the next, the implementation of interest-free banking can help to bring more stability to the economy and reduce its cyclicality due to uncertainty in debt.

Analysis of Comparable Writing

In short, the modern concept of Islamic banking is not particularly old, coming out of a return to the rules by many Muslims (Taylor, 2003; 4). There are many aspects of Islamic banking that have been developed to comply with the religious beliefs of Islam (Naser, 1997), but the part that concerns us most at this time is the concept of interest-free financing – what it is, how it works, the pros and cons, and how to implement it if it does indeed suit the American market.

At first it would be useful to know what interest-free financing is and what it entails. Islamic banking focuses on sharing of profits and losses, and the prohibition of charging or paying interest (“Islamic Banking”, 2008). As will be expanded upon later, interest is avoided by use of the main concepts in Islamic banking – profit sharing, safekeeping, joint venture, cost plus, and leasing – each with its own way of lending without charging interest. A study by A.F. Darrat shows empirically that an interest-free banking system is the only one that “offers a reliable short-run link between the monetary aggregate and the policymakers’ goal of price stability” (Darrat, 2000; 806-807).

There are other examples of interest-free financing, in which others have taken the model set forth by Islamic bankers and applied it elsewhere in the world. The best example of this is JAK bank in Sweden, which will be discussed further below. Of course, with every decision that can be made, there are pros and cons, reasons to go ahead and reasons to pull back. Some of these will be discussed briefly.

To finish, there will be a more detailed strategy on how to successfully bring interest-free financing into the American market as a supplement to the current banking system, followed by a conclusion about what has been outlined here.

The Scope of Today's Market

Banking as usual

Marketing mix. Today, the conventional banking and financial institutions are based entirely on the concept of interest-bearing instruments (Thomas, 2006; 82). Under the Four P's, the *product* traditional banking offers is any kind of financing plan (Perreavlt, Cannon, and McCarthy, 2008; 35-38). This includes credit cards, mortgages, and car financing, whether for purchasing or leasing. It gives people the ability to purchase items without having all or any of the money at the time of the purchase. However, there is a *price* for borrowing, namely an interest rate charged on all financing plans. Other prices include monetary consequences for late payments, being financially responsible as a co-signer, and the other fees charged for services. A few examples of *places* where theses financing plans are offered are campuses, commercial banks, car dealerships, real estate agencies, and even retail locations, whether on-line or in store (Thanasegaran, 2010). These financing plans are *promoted* through television and internet ads, magazines and newspapers, as well as on college campuses through sales promotions. When a person experiences a low interest rate or obtains many perks, word of mouth is the main method of promotion.

Demographics. Traditional banking can best be exemplified in the United States. According to Ebonya Washington, author of "The Impact of Banking and Fringe Banking Regulation on the Number of Unbanked Americans," 10 to 20 percent of Americans do not possess either a savings or a checking account (Washington, 2006; 106). This statistic indicates that many Americans rely on financing plans for consumer spending. Although the United States is in a rough time, consumer spending has grown at an annual rate of about 2.7 percent during the first three quarters in 2007 (Cooper, 2007; 27). Easy access to credit has been the main fuel for this increased spending. Banks and other financial institutions contributed to this easy access to credit because they were willing to lend households ever increasing amounts of money. To these financial institutions, loans to consumers, in the aggregate, were viewed as low-risk and profitable (Mandel, 2007; 57). However, the risk has increased to consumers. The Economic Survey of the United States 2007 reports that household debt has risen "particularly fast over the past decade in the United States". The outstanding amount of household financial liabilities increased from 89 percent of personal disposable income in 1993 to 139 percent in 2006. This is an unusually large rise by historical standards (Business and Finance, 2007). Although household debt in all income ranges has grown, this growth has been the most prevalent among households with medium and low levels of income. In addition, disparities in borrowing behavior continue to exist between minority and nonminority households. However, these disparities have begun to decline (Weinberg, 2006; 179-180).

Banking without interest

Marketing mix. In interest-free banking, the *product* is the same as that of traditional banking, which is any kind of financing plan. However, a person's purchasing power is more limited under interest-free banking because the *price* of borrowing is based on how much one has saved or will save in order to repay the debt. Without the interest as part of the price, consumers have a better outlook on how to spend their money, giving them more financial security and reliability in their own cognizance. Unfortunately, right now the only places that offer interest-free banking are Islamic countries or other areas where interest is prohibited. However, this concept can also be appealing to people who want to be more responsible in their spending, which leads to *promotion*. Right now, not much promotion is done because interest-free banking is in effect because of religious laws or government regulation. But what author is advocating in this paper is to promote to those people who want to be more responsible with their money (Aggarwai and Yousef, 2010). This type of banking system is ideal for those people who have been burned by debt before and want more discipline in their spending.

Demographics. In the last two decades, there has been remarkable growth of interest-free banks in many parts of the world. According to Ali F. Darrat, author of "Monetary Stability and Interest-free Banking Revisited," this is partly due to the recent revival of Islamic values in most Muslim countries and the extensive research in support of the relative efficiency of these interest-free banks (Darrat, 2000; 803). Not only have Muslim countries been taken participation in interest-free banking, certain accommodations have been made for Muslims here in the United States. For example, University Islamic Financial Corporation, a bank based in Ann Arbor, Michigan, has accommodated special concerns of Muslims offers rent-to-own agreements for home buyers, along with savings accounts that offer profit sharing rather than interest (Galst, 2008; 6).

Comparatively, the concept of interest-free banking is also prevalent among Jews and Hindus. The Torah, which contains the first five books of the Old Testament, has two specific verses that forbid the collection of interest. Rabbis of the Talmud have extended these laws, prohibiting the borrower as well as to the lender from using interest (Jacobs, 1995; 3). These rabbis are known as "Talmudic rabbis" because they have contributed to the series of commentator books known as Talmud (Telushkin, 2008). For Hindus, the Vedic texts of Ancient India (2,000-1,400 BC) mention the "usurer" several times. This term has been interpreted as any lender at interest. However, the Sutra texts (700-100 BC) make more frequent and detailed references to interest payment. During the time of the Sutra text, the first sentiments of contempt for usury were expressed (Sukkuk, 2010).

For example, Vasishtha, a well known Hindu law-maker of during that time, made a special law which prohibited higher castes of Brahmanas (priests) and Kshatriyas (warriors) from being usurers or lenders at interest (Visser and McIntosh, 1998).

Different Methods to Routine Commerce

Islamic Style of Banking

This alternative method of banking is commonly known as Islamic banking because of its deep roots in the Islamic religion (Thomas, 2006; 82). Islamic banking is not only about prohibiting the receipt and payment of interest, it is also supported by other principles of Islamic doctrine which advocate risk sharing, individuals' rights and duties, property rights, and the sanctity of contracts (Kader, 2010). With this in mind, Islamic banking investments should provide a stimulus to the economy and encourage entrepreneurs to maximize their efforts while maintaining the morals of the communities (Maniam, Bexley, and James, 2000; 22).

For instance, instead of a basis on the payment of interest, the Islamic financial system is based upon the sharing of profit and loss (Darrat, 2000; 803). Risk in business sharing may be allowed but risk in the form of gambling or mere speculation is prohibited by Islamic law. Under Islamic banking, investors should be focused on searching for projects that adhere to the Shari'a. With this in focus, investors should also be willing to share in the success or failure of the project because all profits or losses are shared by all parties involved and earnings may not be guaranteed or predetermined (DiVanna, 2006).

Furthermore, in all Islamic financial services, compliance with Shari'a law is overseen and assessed by a board of independent Islamic scholars. The Islamic financial system restricts investments in certain business sectors whose products are forbidden by the Shari'a, such as alcohol, pornography, gambling, non-halaal food, and interest-bearing financial activity. This limitation can be extended to those with questionable moral values that may not have been directly stated in the Islamic laws such as tobacco industries, anything harmful to the environment, or genetic experiments such as cloning. These limitations, not directly stated in the Islamic laws, are based on an individual or community's opinion (Maniam, Bexley, and James, 2000; 22). The filtering process also includes acceptable limits on a company's debt level, interest income, accounts receivable and corporate governance levels (Thomas, 2006; 82).

United States Style of Banking

In contrast to Islamic banking, the United States banking has largely become focused on card rather than cash or check payment (Naser, 1997). This includes both credit and debit cards. There has been a steady increase in credit card users over the last two decades (Sappideen, 2007; 124). According to The Country Commerce, the most widely used form of short-term financing in the US is lines of credit at commercial banks (Country Commerce, 2008; 63). The shift from cash to credit cards as the medium of payment has also increased the availability of credit facilities, giving almost anybody who wishes to accept a credit card that option. Because of the growing burden of consumer debt, new challenges must be met. Now, retailers must update their systems for electronic payment. Coupled with, commercial law systems, which were originally designed for paper-based transaction systems, must also be updated (Sappideen, 2007; 120). However, the greater the usage and acceptance of payment cards, the more valuable they are to the consumer, retailer, and the company issuing the card (Sappideen, 2007; 122). With a credit card, the consumer now has the ability to purchase big-ticket items or buy in more quantity. This benefits the retailer because now he or she can generate more profits with the increase in sales (Al-Shams CEO Eyes Promoting, 2010). The company issuing the card also benefits from the interest and late payment fees because the consumer often falls into the trap of buying things he or she cannot afford and paying for it later.

With this in mind, for mid- to large-sized US corporations, commercial paper is a popular tool to use for short-term financing, since it is often cheaper than bank credit. Commercial paper can be described as "essentially an unsecured promissory note that a company issues and sells to investors, generally through investment banks". These corporations benefit because foreign companies pay higher interest than US firms with the same credit ratings, and commercial paper interest rates are usually below the bank prime rate. After all, commercial paper is exempt from the registration requirements of the Securities and Exchange Commission under certain stipulations (County Commerce, 2008; 64).

MARKETING INTEREST-FREE BANKING

In order for Islamic Banking or Interest-Free to become successful within the western world or, more specifically, within the United States, one must prepare a marketing strategy that identifies the target market and the specific marketing mix to be implemented (Perreault, Cannon, and McCarthy, 2008; 33).[1] The target market—a homogenous group of customers—is fairly easy to identify: it consists of the Islamic population in the U.S., which ranges anywhere from 1.1 million to 6.7 million, (these statistics are highly disputed) and other people who have been in debt and want to control their spending and would like some help in doing so ("Islam in the United States", 2008).[2] The marketing mix are the controllable variables that financial institutions can

1 Taken from Perreault Jr., William D., Joseph P. Cannon, and E. Jerome McCarthy. Basic Marketing: a Marketing Strategy Planning Approach. 16th ed. Boston: McGraw-Hill, 2008 page 33.

2 The reason there is a such a large disparity between the numbers is because the US Census Bureau does not collect data on religious identification. See "Islam in the United States." Wikipedia, The Free Encyclopedia. 5 Jul 2008, 06:54 UTC. Wikimedia Foundation, Inc. 21 Jul 2008 <http://en.wikipedia.org/w/index.php?title=Islam_in_the_United_States&oldid=223683222>.

put together to satisfy the target group. This mix consists of a product, pricing, place, promotion. Combining the correct strategies together can yield positive results for financial institutions who try to implement an Islamic Banking strategy.

Product

The first element of a proper marketing mix is the product. According to Sudin Haron of Northern University of Malaysia, "financial institution such as commercial banks, investment banks, merchant banks, finance companies, discount houses and insurance (Thanasegaran, 2010) companies that choose to offer products or services without an interest element can be considered as performing business using Islamic banking products" (Haron, 2008; 26). Therefore, any financial product that is interest free may be marketed as in accordance with Islamic principles. Using this as a working definition, author can now identify what products can be offered by analyzing other Shari'a-compliant banks. Basically, there are four broad categories that these banks use to classify their products: profit-loss sharing, principles based on fixed charges, principles based on free charges and principles that apply directly or indirectly to the operation of Islamic banks. Author will consider the first three broad categories to understand what they entail (Haron, 2008; 30).

Profit-Loss Sharing

In the Islamic world, two governing principles encapsulate the concept of profit-loss sharing. These are *mudarabah* and *musyarakah*, which mean profit sharing and partnership respectively. In a *mudarabah* or profit sharing arrangement, there is an agreement between at least two parties. One acts as the investor and the other as an entrepreneur. The investor entrusts the money to the entrepreneur who then uses it to derive a profit (Kiva, 2010). The principal and a pre-agreed amount of profit are returned to the investor and the entrepreneur retains the rest (Haron, 2008; 30). The investor bears all the risk if there is no profit.

Alternatively, *musyarakah* or partnership establishes a relationship between the investor and the borrower. However, in this arrangement, both parties put up money for the business and they agree on profit sharing ratio that will be used to distribute earnings (Haron, 2008; 30). In both these principles, the investor acts more like an equity owner receiving dividend distributions based on the performance of the borrower's operations.

Fixed Charges

In the Islamic principle of *murabaha*, or cost plus financing or financing resale, "the lender buys goods wanted by the borrower for resale to the borrower at a higher price agreed upon by both parties" (Haron, 2008; 31). The borrower is given a period of time to pay off this debt just like any other loan. Some critics have argued that this is just interest by another name such as a finance charge. One banker is quoted as saying, “The whole is, I want to lend but I don’t want to call interest ‘interest’” (“Are Finance Charges in Islam’s Interest”). Proponents of Murabha claim that the way something is done, although having the same outcome, can make the act good or bad, ethical or unethical. Therefore, even though cost plus financing in essence acts just like interest (Hasan, 1985), it is not considered to be interest because of the way in which these financial instruments are treated.

Free Charges

Finally, there is the *Qard Hassan*, otherwise known as a benevolent loan. This type of loan requires that the borrower return the principal back to the lender. Additionally, the borrower has “the discretion to reward the lender for his loan by paying any sum over the above amount of the principal” (Haron, 2008; 31). Depending on the borrower, the lender can receive little to no additional compensation for the use of his funds.

Having considered these various approaches to financial instruments, it seems that the most viable approach to use in the United States would be that of fixed charges for individuals or businesses and profit-loss sharing for businesses only. Fixed charges for individuals is most like an interest bearing note. Financial institutions have little to do when it comes to converting their products for these religiously inclined individuals. One economist noted, “Un-Islamic elements could be removed from current banking practices to create a system that is both viable and acceptable to Islam.” (Gafoor, 1996; 1-86). This clearly is the case with fixed charges that do not bear an interest element. As for profit-loss sharing, this may become a viable business arrangement between lending institutions and the businesses because it creates a closer relationship than conventional loans. In profit-loss sharing you have a partner- partner relationship rather than lender-borrower relationship (Al-Thani, 2010).

Pricing

The second element of a proper marketing mix is the price. At what price should the finance charges be set? Pricing has always been an important factor to consider. If the price is too high, demand will not follow, but if set just right, the quantity demanded will reach an ideal equilibrium. However, pricing is especially sensitive within the context of Islamic banking because if the price is perceived as excessive, then it may not be in harmony with Islamic teachings (Visser and McIntosh, 2008).

Wane A. M. Visser helps us understand this delicate issue by describing usury as unearned income. He wrote:

> *“In Islam God ‘permits trade yet forbids usury’: The difference is that profits are the result of initiative, enterprise, and efficiency. They result*

> *after a definite value-creating process. Not so with interest …interest is fixed, profit fluctuates"* (Visser and McIntosh, 2008).

Therefore, when making price considerations, one must be careful not to set finance charges too high, and that the return to the investor is not viewed as interest but rather as profit from a "value-creating process."

Place

The third element of the product mix is the place or channels of distribution. This should be a relatively easy variable to control because financial institutions already have the infrastructure in place—networked banks—in which to offer these interest-free products (Rammel, 2007). However, these institutions must determine whether to market to consumers, businesses or both. This all depends on the location or region of the country the bank plans to sell its product. A careful marketing study of the environment will help with this endeavor.

Promotion

The final element of the product mix is the promotion of the product. This too takes no more special effort than traditional financial product promotions. Just like other products, banks can promote interest-free products by various forms such as: broadcast media and print media. Promotion mix and placement work in tandem with each other; one must find the right mix and know where the best to place these promotions for maximum response. One possible promotion method would be to advertise in popular Islamic focused magazines, or in mass transit areas where there is a high volume of traffic. This will ensure that (1) the right audience is targeted, and (2) the message reaches as many people as possible. This is one of a countless number of possibilities; only through a thorough market study can the ideal promotion mix be achieved.

In any event, having reviewed the four elements of the marketing mix, it seems very possible that financial institutions can transplant interest-free banking within the U.S. The most significant of these endogenous variables is the product itself. One must carefully consider what form of interest-free banking to offer within the confines of the U.S. borders that will be both economical and financially viable.

Recommendations For Policy Makers To Implement The Interest-Free System:

All things considered above, writer feels that implanting interest-free banking in the U.S. is not only feasible but also attractive to Americans and good for the economy. With this in mind, the following section will help magnify these points.

Feasibility in U.S. markets

Several studies have shown that interest-free financing can be implemented in countries other than Islamic territories (Yousefi, 1997; 869). One such study pointed out "the empirical evidence in support of the efficiency of interest-free banking system may not be country-specific…and perhaps more robust than author thought."(Darrat, 2000; 806), ("Interest Free Banking", 2001). Several other sources have shown the level of growth potential in this niche (Shahinpoor, 2009). One report stated that the Islamic finance market has grown 15 percent annually in the last three years, and is approximately a $700 billion industry. So profitable is this niche that banks such as Citigroup, HSBC and Deutche Bank have already devoted divisions to Islamic finance (Timewell and DiVanna, 2007), (Wiseman, 2008; B.6).

Furthermore, writer can look at the success that other countries have enjoyed to get an idea of how we in the U.S. might fare. Reports from Turkey, where implementation of Islamic financing was politically motivated, show that special finance houses—banks established to offer interest-free financing—have enjoyed on average two to four percent growth in market share per year (Okumus, 2005; 51). In Malaysia, Islamic banking commands 9.5 percent market share and is expected to reach 20 percent by 2010; with an annual growth rate of 37 percent, this seems very reasonable (Saifuddin, 2004; 1). Looking at the demographics within Malaysia reveals an interesting fact, "seven out of 10 Malaysians who opt for Islamic banking are non-Muslims" (Saifuddin, 2004; 2).

Based on these facts, it seems very feasible to implement an interest-free banking system within the U.S. Writer has seen that this "niche" market is not country specific, has exponential growth, and is not solely dependent on religious affiliation. Before jumping to any conclusions, we must first consider the pros and cons of implementing riba-free financing.

Implementing in U.S. Markets

Writer has already hinted at, interest free banking has many positive aspects to it that can benefit the U.S. It imposes a discipline on individuals that can be attractive to the American market where poor savings and many other financial burdens have put Americans deep in debt. Nationally, it can help bring a higher level of stability to the economy. Ali F. Darrat, a noted economist on the subject, has said:

> *"in contrast to the interest-based banking system, the interest-free system displayed a well-behaving velocity of money, had a structurally stable money-demand relationship, exhibited monetary aggregates that are policy-controllable, and finally the interest-free monetary aggregate have a reliable link with the ultimate policy objective (price stability")*(Darrat, 2000; 803).

Clearly, there are many financial and social benefits to implementing a riba-free banking system in the U.S. However, opponents have argued against interest free financing stating that " it would probably be technically and politically impossible to manipulate rate of spending, taxing, etc., so as to maintain an acceptable degree of economic stability" (Poindexter, 2008; 163)(Rammel, 2007). However, we must interject and cite all the countries that have enjoyed success with interest-free financing for years now. This argument does not hold water in the face of the many affirmative examples of interest-free financing, some of which were described earlier.

All-in-all, interest-free financing is not a new concept or unique to Islam. What is new is the growth of the global market, which has caused the practice to migrate outside of its native area. Interest-free financing is not only profitable but also socially beneficial. Therefore, it is apparent that interest-free financing is a feasible alternative not only for those with religious convictions that conflict with traditional banking, but also for the U.S. market at large. As long as due care is taken in selecting the proper marketing mix, author has high confidence that the American market can reap the benefits of providing financing interest-free for all.

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