Capitalism & Finance

A Critical Analysis of the Capitalist Financial System and a Proposed Tamweeli Islamic Alternative

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Editorial note: *This analysis presupposes an Islamic political order, whether an established Islamic state or a revolutionary movement building parallel institutions at the grassroots level as a state within a state, capable of establishing and administering the Baitulmal and CTI-AITI framework described here. The present paper is deliberately limited to the conceptual and institutional contrast between the capitalist financial system and its Tamweeli replacement; it does not address the political and organisational questions of how such an order is established or how transition from an existing capitalist financial system would proceed. Readers seeking that argument should consult Dr Javed Akbar Ansari's foundational work on the state and capitalism, the author's earlier contributions in Islam Inqilab and elsewhere, and the findings of the Working Group on Afghanistan Economy. (Editor)*

Introduction

The modern capitalist system has evolved from a production-centred economic order into a highly financialised global structure dominated by debt expansion, speculative asset markets, securitisation, and central bank intervention. While defenders of capitalism argue that modern financial institutions improve liquidity, investment, and economic efficiency, critics maintain that the system now prioritises capital accumulation and financial stability over real productive activity. The repeated occurrence of financial crises, particularly the 2008 global financial crisis, revealed deep structural contradictions within the contemporary capitalist order. Mechanisms such as securitisation, shadow banking, quantitative easing, and leverage expansion have created a system in which financial growth mostly becomes detached from real economic production. Rather than solving structural instability, modern monetary policy frequently functions as an emergency stabilisation mechanism designed to preserve financial institutions and maintain the continuity of capital accumulation.

Financialisation and the Transformation of Capitalism

Financialisation refers to the increasing dominance of financial markets, financial institutions, and speculative motives within the economy. In earlier industrial capitalism, finance primarily served production and trade. In modern capitalism, however, financial markets themselves have become the central engine of accumulation. Economic growth is increasingly driven by debt expansion, asset inflation, speculative investment, derivatives trading, and leverage-based financial activities. As a result, profit generation often shifts away from productive sectors towards financial engineering and asset speculation. Wealth accumulation becomes ever more dependent on ownership of financial assets rather than participation in real production. In earlier stages of economic exchange, money primarily functioned as a medium of exchange, a unit of account, and a facilitator of trade and production. Its role was largely intermediary helping the circulation of goods, services, and productive activity. However, under advanced capitalist financialisation, money increasingly transforms from a simple instrument of exchange into a commodity and profit-generating asset in itself.

Debt-Based Money Creation and Structural Instability

Modern capitalist economies operate largely through debt-based money creation. Commercial banks create money through lending rather than merely distributing pre-existing savings.[1] When banks issue loans, new deposits are simultaneously created within the financial system. This process

[1]McLeay, M., Radia, A. and Thomas, R. (2014) 'Money Creation in the Modern Economy', Bank of England Quarterly Bulletin, Q1, pp. 14-27.

allows rapid economic expansion but also creates structural dependence on continuous debt growth. Because new money enters circulation primarily as interest-bearing debt, the financial system develops a persistent dependence on expanding credit. As existing debts mature, borrowers collectively require continuing income growth or further refinancing to meet their obligations. Sustained credit expansion therefore becomes a structural feature of the system, one that grows harder to sustain as debt accumulates relative to income, and this is what makes the system inherently unstable, with economic stability becoming dependent on expanding indebtedness.

Periods of economic slowdown in modern capitalist economies often lead to defaults, liquidity shortages, falling asset prices, and systemic financial panic. This instability is closely linked to the structure of a highly financialised system, where capital accumulation depends heavily on continuous credit expansion, leverage, and rising asset valuations rather than proportional growth in real productive activity. In such a system, the drive for continuous accumulation and profit maximisation encourages the creation of financial wealth through debt instruments, speculative trading, securitisation, and other financial mechanisms that often remain disconnected from real economic output. As long as asset prices rise and liquidity is abundant, the system appears stable, but when growth slows even slightly, the underlying fragility is exposed. Borrowers struggle to repay debt, collateral values decline, liquidity tightens, and panic spreads across financial markets. From this perspective, recurring recessions are structural outcomes of an economic order in which capital expansion is increasingly based on financial claims rather than real assets and productive investment.

Financial Technologies and the Acceleration of Currency Outflows

The rapid evolution of financial technologies such as electronic banking systems, algorithmic trading, high-frequency payment networks, cryptocurrencies, and central bank digital systems has transformed money from a relatively stable medium of exchange into a highly dynamic and highly speculative financial instrument. In modern markets, money is no longer just a passive store of value or a facilitator of transactions; instead, it actively circulates within complex digital infrastructures where it is continuously priced, leveraged, and reallocated across global financial assets in real time.

This technological transformation, combined with financialisation, has intensified the speed and scale at which capital moves between markets. Automated trading systems, algorithm-driven investment strategies, and blockchain-based speculative platforms allow financial positions to be created and liquidated within seconds, often based on short-term price movements rather than long-term productive investment. As a result, money behaves increasingly like other financial instruments such as derivatives, bonds, or securities whose primary function is capital gain rather than productive exchange.

This shift contributes to greater financial volatility because liquidity can expand and contract extremely quickly in response to market sentiment, algorithmic signals, or global shocks. In such a system, small disruptions can trigger rapid cascades of selling, leverage unwinding, and capital flight across interconnected digital networks. This increases the likelihood of asset bubbles, sudden corrections, and systemic instability, which can spill over into the real economy in the form of recessions, credit tightening, and reduced investment.

Modern financial technology therefore does more than enhance efficiency: it accelerates speculative behaviour and short-term capital movement, making the financial system more sensitive to shocks and more dependent on continuous confidence and liquidity support.

Central Banks, Financial Stabilisation, and the Limits of Monetary Control

In modern capitalist financial systems, the role of the central bank has increasingly shifted from a traditional monetary authority towards a stabilising institution that primarily supports the continuity of the financial system. Rather than functioning as a direct controller of money in the classical sense, the central bank operates largely through the creation of bank reserves, which are electronic liabilities used to settle payments between financial institutions.

In this context, central banks often function as lenders of last resort, especially during periods of financial stress, where their primary objective is to prevent systemic collapse rather than to actively guide real economic outcomes. Instruments such as open market operations and reserve requirements have become less effective due to the dominance of large-scale financial markets and complex credit structures. Instead, financial conditions are now shaped largely by bond yields and global liquidity flows.

This evolution has led to a situation where monetary policy is not fully autonomous in practice, as financial institutions and markets exert significant influence over credit creation, asset pricing, and liquidity flows.[2] Critics argue that this framework

[2]Susan Strange, Mad Money: When Markets Outgrow

effectively legitimises and stabilises the existing financial order, ensuring that large financial institutions remain functional even under stress.

Continuous Credit Expansion, Financial Markets, and Systemic Risk

In modern financial capitalism, credit creation has become extremely dynamic, operating in real time through highly liquid financial markets. This continuous expansion of credit allows financial institutions to deploy funds rapidly into speculative markets, including derivatives and leveraged investment strategies.

Liquidity is actively circulated within financial markets to maximise returns, making capital buffers smaller relative to exposure. This increases systemic sensitivity to shocks. Stability depends more on external confidence and market access than internal reserves, making the system highly interconnected and fragile.

Recent Financial Crises and Structural Vulnerability

The recent history of financial crises reveals a recurring pattern within modern capitalist economies,

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Governments (Ann Arbor: University of Michigan Press, 1998); see also Strange, Casino Capitalism (Oxford: Blackwell, 1986), on the concept of structural power and the migration of authority over finance from states to markets.

where periods of expansion driven by credit growth, financial innovation, and leverage are followed by sharp contractions and systemic instability.

The 2008 global financial crisis exposed weaknesses in securitisation and leveraged structures.[3] Mortgage lending expanded rapidly, subprime loans were securitised and sold globally, and risk was widely underestimated. When housing prices collapsed, mortgage-backed securities lost value and triggered a global crisis.

The European sovereign debt crisis further showed how financial instability shifts from private banking systems to public balance sheets. Ireland is the clearest case: a state bank guarantee in 2008 converted private banking losses directly into sovereign debt, while Greece and Portugal faced rising borrowing costs and prolonged stagnation from their own sovereign debt exposure.[4]

During the COVID-19 pandemic, financial markets again relied heavily on central bank intervention, with

[3]Financial Crisis Inquiry Commission, The Financial Crisis Inquiry Report: Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States (Washington, DC: US Government Printing Office, 2011).

[4]On the 2008 Irish bank guarantee and the conversion of private banking losses into sovereign debt, see Bank for International Settlements, Financial Stability Institute, 'The Banking Crisis in Ireland', Crisis Management Series No. 2 (October 2020).

liquidity injections stabilising collapsing asset prices. These interventions prevented collapse but reinforced dependence on central banks.

Across these episodes, a consistent pattern emerges: expansion through leverage and credit, followed by contraction when confidence weakens, with stability ultimately dependent on central bank intervention.

Securitisation, Shadow Banking, and Systemic Fragility

The 2008 global financial crisis exposed deep structural weaknesses in modern capitalist finance, particularly through securitisation and shadow banking.

Securitisation transformed loans into tradable securities, initially believed to distribute risk but ultimately increasing opacity and leverage. Subprime mortgages were repackaged into complex instruments, creating a fragile system dependent on rising asset prices. When defaults increased, the system collapsed.

Shadow banking refers to institutions such as hedge funds, money market funds, investment banks, and structured investment vehicles operating outside traditional banking regulation.(5) These entities

[5] Financial Stability Board, definition of shadow banking as credit intermediation involving entities and activities operating fully or partly outside the regular banking system; see FSB, Global

performed bank-like functions without safeguards, relying on short-term borrowing and leveraged collateral. During the crisis, they experienced liquidity shortages similar to bank runs, revealing systemic fragility.

Shadow banking and securitisation did not eliminate risk but redistributed and intensified it across the global financial system.

Quantitative Easing and Central Bank Intervention

Following the crisis, central banks implemented Quantitative Easing (QE) to stabilise financial markets. Under QE:

- central banks created electronic reserves
- purchased government bonds and financial assets
- expanded their balance sheets
- injected liquidity into the financial system

QE lowered bond yields and restored confidence but primarily benefited financial institutions. Liquidity flowed into stock markets, real estate, bonds, and speculative assets rather than productive investment.

QE, Bond Yields, and Asset Inflation

A major objective of QE is reducing bond yields through large-scale purchases. When central banks

Monitoring Report on Non-Bank Financial Intermediation.

buy bonds, prices rise and yields fall, reducing borrowing costs. Lower yields push investors towards riskier assets, inflating stock and real estate prices.

This may stabilise markets temporarily but also increases inequality, as asset owners benefit disproportionately.[6] Monetary expansion thus strengthens financial accumulation more than real production.

Bank Runs and Protection of Financial Institutions

During liquidity crises, governments and central banks intervene rapidly to prevent collapse of financial institutions due to their central role in payment systems and credit flows.

Critics argue this creates a system where profits are privatised in expansion periods, while losses are socialised during crises. Public resources are used to stabilise financial institutions, reinforcing 'financialised state capitalism'.

The Difference Between QE and Traditional Money Printing

QE differs from what is popularly meant by 'money

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[6]House of Lords Economic Affairs Committee, Quantitative Easing: A Dangerous Addiction? (2021), which concluded the evidence shows QE has exacerbated wealth inequality. For a contrasting view, see the Bank of England's own analysis, which argues the net distributional effect was small once employment and wage gains are included.

printing'. The popular image of money printing is direct government spending financed by newly created currency. QE creates electronic reserves used primarily to purchase financial assets, meaning money circulates first within financial markets rather than directly reaching the real economy.

The Tamweeli system: A replacement to capitalist financial system

Spiritual Foundations of the Tamweeli System

The Tamweeli system is more than an alternative financial architecture to capitalism: it represents a deeper moral and spiritual reorientation of economic life. In contrast to the capitalist financial system, which is largely grounded in material accumulation, utility maximisation, and risk-transfer mechanisms, the Tamweeli model is based on Islamic ethical principles that define wealth as a trust (amanah) and economic activity as a moral responsibility. This foundational shift changes the very purpose of finance from profit-centred accumulation to ethically guided development and social balance.

At the core of this framework is 'adl (justice), which ensures that economic relations are structurally fair and free from exploitation. In practical terms, this means eliminating guaranteed, risk-free returns that transfer burden onto weaker participants, ensuring equitable sharing of both profit and risk, and preventing excessive concentration of wealth through systemic safeguards. Unlike capitalist finance, where formal legality may conceal substantive inequality, Tamweeli justice emphasises real fairness in outcomes rather than mere contractual compliance.

The principle of infaq (circulation of wealth and spending in goodness) ensures that wealth does not stagnate in hoarding or speculative financial cycles. It introduces a continuous ethical and institutional mechanism that pushes wealth towards productive use and social benefit. Idle accumulation is discouraged, while financial surplus is redirected into real-sector investment and wellbeing-oriented development. This directly counters financialisation, where wealth so often becomes trapped in abstract financial assets disconnected from real economic needs.

Similarly, ukhuwwah (economic brotherhood and social solidarity) transforms the relational structure of economic activity. Instead of adversarial relationships between borrower and lender or labour and capital, the Tamweeli system promotes partnership and shared responsibility. Financial interactions are grounded in cooperation rather than extraction, and social trust becomes a foundational element of economic exchange, replacing purely contractual and competitive dynamics with a sense of collective moral community.

The principle of ihsan (excellence and moral transcendence) introduces the highest ethical dimension into economic life. It moves beyond legal compliance to emphasise moral excellence, responsibility, and spiritual consciousness in financial conduct. Institutions are encouraged to act with fairness, generosity, and restraint, while economic activity itself becomes a form of moral practice, where finance is not only technically correct but ethically elevated.

When integrated, these principles produce a fundamentally different economic logic. 'Adl ensures justice in structure, infaq ensures circulation of wealth, ukhuwwah ensures solidarity in relationships, and ihsan ensures moral elevation of conduct. Together, they shift the Tamweeli system away from the capitalist paradigm of material accumulation and financial abstraction towards an order where economic life is embedded within spiritual ethics, social responsibility, and real productive development.

The Tamweeli framework is, in the end, not a technical correction of financial mechanisms but a value-based civilisational alternative. It challenges the foundational assumption of modern financial capitalism, that efficiency and profit maximisation are sufficient organising principles and replaces it with a vision in which economic order is subordinated to justice, moral accountability, and spiritual purpose.

Money Supply as a Facilitating Instrument in the Tamweeli (CTI-AITI) System

A fundamental distinction of the Central Tamweeli Institution (CTI)-Awami Islamic Tamweeli Institution (AITI) based Tamweeli framework is its redefinition of money as a public facilitative instrument rather than a commodity for profit generation. In contrast to the capitalist financial system, where money increasingly becomes an asset class traded for capital gains through interest, speculation, leverage, and financial engineering, the Tamweeli system treats money strictly as a means of circulation, coordination, and facilitation of real economic activity. Within this framework, the management of money supply is centrally coordinated by the CTI, which ensures that liquidity is expanded or contracted in accordance with the real needs of the economy, productive capacity, and development priorities. Money creation is not driven by financial market demand or credit expansion for speculative purposes, but by the requirements of agriculture, industry, infrastructure, SMEs, and public projects identified through the planning process. This ensures that monetary expansion remains anchored to real-sector growth rather than financial-sector multiplication.

At the operational level, AITIs mobilise idle funds from households and institutions and channel them into CTI-managed investment pools, primarily through mudarabah-based structures. This mechanism ensures that savings are transformed into productive investment rather than being diverted into speculative financial instruments. Liquidity in the system is therefore continuously aligned with the flow of real production, employment generation, and economic growth and development, rather than being absorbed into asset price inflation or financial arbitrage.

Importantly, money in this system is not treated as a commodity that generates income by itself. It does not earn returns through interest-based lending or speculative trading in financial markets. Instead, returns are generated only through participation in real economic ventures and productive risk-sharing arrangements. This removes the structural incentive for hoarding, speculation, and financial rent-seeking, which are central drivers of instability in capitalist financial systems. By anchoring money supply management to real economic needs, the CTI-AITI framework transforms monetary policy from a market-driven and crisis-responsive mechanism into a planned, growth-oriented system. Price stability and financial stability alone are not the goal; the wider objective is the balanced expansion of the real economy in accordance with social justice, productive capacity, and Islamic ethical principles.

Definition of CTI and Awami Islamic Tamweeli Institution (AITI)

Within the proposed alternative to the capitalist financial system, the Central Tamweeli Institution (CTI) and the Awami Islamic Tamweeli Institution (AITI) form a two-tier monetary and financial architecture designed to replace interest-based banking with a system grounded in amanah (trust), mudarabah (risk-sharing), qard-e-hasan (benevolent loan), and real-economy investment.

The Awami Islamic Tamweeli Institution (AITI) is a public depository institution that functions as the primary interface between individuals, families, and the financial system. It accepts deposits in three forms: Amanat accounts, which are fully safe custody accounts used for daily transactions and payments; Mudarabah accounts, where deposited funds are invested in real economic activities on a profit-and-loss sharing basis; and Qard-e-Hasan accounts, which represent benevolent, interest-free loans provided for social and public needs. In this structure, only Amanat accounts are used for day-to-day liquidity and transfers, while funds from Mudarabah and Qard-e-

Hasan accounts are mobilised and transferred to the CTI for productive deployment. In return, AITI issues certificates to depositors reflecting their participation in the underlying financial pool.

The Central Tamweeli Institution (CTI) functions as the macro-financial and economic authority of the system. It performs two core functions. First, it manages the currency issued by the Baitulmal, ensuring monetary stability and coordination of liquidity within the economy. Second, it receives and manages Mudarabah-based funds transferred from AITIs and invests them in the real economy under the guidance of the government's planning division. These investments are directed towards productive sectors such as industry, agriculture, infrastructure, and national projects, ensuring that financial resources remain firmly linked to tangible economic output.

Together, CTI and AITI establish a closed-loop Islamic financial system in which deposits are mobilised through trust-based institutions at the grassroots level and then channelled into structured, growth-oriented investment at the macro level. This design replaces interest-based intermediation with a system of trust (amanah), partnership (mudarabah), benevolence (qard-e-hasan), and state-guided real-sector development, aiming to align financial flows with both economic stability and Islamic ethical principles.

Conclusion

The contemporary capitalist financial system represents a highly evolved but structurally fragile configuration in which finance has progressively detached from real economic production and become an autonomous domain of accumulation. Through mechanisms such as debt-based money creation, securitisation, financial derivatives, shadow banking, and continuous leverage expansion, the system generates growth that is driven more and more by financial claims rather than productive output. While this structure enhances liquidity and accelerates capital formation in stable periods, it simultaneously embeds systemic vulnerability by making stability dependent on perpetual credit expansion and sustained market confidence.

The recurring pattern of financial crises demonstrates that instability is not an accidental disturbance but an inherent outcome of this architecture. Episodes such as the 2008 global financial crisis, the European sovereign debt crisis, and pandemic-era market disruptions reveal how financial systems expand during periods of optimism and contract sharply when confidence weakens, requiring large-scale central bank intervention to prevent collapse. In this process, central banks have increasingly assumed the role of systemic stabilisers rather than neutral monetary authorities, reinforcing the continuity of financial markets even under conditions of deep structural stress. Technological acceleration through digital finance, algorithmic trading, and instantaneous capital flows has further intensified this instability by increasing the speed at which financial shocks propagate across markets. As a result, modern capitalism is characterised by a paradox: greater sophistication in financial engineering coexists with greater systemic fragility. Ultimately, the analysis suggests that the stability of the current financial order is not grounded in internal equilibrium but in external support mechanisms, particularly central bank interventions and liquidity provision. This raises fundamental questions about the long-term sustainability of a system in which financial expansion, rather than real productive capacity, has become the primary driver of economic growth.

The CTI-AITI based Tamweeli system presents a structurally simple, real-economy-oriented replacement to the capitalist financial system by redefining money as a facilitative public instrument rather than a tradable commodity. Through its coordinated framework of CTI-led monetary and growth planning and AITI-based grassroots financial intermediation, the system ensures that liquidity is directly aligned with productive needs, economic growth, and social welfare rather than speculation, leverage, or financial engineering. By eliminating interest-based debt expansion, securitisation, derivatives, and shadow banking, and replacing them with transparent instruments such as amanah, mudarabah, and qard-e-hasan, the system seeks to root financial activity in real-sector performance and ethical principles of justice, trust, and circulation of wealth, thereby aiming to achieve stability, equity, and sustainable development.