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Harmonizing Liberation Philosophy: Exploring the Convergence of Marxian Economics and Shariah Banking within the Framework of the Indian Banking System

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Abstract: The Indian banking system evolved from an exclusive private enterprise controlled by a few wealthy families and trusts, leaving the majority reliant on high-interest private lenders, perpetuating economic disparity. Nationalization of 21 banks under Indira Gandhi aimed to rectify this, aligning with India's constitutional goal of equitable wealth distribution. However, globalization and privatization reshaped the landscape, emphasizing profit-seeking and catering to the corporate sector and affluent classes. The marginalized rural and small business sectors suffered in this pursuit, evident in neglected rural branch postings. To address this, an ethical foundation merging Marxist economics and Shariah banking principles is proposed, seeking inclusivity and ethical grounding. Shariah principles, rooted in Islamic law, extend beyond religious boundaries, while Marxist values amplify voices of the marginalized. By combining these principles, a more inclusive, morally anchored, and holistic Indian banking system can be envisioned. The priority sector's Non-Performing Assets challenge can be addressed without jeopardizing inclusivity.
Keywords: Liberation Philosophy, Marxian Economics, Shariah Banking, Islamic Finance, Indian Banking System.

I. AN INTRODUCTION TO BANKING AND THE PROBLEM OF GROWING NPAS

In this Chapter, I shall discuss the fundamentals of my dissertation. I shall explain what is banking and a brief history of banking. I shall also explain the history of banking in India and the various types of banks present in India today. This chapter is important so as to understand the fundamentals of banking and to get an insight to the problem which shall be addressed during this paper, i.e. how the agriculture and the MSE is misrepresented as being the cause of NPA’s in Indian Banking system.

A. *Some Notable Definitions of Banking*

“A banking company is the one which transacts the business of banking which means accepting, for the purpose of lending and investment of deposits of money from the public, repayable on demand or otherwise and withdrawals by cheques, draft, order or otherwise.“- Section 5(b) of the Banking Regulation Act; India.

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B. *Some Reasons Why Banks were Nationalized in India*

To get a clearer picture of the impact of nationalization on the banking industry and the general population, let’s understand why the government decided to nationalize banks.

The main objective was to secure the financial condition of the economy. Banks were collapsing at a fast rate approximately 361 banks failed between 1947 and 1955, which converts to about 40 banks a year! Customers lost their deposit with no chance of recovering them.

1) *Agricultural Sector was Neglected:* Banks favoured large industries and businesses and neglected the rural sector. Nationalization came with a pledge to support the agricultural sector.
2) *Expansion of Branches:* Nationalization facilitated the opening of new branches to ensure maximum coverage of banks throughout the country. Every bank, be it government, private or multinational, had to open a percentage of their branches in rural area. This ensured the banks were able to cater to all segments of the society rather than limiting themselves to the profit-making metro and urban areas only.

3) *Mobilization of Savings:* Nationalizing the banks would allow people more access to banks and encourage them to save, injecting additional revenue into a cash-strapped economy. This would also ensure that the people would have their surplus cash secured and profitable by the way of earning interest on their savings.
4) *Economic and Political Factors:* The two wars in 1962 and 1965 had put a tremendous burden on the economy. The nationalization of Indian banks would give the economy a boost through increased deposits. This is the way national banks work, by lending out the deposit received at higher rate of interest to other individuals or institutions including the government.
5) *To Energize Priority Sectors:* To enable agriculture and MSME sector to receive funds so as to develop these sectors. They are still notified as 'priority sector' and all banks have to finance a percentage of these sectors from their total advance exposure. The failure to comply with these requirements leads to banks being penalized and repeated failure can even lead to the banking license of the company being revoked. However the banks have devised a simple loophole to evade this by window dressing certain loan products like gold loan to farmers as agriculture loans and other methods.

C. What are the Non Performing Assets (NPA) in banking?

Since the liberalization of the economy in 1991, the Indian banking sector has undergone a dramatic shift from the absolute monopoly of public sector banks to the entry of private and foreign banks. Despite the fact that the Indian banking industry is heavily regulated and supervised by Reserve Bank of India (RBI), it still faces a number of ethical and corporate governance issues.
According to paragraph 2.1 of RBI Master Circular RBI/2013-14/62 DBOD. No. BP. BC., 1/ 21.04.048/ 2013-14 dated July 01, 2013 addressed to all Commercial Banks (excluding RRBs) on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances, Non-Performing Assets is defined as under:

D. Non-Performing Assets

An asset, including a leased asset, becomes non performing when it ceases to generate income for the bank. A non-performing asset (NPA) is a loan or an advance where interest and or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan (loan given on a fixed term). The account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/CC),the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted, the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops, the instalment of principal or interest thereon remains overdue for one crop season for long duration crops, the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken, in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment. In case of interest payments, banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter. In addition, an account may also be classified as NPA in terms of paragraph 4.2.4 of this Master Circular. An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power.

E. The causes and effects of growing NPAs on the Indian economy

I have discussed in the previous segment the technicalities and the modalities of NPAs and why and when loans become NPAs. Now let us discuss the effects of NPAs on the economy of a country, particularly India.

1) The Causes of Growing NPAs

The growth of NPAs is a threat to the Indian banking system and the Indian economy as whole. The Indian private and public sector banks are equal contributors to corporate debts, but according to the Financial Stability Report June 2016, the public sector has more serious NPAs than the private sector banks. The root causes of the higher NPAs in PSBs is the political influence and corruption that helps large corporations for sanctioning and waiving off the loans, least accountability on the board members of PSBs, lax nature of the PSBs employees and administration (Harani & Mutyala, 2019). Therefore, lately the government proposed to privatize some of the major public sector banks for reducing stressed assets. This latest trend of privatization goes against the thought process of public welfare which resulted in the nationalization of the banks in 1969. Instead of understanding the root causes of growing NPAs and taking strict remedial measures, the government seems to wash its hands off its responsibility. There is a common failure to understand that only the government owned PSBs will be able to cater to the poor and the marginalized while privatizing them will only cause the disfranchisement and alienation of the majority of poor Indians.

The NPAs of priority and non-priority sectors from FY 2010 to 2017, the non-priority sectors performed poorly throughout the selected years. Despite of these evidences the banks extend loans quite easily to the non-priority sectors (Goyal, 2020; Mohanty, 2020). The rapid growth of NPA is also the result of over dependence of corporate sector on PSBs mainly because they provide advances on lesser rate of interests. The banks also rely on non-priority sectors to earn interest income than on priority sectors because as the ticket size of corporate advances is high; it also means that the interest earned is correspondingly high.

Mr. Gunjan M. Sanjeev has attempted to identify the critical factors, which were responsible for the loans to go bad in the Indian commercial banking system. The study had used primary data collected from credit managers of banks operating in India. His study has revealed that the external factors have a higher influence compared to the internal factors Economic downturn and willful default; have been found to be most critical. Poor credit scoring skill of managers, absence of suitable administrative penalties and target completion have been found to have a significant influence amongst factors related with the loan appraisal mechanism. Seizure and disposal of collateral have found to be the toughest challenges amongst the factors related with the loan monitoring and controlling mechanism. Loan manger's level of motivation, manpower, skill to appraise collateral, effort to reduce costs, government and political intervention and soft budget constraints have been found to have a lower influence.

Shivpuje C.V. and Kaveri V.S. states that the study was basically confined to identifying the factors influencing NPAs, suggesting measures that would prevent the growth of NPAs and affect their speedy recovery. The major emphasis was laid on internal factors over which banks and financial institutions have direct control. For this purpose, they surveyed a few branches, had interaction with the branch managers and the borrowers along with the study of inspection reports. In addition, discussions were held with the credit officers, law officers, executives, bank lawyers, and civil judges. Along with this, the secondary data was analyzed to find out the various dimensions of NPAs. They concluded that NPA problem could be solved if proper care of internal factors is taken or in other words recovery from NPAs is possible if efforts of the bank and financial institutions are strengthened. They observed that though the branch managers were quite clear about the RBI guidelines on the classification of advances, they varied the actual classification of advances made by them based on their personal experience with different borrowers This trend, in particular, was observed in trading accounts with persisting irregularity in cash credit account for a long time. They noted that eight branch managers included the said account in the health code no.2 while six managers classified it under the code no.4. In the end they had also offered several suggestions calling for changes in internal systems, procedures and practices (Korde & Laghate, 2014). This is because the internal rating system is not objective but depends on the perspective of the advances officer processing the loan. Experienced officers tend to be easier going then the new officers, also few can be manipulated by internal or external pressures or inducements to provide favourable reports neglecting or skipping over the anomalies in the balance sheet of the corporate.

2) The effects of NPA on the Indian Economy

The Indian banking sector plays a pivotal role in financial intermediation, monetary policy transmission, credit delivery, and payments. A stable banking system is crucial for economic development and financial stability. Non-Performing Assets (NPAs) serve as a key indicator for the banking sector's financial health, reflecting credit risk management and resource allocation efficiency. The escalation of NPAs dates back to their official recognition after the Narasimham Committee's recommendations in 1991. Mandated provisioning for stressed assets and NPAs strained banks. Corporate defaults primarily drove these stressed assets. COVID-19 worsened the NPA crisis alongside willful defaulters and strict recognition norms. Recovery efforts, like the IBC Code 2016, achieved partial success with 61% recovery in 2018-19. Government measures included recovery plans, time-bound resolution, re-capitalization, and PSB restructuring. Despite these, the NPA issue continues to challenge effective resolution.

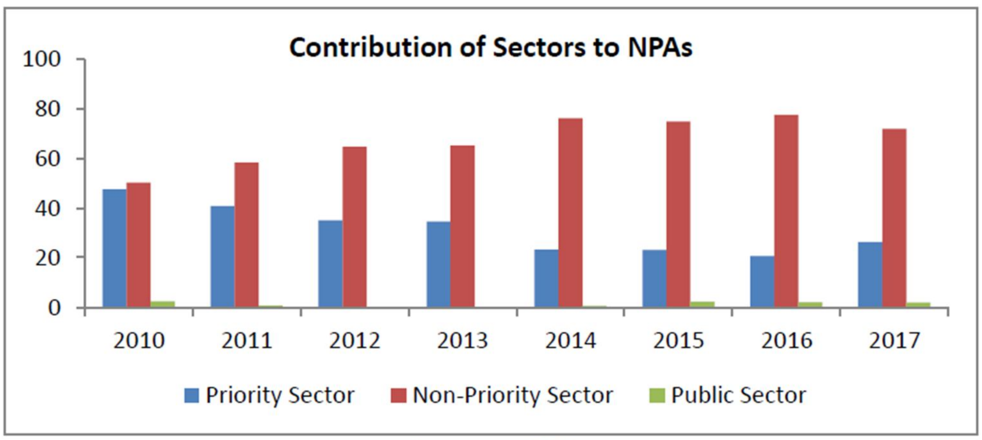
There is a near unanimity among the economists that asset quality is a critical determinant of sound functioning of the banking system. NPAs affect the operational efficiency, which in turn affects profitability, liquidity and solvency position of banks (Michael et al., 2006). The consequences of NPAs would be reduction in interest income, high level of provisioning, stress on profitability, gradual decline in ability to meet steady increase in cost, increased pressure on net interest margin (NIM) thereby reducing competitiveness, steady erosion of capital resources and increased difficulty in augmenting capital resources (Batra, 2003). The asset quality problems could be contagious, insidious and they prey on the weak. The contagious nature of loan losses emanates from the fact that their downside impact can quickly transmit to earnings, capital, and liquidity. They are insidious in the sense that it is often difficult to know that there is a problem until it's too late. Moreover, these problems prey on the weak banks, which are vulnerable and have relatively small amounts of capital to absorb unanticipated losses. NPAs generate a vicious cycle of effects on the sustainability and growth of the banking system, and if not managed properly could lead to bank failures.

Empirical evidence indicates a relationship between bank failures and higher NPAs worldwide (Chijoriga, 2000; Dash & Kabra, 2010). The links between financial crises and bank funding may be strongest during banking crises.

Such crises tend to arise primarily from deteriorating economic fundamentals, notably declines in asset quality (Borio & Lowe, 2002). The issue is of particular importance after the recent global financial crisis and the failure of some large institutions and bailouts that followed. In the Indian context also empirical research suggests that asset quality is one of the main determining factors of credit, besides time deposits and lending interest rate (RBI, 2008).

F. Can Agriculture and MSEs be blamed for the growing NPAs in Indian Banking Sector?

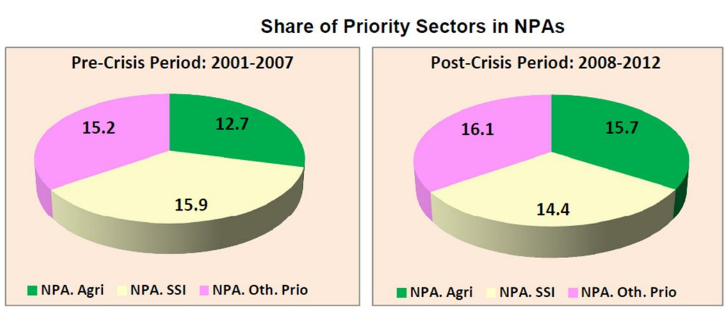
One study was conducted by Khushpat S. Jain and Rahul G. Chopra whose objective was to analyze the trends in NPAs in the Indian Banking Sector from 2004-2011, to assess the contributing factors to the NPA in the Indian Banking Sector and to suggest measures to halt and curtail the rising burden of NPAs, the authors mainly dealt with the rising burden of NPAs in Indian financial system and their likely impact and measures to minimize such adverse impact on the Indian banking system in particular and Indian economy in general. The authors arrived at a conclusion that the major contributor to the NPAs in banking sector was agricultural sector. This conclusion according to me is highly biased as the data collected by the RBI and majority other researches conclusively disprove their conclusion. Let us look at a chart showing the contribution of different sectors to the NPAs. This chart is compiled from the data collected from the RBI website.



Sources: RBI

As seen from above the Non-priority sector has the higher contribution to the NPAs. Since the year 2000, the share of priority sector in total NPAs has averaged at 45 per cent, while the share of non-priority sector averaged at 55 per cent. Prior to the period of 2008, the share of priority sector in total NPAs was expanding, while that of non-priority sector was declining in line with the general decline in total NPAs. Disaggregated analysis reveals that, on an average, retail loans occupy the largest share in total NPAs followed by small scale industries (SSIs), agriculture, personal loans, housing loans, exports, credit cards and auto loans. This data includes agriculture and SSIs as a part of the priority sector which includes home loans, auto loans, personal loans etc.

Let us study the percentage of agriculture loans in priority sector. The disaggregated analysis of priority sector shows that over the last one decade, the average share of agriculture in total NPAs remains lower than the share of SSIs and other priority sectors However, the share of agriculture and other priority sectors in aggregate NPAs increased, while that of SSIs declined during the post crisis period.



The recent years have witnessed increased credit flow to agriculture. The share of agriculture in total gross advances increased from 10.5 per cent in the 2001-07 period to 12.3 per cent in the 2008-12 period. The increase in credit flow to SSI sector was relatively lower in the 2008-12 period. However, in respect of other priority sectors, even while the share in gross advances came down, their share in aggregate NPAs increased during the 2008-12 period. The growth in credit flow to agriculture accelerated significantly during 2002-06, averaging at around 28 percent per annum, before decelerating thereafter to over 22 per cent per annum, during 2007-12. The high growth in agriculture credit during the 2001-07 period could be attributed to the program of doubling of credit flow to agriculture that was launched by the Government for the period 2004-05 to 2006-07. The growth in NPAs in agriculture, which was negative up to the year 2006, rose significantly by end-March 2008. The growth in NPAs in agriculture declined sharply in 2009 due to the implementation of the Agriculture Debt Waiver and Relief Scheme, 2008 (RBI, 2010). In the recent years, however, the growth in NPAs in agriculture has been high, averaging at over 28 per cent during 2007-2012. In fact, the growth in NPAs in agriculture was as high as 61 per cent by the end of March 2011, although it decelerated subsequently to 49 per cent by end-March 2012. The high growth in credit to agricultural sector during the pre-crisis period might have contributed to the growth in agricultural NPAs in the subsequent years owing to the deterioration in credit quality. The credit growth to SSIs sector witnessed a marked acceleration, before the crisis period of 2008, averaging at over 19 per cent. This period also saw negative growth in NPAs in SSI sector. In the 2008-12 period, the credit growth to SSIs sector decelerated, but remained higher than the 2001-07 period, averaging at over 22 percent. However, the growth in NPAs, which was negative before 2008, increased significantly thereafter, averaging at around 31 per cent. Even the data for Micro and Small Enterprises (MSEs) for 2011 and 2012; show that the NPAs grew sharply at 24 percent. The rise in the growth of NPAs in the SSI sector was partly a reflection of the impact of the financial crisis and the economic slowdown that had set in thereafter. Thus, NPAs in SSIs sector have also contributed to rise in aggregate NPAs in the recent years (Lokare, 2014). Now, I would like to draw your attention to the fact that the data I have received from RBI and other sources paints a rather grim picture about the growing NPAs in agriculture and SSIs. Although there is a trend of increase in the percentage of the NPAs in these two sectors, the fact that the data speaks in terms of percentage rather than the actual figures must be taken into consideration. In most of the parts of our country the ticket size of agriculture loan is very small, to the extent of ₹.10000/-. Now, here lies the manipulative nature of statistics being put before us, in ₹.1000000/- I can safely finance say 90-100 farmers, while the same amount can be given to a single corporate customer. Now, as our assets are well spread over 90-100 farmers and even if 10 of them don't repay, I won't lose much sleep as the exposure of risk will be ₹.100000/- or 10% of our total advances. But if the single corporate customer defaults then the entire advance amount becomes an NPA. However, statistics revealed to us would say that while only 1% corporate loans become NPA, 10% of agriculture loans became NPA in the same time! Hence, I say that we should not believe the half-truth of high percentage of agriculture loans becoming NPAs. Some economic strategists like Khushpat S. Jain and Rahul G. Chopra suggest that we should make priority sector loans need-based rather than target-based which results in poor credit appraisal and loan default. Again, although not entirely false, but we must ask ourselves, if target is not allotted for priority sector like agriculture and SSIs, will these sectors be able to get loans when they need them the most? How are we going to judge a case is actually need based, because as I have already explained, our loan processing is not completely objective but rather depends a lot on the officer processing the loan. Will we be able to place an objective and well monitored mechanism to see if priority sector advances are being disbursed on a proper need based perspective? On this, I have not been able to find any suggestion.

II. THE SHARIAH BANKING SYSTEM

The aim of this chapter is to understand the Shariah Banking and I shall try to explain the fact that how it transcends the Islamic law in the religious sense and can be used to provide a solid moral base for the Indian banking system.

A. *What is the Shariah Banking System?*

Islamic banking, also known as Islamic finance or Shariah-compliant finance, refers to financial activities that are compliant to Shariah (Islamic law). Two fundamental principles of Islamic banking are the sharing of profit and loss and the prohibition of the collection and payment of interest by lenders and investors. Islamic banking is rooted in the tenets of the Islamic faith as mentioned in the Quran regarding commercial transactions. The principles of Islamic banking are derived from the Quran which is the central religious text of Islam. In Islamic banking, all transactions must comply with Shariah which is the legal code of Islam (based on the teachings of the Quran). The rules that govern commercial transactions in Islamic banking are referred to as fiqh al-muamalat. The employees of institutions that abide by Islamic banking are trusted to not deviate from the fundamental principles of the Quran while they are conducting business. When more information or guidance is necessary, Islamic bankers turn to learned scholars or use independent reasoning based on scholarship and customary practices (Tarver, 2022).

The important fact which should also be mentioned here is that the employees of Islamic banks while working according to the principles of the Islamic teachings are not required to be practicing Muslims themselves, hence, they can belong to other religions or non-religious, there is no rule regarding the personal faith of the employee of the Islamic bank. What is required is the basic understanding of the teachings of the Quran which in turn guides the daily working of the organization.

B. The basics of Islamic Banking in the Quran, Hadith and Fiqh

Riba, termed 'interest,' is forbidden in Islamic finance due to its Haram status. Charging interest on loans is strictly prohibited. Contextual understanding from Islamic scriptures is crucial. Islam advocates justice and eradicating exploitation in commerce through the ban on 'unjustified enrichment' (Akl Amwal al nas bi al batil). Quran and Sunnah offer principles to discern 'rightful or wrongful' earnings and property acquisition. Unjust gain includes receiving monetary advantage without equitable value. Riba embodies unjust enrichment, being a key source of unfair advantage in Islamic values. Quranic verses and Hadith emphasize Riba as unjust gain in business transactions.

C. The difference between Islamic Economics and Conventional Economics

Islam embodies a distinct and adaptable economic system within its comprehensive social framework. Unlike Western-focused economics, Islamic economic thought was sidelined due to historical stagnation in Muslim communities. This led to neglect of Islamic values and an absence of economic development aligned with its principles. Unlike Western societies that experienced reformation and renaissance, Islamic society lacked similar transformation. Presently, with renewed interest and awareness, Muslim nations are exploring Islamic economics, reflecting a revived fascination with its wealth of knowledge.

D. The Distributive justice and public finance in Islam

Distributive justice's significance spans human history, often leading to conflicts. Islam addresses distributive justice through various means.

Two economic distribution concepts exist: functional distribution (dividing income based on productive agents) and personal distribution (income among individuals regardless of source). Personal distribution directly impacts individual welfare. Poverty or richness hinges on low or high income regardless of its form (profits, wages, rent). Personal income distribution reflects economic well-being.

Additionally, distribution refers to market-based income allocation, while redistribution involves societal modification of this distribution through non-market processes. Islam offers mechanisms to address distributive justice's complex dynamics, contributing to societal welfare and harmony.

E. Major Goals of Distributive Justice in Islam

Justice is a complex phenomenon and is subject to various interpretations. It may not be useful here to discuss the concept of justice in its abstract form. Hence, in order to focus the discussion, it would be better to specify the particular aspects of justice being discussed. So, let us directly consider Shariah's stand on distribution. The major Islamic goals of distributive justice may be described as follows:

1) *Guarantee of fulfilment of Basic Needs for all:* Islam prioritizes ensuring basic needs for all, backed by clear Quranic and Hadith rules, emphasizing its core role in distributive justice.
2) *Reduction of Inequalities in Income and Wealth:* Islam aims to diminish income and wealth inequality, a goal affirmed in the Qur'an. Its rules for distribution and redistribution work towards this equity objective.
3) *Purification of the Donor's Inner self and his Wealth:* The third rule for redistribution is the purification of the donor's inner self and the purification of his wealth. This is also explicitly stated in the Qur'an and in Hadith.

Basic Tenets of Islamic banking are as follows:

a) Prohibition of interest-based (riba) transactions.
b) Ban on speculation and excessive risk taking (gharar).
c) Islamic tax system (Zakat).
d) Discouragement of the production of goods and services which contradict the value pattern of Islam (haram).

F. Communitarian Aspect of the Shariah Banking System

Charity (zakah, sadaqa, awqaf) and gifts (hiba, tabarru) form Islamic finance tools. Zakah aids the poorest, while awqaf creates lasting assets benefiting production. Their roles in microfinance and poverty reduction are often underestimated, despite increasing popularity. Promoting awareness of these tools, especially zakah and awqaf, can empower marginalized segments. Transparent fund management, with investor oversight, boosts trust and accountability. Regardless of religious or gender differences, these funds adhere to Islamic ethics and welcome diverse investors and beneficiaries. These concepts align with Islamic scriptures, offering essential strategies for uplifting the marginalized and fostering financial inclusion within Shariah banking.

G. Reflections on the Shariah Banking system

The growth of Islamic finance to become part of mainstream global finance is not driven purely by sacred intentions of fulfilling religious obligations but also a powerful political-economic weapon for control. Over the years, Islamic finance had to undergo transformation in order to become acceptable as part of the global finance community and in the process, the traditional sacred intentions of fulfilling religious obligations and acting as part of the act of worship became perplexed with the secular goals of modernity (Haniffa & Mohammad, 2010). It had to embrace modern ideas and embrace the technological progress to remain relevant and in the race with other secular institutions. Yet, it was also grounded in the Islamic ideals of morality and fairness which set it aside from its peers.

There have also been these recent developments in Shariah banking where we find, genuine sacred intentions by individual Islamic bankers who visualize a banking system that comply with the goals of Shariah. Their limited knowledge and experience of fiqh left them with no option but to consult well known names in fiqh for guidance as well as commitment to abide by the rules of Shariah not only related to the prohibition of interest but also in terms of Shariah compatibility of financial transactions. There also exist another group of neo-liberal Muslim entrepreneurs or Muslim bourgeois who were more interested in enhancing their economic and political reputation under the guise of Islamic solidarity. Such individuals managed to charm and captivate the common minds in accepting their reasoning and practices although at times pushing the boundaries of Shariah. Their motive in interacting with fiqh scholars was to get their endorsement in liberalizing the industry. Their attempt bears fruit with the fatwa in 1989 by the Grand Mufti of Al-Azhar, Sheikh Tantawi, who legitimised interest by allowing for new pragmatism in the interpretation of riba as interest (Mallat, 1996). This fatwa provided Islamic bankers more bargaining power to expand globally. Hence, this period marks the start when sacred intentions became mixed with secular goals facilitated by the alliance with highly respected Shariah scholars.

Islamic banking grapples with a modernity-relevance versus orthodoxy-common good dichotomy. Ethical standards compete with profit motives. Addressing this struggle involves establishing a recognized body to frame operational procedures, ensuring alignment with Quranic ethics and preventing undue influence on fatwas. Additionally, Islamic economics should incorporate Marxian liberation philosophy to safeguard against profit-driven deviations seen in conventional banking. Marx's perspective prioritizes public welfare, particularly for the disadvantaged. Islamic banking's ethical base, rooted in Islamic teachings, serves as a countermeasure against degradation. Integrating Marxian liberation philosophy offers an additional safeguard, reinforcing Islamic banking's commitment to societal well-being. This sets the stage for the upcoming chapter on how Marxist liberation philosophy bolsters Shariah's ethical foundation.

III. THE LIBERATION PHILOSOPHY OF KARL MARX

A. Introduction to Economic Liberation theory of Karl Marx

Karl Marx was a nineteenth century German economic theorist and philosopher. He is best remembered now for his ideas which led to the development of Communism and Socialism. His most famous books are The Communist Manifesto and Das Kapital. Marxist ideas have been used both explicitly and implicitly by liberation theologians. Gustavo Gutierrez used Marx implicitly while Leonardo Boff and Jose Miranda have explicitly discussed the relationship between Marxism and Christianity. In general, liberation theologians use Marx as a tool for understanding poverty. They do not adopt his ideas wholesale, but borrow concepts and terminology which they find helpful (Influence of Marx., n.d.). Leonardo Boff mentions this in context to Marxism and Liberation philosophy, 'In liberation theology, Marxism is never treated as a subject on its own but always from and in relation to the poor. Placing themselves firmly on the side of the poor, liberation theologians ask Marx: 'What can you tell us about the situation of poverty and ways of overcoming it?' Here Marxists are submitted to the judgment of the poor and their cause, and not the other way around.' Leonardo Boff took pains to stress that liberation theology is not the same as Marxism. Marx's ideas were used because they were perceived to be useful in the Latin American context. Again these ideas were used by philosophers and theologians across the world in context to the liberation philosophy and their own social conditions to form their philosophy.

As Leonardo Buff says, 'Therefore, liberation theology used Marxism purely as an instrument. It does not venerate it as it venerates the gospel. And it feels no obligation to account to social scientists for any use it may make - correct or otherwise of Marxist terminology and ideas...To put it in more specific terms, liberation theology freely borrows from Marxism certain 'methodological pointers' that have proved fruitful in understanding the world of the oppressed.'

B. The Philosophy of Karl Marx: Dialectical (historical) Materialism

Historical materialism is the idea that economics is the basis of everything. The political structures a society has, its philosophy, even its art are a reflection of the concerns of the economic ruling class. Furthermore, each economic ruling class is destined to be superseded through class struggle. On reflecting over this view I find that it does hold a certain amount of truth, although not complete. The political and social scenario in-fact even our arts showed the concerns of the economic elites; it is visible when we compare the Indian society during different decades. The 60's showed a classic clash of ideals with socialism and capitalism, the 70's and 80's was concerned with the widening gap between the rich and the poor, while the 90's with opening of the economy to globalization and the emergence of the urban corporate elite class brought a westernized and modern India to the fore while the rural and poor India was brushed under the carpet.

C. What is the Historical Materialism?

Marxian philosophy was historical materialist philosophy. Philosophy is a way of explaining life and the world. More precisely, philosophy is an outlook of the fundamental problems of life and the world. A philosopher starts his thinking with the exercise of rationality. He makes a rational investigation of the problems with which he is concerned. In this sense, philosophy is a rational outlook of the fundamental problems of life and the world. A philosopher is a rational and critical thinker and through his way of thinking he formulates his ideas and builds theories about life and the world. In this sense, philosophy is mainly a theoretical activity and a philosopher is concerned with conceptual or theoretical activity. This is the traditional way of defining philosophy.

It was Karl Marx, who broke this tradition of philosophy and provided an alternative definition of philosophy. The function of philosophy, according to him, is not only to explain the world but also to change it. Philosophy is not only confined with theoretical activity, it is also concerned with practical issues and problems of life. Hence philosophy is both a theory and a practice. As a theory it explains the basic concepts, and as a practice it applies these concepts to practical life. Theory and practice, for Marx, are inseparably connected to each other. They are two aspects of the same objective reality. Marx attempted to make a synthesis between theory and practice. That does not mean that Marx rejected theoretical activity as an important aspect of understanding the world. What he wanted to say is that the function of theory is to provide general idea about man's practical activity, to discover the general nature of the world and to play a supportive role in changing the world. However, no theory independently, i.e. apart from practice can play the role in changing the objective world. It can do this job only in close association with practice. Here lies the relation between theory and practice. Marx was the first philosopher who clearly showed this relation and combined theory with practice. I agree that a fair reading of Marx will show that he had brought about an epistemological break in the history of philosophy. In other words, Marx had brought about a revolution in human thought, particularly in the history of philosophical thoughts. He had fundamentally changed the way of how we explain the problems of our life and the world. According to Marx, philosophy is not a pure theoretical activity, it is not an abstract thought isolated from concrete social life; rather it is inseparably connected with social reality. Concrete life process of concrete man is the basis of philosophy. That is to say, practical activity of life is the basis of philosophy. In this sense, philosophy is practical, i.e., philosophy not only explains social life but also paves the way of changing it.

D. How Marx Advocates 'Inclusive Economics'

As we have seen from the above explanations, Marx dreamt of a society which would give a fair dignity of labour to its working class. The economics or financial inclusion forms the first step in this process. A point I would like to highlight here is that 'we' (the ruling class) are not doing any favour on 'them' (the labour class) by giving them the dignity of labour. In-fact the dignity is not some material thing or commodity which the ruling classes are offering the labour class but it is their dignity of being human which was taken away from them is being restored. Hence, there is no giver-receiver relation here. As humans, all are equal and have equal dignity and self respect just by their being human beings. The press release by the Reserve Bank of India records, 'The value of FI Index for March 2022 stands at 56.4% vis-à-vis 53.9% in March 2021, with growth witnessed across all the sub-indices' (R.B.I, 2022).

Hence it is showing a healthy growth of almost 2.5%, but as we have seen in Chapter 1, the official data cannot be considered as the gospel truth and the question remains as how much has the benefit trickled down the social ladder and whether the poor and marginalized have actually benefited from it. We shall deal with this issue in the next chapter in detail.

Marx's monetary theory attempted to establish the 'organic relation' of the various aspects of money, apparently lacking in the work of the Banking School. Put briefly, Marx started his analysis by positing money as the 'independent form of value', a commodity with its own value, and then proceeded to derive the functions of money. In deriving the later he linked the evolving forms of money to the performance of particular functions. Thus, gold coin and state fiat money were associated with the function of means of circulation. Credit money, a more developed and advanced type of money, was associated with the function of means of payment.

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way. It means that no segment of a population remains outside the influence of financial services due to their limited financial conditions and power. An RBI paper from 2013 showed that '51.4% of farmer households are financially excluded from both formal/ informal sources' and 'Overall, 73% of farmer households have no access to formal sources of credit'. Although the recent RBI reports show a fair growth, it is admitted that the financial inclusion hasn't reached the poorest of the poor and there exist many bottlenecks and challenges which need immediate attention. According to the World Bank's Global Financial Inclusion Database or Global Findex report (2017), 80% Indian adults have a bank account—27 points higher than the 53% estimated in the Findex 2014 round. The Findex 2017 report also estimates that 77% Indian women have bank accounts, against 43% and 26% respectively in 2014 and 2011 (Qazi, 2019). These figures, however, contrast with the statistics from the other spectrum. According to the same report, about 190 million adults in India do not have a bank account, making India the world's second largest nation in terms of unbanked population. Needless to mention that these 190 million people are from among the poorest of the poor, who for the want of proper documentation remain out of the reach of financial services. It is also understandable that these people have to be brought on board the financial service sector so that they can receive the benefits of the economic growth.

Marx through his theory of economic liberation advocates this very fact that the gains from the business ventures be distributed among the masses who toil for it rather than these gains being limited in the hands of a few wealthy corporate.

In this sense I find that the Marxist ideology of liberation can guide the moral Shariah philosophy to reach these very marginalized and bring them in the financial service sector in India. It will thus, give us that multi-dimensional push which has been advocated by various government and non-government agencies working for the uplifting of the marginalized.

IV. CONCLUSION- THE PHILOSOPHY OF ECONOMICS

In the conclusion, I would like to emphasize my research thesis in the following three points, viz.

1) Prioritizing the needs of the marginalized.
2) The public sector banks should not be judged solely on the criteria of profit earned.
3) The Comprehensive study and implementation of Shariah banking from the Marxist perspective of liberation will be a boon for a country like India.

A. Indian Banking sector: Prioritizing the needs of the Marginalized

India is a unique country because the demography and cultural diversity it covers are unique only to India. As such it is very difficult to have one size fits all solution to every problem or issue facing us. Our Constitution is a masterpiece written by the best minds of the late century and they have succeeded in creating a just and civil society in India to a large extent. Every institution in our country functions to the expected standard but for the political and bureaucratic meddling which can be unhealthy most of the time. Our judiciary, defense and finance systems were largely untainted and were considered among the best in this side of the world. This has changed with the socio-political-economic situation prevalent in our country.

As clarified in Chapter 1; the largest and the best among the Indian banks were nationalized in 1969 with the specific intent to make them facilitators of government aid and policies for the people. This was a very noble and praiseworthy decision because the then policy-makers saw through the loopholes and limitations in private sector banks with respect to handling such roles. A private sector bank is administered with the sole aim of making profit and such there is a limitation in its risk taking capacity and social responsibility. The governing body or management cannot run all their bank projects on 'no-profit, no-gain' policy. Even the so called 'Corporate Social Responsibility' is limited in its funding and outreach and limited to mostly semi-urban or selected rural areas. There are also issues about the lack of accountability and integrity the way these CSR funds are disbursed and reports made.

Also the private banks would not work to implement government schemes which do not pertain to their particular segment of customers. Hence the government banks were expected to be lead integrators of 'financial inclusion in India' in doing so it was logically expected that they would have to forego the sole criteria of making profit but look at the wider progress and development of the society. This is something which the public sector banks have done in the past; they have implemented all government schemes for the people without thought of profit.

Hence, the public sector banks' main role was/is the priority sector lending. As such this target should not be lost in the zeal for making profits. The public sector banks are an asset for the Indian government and the government should not use them for short term electoral gains by disbursing loans to the corporate that finance the particular political party, waiving off agricultural loans/ MSME loans in-spite of favorable conditions etc. These political gimmicks cost the nation dearly and make the public sector banks the scapegoats of such failed policies. The public sector banks should be asked to focus on priority sector and the marginalized sections of our country. They can also serve the other sector but not on priority scale. The public sector banks must imbibe the liberation philosophy of Marxism and the principles of Shariah banking and using this as a moral footing, make the priority sector their main area of focus, use the best of their manpower and resources for the cause of the upliftment of this segment and contribute in nation building.

B. Indian Public sector banks: Not for sole aim of profit, but for nation building and empowering the needy and the priority sector

As I have explained earlier the banking sector in India is not your regular job, it is more of a vocation or calling. A bank officer is posted anywhere across the length and breadth of the country. They have to sustain themselves on a meager salary when compared to other government jobs and are expected to perform their duties 24/7. There is no fixed working hour, with most working for 15-16 hours minimum in a day. In all this they are expected to perform their normal banking duties as well as cross-selling insurance, mutual funds and other non-banking related products. As such they are already over-worked, over-burdened and under-staffed. The bank officers on the branch level also have to complete different targets based on assets and liabilities and also recover NPAs. These officers are also the cream of the Indian society with their personal aims and ambitions. As such they inherit from their seniors certain misconceptions and prejudices as well as their own thought processes which consider rural postings as punishment-postings. It is a well known fact that the officers and staff who fail to meet the expected standards or are not particularly well connected with their bosses are usually sent for rural postings. As such we have many people who don't want to work in rural areas being sent to rural branches. In these circumstances it is but logical that disgruntled employees will not be able to perform their optimum with regards to priority sector advances and projects.

We also have to note that most of our priority sector loans go bad (NPAs) due to the political factor. As most of our agriculture depends on rain, the climatic factor also plays a decisive role in success of crops and loan repayment thereon. Similarly with agriculture and MSMEs the finished products are unable to fetch the deserved prices due to middlemen and corporate manipulating the markets. This I have already explained in the same chapter.

And so, keeping in mind all these factors in addition to the manipulating of figures by corporate to push the blame of increasing NPAs on priority sector (explained in chapter 1), I strongly advocate that while profit can be one of the aspect of deciding the worthiness of the bank, it should not be made the sole criteria for deciding on the future of the public sector banks. Like other sectors banks need to be given incentives for their work of nation building and their contribution needs to be acknowledged by the general public.

C. A new benchmark financial model for the developing countries- not Socialist, nor Islamic, but pan-human

I conclude this paper with this statement, 'The liberation philosophy of Marxist economy and its application to Shariah banking system will setup a new benchmark in banking for the developing economies around the world'. It will use the unique features of the liberation philosophy of Karl Marx and the community banking principles of the Shariah banking to create a unique model of commercial banking which will be based on a solid foundation of ethics and practical philosophy which transcends the academic theoretical boundaries to real life changing principles. This new model of banking could be utilized by Secular countries like India and also those which are neither Socialist, nor Islamic as it is a philosophy which advocates human good before all else. This is because we will take up from these philosophies the qualities which are universal and not dogmatic. For this a group of intellectuals, academics and finance professionals must be selected from across the nation and the world if possible to draft a constitution for this new model of banking. This banking model will not replace the existing commercial banks in India but will instead complement them by providing a solid foundation for engaging in banking for empowerment of the marginalized and the needy.

In this system, I advocate that the bank will be in the nodal agency as in center of a web, coordinating the activities of different academic institutions, research organizations, government agencies and non-government organizations with those of farmers and MSMEs. Banks in this system will not wash away their hands after disbursement of loans but provide the necessary handholding and training till the marketing of the end products. Hence, they will be involved actively in the program of lending loans till its successful repayment. In this model, the rate of NPAs will reduce as there will be lesser chance of divergence of funds and wrong decisions by farmers due to lack of knowledge. It will also help in coordinating the sale of produce with the help of warehouse owners and commodity exchange platforms like the NCDEX, MCX at a market rate with a minimum cost of production limit so that the middlemen and corporate don't cheat the farmers. In-fact it will make the role of middlemen redundant in the new economic system with the farmers selling their produce directly to the wholesaler or even in some cases; directly to the consumer. Similarly the MSMEs will also be helped with a platform to showcase and sale their goods with the help of online trading apps and organizing various trade fairs so that industries and wholesalers will get an opportunity to see and verify their products and order directly from the MSMEs. All this is possible only if we imbibe the Marxist-Shariah model of ethics in our banking which will inculcate the individual and communitarian responsibility towards our own marginalized brethren. It will come as a huge morale booster not only for the marginalized and needy farmers and entrepreneurs but also for the bank employees, making them aware of their interdependencies on each other. It will eradicate the hierarchical vertical of bankers and consumers and replace it with a equal footing for all model where no one is superior or inferior to the other.

Hence, I conclude that the introduction of the Liberation Philosophy in Marxian Economics and its application to Shariah Banking to Indian Banking System will make it more ethical and contribute immensely to the need of nation building by energizing and revitalizing the priority sector as well as the banking sector.

1) Funding and/or Competing interests

Declarations: I wish to submit an original research article entitled "Harmonizing Liberation Philosophy: Exploring the Convergence of Marxian Economics and Shariah Banking within the Framework of the Indian Banking System" for consideration by Journal of Indian Council of Philosophical Research.

2) Competing Interests

a) I hereby confirm that this work is original and has not been published elsewhere, nor is it currently under consideration for publication elsewhere.
b) I have no conflicts of interest to disclose.

3) Funding

a) I (author) did not receive support from any organization for the submitted work.
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4) Other Declarations

a) I (author) have no relevant financial or non-financial interests to disclose.
b) I (author) have no competing interests to declare that are relevant to the content of this article.
c) I (author) certify that I have no affiliations with or involvement in any organization or entity with any financial interest or non-financial interest in the subject matter or materials discussed in this manuscript.
d) I (author) have no financial or proprietary interests in any material discussed in this article.
e) I (author) am fully responsible for correctness of the statements provided in the manuscript.

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