ISLAM AND THE THEORY OF INTEREST

By the Same Author

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Islam and the Theory of Interest

by

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SHAIKH MUHAMMAD ASHRAF
KASHMIRI BAZAR - LAHORE

135273

Printed by
Mirza Mohammad Sadiq
at the Ripon Printing Press
Bull Road, Lahore
and
Published by
Sh. Muhammad Ashraf
Kashmiri Bazar, Lahore

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FOREWORD

I am obliged to my friend, Dr. Anwar Iqbal Qureshi, for having given me the opportunity to read the typescript of his "Islam and the Theory of Interest". One of the important features of what may be called the social philosophy of Islam is its ban on interest, which, in spite of the presence of the Kabuli money-lenders all over India, has exercised and still does exercise considerable influence over the economic conduct of devout Muslims all over the world. Dr. Qureshi in explaining the Islamic tenets bearing on this important point has brought out the implications of this religious injunction and their bearing on some of the very pressing issues which the world faces to-day and which are likely to acquire greater urgency and importance when the war comes to an end.

Economic theory has undergone a great change in the last decade or two and views on nature and necessity of interest are crystallizing against the formerly held view that interest is a necessary reward for important economic service. The fact that Governments have been able to raise war loans at 3 per cent or less has given a large scale contemporary illustration of the unsoundness of the view that there is a " natural" rate of interest which must be paid if society is to obtain the needed supply of capital. Dr. Qureshi has given historical account of the development of the new standpoint and co-related it to the underlying significance of the Islamic view. I am not competent to indicate the extent to which the two standpoints are similar, but in my opinion Dr. Qureshi's interpretation of the Islamic view is worthy of earnest consideration. Dynamic interpretation of all religious points of view is urgently called for in order to make them a living force in our treatment of the practical problems of the critical times through which we are passing ; and Dr. Qureshi is entitled to our thanks for having brought his trained judgment as an economist to bear on a subject of wide interest and general importance.

After the war we shall need the animating spirit of the Islamic injunction against interest for the rehabilitation and development of the war-torn world. "Lend and lease" embodies that spirit in a generous measure, and though it has been evoked by the imperious necessity of the war situation which made pooling of resources unavoidable, the same spirit will be needed even in a greater measure for the post-war reconstruction if enduring peace is to be secured. There will be many necessitous persons, communities and countries after the war who will have to be helped to get on their feet and acquire strength to develop their human and natural resources to the greatest degree. This object cannot be achieved unless the desire to exploit the needs of "weaker brethren" is abjured, and surplus of individuals and communities is made available for a gigantic co-operative effort for the good of all. This appears to me the practical inference from the recent development of economic theory on interest and the inwardness of Islamic ban on interest so far as I have been able to understand it. Dr. Qureshi's contribution on the subject will, I hope, receive the consideration that it deserves from the students both of Economics and of Religion. He, as I have said, is entitled to our appreciation for his interpretation of the Islamic point of view in relation to the recent developments of the economic theory of interest, which, we welcome and I for one having been greatly benefited by what I may call his synthetic contribution.

DR. GYANCHAND,
Professor of Economics,
Patna University.

Dated : 10th Feb., 1945.

INTRODUCTION

The superficial charm and glamour of the present European civilisation has so captivated the common mind that instead of reasoning the expedients of Europe are adjudged to be the standard of right and wrong, and the appreciation and condemnation of actions. The soundness of an opinion or the righteousness of an action is exclusively determined in the light of mere European practices and precedents; every problem or action contrary to them is evil. Hence, according to the majority of the so-called pretenders of learning and wisdom, this is the only correct approach to knowledge. Consequently we had to forsake many of our principles and we began to feel a weakness in our religious injunctions. This led many of our young men to contemplate a radical change in numerous religious matters and several modern thinkers adopted an apologetic attitude, in the defence of Islam. For instance, they strove to remove the blot of the prohibition of usury from the forehead of Islam. So there was a time when there existed an association for promoting the custom of usury amongst Muslims which also issued a paper, first from Aligarh and later from Badaun. Several pamphlets were published and the present lack of progress amongst Muslims was attributed to their faith in the prohibition of interest. So vehemently were these arguments advanced that people did not fight shy of even misinterpreting theological traditions and the sayings of the Holy Prophet. Thus no less than one full century was wasted in this controversy and every possible effort was made to prove that the Islamic injunction regarding interest as propounded by the "Ulema" was no more than their own personal opinion. But who knew that a day would dawn, when Europe after paying for her faulty economic precepts and practices, will ultimately shake off her past misconception and that Abraham will be born in the house of Azar himself who will admit their blunder and that their own experience and the correct principles of economics will prompt them to preach the gospel of the prohibition of interest. At the outset, the weakness of the sanction of usury became manifest as an inevitable consequence of the Bolshevist and Socialist movements and, of late, other economists have also gauged its evil effects.

We are glad that our very able young economist Dr. Anwar Iqbal Qureshi has examined the problem of the Islamic prohibition of usury in the light of the latest economic research, has valued it according to the standpoint of the present economists and has shown that the decree issued by Islam fourteen hundred years ago was not only entirely right but an unmixed blessing for humanity, and really conducive to the welfare of human societies. In this book he has set forth his views and arguments in this respect.

He has divided his book into six chapters. In the first chapter, explaining the Western viewpoint about interest, he has fully exposed the weaker aspects of all the theories of interest which have been propounded so far. In the second chapter, he has stated the Islamic theory of interest while the third chapter is devoted to a discussion on the origin of usury and interest. In the fourth chapter, he has elucidated the prohibition of banking system from the Islamic standpoint and has convincingly proved that this Islamic injunction is also technically true. In the fifth chapter, he has mentioned the repercussions of profit and interest on human society while the sixth chapter deals with the evil effects of interest. On the one hand economic arguments have been incorporated in every chapter and on the other the most up-to-date Western theories have been cited in support of his thesis.

The author in the presentation of Islamic theories, has availed himself of the ideas of our two learned friends and the able professors of the Osmania University—Maulana Manazar Hassan Gilani and Dr. Hamidullah, the writings of Maulana Maodoodi and the views of his father Mufti Mohammad Yusuf Ali Qureshi. Besides, he has also given expression to the theories propounded by the most learned and well-known Western economists and European thinkers.

The prohibition of interest is an issue concurred upon not only by Islam but almost all the religions of the world and the majority of ancient philosophers. The writer of these lines had contributed an article to the "Al Nadvah" 1909, under the title "Interest and the Holy Scriptures" in which it was pointed out that the Greek and Roman thinkers had also forbidden interest in their day and that it had been similarly prohibited by the Bible—the scripture of the Western nations. But the Jews have always and everywhere striven to transgress the limits imposed upon them by their religion and the Christians have followed them. In this field, the easiest step taken is the christening of interest (which may originally be a Hebrew or a Greek word) as usury and thereby transforming its sense. Thus out of this emerged the terms interest and usury. The former was sanctioned while the latter was prohibited although this demarcation solely lacks proof as the difference between these two is one of lesser or greater loss and not of loss or profit.

Similarly, to hold the custom of interest on personal commercial credit essentially reprehensible and to accord sanction to a corporate commercial enterprise which from the beginning of the 17th Century has been styled as the Banking system, would be tantamount to condemning theft and legalising robbery, *viz.*, an offence committed by an individual is unlawful and injurious but if it is committed in collusion with several persons it becomes lawful.

In this connection, the author has entered in a very lively and interesting discussion on the theory of the legality of usurious profit. He has proved with the help of the past history of interest that the criterion of the limitation of interest has distinctly varied from time to time and is contrary to any set principle.

This shows that the different countries of the world and even the different Indian Provinces have not always followed one specific principle in this respect. Thus the existence of interest is in itself doubtful.

As the author has had the benefit of the advice and the help of well-known Ulema in the interpretation of Islamic theories as well as in the presentation of Quranic Couplets, the sayings of the Holy Prophet and other theological problems, there cannot be the semblance of a doubt in their authenticity. I have also examined them and found that they are correct.

According to Islamic Faith, interest can never result in any national good or worldly prosperity. Apparently it seems that interest adds to the wealth of a country but in fact this is nothing but a misnomer. The only point of difference is that the interest on indigenous credit increases the wealth of a few individuals but impoverishes the entire country while the present Banking system adds to the wealth of hundreds of individuals at the expense of millions. This clearly proves that the custom of interest, irrespective of the form it takes, brings immense misery and distress in its wake. Nowadays, great emphasis is being laid on the blessings and benefits of rural Co-operative Credit Societies and no doubt, due to their low rates of interest and easy terms of borrowing, they have proved to be a blessing for the agriculturists in comparison with personal Sahukari credit. But even in these Societies small cultivators are exploited and are compelled to part with their cattle and land.

Credit is an essential human necessity and Islam has endeavoured to fulfil this need through Ethics instead of Law. It has laid down that lending money to the needy is a good deed and that the derivation of an undue profit on this money is interest. The pious have been so cautious in this field that according to them even the acceptance of an invitation from the debtor for any kind of entertainment is itself sinful and the payment of money to a person with a view to receiving more money from him later on is also considered usury. Similarly according to Islam, any excessive profiteering in the exchange of goods or money, irrespective of the difference of good and evil between them, is synonymous with usury. Although much difference of opinion exists amongst the Islamic theologians with regard to the meaning of excessive profiteering, the kind of goods and other minor conditions, yet there is perfect unanimity on its existence. In the same way, excessive profiteering in the exchange of gold and silver when the metal remains the same, is no doubt usury. Thus the entire mechanism of the rates of exchange which today holds the field almost all over the world and which is responsible for making hundreds of persons in Europe millionaires and paupers, is totally prohibited by Islam. Gold and silver are nothing but cash in Islam and it is on this account that their use for ornamental purposes has only been allowed to a reasonable extent. Leaving aside the wearing of a silver ring weighing a few *mashas*, every other use of silver has been strictly prohibited for males, and for females too excessive use of silver is in every way condemnable from the Islamic standpoint. Likewise the use of gold and silver utensils has been entirely prohibited. If the world follows these principles, how abundant can capital be for financing essential works all over the world !

It is in fact, on this score that in Islam the hoarding of silver and gold without any reason as treasure is a major crime.

والذين تكنزون الذهب والفضة ولا ينفقونها فى
سبيل الله فبشرهم بعذاب اليم ـ

And those who hoard up gold and silver and do not spend it in God's way, announce to them a painful chastisement. (3, 4 : 9)

ويل لكل همزة الذى جمع ما لا وعدده يحسب
ان ما له اخلده ـ

Woe to every slanderer, defamer, who amasses wealth and considers it a provision (against mishap). (1, 2: 104)

The most potent method to check this evil is to strictly prohibit the forward transactions of gold and silver, as this will necessarily mean that only persons who have cash funds can afford to indulge in such speculation.

Islam has not given any significance to artistic work on gold and silver ornaments. Although a few theologians dissent from this opinion, yet it is beyond doubt that Islam has not encouraged ornamental and artistic work on silver and gold. The motive behind this is not to oppose art but to guarantee that gold and silver ornaments fall into disuse as they gain popularity only because they are artistic.

Keeping in view the same principle, Islam has emphatically forbidden " Ahtekar " concentration of wealth (which is the basis of monopoly), as it results in a particular commodity of general use falling in the possession of a single individual.

Man seldom borrows due to genuine necessity ; debt is generally incurred owing to luxurious extravagance. Extravagance is the action of the Devil according to the Holy Quran. This is further supported by the fact that the extravagant person becomes a curse for society and it is he who himself becomes a criminal and leads to crime.

On the other hand Islam condemns niggardliness with equal vehemence since it is also greatly harmful to mankind.

Lending to a needy person is, according to Islam, an exceedingly good action while those who have the ability to repay their debts but are reluctant to do so are tyrants in the real sense of the word. The very first thing to be done out of the money left behind by those who have not paid back their loans is to pay off their debts. It is even said that people should refrain from participating in the funeral prayer of a person who has not paid back his debt.

Islam has allowed the Government to arrange for essential credit free of any interest. Hence, during the Abbasid Caliphate loans were given from the 'Bait-ul-Mal' which (in case they were not repaid during the debtor's lifetime) could be paid back from the legacy in accordance with the debtor's will. And even if no mention was made of the repayment of the standing debt in the will, the loan was paid off before dividing the property left by deceased.

The method suggested by Islam for accomplishing close co-operation between finance and commerce is known as *mazarebat* (partnership). This means that the capitalists should supply capital and the workers should contribute labour. Thus the profit which is the joint result of capital and labour should be distributed on the principles of agreed division of profit and loss which has been thoroughly explained in theological writings.

Banks can also be established in accordance with the Islamic system if someone so desires. A bank in Islam simply means the treasury wherein the funds of the people are deposited. These funds generally fall into two categories. And the first category which is known as "Amanati" can be further divided into two categories :

1. Safe deposits which should essentially be kept intact. The bank can in such a case ask the depositors to defray the expenses incurred by the bank in connection with the safety and security of their funds.

2. Permissible deposits. In the case of such deposits the bank is free to use the funds but they should be returned in full immediately on demand. There is also a third category which includes funds which are deposited for a specified period. The bank is at liberty either to invest the money in trade or lend it to commercial firms by way of *mazarebat* (partnership) and then finally distribute the profits according to the agreed division.

Agreed division of profit and loss signifies the fixation of a proportion *i.e.*, one-third, one-fourth, one-fifth, etc. instead of a fixed percentage, *i.e.*, three per cent, four per cent.

We earnestly hope that this book will be appreciated by the Muslims on the one hand and the economists on the other and that realizing the necessity and significance of the Islamic prohibition of interest, efforts will be made to save the world from the misery and destruction wrought by usury May God Almighty bestow His blessings upon the author for this noble work !

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Shibli Academy,
Azamgarh.

20th Zil Hija 1363 Hijra.

AUTHOR'S PREFACE

A few lines by way of personal explanation and acknowledgment, I think, are necessary in connection with this essay. "Theory of Interest" was one of the subjects of discussion at the Indian Economic Conference held at Nagpur in December, 1938. I took part in the discussions, pointing out the defects in the prevalent theories of interest, and ventured to suggest that interest had done more harm than good to society as a whole; and it would lead to a better world if interest was altogether abolished. One member of the Conference, Mr. Findlay Shirras, I believe, was annoyed by my observations and remarked that I was influenced by the orthodox Muslims' point of view on the subject of interest. I replied that I was speaking at the Conference in my capacity as an academic economist, but I would be prepared to present the Islamic point of view with regard to interest at some later occasion. This essay, though long overdue, is an indirect reply to Mr. Findlay Shirras' challenge. However, I have refrained from any controversy and have confined myself firstly to the stating of the theories of interest from earlier times to the present day, showing the defects in each theory and in the latter part of the essay I have stated the contribution which Islam has made to the theory of interest and have shown how the

Islamic theory is superior to the existing and known theories of interest, and how modern economic thought is gravitating towards the Islamic theory of interest. I do not claim any originality for this work. I have collected the material from the works of eminent authorities and have presented it to my readers in a convenient form. I have deliberately quoted various authors extensively in their own words to give an authoritative impression.

The long delay in writing it after the Nagpur Conference in 1938 is due to the fact that I am conscious of my lack of knowledge in the field of Islamic literature and my incompetence to pronounce judgment on it. Had it not been for the insistence, encouragement and help which various learned friends and elders have extended to me, this essay would never have been written.

I am particularly grateful to Maulana Manazar Hassan Gilani, Head of the Theology Department, and to Moulvi Hamidullah, Reader in Islamic Law, both of the Osmania University, for their valuable guidance and discussions, from time to time, from which I have tremendously benefited. I have also been greatly influenced by the writings of Maulana Abul-Ala Maududi, Editor, *Tarjuman-ul-Quran*. Last but not least, I owe a great debt to my learned father Mufti Mohammad Yusuf Ali Qureshi, whose expert knowledge of the subject has helped me a good deal. It was his stimulating influence which first roused my interest in Islamic literature.

This personal explanation is already getting longer than I intended, but I must mention one more important fact which is really responsible for the actual writing of this essay.

Mr. Yusufuddin, M.A. (Theology) is preparing thesis for his Ph.D. Degree in the Osmania University under the joint supervision of Maulana Manazar Hassan Gilani and myself on the 'Economic Doctrines of Islam.' It was in the course of guiding Mr. Yusufuddin's studies that I was brought into touch with a good deal of authoritative data on the subject, and I must thank Mr. Yusufuddin for it. My friend Mr. C. H. Sheikh, Assistant Educational Commissioner, Government of India, obliged me by translating the second chapter of this essay, which was originally written in Urdu.

I would like to conclude this Preface by thanking Dr. Gyanchand, who in spite of indifferent health and heavy pressure of work read the manuscript and honoured me by writing a Foreword, and Allama Syed Sulaiman Nadvi for writing an Introduction.

Hamayatnagar
Hyderabad (Dn.)
May, 1946.

ANWAR IQBAL
QURESHI.

CHAPTER I

WESTERN THEORIES OF INTEREST

The Possibility of a Zero Rate of Interest

After groping in darkness for over 1360 years the world is realising today that the rate of interest may come to near zero. In other words, it is possible to envisage a modern capitalistic society in which no interest may be paid, or, to put it more bluntly, the capitalistic society can exist without interest. This possibility is fast approaching the practical reality. In the last Great War the Government of India was issuing Cash Certificates at 6½ per cent interest per annum. In the present war, the Government of Hyderabad is finding it quite easy to borrow at 2½ per cent. The official discount rate of the Reserve Bank of India which stood at three per cent before the war continues to remain the same even in the fifth year of the war.[1] The price of Government securities in the war has remained remarkably steady due to the control exercised by the Government of India.[2] In the United States the discount rate of the Federal Reserve Bank is only one per cent per annum.[3] Even in India the Govern-

[1] *Report on Currency and Finance, 1941-42*, Reserve Bank of India.
[2] Finance Member's Budget Speech, 1940-41.
[3] *Bulletin* of the Federal Reserve Bank, U.S.A.

ment issues Treasury Bills at less than one per cent interest per annum, and the call rate is almost negligible, *viz.*, one quarter per cent per annum.[4]

In plain words it means that money for very short period can be borrowed, rather, as a matter of fact is being borrowed, at ¼ per cent interest per annum. In England no interest is ordinarily allowed on current accounts. And in spite of these low rates of interest there has been no check to savings. On the contrary, the savings have continued to increase. I firmly believe that if the safety of the funds could be adequately guaranteed money could be borrowed without any interest, provided the State exercised proper control. If in the present war the Government control can reduce the rate of interest to one per cent in the U.S.A., I think I can hardly be accused of optimism if I maintain that in the peacetime the rate could be reduced to zero or near zero.

Definition of Interest by Islam

A very formidable volume of literature exists in Arabic, Urdu and other languages on interest. The Muslim jurists have taken great pains in distinguishing what is interest and what is not interest. In the present essay I am not concerned with this literature. My main concern is to show the contribution which Islam has made over 1360 years ago by definitely prohibiting interest and to demonstrate that a large number of ills from which the present

[4] *Currency Report, op. cit.*, 1941-42.

capitalistic society is suffering are mainly due to interest. A vague misunderstanding exists in circles which are not intimately acquainted with the intricacies of modern economic theory that there is a general agreement among economists about interest. This is far from the truth and I shall discuss various theories of interest to show how wide is the difference and that there is no unanimous or generally accepted explanation as to why interest should be paid and at what rate should it be paid.

Difference among Economists Regarding the Rate of Interest

> "The theory of interest has for a long time been a weak spot in the science of Economics, and the explanation and the determination of the interest rate still gives rise to more disagreement amongst economists than any other branch of general economic theory." [5]

During the last great depression a large plethora of literature was published on the causes explaining the depression and in this literature a prominent place was given to credit and monetary causes and thus the theory of interest came under searching criticism. In spite of this vast literature we have no adequate and generally accepted theory of interest which could explain the origin or the causes of interest and the rate of interest.

Warning against Over-Rationalism

Before dealing with the various Western theories

[5] Haberler : *Prosperity and Depression*, page 195, League of Nations, 1st Edition.

of interest, I would like to warn some of my young readers. A group of people exists in Islamic countries which, under the belief that Islam is a rational religion, tries to reconcile Islamic theories with modern practices. For instance, with the onslaught of capitalistic economy, it becomes fashionable to believe that modern society could not exist without interest, and Islam too did not prohibit interest; it only prohibited usury. I, for one, do not believe in these unauthorised liberal interpretations. Personally I believe that such persons, in view of the emphatie injunction of Quran against interest have done a great disservice to the cause of Islam by arguing that Islam has not prohibited interest, and that it has only prohibited usury. Interest and usury are mere words which easily shade into one another; for what is considered a reasonable rate of interest today may be regarded as a usurious rate tomorrow. Some of the Central Banks of Europe after the last war were charging 8 to 9 per cent interest,[6] which rate today is regarded as usurious even in some of the provinces of a backward country like India.

My belief is that if Quranic theories came into conflict with the modern scientific theories I find no reason to trouble my conscience. I firmly believe that the science of today may be the mythology of tomorrow and that what Quran has said, we may not understand today, but it is likely to become quite clear to us tomorrow.

[6] *Memorandum on Money and Banking*. League of Nations.

Economic Blizzards and Recent Interest in the Theory of Interest

With the collapse of the Wall Street in 1929, the edifice of the capitalistic economy was violently shaken. This economic earthquake led many serious thinkers to ponder over the soundness of the structure of the capitalistic economy. From 1929 to 1934 the world was shattered by an economic blizzard, which stimulated serious thinking on economic problems. Economic science is of a comparatively recent origin and much work is still needed to give definite shape to many of its theories, but the problem which has baffled the economists lately is the problem of trade cycles, and the theories propounded to explain this phenomena are still in their infancy. In the explanation of the trade cycle the theories of interest have attracted increasing attention and it is in this connection that the contribution made by Islam is most profound and scientific and adequately explains the theories of the crisis. Great harm was done to clear thinking in Economics by the separation of the theory of interest as an altogether separate subject of study without taking into consideration its bearing on the body politic. Again it is here that Islam has made a first-rate contribution. For those who have been dazzled and blinded by the false light of Western learning and who are likely to laugh and ridicule the idea of Islam's profound contribution to the theory of interest and trade cycle, I shall treat this subject in its historical perspective, first showing the origin and development of the various non-Islamic theories of interest, their conflict and their inability to solve the problem. When the Western theories have been stated as expounded by their advocates and properly criticised, then I shall give the Islamic theory and show how it is an improvement on the existing Western theories of interest.

Early Theories of Interest

From the earliest known records of history, we find that all serious thinkers have condemned the taking of interest. We shall not take the primitive civilisations where interest was forbidden on the ground that loans were taken only for consumption.

Greek Theories of Interest

Let us take a highly civilised nation like the ancient Greeks. Lending money at interest was forbidden by the Greeks. Aristotle whose powerful indictment greatly influenced the later generations condemned the taking of interest in very strong words. He compared money to a barren hen which laid no eggs. According to Aristotle the sole object of the use of money was to facilitate exchange, and the fuller satisfaction of human wants. According to him, this was the most natural purpose of money. Money could not be used as the source of accumulation, *i.e.*, to increase at interest. So accumulating money at interest was the most unnatural of all the ways of making money. A piece of money cannot beget another piece was the doctrine of Aristotle. The obvious conclusion was that interest was unjust.[7] Plato, too, condemned interest.[8]

Roman Theories of Interest

In its early stages the Roman Empire prohibited the charging of any interest, but gradually with the extension of the Empire and the rise of the trading classes interest appeared, but severe restrictions were imposed on rates of interest, which were strictly regulated. Romans were the first nation to enact laws for the protection of debtors.[9]

Interest in the Middle Ages

Payment of interest on money loans was named usury in the Middle Ages, and the charging of usury was strictly prohibited by the Common Laws. It has become a commonplace to 'dub' these prohibitions as mere religious dogmas. Even a profound writer like Professor Tawney remarks that "the whole scheme of medieval thought attempted to treat economic affairs as a part of hierarchy of values embracing all interest and activities of which the apex was religion."[10] But one may pertinently ask whether the medieval thinkers had not better sense of the nature of things than what their later successors possessed.

[7] Aristotle, *Politics*, Book I, Chapter X.
[8] Plato, *Laws Book* V.
[9] Lewis Haney, *History of Economic Thought.*
[10] Tawney, R. H., *Religion and the Rise of Capitalism.*

In this connection the following remarks of Lord Keynes are worth noting. He believes that there was also an economic motive behind the medieval prohibition of usury. He observes, "I was brought up to believe that the attitude of the medieval church to the rate of interest was inherently absurd and that the subtle discussions aimed in distinguishing the return of money-loans from the return to active investment were mere Jesuitical attempts to find a practical escape from a foolish theory. But now I read the discussions as an honest intellectual attempt to keep separate what the classical theory has inextricably confused together, namely, the rate of interest and the marginal efficiency of capital. For it now seems clear that the disquisitions of the school-men were directed towards the elucidation of a formula which could allow the schedule of the margin efficiency of capital to be high, while using rule and custom and the moral law to keep down the rate of interest.[11]

Up to the 13th century, the church rule was supreme and the charging of interest was strictly forbidden. It is significant to note that the payment of rent for the services of land or durable goods was not condemned by the church or canon Law.

The Decline of the Influence of the Church

However, by the end of the 13th century several factors appeared which considerably undermined the

[11] Keynes, J. M., *Theory of Interest, Money and Employment*, pages 351-352

influence of the orthodox church. The reformist group, the leaders of which were Luther and Zwingle agreed to the charging of interest on the plea of human weakness. With the gradual decline in the power of the church and the rise of the secular power, the lending out on interest began to be tolerated. This compromising attitude can be seen from the following remarks of Bacon. "Since of necessity men must give and take money on loan and since they are so hard of heart that they will not lend it, otherwise there is nothing for it, but that interest should be permitted."[12] The result was that the forces of greed and avarice were let loose and very evil consequences followed.

Gradually prohibitions against usury began to be renewed in Europe. In England the ban was renewed in 1545, during the reign of Henry VIII. It is only during this period that the word usury began to be progressively replaced by interest.

The word interest indicated the moderation shown in charges for lending money. Even steps were taken during this period to fix a maximum rate of interest. During the reign of Henry VIII, the maximum rate of interest was fixed at 10 per cent. Prominent men of this period like Francis Bacon, Sir Josiah Child and Sir Thomas Clupeper, were more against the charging of a high rate of interest than against the payment of interest itself.[13]

[12] Bacon, *Discourse on Usury*. [13] Haney, *op. cit.*

The Interest Theories in Mercantilistic Era, 1500-1700

For several decades man's brutal and selfish tendencies were kept under restraint by the force of religion. Now with the gradual decline in the power of the church and release of selfish forces from the strong anchors of religion, people began to move with the selfish forces of the times. Once, the rule regarding the charging of interest was relaxed, it no longer remained possible to control the rates of interest. It was in this period that money began to be used on a large scale for commercial transactions and exchange began to replace barter. Accumulation of money and treasure became the national policy in the mercantilistic period and hence no effort was spared to accumulate precious metals.

The entire policy of the states was directed towards the accumulation of gold and silver. Mercantilists identified money with capital. "For them money was—to use the terminology of today—a factor of production on the same footing as land, sometimes regarded as artificial wealth as distinct from the natural wealth, interest on capital was the payment for the renting of money, similar to rent of land."[14]

The early mercantilists advocated low rate of interest to encourage trade. So they strongly advocated the statutory fixation of low rates of interest.

[14] Hechschner, *E.F.*, *Mercantilism*, Volume II, page 200.

In about 1668, there arose a controversy over usury. In conflict with Mun's views, Sir Thomas Culpeper had written two tracts in favour of establishing lower interest rates ;[15] and his son published a "Discourse" attacking usury But perhaps the most eminent sponsor of this notion was Sir Josiah Child. He maintained that a low interest rate was the natural mother of frugality and industry, and that it would attract traders by making capital cheap, and compel frugality by making smaller "profits" necessary. A high rate of interest made money scarce because every man as soon as he had saved a little, sent it to the goldsmith. The whole burden of such arguments was, "we shall never stand on even ground with the Dutch in trade till interest be the same with us as with them."[16] Likewise, Davenant took a fling at those who received interest.

Most of these men thought that a law reducing interest rate would be effective and would make money cheap. Evidently they got the cart before the horse and made the effect the cause, all of which indicates a lack of understanding of the true functions of capital and money.

On the other hand, there were some who took Mun's side in the usury controversy. One, Thomas Manley, explained that, "as it is the scarcity of

[15] A tract *Against the High Rate of Usury*, 1621, 1640 Editions. In the first edition he favoured reduction from 10 to 8 per cent. in the latter this reduction having been made, he desired a 6 per cent legal rate.

[16] *Discourse on Trade*, pages 27, 29, 167, and preface ; for the situation in Holland *see* Laspeyres, *Anschauungen der Niederlander*, page 256.

money (and many borrowers) that maketh the high rates of interest . . . so plenty of money and few borrowers will make the rates low." John Locke, too, while not understanding the causes of the value of money, argued that low interest rates were the results of a plentiful supply of money. And Sir Dudley North upheld this end of the controversy explaining that an abundant "stock" and security made rates low in Holland.

In spite of their efforts, the mercantilistic failed to control the rate of interest. And later on the rate of interest was left to itself to be determined by the forces of supply and demand.

The Classical Theory of Interest

It is necessary to give somewhat larger space to the classical theory of interest, for this is the most prominent school of economists who have moulded the destiny of economic science, and in almost all the universities of the British Empire the teachings of this school occupy a very prominent place. Adam Smith, Robert Thomas Malthus, and David Ricardo are usually considered the founders of this school, but the names of John Stuart Mill, Edgeworth, Marshall and Pigou are also included in this school by many authorities today, calling the latter as the New Classical School.

Let us see what Adam Smith and Ricardo, the two founders of the school, have to say about interest.

According to Smith and Ricardo interest was the compensation which the borrower paid to the lender for the profit he would make by use of his money. These two writers do not separate clearly interest from gross profit on capital. Let us see what they meant by capital. Adam Smith used the word 'stock capital' to mean that part of the wealth of an individual which was used not for his consumption but which was used for further production to bring him money, reward or profit. It included machinery, raw materials, buildings, food and clothing. It may be explained that although food and clothing are not capital from the community's point of view, yet they are capital from the point of view of the individual, since he can advance them to labourers in production and make a profit.[17] Ricardo's views are also practically the same.

Accumulation of stock or capital was the result of parsimony and parsimony would not be practised unless a reward was expected for the sacrifice. Therefore, according to these two writers interest was the reward or the inducement paid for savings. According to Smith, the origin of profits is to be found in the fact that the employment of capital in production results in an increased value of the product over the labour value. Therefore, there was no exploitation of labour. Ricardo styled all capital as stored up labour and attributed all value to labour. It was on this basis that Karl Marx built up his superstructure of the exploitation theory of labour in a capitalistic economy. The rate of interest

[17] Smith Adam, *Wealth of Nations*.

is simply explained by Adam Smith and Ricardo in their observation that "whenever a great deal can be made by the use of money, a great deal can be given for the use of it."[18] Daniel Hoare had already explained that the rate of interest had nothing to do with the quantity of money. The effect of increase in the quantity of money was to increase prices. Ricardo agreed with this and expounded his famous Quantity Theory of Money.

John Stuart Mill hardly made any fresh contribution to the theory of interest. He classified the theories of Adam Smith, Ricardo, and very ably analysed the various elements in gross profits.

Marshall's contribution to the theory of interest lies in emphasising both the demand and supply in determining the rate of interest. Previous to Marshall another able English economist, Nassu Senior had used the word abstinence as the cause of interest. A number of objections were raised against this concept which we shall examine later on. So Marshall substituted the word waiting for abstinence. According to him interest on the supply side is the reward for the sacrifice of saving or waiting. The demand for capital depends upon its marginal productivity. And the rate of interest "tends to an equilibrium level such that the demand for capital in the market at that rate of interest is equal to the aggregate stock forthcoming there at that rate.[19]

The classical theory of interest as expounded

[18] Ricardo, David, *Principles of Political Economy and Taxation.*
[19] Marshall, *Principles*—Eighth Edition, page 534.

and completed by Marshall is that the rate of interest is determined at the point of the intersection of the demand and the supply curves for the savings. If the supply of savings is greater than the demand for savings for investment, the rate of interest falls, and investment increases till equilibrium is reached between savings and investment. Similarly if the demand for savings is greater than the supply of savings, then the rate of interest rises and investment is diminished, until equilibrium between the two is restored.

Criticism of the Classical Theory

A basic presumption of the classical theory about savings was that these were determined by the rate of interest. We have observed in the beginning of this essay that during recent years in spite of a tremendous fall in the rate of interest savings instead of decreasing have increased considerably. Lord Keynes is perfectly right when he criticises the classical theory and says that interest is not a reward for savings, for one can save without lending at interest and one can get interest by lending money, which he has not saved but which he has inherited. Savings are not determined by interest especially in a modern society where the bulk of the savings is not due to the efforts of individuals, but are corporate savings, and where credit is created by banks.

According to the classical economists it is the rate of interest which brings about the equality between savings and investment. If savings is in excess of investment, the rate of interest falls, and investment is stimulated so that equality between the two is restored. Lord Keynes rightly objects to this. His view is that it is the level of the income rather than the rate of interest that ensures this equality. Savings depend upon the level of employment and incomes. Lord Keynes has reached the foregoing conclusion in his assertion that the supply schedule of savings is not an independent one but that it is entirely dependent upon the schedule of investment. He concludes, "The initiative lies with the entrepreneurs and not with the savers. The savers, as a group, are helpless in the hands of the entrepreneurs though any one individually is free to save as much as he likes."[20]

The defect in the classical theory is that it is based on the assumption of a constant level of income for the community which is unreal. Again savings are not determined by the rate of interest alone. In this connection we have the weighty authority of Professor Gustav Cassel who observes, "Amount saved by individuals out of a given income is largely insensitive to changes in the rate of interest. With a rise in the rate of interest some may save more, or some less than they did before. The motives behind an act of savings are complex. The proportion of its income which a community saves depends upon the size of its income, desire for security and power, and psychological states of preference as between the present and the future

[20] Joan Robinson, Introduction to the *Theory of Employment*, page 13.

Hence, net saving is likely to be affected very little by changes in rates of interest."[21]

The fundamental defect in the classical theory of interest is that it takes a mechanistic view of society. It is not necessary that an increase in the savings by itself will lead to a corresponding increase in investment, or investments are likely to be encouraged or discouraged by the low and high rates of interest. The truth of these objections is very well demonstrated during the periods of booms and depressions when in the latter case in spite of an increase in the rate of interest, there is no corresponding stimulus to investment.

Another significant defect in the classical theory is that it failed to realise the fact that savings may not be invested, but may either be hoarded or left in the form of idle cash. In more than three-fourth part of the world savings are either hoarded or left in the form of idle cash. Even in the remaining one-fourth part of the world—Western Europe and America, large funds are being kept in the form of idle cash. Again, the assumption that the rate of interest is determined by the marginal productivity of capital is arguing in a circle for the marginal productivity of capital is itself determined by the rate of interest. Again, the classical economists were wrong in assuming that the quantity of money had no relationship with the rate of interest.

[21] Gustav Cassel, *Nature and Necessity of Interest.*

The Abstinence Theory of Interest

Nassu William Senior explained that the interest was the price paid for abstinence. By abstinence he meant the conduct of a person who either abstained from the unproductive use of what he could command or designedly preferred the production of the remote to that of immediate results. He further observes that "to abstain from the enjoyment which is in our power, to seek distant rather than immediate results are amongst the most painful exertions of the human will—of all the means by which man can be raised in the scale of being—abstinence, as it is perhaps the most effective, is the slowest in its increase, and the least generally diffused."[22]

Senior fails to mention the sacrifice incurred by abstinence by different groups of people of varying incomes. He was duly ridiculed by a socialist writer Lasalle who remarks, "The profit of capital is the 'wage of abstinence'. Happy, even priceless expression. The ascetic millionaires of Europe like Indian penitents or pillar saints, they stand on one leg each on his column, with straining arm and pendulous body and pallid looks, holding a plate towards the people to collect the wages of their abstinence. In their midst, towering up above all his fellows, as head penitent and ascetic, the Baron Rothschild."[23]

[22] N. W. Senior, *Outlines of the Science of Political Economy*, page 59.
[23] Quoted by Böhm-Bawerk, *Capital and Interest*.

It is mainly due to these objections that Marshall replaced the word waiting for abstinence. The abstinence theory of interest as propounded by Senior and his followers failed to give any explanation of the rate of interest.

Professor Cassel and Mr. Henderson have criticised the theory of abstinence on the ground that one cannot find any satisfactory cause of interest in this theory. According to them the rate of interest does the function of directing investments only to those channels which are most fruitful. Mr. Henderson says that it (the rate of interest) separates the sheep from the goat. It serves as a screen by means of which capital projects are sifted, and through which only those are allowed to pass which will benefit the future in a high degree. For this essential purpose, it is hard to imagine how a better instrument can be devised.[24]

But a pertinent question may be asked at this stage as to what is the criterion of benefit and who is to be the judge of usefulness. There may be a conflict between the private and public benefits of usefulness. To a private employer who wants to invest money in distilling liquor and building houses for the poor, if the former investment yields say 6 per cent and the latter only 5 per cent, the former is the more fruitful use and funds should be directed to installing distilleries, however evil their consequences to the public at large may be,

[24] Henderson, A., *Supply and Demand*, page 130.

and people should be left unhoused, however humanitarian and desirable the object may be.

Senior's theory is rather defective and fails to impress us, but his contribution in one respect is important, for he was the first economist to bring to prominence the importance of the time element in the employment of capital.

The capitalistic or the round-about method of production involves time between production of goods and their consumption. In such a system waiting represents one of the essential conditions of production, and without it, large-scale production cannot be carried on. Therefore, in such a system lending is advantageous both for the lenders and borrowers. This is based on the assumption that capital which is borrowed will be put to productive uses and will result in a benefit to the borrower. Now let us examine the productivity theory of interest.

Productivity Theory of Interest

The advocates of this theory regard productivity as a property inherent in capital, and explain that this productivity of capital is the cause of interest.

Böhm-Bawerk interprets the productivity of capital in the following four ways:[25]

1. Capital has the capacity of serving towards the production of goods.
2. Capital has the power of serving towards

[25] Böhm-Bawerk, *The Positive Theory of Capital*, Smart's Translation.

the production of more goods than could be produced without it.

3. Capital has the power of producing more value than could be produced without it.

4. Capital has the power of producing more value than it has itself.

In other words there is circulation of value over and above the value of capital consumed in production.

The defect in this theory is that it gives an only subordinate rôle to money and expectations. We know by experience that an increased productivity of goods results in a fall of the price of those goods. Sometimes a fall in prices may be so great as to make the actual rate of interest earned to be negative. Again the productivity theory fails to explain why interest is charged from consumption goods.

This theory or the most accepted version of it, namely, the marginal theory of interest fails to explain the rate of interest. The marginal productivity of capital asset explains only the rents paid on capital asset. This rent is merely a sum. To calculate the rate of interest, we must know the value of the capital asset itself. The value of capital asset depends upon the value of its product or services. Given the value of the product of capital, to arrive at the value of capital there must already be a rate of interest previously determined. Thus if there is capital asset earning a net income of, say, Rs. 400

every year, the market value of capital asset depends upon the prevailing rate of interest on money loans. Thus if the rate is 10 per cent, then the value is Rs. 4,000. This mode of arriving at the value of capital is known as the process of "Capitalisation". It is clear, therefore, that the attempt to explain the rate of interest on a money loan through the productivity of the borrowed capital involves us in a circular reasoning. This explanation in trying to find the rate of interest, already assumes the existence of that rate. It takes for granted the very thing it has to determine.

The marginal productivity theory of interest is based upon the presumption of a stationary state with static equilibrium. These two important conditions are seldom found in actual dynamic life; and in the real world, which is a dynamic one, full of changes in population, tastes, growth of capital, and invention and various other substantial changes. The exponents of this theory have not given any consideration to the changes in the quantity of money which plays a decisive part in the rate of interest. The productivity theory, which is essentially a static theory, safely neglects the importance of money and credit. The theory although it explains to some extent as to why interest is paid especially in the case of productive loans, fails to give any adequate explanation as to how the rate of interest is determined, and also gives no explanation as to why interest is paid or demanded when the borrower suffers losses by the employment of borrowed capital.

The Austrian Theory of Interest

The Austrian theory of interest, also known as the Agio theory of interest, is mainly the work of Böhm-Bawerk. Before we describe this theory, it is better to give the definition of capital and the round-about method of production as defined by Böhm-Bawerk. According to him capital is nothing but the complex of intermediate products—products destined for further production. In simple words, capital is simply stored up labour and land. The capitalistic process of production, according to Böhm-Bawerk is the primary concept and capital itself is the secondary concept. The essential feature of the capitalistic structure of production is that it is a time using process. It is the adoption of wisely chosen round-about methods of production. As civilisation advances, we rarely produce consumption goods directly. On the other hand, we first make tools and machines, and then with the aid of these we manufacture final consumption goods. That is to say, we apply a given amount of labour and natural resources to remote ends, such as the construction of tools and machinery rather than apply the labour directly to land. We adopt round-about methods of production because of their superior efficiency in production. Böhm-Bawerk explains the significance of the round-about methods of production in the following words: "With an equal expenditure of primary productive power (that is to say, labour and valuable natural powers) more or better goods can be produced by a wisely-chosen capitalistic process than could be by direct unassisted production."[26]

The great contribution made by Böhm-Bawerk to the theory of interest and capital is his conception of the capitalistic method of production as a time-consuming process, and his view of capital as nothing but intermediate goods.

He then proceeds to analyse the cause for the existence of interest which is of great interest to us. His theory of interest, as I have already mentioned, is known as the Agio or the Time Preference Theory. His theory can be conveniently divided into two parts. In the first instance, interest is regarded by him as an exchange phenomena. He finds the cause of interest in the fact that human beings prefer present goods to future goods of like kind and number. He remarks, "Present goods are, as a rule, worth more than future goods of like kind and number. This proposition is the kernel and the centre of the interest theory which I am going to present."[27] The premium which we are prepared to pay for the present goods as compared to the same goods in future is termed by him as Agio. This may be illustrated by a simple example. A

[26] Böhm-Bawerk, *Positive Theory of Capital*, Smart's Translation, page 22.

[27] Böhm-Bawerk, *Ibid.*, page 251.

person borrows Rs. 100 at present and promises to return Rs. 103 a year hence. Here there is an exchange of present money for future money. Rs. 103 are returned a year hence because it is the equivalent in value to the Rs. 100 lent at present. In other words, the surplus value of Rs. 3 of the sum returned over the sum borrowed is only apparent. This premium or Agio of Rs. 3 on present money is interest. In other words, interest is the complementary part of the principal lent. In a sense, a loan without interest is equivalent to a sale below market price. A pertinent question may be asked at this stage as to why people prefer present goods to future goods. Böhm-Bawerk gives three reasons for this.

1. Under-estimate of the future. This may be due to :—

   (*i*) want of imagination,
   (*ii*) defect of will, and
   (*iii*) uncertainty of life, etc.

2. Differences in want and provision for want. People who are in need at present prefer present wealth to future wealth.

3. Technical superiority of present goods. These may be used immediately for the production of more wealth.

Technically we can say that the marginal productivity of the present goods is greater than the marginal productivity of future goods. Thus Böhm-Bawerk regards interest as an economic necessity.

But the very psychological subjective foundations on which the theory is built are wrong. A very large majority of people save for the future for they consider that their needs in future will be greater than those that are at present—savings for the education and marriages of children, provision for old age. Again, as Bertrand Russel has pointed out, "most of our activities in the acquisition of wealth may ultimately be traced to our desire for personal prestige and social power." If we examine the Agio theory more critically we hardly find any substantial difference between this theory and the Abstinence theory.

After this Böhm-Bawerk explains the rate of interest. According to him, there are three most important factors which affect the rate of interest:

1. The amount of natural subsistence fixed.
2. The number of producers or borrowers to be provided out of the same.
3. The position of the sale of surplus returns on the degree of productivity connected with the increasing extension of the capitalistic process of production.

The rate of interest is determined by the marginal productivity of capital which diminishes as the production period is prolonged. We have already mentioned that a significant feature of the present capitalistic or round-about method of production is that it is becoming more and more round-about. So the interest must diminish more and more. Really the theory expounded by Böhm-

Bawerk is a marginal productivity theory of interest emphasising the significance of the element of time in production; and most of the followers of Böhm-Bawerk and the Austrian school accept the theory in this form. The Agio theory is no longer the accepted doctrine of the Austrian school.

The theory propounded by Böhm-Bawerk has been completed by a prominent Swedish economist Kunt Wicksel. He asserts that interest is the difference between the marginal productivity of the direct and indirect uses of the factors of production and that when there is an increase in capital, different existing capital investments are not increased proportionately, but that relatively longer investments predominate, and that through this an increase in wages and the prices of the original services due to that increase of capital is counteracted. The most important contribution of Wicksel to the theory of interest and capital is that he tries to establish a relationship between the rate of interest and price level. He was one of the first to recognise the monetary character of the rate of interest.[28]

Böhm-Bawerk has two groups of followers. One group consists of Kunt Wicksel and Von Hayek and the other group of Frank Fetter and Irving Fisher. Hayek entirely rejects the time preference theory and stresses the productive aspect of capital. While on the other hand Fetter and Fisher stick to

[28] For details see Wicksel. *Lectures on Political Economy*, and also his *Interest and Prices*.

the time preference theory though Fisher in his book, *Theory of Interest*, attaches importance to the investment opportunity principle.

The Monetary Theory of Interest.

The theories of interest which we have examined in the previous pages can conveniently be labelled under the general heading of pure theories of interest, or non-monetary theories of interest Now we shall proceed to examine the theories of interest which have recently come into prominence and can be conveniently styled as the monetary theories of interest. These theories regard interest as essentially a monetary problem. These theories are less concerned with the cause of the existence of interest and more with the determination of the rate of interest. A pertinent observation may be made at this stage (the implication of which we shall examine later on when discussing Islam's contribution to the theories of Interest)—that if one is not clear about the causes of existence of interest, how one can jump to explain the rate of interest.

The monetary theories regard the rate of interest as essentially a money rate and hence its determination purely a monetary phenomenon. The monetary approach to the theories of interest has produced two rival theories. One is the Loanable Fund theory and the other is the 'Cash Balance' or 'Liquidity Preference' theory. The difference of opinion between these two theories rests on this: "Is the rate of interest determined by the supply of and demand for Loanable funds (or credit or claims), or is it determined by the supply and demand for money itself ?"[29] The former view is held by Professors Bertil Ohiln, Robertson, Hicks, and many others. The latter view is held by Lord Keynes and his followers.

The Loanable Fund theory of interest is the first step in the transition from the classical to the modern theory. They base their theory of interest on a thorough analysis of the concept of saving and investment. The main difference between this school and Keynes' school is that Lord Keynes believes that saving and investment are always equal. But this school disagrees with that view. According to the Swedish school there is no justification in assuming that planned saving and planned investment should be equal. According to this school, the rate of interest is simply the price of credit, and it is, therefore, governed by the supply of and demand for capital.

The Loanable Fund theory is stated precisely by Mr. Lerner in the following words: "The rate of interest is the price that equates the supply of credit, or savings plus net increases in the amount of money in a period to the demand of credit, or investment plus the net hoarding in the period."[30]

This school believes that normally the amount

[29] Bertil Ohiln, Some Notes on the Stockholm Theory of Savings and Investment, *Economic Journal*, 1937.

[30] Lerner, A. P., Alternative Formulations of the Theory of Interest. *Economic Journal*, 1938.

saved from the current income is largely insensitive to the changes in the rate of interest, at least in the short period.

The supply of Loanable Fund not only comes from individual savings but also from Amortisation quotas and inflation of these latter two savings have nothing to do with individual efforts.

The fundamental difference between the Loanable Fund theory and the theory expounded by Lord Keynes is that the latter believes that irrespective of any rate of interest savings or investments are always equal. The contribution which Lord Keynes made lies in the fact that it is not the rate of interest but the level of income which ensues the equality between savings and investments. According to Lord Keynes, interest is simply the premium obtainable on current cash over deferred cash. It is not the price or reward for saving or not spending, but it is the payment for lending money. It is the reward for 'not hoarding' or the reward for parting with 'liquidity' for a specified period. It is a measure of the unwillingness of those who possess money, to part with their liquid control over it. It is a price which equilibrates the desire to hoard wealth in the form of cash with available quantity of cash. In other words, it is a reward both for not spending and for not hoarding. But, as we have already pointed out, there can hardly be any justification for the payment of interest when we realise that a very large part of saving in every civilised country is not the result of individual saving, but savings are created by banks and other such financial institutions. The only reason for the payment of interest which one finds from these monetary theories of interest seems to be that the cause for the payment of the interest is the opportunity for making a gain, with the use of money borrowed.

In this explanation of the rate of interest, Lord Keynes lays stress on two factors :

1. Liquidity preference.
2. Quantity of money.

Liquidity preference as defined by Lord Keynes is nothing but the demand for money. According to him the rate of interest is determined by the interplay of the terms on which the public desire to become more or less liquid and those on which the banking system is ready to become more or less illiquid.

Lord Keynes mentions three motives for Liquidity Preference :[31]

1. The **Transaction** motive. Some cash is always necessary for personal and business transaction.

2. The **Precaution** motive. Some cash is needed to provide contingencies requiring sudden expenditure and for unforeseen opportunities of advantageous purchases, and also to hold an asset of which the value is fixed in terms of money.

3. The **Speculative** motive. Lord Keynes attaches great importance to this motive because,

[31] Keynes, *op. cit.*

according to him, this is by far the most important motive for Liquidity Preference. The reason for this motive is the existence of a special kind of uncertainty—uncertainty regarding the future course of rates of interest which, according to him, is the only intelligible explanation of this type of liquidity preference.

It is on account of this element of uncertainty that speculators desire cash hoarding with the object of securing profit from knowing better than the market what the future will bring forth, and thus avoiding capital loss. Lord Keynes also attaches importance to Liquidity Preference as determinant of the volume of investment and employment. The schedule of liquidity preference might often negate the efforts of the monetary authority to increase the rate of investment. Thus, an increase in the quantity of money may not cause the rate of interest to fall, (and thus stimulate investment) for it may so happen that the increase in the quantity of money might create a high degree of uncertainty about the future and thus strengthen the liquidity preference of the investing public.

Conversely, the desire for less liquidity preference, may generate recovery. Certainty and optimism, regarding the future by lowering liquidity preference may encourage investment, especially long-term investments.

The whole concept of liquidity preference seems a psychological phenomenon in which speculation seems to play prominent part. To sum up we may conclude that the quantity of cash and the state of long-term expectation occupy a central place in Lord Keynes' theory. He also recognises the handicaps of the monetary authorities to effectively control the rate of interest. According to him the rate of interest rises owing to the increase in the liquidity preference of the *entrepreneur* but he admits that the rate of interest does not necessarily rise; it only rises when the monetary authorities do not respond quickly to the increased demand for credit. If the monetary authority is very responsive, there will be no rise in the rate of interest. Lord Keynes also recognises that the rate of interest always rises owing to the anticipated marginal productivity or what he calls "the marginal efficiency of capital."

Lord Keynes admits that there is a limit to the fall of the rate of interest and it is not likely to reach the zero level. His explanation is that the rate of interest is a *highly conventional* phenomenon because it depends upon what the community thinks to be the safe rate. But we may ask what is the safe rate?

The liquidity preference concept leads us to the conclusion that the low rate of interest and increase of investment go together. A low rate of interest is at least one of the factors, if not the only factor in stimulating enterprise.

May we not then conclude that if there was no interest there would have been further stimulus to enterprise for a good number of useful enterprises that are at present not undertaken owing to the tyranny of interest rates. Since Lord Keynes is one of the most outstanding economists of the day, we shall give in some detail his general views on interest as expounded by him in his classic work, *The General Theory of Employment, Interest and Money*.

KEYNES ON INTEREST

In a rich community the opportunities for further investments are less attractive unless the rate of interest falls at a sufficiently rapid rate. Keynes very strongly refutes the Marshallian doctrine that an increase in the rate of interest encourages savings. He remarks that even if it is the case that a rise in the rate of interest would cause the community to save more out of a given income we can be quite sure that a rise in the rate of interest (assuming no favourable change in the demand-schedule for investment) will decrease the actual aggregate of savings. The same line of argument can even tell us by how much a rise in the rate of interest will, *cet. par.*, decrease incomes. For incomes will have to fall (or be redistributed) by just that amount which is required, with the existing propensity to consume, to decrease savings by the same amount by which the rise in the rate of interest will, with the existing marginal efficiency of capital, decrease investment.

The rise in the rate of interest might induce us to save more, if our incomes were unchanged. But if the higher rate of interest retards investment, our incomes will not, and cannot, be unchanged. They must necessarily fall, until the declining capacity to save has sufficiently offset the stimulus to save given by the higher rate of interest. The more virtuous we are, the more determinedly thrifty, the more obstinately orthodox in our national and personal finance, the more our incomes will have to fall when interest rises relatively to the marginal efficiency of capital. Obstinacy can bring only a penalty and no reward.

This conclusion of Keynes is further considered by another prominent economist Professor Cassel who in his *Nature and Necessity of Interest* observes that it is not certain that the sum saved out of a given income necessarily increases when the rate of interest is increased, whereas no one doubts that the investment demand-schedule falls with a rising rate of interest.

After a long discussion Keynes comes to the conclusion that "the rate of interest is a highly psychological phenomenon. But soon after a page he changes his opinion and remarks that it might perhaps be more accurate to say that the rate of interest is a highly conventional rather than a highly psychological phenomenon, because its actual value is largely governed by the prevalent view as to what its value is expected to be." He further remarks: "Any level of interest which is accepted with sufficient conviction as likely to be desirable, will be durable, subject, of course, in a changing society, to fluctuations for all kinds of reasons round the expected normal."

The greatest service of Islam was that it fundamentally changed the psychological outlook on interest and reduced the expected normal to zero, and convinced its followers that the zero rate was the normal rate.

Keynes also refutes the old Marshallian doctrine that an increase in savings is essential for the promotion of business activity. He remarks, " An individual decision to some does not, in actual fact, involve the placing of any specific forward order for consumption, but merely the cancellation of a present order. Thus, since the expectation of consumption is the only *raison d'etre* of employment, there should be nothing paradoxical in the conclusion that a diminished capacity to consume has *cet. par.* a depressing effect on employment."

In the middle of his book writing under the heading "Observations on Nature of Capital," Keynes comes very close to the Islamic approach by admitting that the rate of interest in a properly run society may be zero and at the same time admits that people can earn money by enterprise. His following remarks may be read with significant interest :

"A properly run community equipped with modern technical resources, of which the population is not increasing rapidly, *ought to be able to bring down the marginal efficiency of capital in equilibrium approximately to zero within a single generation,* so that we should attain the conditions of a quasi-stationary community where change and progress would result only from changes in technique, taste, population and institutions, with the products of capital selling at a price proportioned to the labour, etc., embodied in them on just the same principles as govern the prices of consumption-goods in which capital-chargers enter in an insignificant degree."

"If I am right in supposing it to be comparatively easy to make capital-goods so abundant that the marginal efficiency of capital is zero, this may be the most sensible way of gradually getting rid of many of the objectionable features of capitalism. For a little reflection will show what enormous social changes would result from a gradual disappearance of a rate of return on accumulated wealth. A man would still be free to accumulate his earned income with a view to spending it at a later date. But his accumulation would not grow. He would simply be in the position of Pope's father, who, when he retired from business, carried a chest of guineas with him to his villa at Twickenham and met his household expenses from it as required."

"Though the rentier would disappear, there would still be room, nevertheless, for enterprise and skill in the estimation of prospective yields about which opinions could differ. For the above relates primarily to the pure rate of interest apart from any allowance for risk and the like, and not to the gross yield of assets including the return in respect of risk. Thus unless the pure rate of interest were to be held at a negative figure, there would still be a positive yield to skilled investment in individual assets having a doubtful prospective yield. Provided there was some measurable unwillingness to undertake risk, there would also be a positive net yield from the aggregate of such assets over a period of time. But it is not unlikely that, in such circumstances, the eagerness to obtain a yield from doubtful investments might be such that they would show in the aggregate a negative net yield."[32]

Keynes believes that one of the main causes of the world's poverty of resources is the high premium attached to money.

That the world after several millennia of steady individual saving, is so poor as it is in accumulated capital-assets, is to be explained, in his opinion, neither by the improvident propensities of mankind, nor even by the destruction of war, but by the high liquidity-premiums formerly attaching to the ownership of land and now attaching to money. He differs in this from the older view as expressed by Marshall with an unusual dogmatic force. Marshall remarks, "Every one is aware that the accumulation of wealth is held in check, and the rate of interest so far sustained, by the preference which the great mass of humanity have for present over deferred gratifications, or, in other words, by their unwillingness to wait."[33]

Islam has made profound contribution in this connection by founding the institution of Zakat and making it an essential tenet of faith. In a very simple analysis in one way we can say that Zakat is

[32] Keynes, *General Theory*, op. cit., page 221.
[33] Marshall, *Principles of Economics*, 8th Edition, page 581.

a $2\frac{1}{2}$ per cent tax which weighs most heavily on idle resources and it compels the owner to invest it and to serve the better ends of society. Many countries have suffered owing to the excessive greed for hoarding money. The economic history of Spain in the later part of the fifteenth and in the sixteenth century provides an example of a country whose foreign trade was destroyed by the effect on the wage-unit of an excessive abundance of precious metals. Great Britain in the years preceding the last Great War provides an example of a country in which excessive facilities for foreign lending and the purchase of properties abroad frequently stood in the way of the decline in the domestic rate of interest which was required to ensure full employment at home The history of India, at all times, has provided an example of a country impoverished by a preference for liquidity amounting to so strong a passion that even an enormous and chronic influx of the precious metals has been insufficient to bring down the rate of interest to a level which was compatible with the growth of real wealth.

The rate of interest far from providing ample capital as is popularly believed acts as a hindrance in the way of the better development of the world. The following observations of Keynes in this respect are very significant indeed. He argues that the growth of real capital is held back by the money-rate of interest, and that if this brake were removed the growth of real capital would be, in the modern world, so rapid that *a zero money-rate of interest* *would probably be justified, not indeed forthwith, but within a comparatively short period of time.* Thus the prime necessity is to reduce the money-rate of interest, and this, he points out, can be effected by causing money to incur carrying-costs just like other stocks of barren goods.

Islam, as I have already mentioned, imposes a carrying-cost of 2½ per cent in the form of Zakat on such stocks. It thus checks the tendency to hoard idle cash resources and provides a powerful stimulus for investing these idle stocks. This stimulus gets further momentum from the fact that Islam allows profits and sleeping partnerships, in which profit as well as loss is shared.

Savings and Interest

The classical school of economists has very much emphasised the importance of savings in modern community. And they have advocated that the only way to increase savings is to increase the rate of interest. A low rate of interest, it was asserted, would retard the progress of savings. It was mainly on this account that it was said that the Islamic system which prohibits the charging of interest is not a workable proposition in a modern community, because the prohibition of interest will seriously check the rate of saving and thus make the community poorer and poorer in capital goods.

The fallacy that a low rate of interest discourages savings has been thoroughly exposed by the experiences of the last war when the U.S.A. was able to save much more at one per cent than it ever could during higher rates of interest. The modern economic theory has shown that savings are not determined by the rate of interest but on the contrary they are determined by the rate of investment. The most commendable and praiseworthy feature of the Islamic Theory is that by abolishing interest it encourages investment to the furthermost possible limit and thus provides adequate safeguard for the accumulation of savings which are the result of investment. In this connection the observation of Keynes are again very interesting for he fully corroborates and conforms to the view put forth by Islam some thirteen centuries ago.

Keynes exposes the fallacy that increase in savings leads to an increase in investment. An individual by increasing his own saving, reduces the savings of others, so he does not add to the rate of the savings of the community, and therefore does not add to the demand for securities. The individual saver has no direct influence on the rate of investment, whether he buys securities or not. He may buy securities or add to his hoarding of money, whichever he prefers but since other people are saving less, because he is saving more, they are buying less securities parting with money, they formerly held. The question of how wealth is held, whether in money or securities, has only the slightest connection with the interaction of investment and saving. As fast as one man increases his saving by reducing his spending, other men's incomes fall off and they save less as much as he saves more.

To sum up, when investment increases incomes rise to the point at which savings increase equally, but if the desire to save increases, incomes fall off so much that on balance saving is no greater than before. It is through changes in income that the equality of savings and investment is preserved. Thus the level of income is determined by the rate of investment and the desire to save; given the desire to save, the level of income that will rule is governed by the rate of investment. And given the rate of investment the level of income is determined by the desire to save.

A change in the desire to save is powerless to alter the actual amount of saving done by the community as a whole, for the actual rate of saving is determined by the rate of investment which is being undertaken. The rate of investment determines the rate of saving, and given the rate of investment, the desire to save determines the level of income. The level of income is always such as to equate the rate of saving to the rate of investment. An increase in thriftiness does not by itself cause an increase in capital accumulation.

The analysis of the Western theories of interest shows the wide differences amongst the economists even as to the simple question: why is interest paid? The latest theory about interest is that of Lord Keynes, and we have quoted him extensively to show that interest is only a conventional phenomenon and the high rate of interest is a great obstacle in the way of world prosperity and progress. It is strange to observe that even a profound thinker like Lord Keynes and others become the slaves of their circumstances and cannot see beyond their nose. When Keynes wrote his book the rate of interest in England was three per cent. So Keynes regards three per cent as a reasonable rate of interest. Now the Government of Hyderabad is able to raise loans at 2½ per cent, and in the U.S.A. the rate of long-term Government loans is only one per cent per annum.

Keynes finally admits that a properly run community may be able to bring down the rate of interest to zero. We have already remarked that the U.S.A. during the war was able to borrow at one per cent. Is it not likely that this nominal rate may even be further reduced? It seems to us that Keynes being the victim of his environment does not take enough courage in his hands to condemn outright the charging of interest, to which conclusion his theory naturally leads him. There is no escape from the conclusion that fixed rates of interest are highly detrimental to world progress.

In this chapter we have described the theories of interest of the leading Western economists and have shown their defects. We shall fully explain the Islamic theory of Interest and shall endeavour to show the superiority of the Islamic Theory of Interest in the next chapter.

CHAPTER II

THE ISLAMIC THEORY OF INTEREST

The Holy Qur'ān has laid down rather strict injunctions with regard to interest on money. These injunctions are repeated over and over with the same force and emphasis. Let us now see what are those injunctions of the Holy Qur'ān[1] on this point :

الذين يا كلون الربوا لا يقومون الا كما يقوم الذى
يتخبطه الشيطن من المس : ذلك بانهم قالوا انما البيع
مثل الربوا و احل الله البيع و حرم الربوا ۔ فمن جاءه
موعظة من ربه فانتهى فله ما سلف و امره الى الله ۔
و من عاد فاولئك اصحب النار هم فيها خالدون ۔
يمحق الله الربوا و يربى الصدقت ۔ و الله لا يحب كل
كفار اثيم ۔

"Those who swallow usury cannot rise up save as he ariseth whom the devil hath prostrated by (his) touch. That is because they say : Trade is just like usury ; whereas Allāh permitteth trading and forbid-

[1] In this part of the book, the edition of the Holy Qur'ān used is the late M. Pickthall's, *The Meaning of the Glorious Koran*, London, 1930.

deth usury. He unto whom an admonition from his Lord cometh, and (he) refraineth (in obedience thereto), he shall keep (the profits of) that which is past, and his affair (henceforth) is with Allāh. As for him who returneth (to usury)—such are rightful owners of the Fire. They will abide therein.

"Allāh hath blighted usury and made almsgiving fruitful. Allāh loveth not the impious and guilty." [2]

Later, the Holy Qur'ān has warned the swallowers of usury with such a force and rigour that it is not to be found in the case of other sins and faults. The words of the Holy Qur'ān in this connection are characteristic :

يـا ايها الذين آمنوا اتقوا الله و ذروا ما بقي من
الربوا ان كنتم مومنين ـ فان لم تفعلوا فاذنوا بحرب
من الله و رسوله و ان تبتم فلكم رؤس اموالكم لا
تظلمون و لا تظلمون ـ و ان كان ذو عسرة فنظرة
الى ميسرة ـ و أن تصدقوا خير لكم ان كنتم تعلمون ـ

"O ye who believe! Observe your duty to Allāh and give up what remaineth (due to you) from usury, if you are (in truth) believers.

"And if ye do not, then be warned of war (against you) from Allāh and His messenger. And if ye repent, then ye have your principal (without interest). Wrong not, and ye shall not be wronged.

" And if the debtor is in straitened circumstances, then (let there be) postponement to (the time of) ease; and that ye remit the debt as almsgiving would

[2] Qur'ān, ii. 275-276.

be better for you if ye did but know." [3]

Before the advent of Islam it was customary in Arabia to charge compound interest on all debts. The Holy Qur'ān prohibited this practice in clear and unequivocal terms. For instance:

يا ايها الذين آمنوا لا تا كلوا الربوٰا اضعافاً مضٰعفة واتقوا الله لعلكم تفلحون ـ

"O ye who believe! Devour not usury, doubling and quadrupling (the sum lent): Observe your duty to Allāh, that ye may be successful." [4]

It has been clearly pointed out above that such transactions will not elevate their financial condition, but will lead them to the same state to which the Jews were led:

فبظلم من الذين هادوا حرمنا عليهم طيبات احلت لهم و بصدهم عن سبيل الله كثيرا و اخذهم الربوٰا و قد نهوا عنه و اكلهم اموال الناس بالباطل ـ و اعتدنا للكٰفرين منهم عذابا اليما ـ

"Because of the wrong-doing of the Jews We forbade them good things which were (before) made lawful unto them, and because of their much hindering from Allāh's way.

"And of their taking usury, when they were forbidden it, and of their devouring people's wealth by false pretences. We have prepared for those who disbelieve a painful doom." [5]

[3] *Qur'ān* ii. 278-280.
[4] *Ibid.*, iii. 130.
[5] *Ibid.*, iv. 160-161.

And again:

"و ما اٰتیتم من ربا لیربوا فی اموال الناس فلا یربوا عند الله ـ و ما اٰتیتم من زکوٰة تریدون وجه الله فاولئك هم المضعفون"۔

"That which ye give in usury in order that it may increase on (other) people's property hath no increase with Allāh: but that which ye give in charity, seeking Allāh's countenance, hath increase manifold."[6]

Besides the Holy Qur'ān, a number of reliable Traditions also exhibit strong prohibitive orders against usury. For instance:

عن جابر رضی الله عنه قال لعن رسول الله صلی الله علیه وسلم اٰکل الربوٰا و موکله و کاتبه و شاهدیه و قال هم سواءٌ ـ (مسلم)

(It has come down) from Jabir, may God the Almighty be pleased with him, who said: The Messenger of Allāh, on whom be peace, cursed the devourer of usury as also its giver, the scribe of the deed and the witnesses to it, and said: They are alike (in the degree of sin). (*Muslim.*)

عن عبدالله رضی الله عنه بن حنظلة، غسیل الملئکة، قال قال رسول الله صلی الله علیه وسلم درهم رباً یاکله الرجل، و هو یعلم، اشد من ستة و ثلاثین زنیة، و روی البیهقی فی شعب الایمان عن ابن عباس رضی الله عنه و زاد و قال من نبت لحمه من السحت فالنار اولی به ـ (احمد ـ دار قطنی)

[6] *Qur'ān*, xxx. 39.

(It has come down) from 'Abdu'lāh b. Ḥanzalah, who was (on his death) washed by the angels, who said that the Messenger of Allāh, on whom be peace, said : A dirham, which one consciously devours, is thirty-six times worse than fornication. Baihaqī has narrated the same Tradition in his Shu'bu'l-Īmān from Ibn 'Abbās, but has added this much that the Prophet said : One whose flesh fattened on account of an unlawful thing, he is the most fitted for the Fire.

(*Ahmad-Daruqatni.*)

عن ابی ہریرۃ رضی اللہ عنہ قال قال رسول اللہ صلی اللہ علیہ وسلم اتیت لیلۃ اسری بی علی قوم بطونہم کالبیوت فیہا الحیات تری من خارج بطونہم۔ فقلت: من ہؤلاء؟ قال جبرئیل: ہؤلاء أکلۃ الربوا۔

(احمد ۔ ابن ماجہ)

(It has come down) from Abū Huraira, may Allāh be pleased with him, that the Prophet said : On the night of Elevation, I passed by a people whose stomachs resembled houses full of snakes from which snakes could be seen coming out. I enquired who they were? Jibra'īl said : These are devourers of usury. (*Ahmad Ibn Māja.*)

It must have been noted that the word for usury used in the Holy Qur'ān is الربوا. It is therefore necessary that we should try to explain at length the connotation and the significance of this word.

The word الربوا means الزیادہ علی شیئ 'increase in anything', that is 'addition'. For instance اربی فلان علی فلان 'such and such a person gave such and such a thing in addition'. In its technical sense, the Arabs used it to denote the 'additional amount' which a debtor paid to his creditor in consideration of the time he was given to use the creditor's money. This is what we call interest. At the time when the Holy Qur'an was revealed the following were the types of interest-transactions, which the Arabs named as "ربوا":

(*a*) A person sells a certain thing to another person, agreeing to receive the sale money at a certain fixed time. If the purchaser could not pay the purchase money within the prescribed time, another 'easing-time' was allowed to him with the addition that he agreed to pay an increased amount.

(*b*) A person lends another a certain amount for a fixed period on condition that after the expiry of that period the borrower would pay the اصل (principal) with a fixed sum as ربوا (additional).

(*c*) The creditor and the debtor agree on a fixed rate of ربوا for a certain fixed time. If within that time the debtor failed to repay his loan with the agreed amount in addition to it, he would then be required to pay at an increased rate of ربوا for the additional 'easing-time'.

The word ربوا has been used in the above sense in the Holy Qur'ān—

(الف) و ترى الارض هامدة - فاذا انزلنا عليهم الماء اهتزت وربت و انبتت من كل زوج بهيج -

"And thou (Muḥammad) seest the earth barren, but when We send down water thereon, it doth thrill and swell and put forth every lovely kind (of growth) "[7]

(ب) ومن آياته انك ترى الارض خاشعة فاذا انزلنا عليها الماء اهتزت و ربت -

"And of His portents (is this) : that thou seest the earth lowly, but when We send down water thereon it thrilleth and groweth". [8]

(ج) .... ان تكون امة هى اربى من امة -

". . . because of a nation being more numerous than (another) nation . . . " [9]

The word *Ribā* is written in Arabic in the same manner as صلواة or زكواة.

Imam Fakhru'd-Din Razi's Views on Interest

All the jurists and most of the expounders of the Qur'ānic Exegesis, like Ṭabari, Zamakhsharī, Suyūṭi, Baiḍāwī and Ibnu'l-Arabi, have discussed the problem of 'interest' from the legal point of

[7] Qur'an, xxii. 5. [8] *Ibid.*, xli. 39. [9] *Ibid.*, xvi. 92.

view alone. None of these seems to have tackled it from the economic point of view. Imam Rāzī is the first person who has shed light on this problem from the economic point of view. We give below the substance of his views on this point from his great work the *Tafsīr Kabīr*.[10]

(1) According to Imam Rāzī the word *Ribā* means and indicates 'increase or addition'. But it does not mean that every kind of increase is unlawful. What is, however, illegalised is that particular contract which the Arabs called '*Ribā*'. This is exactly what they named *Ribā Nasī'a* (ربوا نسيئة). What, therefore, has been declared illegal or unlawful in the Holy Qur'ān is the same *Ribā Nasī'a*.[11]

(2) Another reason for the unlawfulness of Ribā is that such transaction necessitates the exacting of another's wealth without legal consideration or return. One who extorts this does so without consideration. This amounts to exploitation and reduces the debtor to poverty which is a colossal inequity. The Prophet (on him be peace) has said that a man's wealth is as unlawful to another as his blood. And it is on account of this that extortion of wealth without lawful consideration is illegalised. If it is argued that in so far as the debtor keeps in his possession and uses the creditor's (principal) amount for a stated time in return or as a compensation for using the said

[10] The full name of Rāzī's work is *Mafātīhu'l-Ghaib*, which is commonly known as "تفسیر کبیر".

[11] *Tafsīr Kabīr* (ed. Cairo), Vol. II, p. 58.

amount for the stated time, there appears to be no obvious reason for illegalising this 'additional money', for had the principal amount, which the creditor hands over to or allows the use of it to the debtor, been in his own possession, he (the creditor) might with advantage invest it in some business from which certain profit would naturally accrue to him. But as he (the creditor) hasb een restrained from investing this (principal) money on account of his having parted with it to the debtor, he cannot derive from it that profit which would otherwise accrue to him through business. If, therefore, the debtor pays him 'something additional' by way of a 'return' for the use of the creditor's loan to him, it should be quite lawful for the creditor to receive it. Against this view, it might be pointed out that if the creditor, instead of loaning out his principal to his debtor, were to invest it in some business, it is not always necessary that he would derive profit from it. On the other hand, it is quite possible that he might suffer a loss thereby. Thus the creditor's deriving a 'profit' from every investment in business is uncertain, whereas this 'additional amount' from the debtor to the creditor is certain.

(3) Another reason advanced for the illegality of 'interest' is the fact that income by way of 'interest' prevents the receiver (creditor), from indulging in any occupation or profession, for the creditor would certainly find it easy to acquire his

livelihood (اكتساب المعيشة) from interest on cash or deferred loans. He would, thus, loathe engaging himself in some business or occupation which entails labour or hardship. This would give a set-back to public utility, in so far as it is an accepted fact that worldly affairs cannot progress satisfactorily without trade, arts and crafts.

(4) Another reason for the illegalisation of interest is that 'debt' cuts at the very root of one's honour and respect in society. If interest is declared illegal, people would naturally abstain from borrowing and squandering money. On the other hand if it be made lawful, people, with a view to gratifying their growing needs, would not hesitate in borrowing at any rate. This would bring to an end mutual sympathy, human goodliness and obligation.

(5) Another reason for illegalising all transactions for interest appears to be this that in all probability the debtor might become rich, while the creditor, poor. If, therefore, Ribā transactions are declared lawful the rich will seek poor people's money more and more.

(6) The final reason is that the Holy Qur'an which is the highest authority on Islamic Law, lays down clear and unambiguous orders against all Ribā transactions. It is not necessary, therefore, that reasons must be advanced for orders enjoined in it, and since Ribā transactions have been declared illegal by the Holy Qur'an, it is quite probable

that we may not be able to know the reasons which necessitated this order.

Imam Rāzī then tries to explain the Qur'ānic verse referring to Ribā which contains the phrase "مس الشيطان", and in so doing he enters into a very interesting discussion about the 'Devil's ability or power' to harm human beings. In his conclusion he points out that Arabs of the pagan days used to attribute 'Epilepsy' as having been caused by the Devil's touch. When, therefore, they were addressed in the Holy Qur'ān it was abundantly necessary to employ and refer to such ideas which were commonly entertained by them.

DIFFERENCE BETWEEN TRADE AND USURY

انما البيع مثل الربوا

" Trade is of course like usury. "[12]

Pagan Arabs placed *Ribā* and *Interest* on equal footing. Their arguments were like this: That, if a person, who purchases cloth for Rs. 10 were to sell it for Rs. 11 it was lawful; similarly if one were to exchange Rs. 10 for Rs. 11, there appears to be no reason why that should be unlawful, in so far as reason cannot detect any difference between the above-mentioned *two* transactions. This is exactly what happens

[12] " بیع " or trade is defined thus in works of jurisprudence: "To exchange willingly one's goods or commodity with another's". See *Hidāya*—Kitabu'l-Būyū'.

in cash usury, although in *Ribā Nasī'a* the same principle seems to be involved. If one were to sell cloth purchased for Rs. 10 for Rs. 11 after one year, it would be quite lawful; similarly if one were to give Rupees eleven after one year for Rupees ten received just now, there would hardly be any difference between these two transactions. Furthermore, any commercial transaction can be lawful only if mutual agreement is reached at; if, therefore, mutual agreement is reached between two parties to a Ribā transaction, it should also be lawful, for trade and commerce are essential for satisfying human needs, and it is quite probable that when needs arise human beings might be found without the necessary means to supply them, but may later come in possession of these means. If, therefore, the creditor were to get nothing for the sum loaned out, there is no reason why he should part with his cash money to the debtor, who would thus be unable to satisfy his needs. If, on the other hand, interest is allowed, the creditor in view of the 'interest' he would get on the principal, would naturally like to advance to him the needed amount, while the debtor would be only too glad to return the creditor's dues along with the interest when he comes into possession of more money, for after acquiring more money it will be easier for the debtor to discharge his debt, rather than suffer from the calamity of poverty and needs. This is sufficient reason for regarding

Ribā transactions to be lawful like all other transactions.

This was a great fallacy on their part. The Holy Qur'ān has removed this fallacy by one verse wherein it lays down that trade is lawful while Ribā is unlawful. This verse is so clear that one cannot entertain any ideas of analogy, which is the work of devil. When God ordered the Devil to prostrate before Adam in clear and unambiguous words, the Devil utilized analogy, saying : 'I am better than Adam as I am created from Fire, while he is created from the dust.' If analogy were permissible in matters of religion, it would also become permissible in the matter of interest (Ribā). We must, therefore, always remember that in the matter of religion clear and unambiguous expression plays a much more decisive part than mere analogy or reasoning.

Qifāl (on him be Allāh's favour) has also tried to distinguish between 'trade and interest.' He says, 'One who sells cloth worth Rs. 10 for Rs. 20 does so believing that it is equivalent to thatsu m. When mutual agreement has been arrived at, the exchange value becomes equal, with the result that the parties to the transaction really benefit. But if a person were to acquire Rs. 20 for Rs. 10, the additional rupees ten do not represent any real benefit. It will not be then admissible for him to say that he obtained the additional sum in exchange for the extension of time, inasmuch as 'time' is neither a commodity of exchange nor any such thing which could be pointed out, much less any exchangeable wealth. In short, from the above explanation the distinguishing features of 'trade and interest' will be evidently clear.

Coming to the consideration of '*Ṣadaqāt* and *Interest*', Imām Rāzī points out that one is the antithesis of the other, for while in *Ṣadaqāt* a person gives out (in charity) the additional part of his wealth to another, in interest he acquires for himself the additional part of another's wealth. How will, then, that religion which has enjoined *Ṣadaqāt* upon its followers, make interest lawful for them? After this Imām Rāzī goes on to say that outwardly it appears that interest adds to the wealth of the creditor, and *Ṣadaqāt* reduces the giver's wealth, but really speaking the case is reverse, for ultimately *Ṣadaqāt* add to man's wealth, while the ultimate end of devourers of usury is poverty.

He who charges and receives interest notwithstanding its clear prohibition in Islamic law, does so at his own risk, for that blessedness which is a characteristic of Muslim wealth disappears from his wealth. Said the Prophet: "The more the interest the lesser does the wealth become."

Another reason for this is that although the wealth of the usurer might not appear to lessen, he is nevertheless held in bad repute and disgrace, he is reduced to a state wherein he loses all sense of justice and respect, he becomes, in deed, malicious and hard-hearted.

The third reason appears to be that when the poor people observe that the usurer has been devouring their wealth through interest, they wish evil of him and curse him. All these causes conjoin in depriving him of his wealth and of that blessing to which we have referred above.

The fourth reason appears to be that when people come to know that a particular person has amassed great wealth through usury the greedy and the needy concentrate their evil attention upon him, with the result that every tyrant, thief or an undesirable person watches for an opportunity to deprive the usurer of his wealth, which does not, according to them, lawfully belong to him. These people think that as he is *not* the real owner of the amassed wealth there is no reason why it should be left with him.

We must realise that the worldly wealth ceases for him when a person dies, but sins and ignomy remain for ever attached to his name.

Prohibition of Compound Interest.

لا تاكلوا الربوا اضعافا مضاعفة ....

"Devour not interest doubling and quadrupling."

Qifāl remarks that it is quite probable that the above verse is connected with the previous ones, for the unbelievers used to spend the amounts collected by usury on their army. It was, therefore, possible that Musalmans also might be induced to imitate them and spend the so-collected sums on their army, with a view to avenging themselves. Allāh has, therefore, prevented them from such acts.

لا تظلمون ولا تظلمون

"Neither would the debtor be tyrannised by being compelled to pay anything in addition to the principal, nor the creditor suffer a loss in his principal."

Before we actually try to elucidate the Qur'ānic commands with regard to interest, it would be better to throw some light on the types of interest-transactions of the Arabs before the advent of Islam. With this background it would be easy to grasp the Qur'ānic prohibition with regard to interest.

Types of Interest-transactions in Pagan Arabia.

(1) Interest-transaction in Tā'if,
(2) Mecca, and
(3) Medina.

TĀ'IF

Banū *Thaqīf* used to advance loans to Banū Mughīra. At the time of payment the debtors, Banū Mughīra, communicated their willingness to pay 'an additional sum' if some 'extension' was granted to them.[13]

[13] *Jāmi'u'l-Bayān* (Tafsīr-Tabari), iv. 55 (Cairo edition). This work is considered to be the highest authority on this point.

"In Pagan times the Banū Thaqīf used to advance loans to another person for a fixed period. At the expiry of the fixed time the creditor demanded from the debtor either his principal or an additional sum for the extension. The debtor either repaid his debt if he had money with him, or requested an extension in the period of repayment, with the result that if one year old she-camel was due, at the expiry of the extended period, he would be required to give a two-year old she-camel; and at the second extension, he would return a she-camel which has passed her third year but was not four-year old. If this were impossible, for the third year the creditor demanded a camel which had passed its fourth, but was within its fifth year. And so on and so forth."

"The same thing prevailed in transactions of gold or silver. The debtor, on his failure to repay his debt after one year, was bound to pay *double* the principal loaned out. For instance, if a sum of Rs. 100 (one hundred) were borrowed, in the second year the creditor demanded Rupees two hundred, in the third year Rupees four hundred, and so on, until the debtor discharged his complete debt."[14]

There was a family of the Banū Thaqīf in Tā'if comprising four brothers named Mas'ūd, 'Abd, Lail and Habīb b. 'Amr b. 'Umar Ath-Thaqafī, who used to advance loans on interest to a particular branch of the Banū Mughīra, who were residing at Mecca. When the Prophet (on him be peace) reached Tā'if, these four brothers embraced Islam. They afterwards demanded their

[14] *Jāmi'u'l-Bayān* (Tafsīr-Tabarī), iv. 55 (Cairo edition). This work is considered to be the highest authority on this point.

outstanding dues from their debtors, the Banū Mughīra. he Tlatter refused to make the payment on the ground that Islam had abolished receiving interest on loans. A quarrel, therefore, naturally ensued between them. They referred their dispute to the arbitration of 'Attāb' b. Usayd, who was the Governor of Mecca on behalf of the Prophet. 'Attāb b. Usayd reduced the contentions of the two parties into writing and referred it for opinion and decision to the Prophet. The sum due by way of interest was, indeed, very large. It was at that time that the following verse was revealed to the Prophet :

و ذروا ما بقى من الربوٰا ـ

"Give up what remaineth of the usury."[15]

The Pact which had been made between the Prophet on the one hand and the people of Ta'if on the other, also contained a reference to the Prohibition of 'interest'. Abū 'Ubaid Qāsim b. Salam (d. A.H. 229) has reproduced the full text of the above-mentioned Pact in his work *Kitābu'l Amwāl*. The words which refer to the prohibition of interest in the above document are :

و ما كان لهم فى الناس من دين فليس عليهم الا رأسه

"The sums due to them from people—the Banū Thaqīf will get out of those only the principal (sums) advanced."[16]

[15] Khāzin, *Tafsīr*, i. 230 ; Tabarī, *op. cit.*, iii. 66.
[16] Abū 'Ubaid b. Salām, *op. cit.*, p. 132 (sentence 506).

MECCA

The citizens of Mecca also had an enormous business by way of interest-transactions. With the conquest of Mecca,[17] however, when most of its citizens embraced Islam they were enjoined to take only their original principals advanced and to give up those sums which had accumulated by way of interest.

The Prophet's uncles 'Abbās and Khālid b. Walīd, the greatest general and warrior that Islam has produced, used to participate in interest-transactions. They used to have such dealings with Banū 'Amr, who belonged to the Thaqīf clan of Tā'if. At the advent of Islam a huge amount had been due to them from their debtors by way of interest.[18]

'Uthmān b. 'Affān, the third Khalīfā, and the Prophet's uncle 'Abbās b. Muṭṭalib, both had been known for their profession of dealings in dates. At the time of plucking the fruit, the cultivator would submit that if they (the creditors) took half the produce leaving the other half to him and his family, he (the debtor) would give double the quantity next year, to which request both of them would willingly agree. In the following year they would receive the 'additional' quantity according to the terms of agreement. This matter was reported to the Prophet, who forbade them to repeat

[17] Rāzī, *Tafsīr-Kabīr*, Part III, ii. verse "لا تاكلوا الربوا".
[18] *Tafsīr Khāzin*, i. 203.

this again, with the result that they received only their principal due.[19]

The manner in which 'Ribā' was acquired at Mecca during the Pagan days, was quite similar to that prevailing in Tā'if, that is, when the time fixed for repayment of a loan arrived, the creditor would enquire whether the debtor was ready to repay his loan or was he ready to pay 'the additional'. If the debtor had means, he immediately discharged his debt, otherwise he would procure 'an easing-time' of another year for repayment of debt.

If a one year old she-camel was due, in the following year he would claim a two-year old she-camel, in the third year a three-year old she-camel and in the fourth a four-year old camel would be claimed by the creditor, and so on. The same was the rule in money-transactions, that is, if the debtor be unable to pay at the fixed time, he would be required to pay double the amount next year ; for instance, if Rs. 100 were due, in the following year he paid Rs 200 or in the third year Rs. 400 and so on until the debtor cleared his entire debt.[20]

The creditor naturally demanded repayment of his debt at the appointed time, but if the debtor were unable to pay he would apply for another year's 'extension', in return for an 'addition'. Both

[19] Rāzī, *op. cit.*
[20] Tabarī, *Jāmi'u'l-Bayān*, iv, 56.

agreed; and that was the vogue of compound interest.[21]

"Among Pagan Arabs if anyone owed something to another, the latter would demand repayment of his dues at the fixed time. The debtor would either repay the dues or apply for extension of time in consideration of 'an additional sum' as a return for the 'easing time'.[22]

"If a person owed another a sum of money, the debtor would request the creditor to extend the time of repayment for which he would pay a fixed additional sum."[23]

"In Pagan times in Arabia if a person contracted a loan from another for a fixed time, the creditor would enquire at the expiry of the period whether the debtor would repay his loan or pay interest. If he was able to repay, the debt was discharged, if not, extension in the time of repayment was granted on 'additional' interest. [24]

Types of Rība

Ribā has been divided into two types:

(*i*) Ribā Nasī'a and (*ii*) Ribā Faḍl.

"Ribā Nasī'a, which was well known in the Pagan times, lay in that the creditors advance loans on some monthly interest in addition to the Principal sums. At the time fixed for repayment,

[21] Tabarī, *Jāmi'u'l-Bayān*, iv, 55. [23] Khāzin, *op. cit.*, i, 203.

[22] Baihaqī—*As-Sunanu'l-Kubrā* (Dāiratu'l-Ma'arif, Hyderabad-Deccan)
(كتاب البيوع ـ ابواب الربوا)

[24] Baihaqī, *op. cit.*

the creditors would demand their principal sums: if the debtors expressed their inability to repay, the creditors would then grant them 'easing-time' on condition of the debtors' agreeing to pay a 'fixed amount in addition'. This was called Ribā, which was greatly in vogue in Pagan Arabia."

Cash (فضل —Faḍl) Ribā lay in that the debtor gave addition in kind, that is wheat for wheat, barley for barley.

"The Ribā in Pagan Arabia lay in that the creditor demanded at the time fixed for payment of debt his dues from his debtor. If the latter complied, the principal advanced would be received and the debt discharged. But if the debtor was unable to pay, 'easing-time' was granted to him on consideration of an 'additional sum'.[25]

"The type of Ribā forbidden by God is the one in which the debtor agreed to pay to his creditor a fixed additional amount in consideration of the 'easing time'.[26]

"Pagan Arabs advanced loans for a fixed time. When that time lapsed, the creditor demanded repayment of his dues or interest thereon from his debtor. If the debtor was unable to pay, the amount of the loan would then be doubled; for instance, if a one-year old she-camel was due the creditor demanded a two-year old one, or if one measure of corn was due, it was increased to two

[25] Suyūṭī, *Ad-Durru'l-Manshūr*, i. 365.

[26] Ṭabarī, *Jāmi'u'l-Bayan*, iv. 63.

and so on."[27]

INTEREST TRANSACTIONS IN VOGUE IN MEDINA

"Sa'īd b. Abī Burda narrates on the authority of his father that when he went to Medina he met 'Abdu'llāh b. Salām. He asked : 'Why do you not come (to us often), so that we may feed you with barley and dates and you be counted amongst the influential people?' He replied, 'You live in a town where the practice of interest-transaction is greatly in vogue.' (He advised his son thus :) 'Therefore, if any one owes something to you and if he sends you a bundle of grass or of barley or fodder, you should not accept it, for this is also 'interest.'[27a] Khudarī mentions :

"كان الرجل منهم يربي الى اجل ثم يزيد فيه زيادة الاخرى حتى ليستغرق بالشي الطفيف مال المديون

"One of them gives on loan a certain amount for a fixed period. Then he goes on 'adding' to it, to such an extent that the debtor's property is consumed by a small debt"[28]

Rāzi writes :

"The creditor who has loaned out a certain amount to another person for a stated time, goes to his debtor when the time for repayment arrives.

[27] Khudarī, *Ta'rīkhu't-Tashrī'i'l-Islāmī* (Egyptian edition). 'Allāma Khudarī was Professor of Law in Egypt.

[27a] (*Bukhārī*, Chap. XV. Tradition No. 895—Manāqib-i-'Abdu'llāh b. Salām).

[28] Baidāwī, *Tafsīr*, Vol. I, p. 154, (Nawalkishore edition).

If the debtor had no means for repayment of his debt, he requested for an extension in the time of payment on certain 'addition'. The creditor agreed. This is what we call the compound interest, strictly forbidden in Islām.

"In Pagan times, if a debtor owed a hundred dirhams to his creditor, if the former had no means to repay the debt at the expiry of the stated time, the creditor stipulated a certain 'increase or addition' in his principal, on the consideration of which he would agree to extend the time of repayment. Many a time it so happened that instead of one hundred the added sum became two hundred ; when the time extended also expired, there was another 'addition' to the principal sum advanced. This would be repeated for a number of times, with the result that for one hundred dirhams originally loaned out the creditor would receive many times more than his principal. This is what we mean by compound interest."[29]

ORDERS CONCERNING *RIBĀ* CONTAINED IN THE RELIABLE TRADITION OF THE PROPHET

Information regarding *Ribā* transactions is found in Tafsīrs under the verses connected with Ribā ; but in Collections of Traditions, this information is usually given under the caption " Kitābu'l-Buyū' " and "Bābu'r-Ribā."

[29] Rāzī, *Tafsīr-Kabīr*, Pt. IV, Sura *Āl 'Imrān*, Rukū' 14 (لا تأكلوا الربوا اضعافا مضاعفة etc.)

Before we take into consideration conditions concerning *Ribā* it must be clearly understood that in books dealing with Traditions or Fiqh, etc., *Two* varieties of 'interest' are mentioned; it is in view of this that Imām Rāzī puts 'interest' under two divisions—

(1) Ribā *Nasī'a*, that is on credit, and,

(2) Ribā *Faḍl*, that is on cash

As regards Ribā Nasī'a, it is the same as was prevalent in the Pagan days, that is to say, a creditor advanced a certain loan on which he exacted his interest every month, the principal advanced remaining intact After the expiry of the fixed time he would demand his dues from the debtor. If the latter were unable to pay, a certain 'addition' was made to the principal in consideration of the 'easing time' allowed for repayment. This is exactly what happened in Pagan times

As regards Ribā Cash or Ribā Faḍl, it consisted of the exchange of like kinds or of those kinds which resemble each other In Traditions, however, only Ribā Cash or *Faḍl* is discussed.

عن عبادة بن الصامت رضي الله عنه قال قال رسول الله صلى الله عليه وسلم

الذهب بالذهب، والفضة بالفضة، والبر بالبر، والشعير

Buyū' (بيوع), singular بيع (*Bai'*)=purchase and sale. *Kitābu'l-Buyū'* Book dealing with Purchase and Sale.

بالشعير، التمر بالتمر، الملح بالملح، مثلاً بمثل، سواء

بالسواء، يداً بيد. فاذا اختلفت هـذه الاصناف فبيعوا

كيف شئتم، اذ كان يداً بيد.

(رواه البخاری ومسلم - کتاب البیوع - باب الربوا)

"It is related by 'Abbāda b. Sāmit that the Messenger of Allāh said : Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, salt for salt, like for like, of equal measure, handful for handful. If there is difference in kind, then sell as you please, if by handful, then by handful."

عن ابی سعيد الخدری رضي الله عنه قال قال رسول الله صلى الله عليه وسلم

لا تبيعوا الذهب بالذهب إلّا مثلاً بمثل ولا تبيعوا بعضها

على بعض ولا تبيعوا الورق بالورق إلّا مثلاً بمثل ولا

تبيعوا بعضها على بعض ولا تبيعوا منها غائباً بناجز.

(بخاری - کتاب البیوع)

"It is related by Abū Sa'īd al-Khudarī that the Messenger of Allāh said : Sell not gold for gold except in equal quantity, nor sell anything for the same thing in lesser quantity, nor sell silver for silver except in equal quantity : sell not anything for the same thing in lesser quantity, nor sell anything present for that which is absent."

عن عثمان رضي الله عنه قال قال رسول الله صلى الله عليه وسلم لا تبيعوا

الدينار بالدينارين ولا الدرهم بالدرهمين.

"It is related by 'Uthmān, who said : The Prophet, on him be peace, said : 'Do not sell one Dinār for two, nor one dirham for two.'' [30]

Apparently there is no possibility of any person purchasing silver for silver; but usually coins of one country are exchanged for coins of another : even then one has got to pay commission or discount for acquiring varying coins, for instance, the exchange of Hyderabad Currency with British Indian Currency. The Prophet had international point of view before him and wanted to establish universal coinage throughout the world. Ordinarily Byzantine coins were regarded more saleable (in those days) and were dearer than Persian coins, in view of the fact that the Persian empire was growing weaker and weaker every day with the result that its coinage was not in much demand.

عن عمر رضي الله عنه قال قال رسول الله ﷺ الذهب
بالورق رباً إلا هاء وهاء، البر بالبر رباً الا هاء وهاء،
والشعير بالشعير رباً إلا هاء وهاء، والتمر بالتمر رباً
إلا هاء وهاء.

"It is related by 'Umar (I) (may God be pleased with him), who said : The Prophet said : 'To sell gold for silver, wheat for wheat, dates for dates, and barley for barley, is *Ribā*, except when the transaction is made from hand to hand (that is, delivery is effected on the spot)'."[31]

[30] *Bukhārī*, Kitābu'l-Buyū'.

[31] *Bukhārī*, Kitābu'l-Buyū', Tradition No. 1967.

Mālik ibn Aws narrates, "When I wanted to exchange one hundred dinār (Ashrafīs), Ṭalḥa b. 'Ubaid sent for me. Then we discussed the pros and cons of the transaction and reached at a settlement; he then took the gold into his possession and rose saying: 'Wait until my treasurer returns from the public market.' 'Umar (I) who was listening to this narration, said: 'O Mālik bin Aws, I beseech you in the name of God that you should not leave Ṭalḥa until you get from him the money, because the Prophet (on him be peace) has said: 'Selling gold for silver, or date for date, is Ribā, except when the exchange is from hand to hand'." [32]

The Prophet (on him be peace) has condemned both the receiver and the giver of usury. (*Bukhārī*).

"عن ابن مسعود رضي الله عنه قال لعن رسول الله صلى الله عليه وسلم آكل الربوا و موكله و شاهده وكاتبه وهم سواء".

"It is related by Ibn Mas'ūd that the Prophet (on him be peace) condemned the receiver, the giver of Ribā and also the witness and scribe of the transaction; they are alike.' [33]

Abū Sa'īd Khudari relates from Abū Huraira (may Allāh be pleased with them) that the Prophet of God (on him be peace) appointed a person Governor of Khaibar. He brought select dates to the Prophet, who asked: "Does Khaibar produce similar

[32] *Bukhārī*, Kitābu'l-Buyū' and also *Muslim*.

[33] *Muslim* and *Tirmidhī*.

dates throughout the land ?" He said, "No. By God, we purchase one Ṣa' (measure) of this variety of dates in exchange for two Ṣā's of another variety." Said the Prophet: "Do not do so (again); you should first sell these dates at the market rate for money and then purchase with that amount superior quality of dates."[34]

Abū Sa'īd says that one day Bilāl (may God be pleased with him) came to the Prophet with green variety of dates. The Prophet enquired, "From where did you bring this?" Bilāl said: "We had dates of inferior quality; we have, therefore, given two Sā's of that quality in exchange for one Ṣā' of this (superior) quality with the object of presenting it to the noble Prophet." On hearing this the Prophet exclaimed: "Ā wā, Ā wā! (expression of condemnation). This is clear 'interest'. Do not do so (again), rather, when you wish to acquire dates of superior quality, first sell the dates of inferior variety for money and then with the produce of the sale purchase dates of superior quality." [35]

Abū Sa'īd Khudarī says: "We usually received different varieties of dates. We sold two Ṣā's of those varieties in exchange for one Ṣā' of a superior quality. The Prophet thereupon enjoined upon us not to exchange two Ṣā's for one Ṣā', nor to exchange one dirham for two dirhams." [36]

Put together the above mentioned traditions go

[34] *Bukhārī*, Kitābu'l-Buyū'.
[35] *Bukhārī*, Kitābu'l-Buyū'.
[36] *Bukhārī*, Kitābu'l-Buyū'.

to state that there are two hypothetical cases of exchanging by measure not only silver and gold. but also other things : first, the things which are the objects of exchange, belong to the same genus ; for instance, silver for silver, barley for barley. Such transactions, in order to be lawfully effective, demand that the commodities of exchange are of similar quality and that delivery is effected on the spot. In cases of credit or where the quantity of the objects of exchange differ, or when one of the two objects of exchange is missing—in all such cases the transaction is unlawful and prohibited. The second case lies in that both the objects of exchange are different, for instance, gold for silver, or wheat for barley, or two seers of date in exchange for one seer of cheese or oil, such transactions are lawful, provided delivery is effected on the spot. Failing delivery on the spot, for instance, to give wheat today in exchange for barley to be given on the following,—this transaction amounts to 'interest'. In a nut-shell, 'interest' lies in exchanging commodities of the same kind (or genus) in varying quantities. If it is desired to acquire superior commodity in place of an inferior one of the same genus, it is necessary first that that inferior commodity be sold in exchange for another commodity of a different kind and then with the commodity thus acquired, obtain the desired superior commodity. This will not amount to 'interest' in so far as this latter exchange is between two different commodities altogether. Where the commodities of exchange differ in kind, it matters not if the quantities of exchange vary.

From the above mentioned traditions it is also clear that to exchange silver, gold, wheat, barley, dates, salt with less or more quantities of the same kind, is prohibited by Islam. But this does not apply where the two commodities of exchange vary in kind, in such cases it is permissible to sell a smaller quantity of one commodity in exchange for a larger or even equal quantity of another commodity, provided always that the sale is not on credit, and delivery of the commodities is effected on the spot. The point, however, which demands discussion is whether the above-mentioned principle applies only to the *six* commodities [37] which are specially mentioned, or whether it applies to all. It may be noted that on this point there is a difference of opinion between the 'Ulamā. According to one group, *Ribā* regulations apply only to these six commodities mentioned in the traditions ; on the other hand, the second group is of the opinion that Ribā regulations apply to all those commodities which are measured by measure or weight. Even in this case also there is difference of opinion amongst jurists, as is clearly visible in books of jurisprudence. For instance, Shāh 'Abdu'l-Haqq remarks in *Ashi'ātu'l-Lama'āt*.

"It must be carefully noted that these six commodities alone are mentioned in Tradition, although

[37] Wheat, Barley, Dates, Salt, Gold and Silver.

jurists have extended the operation of the Ribā regulations to other commodities by more analogous reasoning, for instance, all cereal corns. They have also tried to explain why they have extended the operation of Ribā regulations to each one of the corns. But those who attach importance to the 'letters' of the law and who do not believe in 'analogy' consider Ribā regulations to apply only to these six commodities, and not to others over and above these six. Full discussion of this and other matters arising out of this is to be found in all works of Fiqh."

Works of Fiqh on Interest

Having so far discussed the contents of Traditions concerning Ribā, it seems desirable that we should also point out what reliable authorities on Fiqh have to say concerning this knotty problem. The author of the *Durru'l Mukhtār* says :

و ما نصّ الشارعُ على كونه كيليّا كبرّ و شعير و تمر
و ملح أو وَزْنيّاً كذهب و فضّة فهو كذلك لا يتغيّر
ابدًا فلم يصحّ بيعُ حنطة بحنطة و زنًا كما لو باع ذهبًا
بذهب او فضّة بفضّة كيلا ولو مع التساوى لأنّ النصّ
أقوى من العرف فلا يترك الاقوى بالادنى و ما لم

ينص عليه حمل على العرف رجّحه الكمال و خرّج عليه
سعدى استقراض الدراهم عدداً و بيع الدقيق و زناً فى
زماننا ليعنى بمثله و فى الكافى الفتوىٰ على عادة الناس ـ

The (divine) Law-Giver has not sent down a clear verse regarding its being by measure, like wheat, barley, dates and salt, or by weight, like gold and silver. In such a case the matter remains unaltered for ever, that is, it will not be lawful if one purchased wheat for wheat *by weight*, as it would be as if he purchased gold for gold, silver for silver *by measure*, notwithstanding the fact that their similarity might be made extremely clear. For a clear verse (*i.e.*, a clear order) is stronger than common practice : and a stronger one cannot be rejected by a weaker one. Wherever there is no clear verse, common practice will be preferred. This is what has been preferred by al-Kamāl, but Sa'dī opposed it. It is hence that we get loans of dirhams in number and we sell flour by weight, that is, by similarity. But the decision has been given in the *al-Kāfī* in favour of local practice.

”قال الرازى رضى الله عنه اعلم ان الربوٰا قسمان ربوٰا
النسيئة و ربوٰا الفضل ـ اما ربوٰا النسيئة فهو الامر الذى
كان مشهوراً متعارفاً فى الجاهلية و ذلك انهم كانوا
يدفعون المال على ان ياخذوا كلّ شهر قدراً معيّناً و يكون

رأس المال باقيًا ثم اذا حلّ الدين طالبوا المديون برأس المال. فإن تعذّر عليه الاداء زادوا فى الحق والاجل. فهذا هو الربٰوا الذى كانوا فى الجاهلية يتعاملون به. و امّا ربٰوا الفضل فهو ان يباع منٌ الحنطة بمَنَوَين منها ما اشبَهَ ذلك.

Rāzī remarks : " Know that *Ribā* is of two kinds—Ribā *Nasī'a* and Ribā *Faḍl.* As regards Ribā *Nasī'a*, it is the same thing that was well known and prevalent in Pagan days. It lay in that the creditors advanced loans on condition that they would receive every month a certain fixed sum, without diminishing thereby their principal sums advanced when the time for repayment of loan expired, they demanded their dues : if the debtor was unable to pay, they 'increased' their dues and extended the time of repayment. This was what was known as Ribā which was practised in Pagan days.

" As regards Ribā Faḍl, it lay in that a person sold one maund of wheat in exchange for two, and so on in other commodities similar to wheat."

و قال ايضًا تحت قوله تعالى : لا تاكلوا الربٰوا اضعافًا مضاعفة، كان الرجل فى الجاهلية اذ كان له على انسان مائة درهم الى اجل فاذا جاءالاجل ولم يكن

المديون واجدًا لذلك المال قال زدنى المال حتى ازيد فى الاجل۔ فربما جعله مائتين ثم اذا حلّ الاجل الثانى فعل مثل ذلك۔ ثم الى آجال كثيرة فيأخذ بسبب تلك المائة اضعافها فهٰذا هو المراد من قوله اضعافًا مضٰعفة۔

"He (Imām Rāzī) also remarks in connection with the verse " لا تاكلوا الربوا اضعافا مضاعفة " that in Pagan days when a sum of one hundred dirhams were due to a person from another and if the debtor did not pay off his debt before or at the fixed time, the creditor would ask the debtor to effect a certain increase in the principal, in consideration of which the creditor would grant him extension in the time of repayment. Accordingly, many a time it so happened that if the actual principal loaned out was one hundred dirhams, it was increased to two hundred. If again the debtor were unable to pay after the expiry of the extended period, similar addition in the principal was made. This would go on for a number of periods, with the result that the creditor receives double, treble or even four times the amount actually advanced."

This is exactly what is contemplated by the words " اضعافاً مضاعفة ".

و قال القاضى البيضاوى رح فى تفسير قوله تعالى: يا ايها الذين آمنوا لا تاكلوا الربوٰا اضعافًا مضٰعفة لا تزيدوا زيادات مكررة و لعلّ التخصيص بحسب الواقع

اذ كان الرجل منهم يربى الى اجل ثم يزيد فيه بزيادة
اخرى حتى ليستغرق بالشيئ الطفيف مال المديون۔

"Qādī (Nāṣiru'd-dīn) Baiḍāwī remarks while commenting upon the verse
" يا يها الذين امنوا لا تاكلوا الربوا اضعافا مضاعفة "
that taking double or treble interest means that you should not increase the principal advanced double or treble, and it is quite possible that the exact specification of " اضعافا مضاعفة " might have been in contemplation of the custom prevailing. For these creditors demanded interest after fixing the period: then they would go on increasing to the principal in consideration of the time of extension allowed for repayment. This would be repeated to such an extent that the entire property of the debtor vanished on account of that petty loan borrowed."

قال البخارى فى تفسير يا ايها الذين آمنوا اتقوا الله
وذروا ما بقى الى قوله ما كسبت وهم لا يظلمون
قال ابن عباس هذه آخره آية نزلت على النبى ﷺ۔

"(Imām) Bukhārī states while commenting upon the verse " يا ايها الذين امنوا الخ " that Ibn 'Abbās said that this was the last verse which was revealed upon the Prophet (may peace be upon him)."

عن عمر رضی اللہ عنہ قال خرج رسول الله ﷺ من
الدنيا وما سألناه عن الربوٰا۔

"It is related on the authority of 'Umar (may Allāh be pleased with him) who said: 'The Prophet went away from the world and we did not question him about usury.' "

عن عمر بن الخطاب رضي الله عنه ان آخر ما نزلت الآية الربوٰا و ان رسول الله صلى الله عليه وسلم قبض ولم يفسرها لنا۔ فدعوا الربوٰا والريبة۔

"It is related by 'Umar (may Allāh be pleased with him) who said : 'The last to be revealed was the Verse of Usury and the Prophet expired without explaining it to us. Therefore give up usury or anything resembling it.' "

و فى سراج المنير و لو اباح للمرتهن اكل ثمار البستان او لبن الشاة فلا باس به إن لم يكن مشروطا به و إلاّ صار قرضاً فيه منفعة فيكون ربوٰا ولو اذن الراهن له بالانتفاع ثم ينهى عنه فله ذلك لانه متبرع و للمتبرع ان يمتنع عن التبرع۔

"It is stated in *Sirāj Munīr* that if the pledger allows the pledgee to enjoy the fruits of the garden (which is pledged) or to utilise the milk of the goat pledged, there is no harm if he does so provided always that the pledgee has not stipulated this usufruct as a condition precedent to the pledge. If the pledgee has stipulated this, then the transaction would be counted as a profit-making transaction, in which case this profit would be regarded as 'usury'. On the other hand, if the pledger who had granted him permission to enjoy the fruit thereof, were to disallow the pledgee the permission given, then it is the pledger's wish, for he is merely obliging the pledgee, and is at liberty to allow or disallow the usufruct."

Analogy (قیاس)

Analogy or analogous reasoning comes into force thus: In the *Holy Qur'ān* things of certain type are governed by certain principles from which a tacit understanding or implication arises that matters which are analogous to those matters, concerning which the above mentioned principles are laid down, the same principles are also to be applied in those analogous cases. If, therefore, a principle is found in the *Holy Qur'ān*, and another agreeing with it in the traditions, then it must be taken for granted that the same meaning is implied in the *Holy Qur'ān* (for traditions only clarify the ambiguities). Whether we call it analogous reasoning on the part of the Prophet or revelation, to us the matter is substitute for the original with which it is analogous. A number of illustrations are to be found of such cases.

The *Holy Qur'ān* declared interest unlawful, while it was a custom of the Pagan times that a later debt cancelled the previous one, only that the creditor would say: 'the debt is discharged pay me my interest'. The Prophet also illegalised this interest and said

و ربوٰا الجاهلية موضوع

"And the interest of the Pagan Times has been abolished."

In so far as the real cause of this abolition was that for the additional sum which was received by way of interest no consideration was given. Accordingly other similar transactions (wherein there was an unaccountable increase without consideration) also came to be governed by the Tradition which abolished such interests without consideration. The Prophet said :

الذهب بالذهب و الفضة بالفضة و البر بالبر و الشعير بالشعير و التمر بالتمر و الملح بالملح مثلا بمثل سواء بسواء يداً بيد. فمن زاد وازداد فقد اربى. فاذا اختلفت هذه الاصناف فبيعوا كيف شئتم اذ كان يداً بيد.

" Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, salt for salt may be exchanged in such a manner that they are equal, measure for measure, handful for handful. If anyone increased or received more, then he took 'interest' and the giver paid interest. But if the things of exchange differ in kinds (*e.g.* barley in exchange for dates) then sell as you please, provided always that the transaction is carried on the spot, (that is, delivery of goods is effected on the spot, and not on credit)."

But if the transaction of these commodities of exchange, which are different in kind, were to be on credit, then according to the Prophet, it would also amount to 'interest', on the ground that non-delivery of one of the commodities of exchange amounts to 'increase'. In view of this (that is, increase without consideration) technical sense of the term, it includes بیع سلف[37] a particular type of sale transaction which gives rise to such profits. Because the advantages of two similar commodities of exchange are the same : therefore the transaction is similar to that transaction in which two commodities of the same kind are exchanged with one another. Any increase, therefore, that might be demanded in such commodities will naturally be regarded as without consideration, which is prohibited by Islamic Law. This prohibition in law has been effected only because in giving delivery of the commodity of exchange a certain time is fixed with the object of bringing about an increase in its value for a commodity delivered on the spot in exchange for another to be delivered some time later raises a presumption that the value of the commodity to be delivered is higher than that of the commodity delivered. And this is nothing more than 'increase' or 'interest'.

Now the only point that remains to be discussed is : 'Why is such increase permissible in commodities other than silver, gold and eatables ?'—Had the real cause for such permission been known, this matter like all other matters of investigation would also have been left to the opinion of the jurist-consults. But since the real causes of such permission are not known to them, the Tradition has specially made a mention of it.[38]

[37] بیع سلف or بیع سلم lies in that a certain measure of a particular variety of corn is given on money value *in advance* to another person on condition that within a stated time the borrower would give in exchange for it the same variety of corn to a certain fixed measure.

[38] Khuḍarī, *Ta'rīkhu't-Tashrī'i'l-Islāmī.*

Fundamental Principle of Islamic Jurisprudence

It is the expressed claim of the *Holy Qur'ān* that it has been revealed to improve human condition on the earth. It is in view of that it embodies certain injunctions, *e.g.*, it lays down :

. . . . يامرهم بالمعروف و يناهم عن المنكر
و يحل لهم الطيبات و يحرم عليهم الخبائث۔

"........... He commands them to do good and to avoid evil. He makes lawful unto them purities and makes unlawful those things which are impure."

Some Other Beneficial Prohibitions in Islam

One of the fundamental principles of Islamic Sharī'a is to remove poverty, *e.g.*, Allāh gives the following among many other attributes to the Prophet :

و يضع عنهم امرهم و الاغلال التى كانت عليهم۔

"And he (the Prophet) removes from them their burdens and those shackles which had been upon them."

An other tradition says :

بعثت بالحنيفية السمحة

"I have been sent down with an easy and straightforward religion."

Before the advent of the Prophet a number of matters had been already well established which would not mar the progress of a nation. But some of these had been definitely harmful, with the consequence that the Divine Law-giver thought it necessary to keep them away from such harmful matters. He had, therefore, to issue orders concerning them, as gradually as possible and thus perfected His Faith. A careful study of the *Holy Qur'ān* will convince any one who peruses it, with this particular principle always before him, that if there are two orders concerning any matter, the one that came later did not cancel an earlier one, but only perfected or confirmed it. For instance, the first order regarding wine (drinking—to which the Arabs had been very strongly addicted) is this

... فيهما اثم كبير و منافع للناس، و اثمهما اكبر من نفعهما ۔

"In these two (that is drinking and gambling) great sin lies and also advantages, but their sin is greater than their advantages."

To a psychologist and a student of progressive law it will be clear that the real purpose behind this verse is the illegalisation of these two objects, for a matter in which there is a greater element of sinfulness, is naturally prohibited in practical law. Then, the second order (regarding drinking) was issued, saying :

يا ايها الذين آمنوا لا تقربوا الصلوٰة و انتم سكارة۔

"O ye, who believe ! Offer not prayers when you are drunk."

It is clear that this prohibition did not cancel the previous verse, but only confirmed it. Then after a number of years, a third order was issued whereby drinking was completely prohibited.

يا ايها الذين امنوا انما الخمر و الميسر... فاجتنبوه۔

"O ye, who believe! Verily drinking and gambling......(Ye) abstain therefrom."

It may be pointed out in this connection that the Quranic orders were first issued in a general manner, but fuller details were issued later. This was exactly the way in which commandments for *Jihad* were issued, that is, stage after stage.

This fact would become extremely clear if we compare closely (and scrutinize) the Meccan verses with those revealed at Medina keeping in view this principle of 'gradual, or step by step revelation', it is thus clearly stated in the *Holy Qur'ān* concerning the prohibition of 'interest':

(*i*) Receiving interest is a peculiar characteristic of the Jews, who devour others' property unlawfully.[39]

(*ii*) Thereafter Muslims were forbidden to receive compound interest :—
"O ye who believe, do not devour compound interest."[40]

(*iii*) After this has been accomplished the Divine Law-giver thought it fit to prohibit all sorts of interest dealings.

[39] *Holy Qur'ān*, iv, 160. [40] *Ibid.*, iii, 125.

"And Allah has permitted trading and forbidden usury."[41]

Islam and Credit

In this connection interest implies all sorts of interest, whether compound or simple.

The above clear and unambiguous facts make it plain that Islam has strictly prohibited every sort of interest transaction. But this should not be taken to imply, nor could it ever be calculated to imply, that Islam forbade business on credit. It need not be pointed out that in the present economic system of our civilisation, it is not possible to imagine our routine life being smoothly led without *credit* and borrowing. Borrowing or debts may be classified into two types; one, contracted with a view to fulfilling our daily domestic needs and necessaries of life. This is technically called 'Unproductive Debt' in Economics. The other type or sort of debt is that which is incurred to enable the borrower to do business. This is technically called 'Productive' or 'Income-producing Debt'.

Realising the significance and need of the Income-producing Debt, Islam has allowed its followers to conduct business in co-partnership. In the present economic system, loans for business are advanced on *fixed rates* of interest, without any condition whether the enterprising debtor gains a profit or suffers a loss in his enterprise, with the result that

[41] *Holy Qur'ān*, ii, 275.

the debtor is bound, under all circumstances, to pay the amount due as interest to his creditor. Profits in commercial undertakings are never fixed but fluctuate with market conditions. The rates of interest also fluctuate from time to time. But under the present economic system, the debtor is bound to pay at the end of his debt contract at the very fixed rate at which he borrowed from his creditor in the beginning, although in the market the rateof interest might have changed considerably.

When profit decreases on account of a dull market,—many a time it almost disappears,—the interest at a certain fixed rate becomes an unbearable burden for commercial undertakings. Islam has offered best solution for this difficulty ; it has left fixation of rates of interest in commercial debts open and has enjoined upon the capitalist to become a co-partner in the business and share profit or loss with his debtor equally. Socialism has excluded interest, but no satisfactory arrangement has been suggested for the procurement of capital.

Capitalism, on the other hand, amply arranges for capital, but ensures antagonism between the tradesman and the capitalist only because it fixes the interest-producing power of capital. Islam has carefully avoided this and placed the capitalist and the tradesman on one level, almost uniting their interests. If there is a person who possesses capital but does not possess the experience or skill required for an enterprise, and there is another, who does not possess the required capital but possesses the skill or experience necessary for the enterprise, Islam has unified their interest by declaring that the capital of the former with the skill or experience of the latter may lawfully and profitably be united to produce profit in the transaction. This profit will be equitably shared by these above two partners, one in virtue of his capital, and the other in virtue of his skill or experience. In such transactions it is the tradesman who alone is conducts the business with the capital of his partner—the capitalist, but both are entitled, according to the Islamic system, to receive their equitable shares of profit or loss.

In view of these circumstances it is evident that for commercial undertakings Islam has successfully and satisfactorily provided the capital (without the encumbrances of interest).

As regards those types of debts which are incurred to satisfy certain unforeseen domestic needs or necessaries of life, Islam has fully realised the importance of these type of debts. But inasmuch as these debts are incurred, not with a view to acquiring profits but with the object of gratifying our daily domestic needs. Islam has accorded special treatment to such types of debts and has ordered that if the debtor is in straitened circumstances, his debts may be written off.

Those who say that Islam has forbidden, not simple, but only compound interest, their attention may be drawn to the following traditions of the Prophet from which it will be clear that Islam has even ordered that in consideration of the poverty of the debtor his principal also (debt) may be discharged.

عن ابى سعيد رضي الله عنه قال اصيب رجل فى عهد النبى صلى الله عليه وسلم
فى ثمار ابتاعها فكثر دينه فقال رسول الله صلى الله عليه وسلم : تصدقوا
عليه فتصدق الناس عليه فلم يبلغ ذلك وفاء دينه فقال
رسول الله صلى الله عليه وسلم لغرمائه خذوا ما وجدتم وليس لكم
الا ذلك ـ

(مسلم)

"It is related on the authority of Abu Said, who said: A person suffered loss on account of a calamity befalling his fruits, with the result that his debt increased. The Prophet (on him be peace) said (to the people); 'give him in charity,' which the people did. But this also did not suffice to discharge his debt. Thereupon the Prophet said to his creditors: 'Take what you get; you will not have anything more than this.'" —(*Muslim*)

وان كان ذو عسرة رضي الله عنه فنظرة الى ميسرة وان تصدقوا
خير لكم إن كنتم تعلمون ـ واتقوا يوما ترجعون فيه
الى الله ثم توفى كل نفس ما كسبت وهم لا يظلمون ـ

"And if the debtor is in straitened circumstances then (let there be) postponement to (the time of) ease ; and that ye remit the debt, as alms-giving would be better for you if ye did but know."

"And guard yourselves against a day in which ye will be brought back to Allah. Then every soul will be paid in full that which it hath earned, and they will not be wronged."[42]

عن حذیفة رضی اللہ عنہ قال قال رسول اللہ صلی اللہ علیہ وسلم تلتف الملئکة روح رجل ممن کان قبلکم قالوا : اعملت من الخیر شیئا قال : کنت امر فتیانی ان ینظروا و یتجاوزوا عن الموسر قال فتجاوزوا عنہ۔ قال ابو عبداللہ و قال ابو ملک عن ربعی انظر الموسر و اتجاوز عن المعسر وقال نعیم بن ابی ھند عن ربعی فاقبل من الموسر و اتجاوز عن المعسر۔

(بخاری)

It is related on the authority of Hudhaifa that the Prophet (on him be peace) said (turning to his companions) :

"Angels received some one of those who had preceded you with full respect, enquiring, 'have you done any good deed ?' he replied, 'I had left standing orders with my servants and agents to grant ease to those in straitened circumstances, and that if possible to forego all claims against such people". Continued the Prophet : "(The Angels) let him go (scot-free)." Imam Bukhari adds that in

[42] *Holy Qur'ān*, ii, 280-281.

the words of Ribi which Abu Muslim narrated it is stated, "I used to grant easing time to one in a straitened circumstances and would forego all claims against a poor man." (Continues Imam Bukhari): But in the version given by Nuaim b. Abi Hind of Ribi's narration the statement runs thus: "I would accept postponement to those who were well off, but forego all claims against the poor'." —(*Bukhari*)

عن ابی هریرة رضی الله عنه عن النبی صلی الله علیه وسلم قال کان تاجر یداین الناس فاذا رای معسراً قال لفتیانه تجاوزوا عنه لعل الله ان یتجاوز عنا فتجاوز الله عنه ـ

(بخاری)

" It is related on the authority of Abu Huraira that the Prophet (on him be peace) said: 'There was a merchant who advanced loans to people (it was one of his habits that) whenever he realized that the debtor was in straitened circumstances, he would instruct his servants to write off his debt, in the hope that perhaps God will pardon him (the creditor). (It was in virtue of this that) God also forgave him his excesses' " —(*Bukhari*)

عن حذیفة رضی الله عنه قال قال رسول الله صلی الله علیه وسلم ان رجلا کان فیمن کان قبلکم أتاه الملك لیقبض روحه قیل له هل عملت من خیر قال ما اعلم قیل له : انظر قال ما اعلم شیئا غیر انی کنت ابایع الناس فی الدنیا و اجازیهم فانظر الموسر و اتجاوز عن المعسر ـ فادخله الجنة ـ

(بخاری و مسلم)

"It is related on the authority of Hudhaifa that the Prophet (on him be peace) said: There was one among those who preceded you (in this world). The Angel of Death, who approached him with the object of taking out his soul, asked him, 'Have you done any good deed?'—he replied, 'I do not know.' It was again queried: 'Think carefully and say if you have done any good act.' He then replied, 'I still do not recollect anything except that I used to have business dealings with people and gave them concessions. I would grant respite to the well-to-do and forego my claims against the poor.' So he was allowed admission into Paradise."
—(*Bukhari* and *Muslim*)

عن ابی قتادہ رضی اللہ عنہ قال قال رسول اللہ صلی اللہ علیہ وسلم من سرہ ان ینجیہ اللہ من کرب یوم القیامۃ فلینفس عن معسر او یضع عنہ (مسلم)

"It is related on the authority of Abu Qatada that the Prophet (on him be peace) said: 'He who likes that God may grant him salvation from applications on the Day of Resurrection, let him grant respite to the afflicted debtor or forego his claim (in full or in part) against him'." —(*Muslim*)

Along with this it must also be noted that a warning has been issued to those debtors who are in a position to discharge their debts to do at their earliest convenience. For instance:

عن ابی هریرة رضی اللہ عنہ قال قال رسول اللہ صلی اللہ علیہ وسلم ان مطل الغنی ظلم۔

"It is related on the authority of Abu Huraira that the Prophet said : A wealthy man's negligence to discharge his debt is (a great) tyranny."

It is in connection with this that Tharid has related that the Prophet (on him be peace) said : "A wealthy man's attempt to evade payment of his debt is a lawful warrant for his being subjected to disgrace and dishonour."

عن ابی ھریرة رضی اللہ عنہ عن النبی صلی اللہ علیہ وسلم قال من اخذ اموال الناس یرید ادائھا ادی اللہ عنہ و من اخذ یرید اتلافھا اتلفہ اللہ علیہ۔ (بخاری)

"It is related on the authority of Abu Huraira about the Prophet having remarked that he who borrows other's money with the intention of returning it, Allah enables him to discharge his liability ; (but) he who borrows it with the object of depriving the creditor of his wealth, Allah does not enable him to repay his debt." —(*Bukhari*)

Summary of Discussion on Interest

I entirely agree with Allama Mohammad Alfakhri's statement that 'Interest is fundamentally opposed to that liberal principle of Islam which is the very foundation-stone of Islamic structure.'

2. It is entirely a wrong notion that Islam forbids, not the simple interest, but compound interest only. On the contrary in Islam every interest, even if it is at the lowest rate, is forbidden.

3. Affected by the present all-prevailing capitalist influence a large number of people try to prove that inasmuch as the present banks try to help industrial and commercial transactions interest pertaining these is lawful. This is entirely a false or wrong notion. Really speaking there is hardly any difference between Bank's interest and the Sahukar's interest in so far as the Banks function the same purposes as the old Jews money-lenders used to perform. Bank's interest is absolutely unlawful.

4. To try to establish the lawfulness of Bank's interest by legal excuses is to deviate from the fundamental principles of Islam, and to nullify the clear and unambiguous precepts embodied in the Quran. It is, therefore, our duty to express as clearly as possible the fundamental principles of Islamic teaching in connection with the problem of interest and not to try to conceal our weaknesses by means of such legal tricks. I am neither a Professor of Islamic Studies nor am I competent enough to pronounce judgment upon any knotty problem connected with Islamic Studies. I do, nevertheless, personally think that whatever income we get out of our deposits in Banks

tantamounts to interest. Bet let me make it clear that notwithstanding the fact that it is 'interest', we, as Muslims, should never forego it. For if we forego it, the banks will use it in other directions, especially in helping non-Muslim missions, which will be certainly used against Islamic interests. It should be, therefore, our duty to utilise the amounts so received from banks and post-offices in philanthropic and charitable works and not on our own needs. Even this cannot be ultimately defended. In the ordinary course of things we must avoid this and should open our own banking institutions on Islamic lines, the details of which we discussed in another section.

Good-will in Business Transactions

The importance of good relations in business transactions can never be over-estimated. In fact the very foundation of our business is laid upon good relationship. It is a great pity that the Muslim community which was at one time considered the ideal of good relationship in business transactions is today ill-credited for its bad credit and lack of reputation. In this connection, it may be pointed out that a close observation has revealed the fact that bad relations in business transactions mainly arise on account of failure of parties to reduce in writing their terms of business in a methodical or a systematic manner. On this problem there are clear instructions in the *Holy Qur'ān*, which lay down that business transactions should be carefully entered into on terms to be reduced to writing in the presence of reliable witnesses, with a view to establishing good relations in business :

يا ايها الذين امنوا اذا تداينتم بدين الى اجل مسمى فاكتبوه۔ وليكتب بينكم كاتب بالعدل ولا ياب كاتب ان يكتب كما علمه الله فليكتب۔ وليملل الذى عليه الحق وليتق الله ربه ولا يبخس منه شيأ۔ فان كان الذى عليه الحق سفيها او ضعيفا اولا يستطيع ان يمل هو فليملل وليه بالعدل۔ واستشهدوا شهيدين من رجالكم۔ فان لم يكونا رجلين فرجل وامرأتان ممن ترضون من الشهداء ان تضل احداهما فتذكر احداهما الاخرى۔ ولا ياب الشهداء اذماد عوا ولا تسئموا ان تكتبوه صغيرا او كبيرا الى اجله۔ ذلكم اقسط عند الله و اقوم للشهادة و ادنى ألا ترتابوا إلا ان تكون تجارة حاضرة تديرونها بينكم فليس عليكم جناح ألا تكتبوها۔ واشهدوا اذا تبايعتم ولا يضار كاتب ولا شهيد۔ وان تفعلوا فانه فسوق بكم۔ واتقوا الله و يعلمكم الله والله بكل شيء عليم۔ و ان كنتم على سفر ولم تجدوا كاتبا فرهان مقبوضة۔ فان امن بعضكم

بعضا فليؤد الذى أوئتمن امانته وليتق الله ربه ـ لا تكتموا الشهادة ومن يكتمها فانه آثم قلبه والله بما تعملون عليم ـ

"O ye who believe! when you contract a debt for a fixed term record it in writing. Let a scribe record it in writing between you in (terms of) equity. No scribe should refuse to write as Allah hath taught him, so let him write, and let him who incurreth the debt dictate, and let him observe his duty to Allah his Lord, and diminish naught thereof. But if he who oweth the debt is of low understanding, or weak or unable himself to dictate, then let the guardian of his interests dictate in (terms of) equity. And call to witness, from among your men, two witnesses. And if two men be not (at hand) then a man and two women, of such as ye approve as witnesses, so that if the one erreth (through forgetfulness) the other will remember. And the witnesses must not refuse when they are summoned. Be not averse to writing down (the contract) whether it be small or great, with (record of) the term thereof. That is more equitable in the sight of Allah and more sure for testimony, and the best way of avoiding doubt between you; save only in the case when it is actual merchandise which ye transfer among yourselves from hand to hand. In that case it is no sin for you if ye write it not. And have witnesses when ye sell one to another, and let no harm be done to scribe or witness. If ye do (harm to them) lo! it is a sin in you.

Observe your duty to Allah. Allah is teaching you. And Allah is the knower of all things.

"If ye be on a journey and cannot find a scribe then a pledge in hand (shall suffice). And if one of you entrusteth to another let him who is trusted deliver up that which is entrusted to him (according to the pact between them) and let him observe his duty to Allah. Hide not testimony. He who hideth it, verily his heart is sinful. Allah is aware of what ye do."[43]

Speculation

Similar in character to interest-transaction is Speculation, which was greatly in vogue in Arabia side by side with 'interest'. The tremendous evils of illegal profiteering on the masses have been fully experienced by all of us in the world war. The present fabulous rise in the prices of necessaries of life is due, among other causes, mainly to illegal profiteering. The food situation of Bengal in 1943 was, to a great extent, caused by profiteers. From the latter half of the year 1942 to the earlier half of 1943 prices of cloth rose by three hundred per cent. At that time it was stated that the rise in the prices of cloth was mainly due to the fact that the country did not produce that quantity of cloth which was ordinarily needed; that there was a growing demand from the military for cloth supply, that import of cloth from other countries had been

[43] *Quran*, II, 282-283.

absolutely stopped, and that there was tremendous increase in the exportation of cloth to the war-fronts. But when the Government declared its policy to control the cloth supply and threatened to confiscate all those stocks of cloth that remained unsold within a certain fixed time limit, it was clearly seen that profiteers had already had a full stock of one year's needs of the country within their clutches and that it was mainly owing to their machination that there was stupendous rise in the prices of cloth. Exactly similar was the state of affairs in food articles. I would venture to put forth for consideration by the present Government those orders which Islam had issued in this connection thirteen hundred years ago :

عن معمر رضی الله عنه قال قال رسول الله صلی الله علیه وسلم من احتکر فهو خاطیء۔ (مسلم)

"It is related on the authority of Mamar who said that the Prophet said : He who accumulates stocks of grain during shortage of it (with a view to profiteering later), is a great sinner."

—(*Muslim*)

عن عمر رضی الله عنه عن النبی صلی الله علیه وسلم قال الجالب مرزوق والمحتکر ملعون۔

"It is related on the authority of 'Umar, may God be pleased with him, that the Prophet said: One who imports grain from outside and sells at the market rate, his maintenance is blessed, (while) he who withholds grain from sale in view of estimated dearness in future,—he is thrown away from God's pleasure."

عن معاذ قال سمعت رسول الله ﷺ يقول بئس العبد المحتكر إن ارخص الله الاسعار حزن و إن اغلاها فرح - (بیہقی)

"It is related on the authority of Ma'adh that he heard the Prophet (on him be peace) saying: Evil indeed is that man who withholds sale of grain in anticipation of shortage (thereby expecting rise in prices). If God the Almighty causes fall in prices, he is unhappy, but if there is rise in prices, he is happy."

Forward Transactions of Agricultural Commodities

Under the present economic system forward transactions of agricultural products have been legalised. Most of the Western economists regard such transactions as desirable. But a great majority of the representatives of the farmers and cultivators have looked upon such transactions as definitely harmful to their interest and have always protested against them.

Islam has definitely illegalised such transactions, as these are, according to Islam, harmful to people on the whole. Islam permits present, but not future, transactions. This theory of Islam is now being acknowledged as sound by the economists of Europe at least in war economy. They have painfully realised now that the present tremendous rise in prices has been mainly caused by illegal profiteering and by forward transactions. Accordingly the Government have now illegalised many such forward transactions. One of the greatest defects of the present economic system is the recurring appearance of a trade-cycle, which is mostly accelerated by the increasing craze for speculation. Islam has clearly illegalised it.

Islamic Teachings in Connection with Forward Transactions

Islam regards all such transactions as definitely harmful to society and has pointed out that trade-cycles, which cause a great disruption in the present social organisation, are the result of the brisk activity of the forward transactions. Islam has not only made lawful for its followers trade and commerce but has persuaded them to pursue it vigorously. It has, on the other hand, strictly prohibited all sorts of speculations and has painfully warned its followers, from indulging in forward transactions. It has made lawful only those transactions that relate to the spot and not to the future.

عن انس قال نهى رسول الله ﷺ عن بيع الثمار حتى تزهى۔ قيل وما تزهى۔ قال حتى تحمر وقال أرئيت اذا منع الله الثمرة فبم ياخذ احدكم مال اخيه۔ و فى رواية ابن عمر رضى الله عنه ان رسول الله ﷺ نهى عن البيع النخل حتى يزهو وعن السنبل حتى يبيض ويا من العاهة نهى البائع والمشترى۔ (صحيحين)

"It is related on the authority of Anas (may God be pleased with him) that the Prophet (on him be peace) prohibited dealings in fruits as long as they were not ripe. It was asked : 'how to know their ripeness'; he said, 'until they grow red.' Then he said, 'Do you think that any one of you would be able to take the property of his brother if God were to stop fruits from ripening?' In the account given by Ibn 'Umar it is stated that the Prophet, on him be peace, prohibited purchase and sale of date tree, until the dates ripened, and from dealings in ears of corn until they grew (ripe and) white, or they were safe from calamities. He prohibited both the seller and the purchaser from such transactions."

—(The Two *Sahihs*)

It is, unfortunately, a custom with us that fruit trees are sold even before they begin to have blossoms upon them. This is known as spring-sale. This spring-sale, for instance of mangoes is effected before trees begin to have blossoms. The natural consequence of this is a definite loss to one of the parties to the transaction. These are transactions in which local Governments or any other power has no say whatsoever. People must, therefore, take up this question very seriously, from the point of view of their own advantage.

What happens usually in such transactions is that people fix a certain idea of the produce in fruits, according to their own estimation. But no one can be aware of the unknown, in which case this amounts to a form of gambling and as such can be regarded as illegal, just as any other form of gambling is illegal. One of the essential results of gambling is malice and enmity, and it is certain that the same result will follow in such transactions. In view of the similarity of circumstances existing between these two cases, only one and the same law can be equally applied to both.

عن ابی هریرة ان رسول الله ﷺ قال لا تلقوا الرکبان لبیع ولا یبع بعضکم علی بیع بعض ولا تناجشوا...

(صحیحین)

" It is related on the authority of Abu Huraira that the Prophet (on him be peace) said: O people! with a view to bargaining with the people who come with their animals fully laden with commodities for sale, do not go to meet them (outside the town) and if a person is bargaining with another, do not interfere by bidding higher and do not deceive others thereby."

—(The Two *Sahihs*).

عن ابی ہریرۃ ان رسول اللہ ﷺ مر علی صبرۃ طعام فادخل یدہ فیھا فنالت اصابعہ بللا فقال ما ھذا یا صاحب الطعام۔ قال اصابتہ السماء یا رسول اللہ۔ قال افلا جعلتہ فوق الطعام حتی یراہ الناس من غش فلیس منی۔

(مسلم)

"It is related on the authority of Abu Huraira that the Prophet of God (on him be peace) passed by a heap of eatables. When he thurst his hand into it and felt his fingers moistened. (Turning to the owner of the eatables) he said, "O master of the food! what is this?" He replied, 'O Prophet of God, rain has moistened it!' He said: 'Why did you, then, not put the wet part over and above the dried one, so that people could see it?' He who deceives does not belong to me (*i.e.*, one of my followers)."

—(*Muslim*).

عن ابن عمر ان النبی ﷺ نھی عن بیع الکالی بالکالی۔

(دارقطنی)

It is narrated by Ibn 'Umar that the Messenger of God (on him be peace) prohibited the sale of a commodity not in stock with another, also not in stock." —(*Daraqutni*).

In other words, all such sales are prohibited by Islam, where actual deliveries cannot take place.

عن حکیم بن حزام قال نهانی رسول الله ﷺ ان ابیع ما لیس عندی و فی روایة قال قلت یا رسول الله یاتینی الرجل فیرید منی البیع و لیس عندی فاتباع له من السوق۔ قال لاتبع ما لیس عندک۔

"It is related on the authority of Hakim b. Hizam, who said: The Prophet of God (on him be peace), prohibited me bargaining about anything which I did not possess. In another account he (is reported to have) said, 'I said, O Prophet of Allah! A person comes to me and wishes me to bargain about a thing which I do not possess. May I purchase for him from the market?' The Prophet replied, 'Bargain not about that which is not with you'"

Islam and Trade

The Almighty has revealed in the Holy Quran:

احل الله البیع و حرم الربٰوا۔

"Allah has allowed trade and prohibited usury."

The high standard of straightforwardness, honesty and reliability which Islam has prescribed concerning trade and commerce is even to-day worthy of adoption by the civilized nations of the world. The value of proper and standard weights and measures in trade is already too well realized, while Islam laid a great stress upon the employment of correct or standard weights and measures thirteen hundred years ago.

Even to-day in many of the districts and provinces of India standard weights and measures are *not* found.

It is a bad habit with most of the tradesmen that they try to convince prospective buyers by resorting to false oaths. Islam has also prohibited this :

عن ابی هریرة قال سمعت رسول الله ﷺ یقول الحلف منفقة للسلعة ممحقة للبرکة ۔ (صحیحین)

"It is related on the authority of Abu Huraira that he heard the Prophet of God (on him be peace) saying : 'Oath certainly causes issuing out of commodities (by sale) (but) it removes all blessings from (trade) ? '"

—(The Two *Sahihs*).

عن ابی ذر رضی الله عنه عن النبی ﷺ قال ثلاثة لا یکلمهم الله یوم القیامة ولا ینظر الیهم ولا یزکیهم ولهم عذاب الیم ۔ قال ابو ذر خابوا و خسروا من وهم یا رسول

الله ـ قال المسبل و المنان و المنفق سلعته بالحلف الكاذبة ـ

(مسلم)

"It is related on the authority of Abu Dharr (may Allah be pleased with him) who narrates that the Prophet of Allah (on him be peace) said : 'Allah will neither speak to, nor look at, nor absolve from the impurity of their sins of three (types of) persons, they shall suffer a grave chastisement.' Abu Dharr (thereupon) ejaculated, 'Ruined and lost are they (indeed)! who are those persons, O Prophet of Allah?' The Prophet replied, 'One who displays his affluence by letting his trousers fall below his ankles, one who is ever conscious of his obligations done to others and one who sells out his goods by means of false oaths.'"

—(*Muslim*).

عن قيس بن ابی غرذة قال کنا نسمی فی عهد رسول الله ﷺ سمسرة فمربنا رسول الله ﷺ فسمانا باسم هوا حسن منه فقال یا معشر التجار ان البیع یحضره اللغو و الحلف فشوبوه بالصدقة ـ

(نسائی ـ ترمذی ـ ابوداؤد)

"It is related on the authority of Qais b. Abi Gharadha who said : 'During the time of the Prophet of Allah (may peace be upon him) we were called 'brokers'. The Prophet of Allah (on him be peace) passed by us and gave us a name better than that. He said, 'O group of tradesmen! Verily bargaining is accompanied by (unnecessary) frivolity and (false) oath. Avert, therefore, (the evil of) it by giving alms.'"

—(*Nisai*, *Tirmidhi* and *Abu Daud*)

عن عبيد بن رفاعة عن النبي ﷺ قال التجار يحشرون يوم القيامة فجارا الا من اتقى و بر و صدق۔

"It is related on the authority of 'Ubaid bin Rafa'a that the Prophet of Allah (on him be peace) has been reported to have said: 'Tradesmen shall be resurrected on the Day of Resurrection as wicked persons, except those who were abstinent, and benevolent and munificent in almsgiving.'"

والى مدين اخاهم شعيبا قال يٰقوم اعبدوا الله ما لكم من اله غيره ولا تنقصوا المكيال والميزان انى ارٰكم بخير وانى اخاف عليكم عذاب يوم محيط۔

ويٰقوم اوفوا المكيال و الميزان بالقسط و لا تبخسوا الناس اشياءهم ولا تعثوا فى الارض مفسدين ، بقيت الله خيرلكم ان كنتم مؤمنين۔ وما انا عليكم بحفيظ۔

قالوا يا شعيب أصلوٰتك تامرك ان نترك ما يعبد اٰباؤنا أو ان نفعل فى اموالنا ما نشاء انك لانت الحليم الرشيد۔

قال يا يقوم ارئيتم إن كنت على بينة من ربي ورزقني منه
رزقا حسنا وما اريد ان اخالفكم الى ما انهكم عنه ان
اريد الا الاصلاح ما استطعت وما توفيق إلا بالله- عليه
توكلت و اليه انيب-

" And unto Midian (We sent) their brother Shu'eyb. He said: O my people! Serve Allah. Ye have no other God save Him! And give not short measure and short weight. Lo! I see you well-to-do and lo! I fear for you the doom of a besetting Day. O my people! Give full measure and full weight in justice. and wrong not people in respect of their goods. And do no evil in the earth, causing corruption. That which Allah leaveth with you is better for you if you are believers; and I am not a keeper over you. They said: O Shu'eyb! Doth thy way of prayer command thee that we should forsake that which our fathers (used to) worship, or that we (should leave off) doing what we will with our own property? Lo! Thou art the mild, the guide to right behaviour.

"He said: O my people! Bethink you: if I am (acting) on a clear proof from my Lord and He sustaineth me with fair sustenance from Him (how can I concede aught to you)? I desire not to do behind your backs that which I ask you not to do. I desire naught save reform so far as I am able. My welfare is only in Allah. In Him I trust and unto Him I turn (repentant)".[44]

والسماء رفعها و وضع الميزان الا تطغوا فى الميزان ○

واقيموا الوزن بالقسط ولا تخسروا الميزان ـ

" And the sky He hath uplifted; and He hath set the measure.
That ye exceed not the measure.
But observe the measure strictly, nor fall short thereof".[45]

لقد ارسلنا رسلنا بالبينات و انزلنا معهم الكتاب

و الميزان ليقوم الناس بالقسط ـ

" We verily sent our messengers with clear proofs, and revealed with them the scripture and the Balance, that mankind may observe right measure...".[46]

ويل للمطففين ○ الذين اذا اكتالوا على الناس

يستوفون ○ و اذا كالوهم او وزنوهم يخسرون ○ ألا

يظن أولئك انهم مبعوثون ليوم عظيم ○ يوم يقوم

الناس لرب العالمين ○

Woe unto the defrauders:

Those who when they take the measure from mankind demand it full. But if they measure unto

[44] *Quran*, XI, 84-88. [45] *Ibid.*, LV, 7-9. [46] *Ibid.*, LVII, 25.

them or weigh for them, they cause them loss.

Do such (men) not consider that they will be raised again.

Unto an awful Day,

The day when (all) mankind stand before the Lord of the Worlds?[47]

عن ابن عباس قال قال رسول الله ﷺ لاصحاب الكيل والميزان انكم قد وليتم امرين هلكت فيها الامم السابقة ـ

(ترمذی)

"It is related on the authority of Ibn'Abbas, who reports the Prophet to have said to those dealing with weights and measure: 'You have been entrusted two things, which have brought about the ruin of former people.'"

Interest and Trade

An inquiry into the reasons which actuated Islam in forbidding interest and permitting trade is quite necessary at this stage.

Objecting to the view adopted by Islam in making trade lawful and interest unlawful most of the unbelievers protested against the measure. There is a reference to this in the *Quran*:

قالوا : انما البيع مثل الربوٰا

"Said they: 'Trade is just like usury.'"[48]

And even to this day enemies of Islam try to find fault with the Islamic view on the ground that

[47] *Quran*, LXXXIII, 1-6. [48] *Quran*, III.

if trade is lawful, why should interest-transactions be declared unlawful in view of the fact that it also amounts to trading in capital.

Islam has not illegalized all those transactions which produce income without labour; it has made lawful all that income which accrues from rent of agricultural land; it has legalized co-partnership in which one of the capital supplying partners becomes entitled to equal share in the income in view of the capital he supplies without taking any active part in the concern; it has also legalized rent from houses. With all these in view, one could easily argue that if a person who possesses a capital of Rs. 10,000 were to build a house, Islam would make lawful to him the rent of that building; if he were again to supply the said capital to a partnership concern, he would be lawfully entitled under Islam, to receive all the profits earned by that concern without his having taken an active part in that concern; if he were, furthermore, to purchase land with that amount, Islam would even then make lawful to him the rent of that land. If in all such cases Islam has made the income lawful to him, why has it then illegalized interest?

This problem has been discussed at length by a number of leading Jurists in their works. The gist of their contention we will give below. But we would nevertheless like to submit that the arguments advanced by the Jurists are either from the legal or the moral point of view; both these types of arguments hold good in their own fields. But from the economic point of view, they do not satisfy us. We will, therefore, attempt to put forth further arguments from the economic point of view after pointing out some of the most important arguments advanced by the Jurists.

In all worldlyt ransactions, the parties to the transaction usually sacrifice something ; for instance, a cloth merchant exchanges cloth for money. In examples of hire, for instance, in motor car, the owner of the motor vehicle puts at the disposal of the hirer his car, which is subject to wear and tear. Similarly after one year's occupation by the tenant, the parts and constituents of the premises occupied do not retain that original shape, nature or character, which was visible at the time of occupation. In short, in all cases of hire transactions, for instance, a motor car or a house, the owner regains mastery over his original belongings, which do suffer decay. As compared to this, a person who loans out Rs. 2,000 to another for a period of ten years, receives back his money unimpaired or in any way lowered in value. No one can say that the rupees advanced ten years ago have changed their character or value. What is still more, one particular rupee is as valuable as another, with the result that one could easily replace another, which means that neither has there been a sacrifice in the original character of the amount, nor in those of the attributes of the original capital advanced. If, therefore, the creditor were to receive monthly hire for the amount advanced from the debtor, one could easily ask: what has the creditor sacrificed or suffered in this transaction? Neither has he sacrificed the original capital nor its value. In short, the position of the creditor is quite safe and immune from any sacrifice. The position of his debtor is, on the contrary, quite different. If he spends part of his borrowings on his needs, he has nevertheless to pay the principal and the rent or the interest, although he has not earned a profit from it. If, however, he were to invest the amount of the loan in some business, it is even then not certain that he will always receive profit from it. On the contrary, the creditor's money is quite safe increasing day by day. Is there any resemblance, then, in the position of the creditor and that of his debtor, where the latter has invested his borrowed amount in a concern which stands the risk of sustaining a loss? To the debtor the doors of profit are usually closed. But to the creditor, whether his bebtor suffers a loss or gains a profit, not only is his capital advanced safe and secure but it is also increasing doubly and trebly (by way of compound interest). Can we, therefore, consider these two positions as similar? Can we compare an ever-healthy person with one who is sometimes healthy and sometimes ill? Experience and past records of history have shown that one-sided circulation of money usually affords an uncalled for accumulation of money in a group of people, whose needs are small but whose income (thus derived) is too much beyond their needs, with the result that this group (of capitalists), which usually comprises a very few souls finds it lucrative to advance money on interest. Their capital thus finds its way gradually into the homes of most of the masses, dragging in the long run whatever they possess of property or money along with it only to add to the already overfilled treasuries. After a century or so society exhibits all signs of the worst economic depression wherein the condition of the masses becomes deplorable while that of the above-mentioned money-lenders gets better and better daily There is, thus, patent in this the most hideous type of civil war. The episode does not end here. Then follows one of the worst things that society could present. Those who have thus accumulated their wealth, acquire strength by means of their affluence; as opposed to this, the starving masses make it a common course to fight with these capitalists. Revolts and revolutions take place and then follow the usual consequences Kingdoms are ruined, peace and security of life and property being in risk; the starving revolutionaries pounce upon and attack the very person of these capitalists, shedding their blood, and bringing about the worst type of massacre. History is repeating this very phenomenon in some parts of Europe

Now, this is all due to the careless disregard of the rules contained in اکل بالباطل (devouring unlawfully, that is enjoying the wealth of others without consideration) and لا تظلمون ولا تظلمون (You will not do injustice nor injustice will be done unto you).

Hafiz b. Qisam states in his *I'tamu'l-Muqi'in* :

فيربوا المال على المحتاج من غير نفع يحصل له
ويزيد مال المرابي من غير نفع يحصل منه لاخيه فيأ كل
مال اخيه بالباطل ۔ (ص ٢٠٠)

He advances money to needy (brother) on interest. The latter does not derive any profit from it, nor does his property increase thereby. But the creditor demands from his brother the interest for the sum advanced. Thus he devours his brother's property without any consideration, unlawfully.

Knowing well that full amount advanced is returned without its value or property having diminished, on what basis should the creditor demand 'interest'? In those countries, where such interest-transactions are legalized, the profession tends to increase day by day. This being the case it follows that every person who can afford to put back and save something will be declared to have been doing a great harm to the public in general, although he may be doing good to himself or to his family or to his class. And this profession can flourish only in that country the people of which hold that they exist either for themselves or for their own family and that they have nothing to do with other people of that country or town or city. But all this amount which they have acquired by means of interest on loans, has come to them not from their family or community, but from the residents of that town or country who had to borrow from them. It is a matter of great surprise that Europe, despite its claim to be a great upholder of nationalism and nationality, has not only given a legal sanction to the profession of money-lending but has, through its banking system also provided opportunities for others to join the groups of money-lenders by purchasing shares in such banks and suck the economic blood of the poor masses. While throwing a good deal of new light on the problem of 'Trade and Interest', Maulana Abul A'la Mawdudi has justly pointed out that the fundamental difference existing between Trade and Interest, and on the basis of which these two cannot be treated on par, from the economic and the moral point of view, is this ! [49]

(1) In trade the purchaser and the vendor exchange on the basis of equality. For the purchaser derives profit from that which he has purchased from the vendor, while the latter gets profit in consideration of the labour, sagacity and time

[49] Monthly *Tarjumanu'l-Quran*, Sept.1942.

which he spent in procuring that commodity for the purchaser—compared with this, in interest-transactions there is no division of profits between the two parties on the basis of equality. The creditor gets for himself a definite amount of money for his loan but all that the debtor gets is certainly the time to use the money, which time does not necessarily procure him profit. On the other hand, if he has borrowed for his domestic needs then certainly there is no possibility of any profit accruing to him from this time ; and if he has borrowed it with a view to investing in some business, 'this time' stands an even chance of producing profit or loss. The result is that one of the two parties to the interest-trans action gets profit 'certainly', while there is no certainty of profit in the case of the other.

(2) In trade, howsoever great a profit the vendor might demand from the purchaser, he does so only once. But in interest dealings the creditor does not cease to demand his interest (as long as the principal is also not returned). On the contrary, with the progress of time in the undischarged loan his dues go on

increasing year by year, month by month. Granting that the debtor has derived benefit from his loan, there are even then limitations to the extent of the benefit that he might have derived from the creditor's money. There are no such limitations in the case of the interest due to the creditor. It is quite probable, on the other hand, that all the resources of the debtor, his salary, his belongings and his household utensils may not satisfy the dues of the creditor.

(3) From the point of view of trade the moment a commodity is exchanged for its price, the transaction comes to an end. The purchaser does not give anything after that transaction to the vendor. In hire transactions whether of houses, land or other material, the original remains intact and is returned to the owner afterwards. It is only for the usufruct (use and fruit) of it that the hirer has to pay rent to the owner. But in the case of interest, the debtor actually spends the amount borrowed from the creditor and has to return the same amount with an addition by way of interest.

(4) In trade, professions and crafts, a person

derives benefit after undergoing labour, hardship or by his skill or art. In interest-transactions, on the other hand, he only lends out the surplus amount with him and becomes without any personal labour, skill or hardship, a prominent partner in the earnings of his debtor. The word partner is not used here in its technical sense which implies one who shares both profit and loss. On the contrary, he is a partner, without any liability for profit or loss, and irrespective of the proportion of profit gained or loss incurred in the transaction. He merely claims the interest which he has stipulated at the time of lending out his money. Looked at from the economic point of view, the difference existing between trade and interest becomes of fundamental importance which lends a colossal power to trade as one of the dominant factors in the progress and building up of civilizations Interest becomes, on the other hand, one of the disruptive forces from the point of civilization Again, from the ethical point of view interest creates in man the undesirable weaknesses of miserliness, selfishness, stone-heartedness, lack of sympathy and worship of money. It uproots the very foundation of humanity and mutual help. Thus, both from the economic and the ethical points of view, interest is one of the leading causes of ruination for mankind.

In the next chapter we shall examine the so-called difference between interest and usury.

CHAPTER III

INTEREST—USURY

Some Muslim enthusiasts, who have been blinded by the false light of modern civilization, and are to-day living in a world whose very civilization is built upon interest, say that what Islam prohibits is usury and not interest. But one may pertinently ask as to what do they mean by usury. The Oxford Dictionary defines usury as follows:

"Practice of lending money at exorbitant rates of interest especially at higher interest than is allowed by law." But what is an exorbitant rate of interest? A rate of interest which is considered as very moderate and reasonable to-day may be considered as very exorbitant and excessive to-morrow. The Co-operative Credit Societies in India were started to release the farmer from the clutches of money-lenders, who were charging very high rates of interest, and to provide them loans at a reasonable rate. In the twenties many Co-operative Societies were charging from 12 to 15 per cent interest and at that time it was considered a reasonable rate. But to-day, this very rate is regarded as most excessive and exorbitant. The law in India now regards about 9 per cent as a reasonable rate of interest in many provinces, while the Government of India is itself finding it very easy to borrow at 2¾ per cent. The Government of Hyderabad has recently borrowed one crore rupees at 2½ per cent interest The American Government, in spite of the war, is borrowing at one per cent per annum to-day, while hardly twenty years ago the loans arranged by the League of Nations bore as high an interest as 8½ per cent. The following details may be read with interest:

"In October, 1922, the League of Nations approved a scheme of 'financial reconstruction' for Austria and in June, 1923, a loan of £26,500,000 was floated taking the form of 6 per cent bonds, subscribed in Great Britain, the United States, France, Italy, Switzerland, Sweden, Belgium, Holland, Czechoslovakia, Spain and Austria itself.

"The London portion consisted of 14 million pounds, out of which over 3 million went to the British Government in satisfaction of outstanding claims, the balance being readily taken up by the public at the price of 80."[1]

Issuing at £80 and taking into account the premium at redemption, this makes the actual interest rate approximately at 8½ per cent. It is scarcely surprising, therefore, to read that the balance was so "readily taken up by the public", but it would certainly be interesting to know what proportion of this "public" were directly concerned with banks, insurance companies, or brokerage houses; or what

[1] Midland Bank "Review," London, May-June, 1928.

proportion was composed of friends and powerful contacts of the financial " experts " who drew up the scheme, and who were let in on the " ground-floor " of this deal. More especially, as this ruinous rate, which is normally associated with speculative ventures, was secured " by a lien on the gross receipts from the (Austrian) customs and tobacco monopoly ", and secondly, by a more sinister safeguard, by means of which " the League was empowered to appoint Trustees to control the service of the bonds."[2]

In September, 1933, a £4,500,000 Austrian Government loan was floated, and it transpired that this loan was secured on the Austrian Customs and tobacco monopoly subject to the prior charges of the loan referred to above.

It is obvious that the " financial reconstruction " of Austria has gone on apace, in spite of the desperate condition of the country. It is hard to see how a really disinterested League of Nations could possibly sanction such a series of transactions, involving, as they did, the increase of an already enormous external debt in Austria, and the mortgaging of the whole of the receipts from her tobacco and customs monopoly to pay high interest charges on a new string of loans. It is strange that the League officials representing many " creditor " nations, whose Treasuries are all engaged in a desperate struggle to balance their budgets, should not stop to consider

[2] Midland Bank " Review," *op. cit.*

what would happen if the whole of these receipts in their own countries were mortgaged up to the hilt to pay interest on foreign debt.

Perhaps it is only a coincidence, too, that throughout the length and breadth of Austria the products of the "Oesterreiches Tabac Regis Traffik" were advertised with such an unfailing energy and persistency; or that even in Budapest restaurants when the cigarette vendor pushes round his trolly, crying "Traffik, Traffik", Austrian cigarettes and tobacco should occupy such a prominent place in his collection. As the Austrian people—except to the small extent to which Austrian business and individuals have bought up these loans—do not get a cent of benefit from this organised pushing of their tobacco industry, it is hard to come to any other conclusion except that the League of Nations has been instrumental (perhaps innocently) in putting in a gang of international bailiffs into Austria (the Trustees empowered by the League to "control the service of the bonds") to the end that the country may be driven still further into poverty in the interests of the bond-holders.

There can be no doubt that the strained relations (November, 1933) between France and Italy, and Germany and Austria, on the other hand, were largely the outcome of this deliberate interference of finance in the internal "reconstruction" of the latter country; just as the root cause for the Nazi revolution and Germany's leaving the League was the British, French and American financiers' efforts, through the agency of the Dawes and Young plans, to put international bailiffs into Germany herself.[3]

France, in particular, "co-operated" with the League of Nations, in the floatation of loans not only in Austria, but in the Danubian states and indeed, in most countries, which hemmed in Germany. Germany not only resented these developments as political moves, engineered to her own danger, through the supposed impartial officers of the League, but she was particularly interested that Austria, at least, should attempt to shake herself free of foreign (especially French) control, obtained through the floatation of further international loans. Hitler, in effect, had declared a tentative war against international finance and all foreign loaned capital, and it is certain that a large amount of the opposition generated against this manifestly sincere internal reconstruction policy in Germany was due to this fact. France was working hand in hand with international finance using the catspaw of the League of Nations, to tighten her stranglehold on Germany through the financial control of the surrounding nations and a servile and finance-owned press had been deliberate in its efforts to discredit Germany throughout the world by the dragging of red herrings of all shapes and smells across the trail. '"The policy of the Nazis is instinctively rather than

[3] C. M. Hattersley's: "This Age of Plenty." These lines were written seven years before the second great war started.

factually in opposition to international finance, but the seeds of a conflict of tremendous dimensions are already sown; and it looks as if the powers of usury will force Great Britain to join France in an effort to crush Germany to-day, just as they forced her to fight a battle for usury, in combination with Germany against the continental system of Napoleon in the last century." [4]

An International loan to Hungary under the auspices of the League was floated in 1924. Bonds to the value of £10,500,000 with interest at 7½ per cent were issued at 88 redeemable in 1944 at par. "On money invested, and allowing for the premium on redemption, this loan yielded a rate of interest of nearly 9½ per cent."

It might be thought that, with the eventual promises of such an unusually high rate of interest, the loan would be rather precariously safeguarded; but as in the case of Austrian issue,

> "the loan was secured on specific revenues, namely those arising from customs duties, sugar tax and tobacco monopoly together with the net revenue from the salt monopoly:"

while also,

> "... the League was empowered to appoint trustees for the bond-holders, while the fulfilment of the programme of financial reforms with the aid of the loan proceeds was placed under the supervision of a Commissioner-General." [5]

[4] C. M. Hattersley: "This Age of Plenty."
[5] Midland Bank "Review," May-June, 1928.

The Hungarian exchange was artificially stabilized in relation to sterling, and the wanting bondholders who were to receive their financial manna from a Hungarian heaven were impudently assured that " the revenue .... at the time of loan far exceeded the amount required for the service of the loan."

" Unfortunately, the strain of providing this financial manna proved too much for Hungary. The once " ample revenues " rapidly dwindled away feeding this nest of cuckoos until, in December, 1932, officials of the Bank for International Settlements were forced to grant extension to a further $20,000,000 loan subsequently made to Hungary by a " Consortium of ten Governments ", which fell due at that time.

It was however feared that—

> " because of the difficult situation in Hungary, this extension would be insufficient to make any material difference in the status of the Hungarian finances, which are known to be so precarious that even though she does not demand a moratorium, Hungary may find herself unable to meet her obligations before the end of the year."[6]

Less than a week later a moratorium was declared apparently to " preserve the small reserve of borrowed gold by which Hungary still had to support its weakened currency."

[6] " New York Times ", December 16, 1933.

"Approximately two-thirds of all Hungarian foreign loans were affected by the moratorium, but it is highly suggestive to say the least that the financial manna was still vouchsafed to the faithful under the benevolent auspices of the League. for the official announcement included a statement to the effect that 'the League of Nations' loan of 1924 and certain others are exempted from the Decree."[7]

" Since the frist Great War. international loans. directly or indirectly controlled by the Loans Committee of the League of Nations, have similarly been floated in the Danubian States and Balkan countries. The payments of the interest on these debts have brought added misery to these countries during a period of unparalleled international deflation. and that. most if not all of them. were in partial or total default. In spite of the fact that the principal of these loans can never be repaid, and that interest can only be transferred by the acquisition of foreign currency through a favourable balance of trade. and that the difficulty of disposing surpluses to acquire this foreign currency is increasing every day the notice of the debtor countries' inability to pay had invariably met with an organised protest from the Council of Foreign Bondholders and the Loans Committee of the League of Nations. In most cases an expert from the League has been appointed to investigate the finance of the debtor

7 " New York Evening Post ". December 19. 1932.

country so as to prove that the debtor country can pay more than she is able to offer. These investigations have usually resulted in suggestions for internal economy and increased taxation in the debtor countries, so that the "service" on these foreign loans can be "facilitated."

"As the economic situation in these countries is especially desperate, and internal discontent is increasing every day, it is difficult again to come to any other conclusion except that the League is directly furthering the cause of war rather than of peace; and that, not only in the interest of various countries concerned, but in the interest of international constrium of foreign Bondholders. Although a certain proportion of these loans may be held by private persons who are naturally disappointed that the interest on their bonds is not forthcoming, and who therefore support the bailiff activities of Council of Foreign Bondholders and the Loans Committee of the League of Nations, there can be little doubt that the bulk of it is held by international financial interests which are entirely indifferent to the fate of the individual countries, whose declining industries they have battened on in the past, and which they still hope to exploit, in the absence of evidence as to its possibility, in the future. At the same time, the international moneylender, operating through the mechanism of the Wall Streets and Lombard Streets in all countries, and who recognizes no boundary to his activities, political or ethnographical, has contrived with internal ingenuity to suggest that the default on an American loan, floated (say) in Germany, is due to the dishonesty and evasion of the latter, and that American capital (*i.e.* the property of the American people) is in jeopardy. Suspicion and discontent is then generated in both countries; in America due to its fear for the loss of its "own" capital, and in Germany, because of the attempt to increase an already impossible burden of taxation in the effort to pay interest on it."[8]

If the main implication in the preceding paragraphs is doubted, perhaps the following evidence will serve to justify it. On August 30, 1933, the Bulgarian Government announced—

> "the early arrival of Mr. Charron, former Commissioner of the League of Nations to Bulgaria, to ascertain if the recommendations of the League Committee regarding financial organization are being carried out. If not, Geneva will send an expert to supervise the enforcement of the measures voted."[9]

This announcement followed a declaration of the Bulgarian Government to the effect that it was impossible to include in its Budget "the present non-transferable debt service" and suggesting a revision in favour of Bulgaria of some agreement made in 1926 in this connection.

[8] Jeffery Mark: "The Modern Idolatry" published in 1933.
[9] "London Times", August 31st 1933.

Similar representations made by Greece for the reduction of interest payments on its external debt were met by a "communique" which contained the following decision:

> "The Council of Foreign Bondholders and the League Loans Committee (London) after carefully studying the recent report of the League of Nations Financial Committee on Greece and after considering the further arguments put forward by the Greek Minister, are of opinion that these are not proposals which they can recommend the Bondholders to accept."[10]

In August 1933, a deadlock was reached in connection with the default of Rumanian external debt and a conference was suggested between representatives of the Bondholders and the Rumanian Government. As a preliminary to this conference the Bondholders suggested that:

> "a League of Nations' financial expert should be appointed to examine Rumania's position and that his recommendations should be made the basis of discussion at the conference."[11]

This leads us to the following conclusions:

1. The principal of foreign loans can never be repaid as this would automatically wipe out the whole of the International "currency" by means of which foreign trade is carried on;

[10] "London Times", August 11th, 1933.
[11] "London Daily Mail", September 1st, 1933.

2. The interest on foreign loans can only be paid in a rising world market, *i.e.*, during large wars when consumption is increased at the expense of mounting national debts in the belligerent countries, or through the industrial exploitation of commercially undeveloped nations;

3. The interest on loans cannot be paid in a falling world market, *i.e.*, when no large wars are in progress or when previously undeveloped countries have developed and are themselves seeking a share in the world market.[12]

"Under these circumstances (which obtain at present), all that can be done about foreign loans is,

(*a*) default,

(*b*) increase them through further foreign investment.

As an increase in foreign 'investment' only postpones the problem by increasing its dimensions and as under the present conditions of world trade, foreign investment is declining because debtor countries are now just as unwilling to accept further loans as creditor nations are reluctant to supply them, it follows that the recommendations of the League Loans Committee and the Council of Foreign Bondholders fly in the face of the most elementary logic and are calculated to increase suspicion and resentment in every quarter."[13]

If specific evidence is needed to support these

[12] C. M. Hattersley, *This Age of Plenty*.

[13] Hattersley, *op. cit.*

general conclusions, the following extract of a letter written to the "London Times" of September 12th, 1933, by Kalman de Buday, Vice-President of the Danubian League Society, and Secretary of National Hungarian Industrial Mortgage Institute, Budapest, should supply it conclusively:

". . . . the total annual service of the foreign debts of Austria, Bulgaria, Greece, Hungary, Rumania and Yugoslavia is about £39,000,000 at par and their combined balances of trade far from producing a penny for the payment of foreign debts even showed, in 1938, a deficit of £9,000,000, invisible exports being included."

Allowing for the reduction of interest the postponement of interest and amortization payments, the inter bank utilization of the blocked amounts and the possible transferable parts of the debt service, there will remain probably at least £16,000,000 at par which will be non-transferable for the time being and which should accumulate to £48,000,000 in three years."

The individual difficulty in coping with debt service under these impossible conditions was forcibly expressed for Rumania by M. Madgearu before a sub-Commission at the World Economic Conference:

". . . . In order to meet her foreign obligations Rumania has to export in terms of wheat twice the amount before prices fell; in terms of mineral oil three times as much; and in terms of barley five times."

"The burden of her public debt has thus been made intolerable and the domestic private debts of her citizens have been magnified in the same way and through the same cause"

With "Surplus" in every country, and with the growing imposition of tariffs and quotas to keep them out, how on earth is Rumania, or indeed any other country, supposed to be able to get the necessary foreign currency to pay interest on her foreign debts—except, indeed, through wage slavery and cut-throat prices for her exports so that she can undersell resentful home producers in the creditor countries themselves? This desperate vicious circle, which automatically creates dissension amongst creditor and debtor nations alike, need not be discussed here. M. Madgearu has since stuck to his point as the following quotation from a speech at Bucharest will show:

"Rumania cannot make the (debt) payments in foreign currencies until markets have been assured abroad for our surplus products. This has not been done up to the present, and to make things worse, prices of the products which Rumania exported have fallen considerably."

"Rumania cannot have its officials, widows and invalids to starve in order to pay debts abroad which have become burdensome." [14]

The League of Nations had not confined its efforts for financial "reconstruction" entirely to

[14] "London Times", September 12th, 1933.

Europe. Sir Otto Niemeyer, a member of the Financial Committee of the League and also a member of the Board of the Bank for International Settlements had been indefatigable in this cause in Brazil, New Zealand, Australia, India and elsewhere. He had left a trail of economy, increased taxation and a lowered standard of living behind him in every country which he had visited. The twenty-six odd Central Banks formed since the first World War essentially to facilitate the service on internal and external debt, have, in most cases, been brought into existence, directly or indirectly through the membership of the League, many of them under Sir Otto's direction.

The position is plain. Officials of the Bank for International Settlements, the Financial Committee of the League of Nations, the Council of Foreign Bondholders, representatives of such private banking houses as J. P. Morgan and Company, and certain independent but powerful financiers and financial combinations, have used the League of Nations first to create, and then press for interest payments on international debt whose very existence in falling world market was at the root of all trouble in international politics. In a world positively aching for peace and progress, the League was, no doubt unwittingly, active in the promotion of war and universal interest. Under these circumstances the policy of the financier as Geoffery Biddulph, writing in the "New English Weekly" for May 18th, 1933, says, has been "Never explain, never apologise";

while the public is forced to acquiesce in the "Central banks proceeding, from their position of complacent detachment to generate depression. unemployment, bankruptcy, budget deficit and defaults, with all the resulting political and social upheavals, while Government after Government is broken because it can neither stem the flood of ruin, nor even provide tolerable palliatives to alleviate the consequences."

Quite clearly with these debts weighing upon a system less and less able to support them, all countries concerned, creditor and debtor alike, suffer reciprocally and the only thing benefits—and that more and more precariously—is a vast nexus of international capital whose only excuse for existence is that interest should be paid on it. As this interest can only be paid by a desperate competition for the disposal of mounting "surpluses" in an ever dwindling market, this nexus of capital which manœuvres behind the screen and with the co-operation of the international machinery at Geneva, definitely exists to promote wage slavery and a lowered standard of living in all countries as a prime incentive to war. and as an organised menace to world civilization.

Early in 1933, the minority report of the League's Gold Delegation predicted that:

"Millions of people in this economically interlocked world must inevitably die of starvation and it is indeed doubtful whether our present civilization can survive."

The possibility of such supine insanity, seriously and solemnly predicted by an organization calling itself a League of Nations and that in a world affected with poverty because of abundance, suggested as Mr. Biddulph says, that a " society which submits to the hegemony of its bankers, and tolerates their moralizing, is hardly fitted to survive ".

The study of the foregoing pages clearly reveals the pernicious effects of debt and interest and clearly points out that interest is responsible for many of the world's troubles. There is no difference between interest and usury. As we have already remarked that a rate of interest (8½ per cent) which was considered 20 years ago by an expert body like the Financial Committee of the League of Nations, as reasonable, is now regarded as an exorbitant or usurious rate even in an economically backward country like India.

We have already quoted the definition of usury from the Oxford Dictionary and have discovered that an excessive rate especially above the rate fixed by the Government is a usurious rate of interest. In this respect the lead given by Islam is most clear and enlightening and puts all sorts of manœuvring of money-lenders to an absolute end. Islam has fixed a zero rate of interest and any rate above the zero rate is a usurious rate of interest. We have conclusively shown the fallacy of those who make distinction between usury and interest, and it is high time for us all to realise that Islam does not make any such compromise. It definitely prohibits all sorts of interest by whatever high sounding and persuasive names you may call it. It has given a very clear lead to the world the signficance of which is becoming more and more manifest and less and less questionable every day. And we only hope that it will not be long before it is openly acknowledged.

CHAPTER IV

ISLAM AND PROHIBITION OF BANKING BUSINESS

Many apologists of Islam who in their enthusiasm for the claim that Islam is a rational religion, have felt very much embarrassed when they are told that the banking system is essential for the development of a modern society, feel much perplexed when they are asked how can Islamic system work in a modern society when it prohibits banking business? These apologists have run mad with their excessive enthusiasm and have gone so far as to say that Islam is not against the present type of banking system; a section of these enthusiasts has even gone so far as to assert that the interest which the banks pay to their depositers or charge from their debtors is allowed by Islam, or at least is not prohibited by Islam. We think this is far from the truth. Many of us put our money in the banks and do accept interest. But personal weakness may be one thing. Many of us do not say our prayers regularly. But to defend a personal weakness as a principle sanctioned by Islam in spite of the express Quranic injunctions against interest is absolutely wrong and most wicked. We believe that their defence of the banking system is due to their ignorance or lack of intimate knowledge of the working of the banking system. Modern banks perform more or less the same functions which money-lenders performed before the banking era. It will serve a very useful purpose and throw a good deal of light on Islamic prohibition of the present banking system if we explain the genesis of the money-lender who is now being replaced by the modern banks. Lest we may be accused of any bias or stretching the thing too far in condemning it, we shall describe in the next section the genesis of the money-lender as stated by a very gifted Western writer, Mr. Jeffery Mark, in his book, the *Modern Idolatry*, from which we have already quoted so often.

THE GENESIS OF THE MONEY-LENDER

In the long process of effecting this vast appropriation and monopoly, finance has not proceeded openly and directly, but by a scrupulous attention to legislation concerned with the new relatively unimportant matter of note issue, has striven to give the impression that its procedure has invariably been constitutional, thereby producing a vague conviction in the public mind that the control of money is still with the public and their elected representatives. The issue and control of the metal "coin of the realm" is still in the hands of Governments; as it would have been impolitic to interfere with such a visible symbol of money authority an actual minting of coin by banks would be distrusted even by the least informed sections of the community. At the same time, the minting, maintenance and replace-ment of mutilated coin is a complicated and costly business which is conveniently carried on by the Treasury at the expense of the public. It is moreover available in such small amounts (compared with the total volume of bank deposits), that its control by Government does not interfere with finance's absolute control and ownership in the matter of notes and credit—which, conversely, are easy and cheap to print.

Before the development of the bank credit system, which now completely dominates the currencies of the world, the banks set their seal of monopoly on the issue of notes and have strenuously and usually successfully resisted every government attempt to issue them. This resistance and this victory have invariably been achieved in the claimant interests of "sound" money So that whenever governments during some period of desperate financial stringency have printed their own notes and put them into circulation, the banks have consistently warned the country of the dangers of "inflation" through the issue of "inconvertible paper currency" and have terrified peoples and governments alike by prophecies of a catastrophe if such printing press methods were continued.

Seeing that the banks have successfully operated their own printing presses to issue notes, 'convertible' into gold in a fluctuating ratio, with respect to deposits, of about one to ten. it will be interesting to discover what, in their opinion, constitutes 'sound' money and why the use of a government printing press, rather than a banker's printing press, should endanger it.

For the answer to this question which undercuts the whole of the past and present history of banking practice, it is necessary to go back several hundred years and consider the transition of the mediæval goldsmiths into money-lenders—the close and indeed exact relation of whose activities to modern banking methods is so ingenuously misrepresented in all the standard text-books on the subject.

Gold itself being the direct and virtually the only symbol of accumulated wealth in those days (notes and bank credit being still officially "undiscovered"), it was natural for merchants and private individuals to deposit their gold with gold merchants for safe custody; the glodsmith in return giving a signed receipt for the amount of gold deposited with him. The next stage of development was that:

"... these goldsmiths' receipts ... began to pass from hand to hand in settlement of debts, thus forming the original bank notes, since they had to be met upon presentation by the delivery of a specific amount of gold plate."

So far, so good! A great convenience has been effected for all the merchants concerned, and the goldsmith is entitled to make a charge for his service and safe custody. The currency—in so far as it is represented by these receipts—is on a true gold basis. For each receipt of note in circulation there is a deposit of gold in like amount at the goldsmith's, and consequently all can be redeemed in gold, even if they are all presented simultaneously. Under such circumstances the goldsmith would obviously have nothing to fear from a run on his " bank " for gold.

In practice, however, it was found that these receipts were so convenient that they were used (as currency) until they were worn out, passing from hand to hand exactly like a modern £1 note, and were only occasionally used for their original purpose of drawing out the gold plate from the custody of the goldsmith.

The goldsmith therefore found himself in virtual possession of a store of gold which was never claimed; and being very unwilling, as are our modern bankers, to see so much gold lying " idle " he realised that he could "lend" this remainder at "interest" with perfect safety, and thereupon proceeded to do so.

This procedure—the lending of money which is not the property of, but is only deposited for " safe custody " with the lender—is in itself entirely unethical, and is fraught with serious dangers for the community. It is, however, only the first step in the money lender's game.

In practice, the goldsmith discovered that less than 1/10 of the gold deposited with him was claimed and taken out at the same time, and that, therefore, he always had more than 9/10 which he could lend out at interest. He therefore issued to the borrowers his signed personal notes for gold on demand for his nine-tenths remainder. These were used by the borrowers to pay their accounts or debts, thereby also passing into circulation as money.

Here again his personal notes functioned so successfully as a medium of exchange that less than one in every ten—ona n average—were presented for redemption in gold at the same time. He therefore found that he could not only lend more than nine-tenths of the gold originally deposited with him, but also that he could issue his new personal notes to borrowers up to ten times the amount of his remainder and be quite certain that, in practice, not all of his gold will be withdrawn (through the presentation of his original receipts or his subsequent personal notes) at one and the same time. If, therefore, he could always supply gold on demand for the proportion of notes continually presented for redemption (actually, at any time, always less than one-tenth of the total number of receipts and personal notes in circulation), he could maintain the illusion that the whole of his note circulation, receipts and personal notes alike, was "backed" by gold.

The successful maintenance of this illusion, which depends essentially on the proportion of people in the community who, in practice, are likely to and do present their notes for gold redemption at the same time, is the "convertible paper" and the "sound" money of the modern banking system. Let us now consider some of the extraordinary consequences of this procedure. There were, let us suppose, ten original depositers, who each left with the goldsmith gold equal to one major unit of the currency. There are now in circulation ten goldsmith's receipts collectively equal to and actively functioning as ten units of currency. But by loaning out the nine unclaimed units of gold to 90 borrowers as described (each borrower being assumed to borrow one unit of currency), 90 of the goldsmith's personal notes are now in circulation and also function as 90 units of the currency.

By virtue of the illusory gold backing to his notes (the illusion never being destroyed as no more than nine notes are simultaneously presented for the 10 units of gold in his vaults), the goldsmith has created 90 units of currency, which were not in existence before, which he claims as his property, which therefore must be repaid him, and on which he will charge interest, say at 5 per cent until such time as they are repaid him.

If we suppose him to charge a similar rate to his original depositers for this "safe custody" of their gold, the fact emerges that there are now 100 units of currency in circulation; 10 the property of the depositers and 90 the property of the goldsmith, with a fixed yearly charge owing to the latter on every unit.

It should be understood that the actual process of withdrawing gold (unless for "hoarding" purposes) eventually meant the acquisition of this gold by some other individual, who would, in turn, deposit it with a goldsmith.

In this way, the original stock of deposited gold, although continually being withdrawn and deposited by this process, remained substantially the same, and was thereby always at the disposal of the goldsmiths as gold "backing" to their note circulation.

It should be remembered that, at the beginning of this proceeding, the goldsmith owned nothing whatsoever (if he did, he could and would generate a similar cycle of debt creation, based on his own gold). At the end of the transaction, the original depositers still own the same number of currency units as they did at the beginning (if they earned more in trade, and deposited the gold equivalent of all or any part of it with the goldsmith, this would similarly enable the latter to initiate a further cycle of debt creation, up to ten times the amount of such deposit). Whereas the goldsmith now owns, and therefore controls 90 units of currency; his total yearly receipts for both service charge and interest (over and above the ownership of the created currency) being 5 units of currency, *i.e.*, half the value of the original gold deposits—the whole of this extraordinary creation and appropriation of interest-bearing currency being based on other people's money deposited with him for "safe custody".

If we add to this the fact that these "fictitious loans" (to borrow a convenient phrase from Professor Sodey) were only granted against evidences of tangible security deposited with the goldsmith in an amount always in excess of the loan, and that this security was confiscated by the goldsmith if these "loans" were not "repaid" when called, we have an accurate picture in miniature of the modern financial system under whose dictates we all necessarily live and suffer. Modern finance, even in the complicated medley of bugaboo which is carried on under the sounding titles of High Finance and International Finance, is simply a vast elaboration and mystification based absolutely on these simple monstrous principles And were it not for the fact that it is necessary, unfortunately to prove to an incredulous public that exact relationship exists, this study of the modern financial system might well stop here. For, undoubtedly, if these mediæval precedents were universally understood and appreciated, the world today would have no difficulty in solving its desperate economic problems.

Since the time of the goldsmiths, these money-lending principles have been extended to the exclusion of all other methods of creating money. Whereas in mediæval times the money-lender functioned side by side with the authorised issuers of the "coin of the realm", the majority control has gradually passed from the latter to the former, until today the money-lenders of the world are incorporated under a legalised system, known as the banking system, which is so organised nationally and internationally that 98 per cent of the money in and out of circulation belongs to them, while all new money is created as a debt in their favour. Under these circumstances industry's need for more money to meet its continuous expansion, is necessarily and simultaneously the modern financier's opportunity to create an equivalent debt against the community—a debt which it is mathematically certain it can never repay

This rise to power has been accompanied by a notable change in the social status of the money-lender. It is only necessary to refer to such a figure as that of a Shylock, in the "Merchant of Venice", to realise that (quite apart from all racial or confusing sentimental considerations) the money-lender of a mediæval or early renaissance times was despised and hated figure. People thought and felt a little more directly in those days and although their knowledge of the actual working of the money-lending game was probably just as vague and elementary as it certainly is today, they somehow arrived at a correct estimate of the money-lender's position, *i.e.*, as a vampire, who visibly lived by first injecting and then sucking away the very life-blood of social and industrial enterprise.

When the blood-stream of the body politic, then as now, is enlarged by the creation of new money (debt), it eventually returns to the money-lender vitalised and enriched in its passage through the industrial cycle by the addition of interest corpuscles which have been acquired at the expense of the society. But the root of the trouble is not so much that the money-lender thereby lives comfortably and ghoulishly on the life-blood of the body politic, as that the heart of the system (the pump which controls the heart of the system of issue and withdrawal of credit) is outside the organism itself. Under these circumstances, natural development is fundamentally inhibited to the ultimate discomfiture of organism and money-vampire alike. It is curious therefore that the first step necessary to revive the anæmic organism of the body politic today is to put the heart back into the organism, *i.e.*, allow credit to be issued and controlled automatically by the dynamics of industry. In this way, the mutual relationship as in the human organism, between bones, flesh and bodily activity on the one hand and the blood streams on the other, would be established. As it is, money is now issued for usurious purposes only, while the total amount issued is determined, eventually, not by the vital needs of industry and society, but by an entirely fortuitous circumstances—the amount of gold that happens to be in existence in the world at that time. It is only just, therefore, to point out that, if the money-lender is our master, he, in turn, is dominated by gold, which is still enthroned at the very apex of the modern idolatry; and that his position as high-priest is ratified by common consent and full legal authority.

It seems that, without comprehending it, mediæval mind instinctively felt this, and the money-lender continued to be feared and detested by people in or out of their clutches. In the mea-time, kings and emperors were too busy amon t each other to bother about how money came ir existence, and were themselves driven to usurers fr money which they needed for wars and other eme-gencies. Thus it came about that:

" The Imperial Democracy that held the worl beneath its sway, from the Senators who bore hi-toric names down to the humble tillers of the so, from Julius Cæsar down to the smallest shopkeep in a back street of Rome, was at the mercy of a sma group of usurers."[1]

The indebted kings were compelled to give not issue privileges to the money-lenders.

"As an expedient for gaining money for Willia III's Continental Wars against Louis XIV... th capital of £1,200,000 being at once subscribed. Th whole of this amount was lent to the State at 8 pe cent per annum, to which was added £4,000 a yea for the expense of management. The Bank wa empowered to issue notes to the same amount, bu not beyond."[2]

With this rate of interest guaranteed by th State, it is not surprising to read that the capital wa " at once subscribed ". Since that time, its power t issue notes, "not beyond " the amount of this capita

[1] G. Ferro. " The Greatness and Decline of the Roman Empire, Vol. VI, page 223.

[2] Earnest Sykes, "Banking and Currency," London, Butterworth, 192

has somehow expanded to its first world war total of £550 million while its control over the issue of credit to a total of some £2,000 million, is absolute.

But the money-lender's rise to respectability and power was definitely achieved at the end of the eighteenth and the beginning of the nineteenth centuries. When the banking house of Rothschild controlled the destinies of Europe and the profound issues which devolved from the French Revolution much more absolutely, if a good deal less spectacularly, than did Napoleon. Their position thus acquired was firmly consolidated by their close co-operation with Metternich in his subsequent determination of European policy and the "balance of power" Since then they have been universally accepted by Church and State through the silent assertion of their money authority ; and the sinister nature of their origin has been entirely forgotten.

The change from greasy gaberdine in the back streets of Venice to top hats in Threadneedle Street has been the change from a sinister skulking, despised but still in complete power, to an equally sinister but now open autocracy, which received the full measure of public approval. Of the absolute authority of finance today there can be no question. To those who still cling to an illusion that politicians. bishops, military authorities. judges and educators. or some combination of any two. three, four or all five of them have the fate of nations and the world in their hands. it should be unnecessary to submit evidence to the contrary—for that evidence is everywhere and because the ultimate authority must, in the very nature of the case, be with finance.

The graphic description of the origin and the development of the money-lender as sketched by gifted Western writer conclusively shows that the modern banker at least in spirit is not very different from the old money-lender. Therefore banking nothing but money-lending and borrowing at interest and Islam has very justly condemned it. The present bankers are nothing but glorified, chartered and licensed money-lenders.

FEELING AGAINST MODERN PRIVATE BANKS

Banks are not without their critics even in Western countries. A good deal of ill-feeling prevails against modern private banking. As a matter of fact, in most advanced European and other English speaking countries it has been more and more emphasised that banks should be nationalised.* A number of Central Banks that have been established after the Great War are not the pure and simple share-holders' Private Banks as was the case with a number of such Central Banks before the last Great War.

The new banks are either State Banks as the Reserve Bank of New Zealand or public utility corporations as the Reserve Bank of India. The movement for the nationalisation of the Banking system

*The first Act of the Labour Government when it came into power in 1945, was to Nationalise the Bank of England.

and taking it out of the private hands is greatly gaining momentum and is gaining the support of eminent economists. As a matter of fact banking is one of the very few spheres wherein certain matters State interference is not only desirable but essential. To prove this contention, we have the authority of the very man who revolted against the interference of State and advocated the doctrine of Laissez Faire. Adam Smith remarks when dealing with the subject of banking, " these exertions of the natural liberty of a few individual, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments of the most free as well as of the most despotical."

Economists are notorious for their differences, but banking, fortunately, is the only field where an assembly of economists, considering the matter from a purely theoretical point of view, would vote with a preponderating majority that interference by the State is justified in some form or the other. Of all enterprises banking perhaps is the most suitable for the State to undertake. The writer during visit to Europe in the summer of 1938, consulted several prominent economists of the Laissez Faire school and they all agreedt hat on theoretical grounds there could be no objection in the undertaking of certain banking functions by the State, though some were reluctant to recommend such a measure on political grounds.

THE PLACE OF BANKS IN THE ISLAMIC SYSTEM

Those who boast of the wonders of the modern world and point to big banks and financial houses as the achievements of the modern world, should know that Islam made a definite provision for a "Central National Finance House" with its branches all over the country. That Central Finance House was the Bait-ul-Mal. Bait-ul-Mal is just the prototype of a modern central bank owned by the State and performing all those functions which a modern central bank is expected to perform except the issue of currency. The issue of currency has rightly been entrusted by Islam to the State. One can have as well a developed and modern system of banking under Islamic State as one wishes, with the difference that it shall be free from the defects of the present banking system. All the present banks can be allowed to continue in the Islamic State with two modifications. (1) They should not pay any interest to their depositers. This should not be difficult to achieve. For, at present, a number of banks in England do not pay any interest on current accounts. The small interest that is paid in England on Fixed Deposits, varying from ¼ to one per cent, can be easily abolished without in any way affecting the savings. (2) The banks should not charge any interest from their clients. This, to many people, perhaps, would seem most revolutionary and unpractical suggestion. They would at once say, "Oh!

this is absurd! How can the banks work without charging for their service? This apparently seems a very formidable objection, but it loses its force if we examine the matter a little more dispassionately.

In the first place, if the banks are able to borrow all their funds without paying any interest, why should they not be able to lend it without any interest? It shall at once be remarked that how are their service and establishment charges to be met? But what about the service and establishment charges of hospitals and public utility institutions? If banks are really the pillars of modern society and their service is so essential for its well-being, why like all other essential services should this service also be not made available to the public and the cost of this service along with the establishment charges be not debited to the State? This cost is not likely to be very heavy when we remember that on account of this free service, the wealth of the country is likely to increase and its taxable capacity is bound to improve. Thus the State through an increase in its revenue can easily pay for this service. But the banking system under the Islamic system will be something more than this. It will be an asset to the nation and will be able to meet its own costs. This will become clear from the following analysis.

The great charge against the modern banking system is that it accelerates booms and during this period encourages unhealthy investments which in the long run cannot pay their way. In the periods of rising industrial activity, the banks grant loans freely and this encourages all types of industries. As the demand for loans increases, they increase the rate of lending because the expectations of earning profits in industries are high. The industrialists are prepared to borrow even at higher rates. When the banks realise that they have gone too far, they call back their loans and this results in a general desire to be more and more liquid. Funds are recalled. Further loans are withheld. Industry, however solvent, finds it difficult to repay. Economy and retrenchment become the order of the day. Unemployment increases and all these forces perpetuate the depression.

The banks place their own interest prior to the interest of the industry as they have no real share in it. They are only the creditors of industry. This serious defect in the banking system is being felt more and more every day. In the countries that have been developing their industries recently, it is frequently asserted that banks should play more and more important part in the financing of industry and that banks should have closer relations with industry.

This can be achieved only if the banks instead of becoming creditors of industry, trade, business and commerce, become their partners. Islam prohibits interest but allows profits and partnership. If the banks instead of allowing loans to the industry, become its partners, share the loss and profit with it. there is no objection against such banks in the Islamic system. As a matter of fact, it is the only way to co-ordinate finance and industry in which both have equal share and this alliance between finance and industry will result in a healthier development of finance, trade and commerce on the one hand and a closer relationship with industry on the other. Thus, this long-felt need of happy marriage between finance and industry can only be realised fully and effectively under the Islamic system.

The profits that these banks will get by alliance with industry will thus be more than enough to meet their establishment and other charges, and the fixed rate of interest will no longer be allowed to exercise its tyranny on industry. When banks will be partners and not mere creditors of industry, they will co-operate much more effectively. We give below the scheme of Free Money and the Abolition of Debt from Jeffery Mark's book, "The Modern Idolatry," which bear ample testimony to our contention. Although we do not agree with some parts of this scheme, but we are giving it simply to suggest that Mr. Mark is thinking more or less on Islamic lines though, apparently, he seems unaware of the teachings of Islam. He suggests that all forms of private banking at interest should be forbidden by law and all deposits and credit balances should be taxed. He does not know that over 1360 years ago Islam prohibited all interest and levied a tax of 2½ per cent in the form of Zakat on all surplus funds.

Here is his detailed scheme of Free Money and the Abolition of Debt as explained by Mr. Mark.

FREE MONEY AND THE ABOLITION OF DEB

" The now universal adoption and compt legal ratification of the principle of usury, agai the authority of these high precedents, has cau money and credit, as well as the gold on which i based, to be regarded as a highly priced interest-be ing commodity, which can be bought and sold in national and international markets. This traffick in the money commodity is the true and sinis function of the international financiers and heads of the central banks, whether they realise it not. It is this trafficking, and usury's emph upon it, which has brought about the progres decline of money as a medium of exchange, whic its true, and which should be its only function."

As has already been stated, money and credi the blood-stream of the body politic. It cam therefore, be regarded as the property of, or hoarded. through investment by any of its memb Goods are not exchanged because the medium exchange is restricted through investment, interest payments on which chiefly go to fee permanent blood clot in the diseased brain society. This is the socio-biological explanation the excessive " intellectual " rationalising acti and the choking academicism which exists in forms of sociology, art and industry today.

It is clear, therefore, that money should, and indeed must, be regarded simply and solely as a claim on goods and service, and, as such, a thing of no value in itself. In the light of this conception, money as a claim should be issued and circulated so as to make that claim effective on all the goods and services created by the community.

To bring about a situation in which money will come to be regarded purely as medium of exchange, the financial mechanism must be altered so as to prevent people from saving and thereby creating interest-bearing debt through the investment of these savings They must be prevented from saving and creating debt and forced to spend and consume.

A moment's thought will make it clear that people save for one or two reasons, or for both. They save because they get interest on their savings, whether left on deposit or invested, and they save. because of the general feeling of economic insecurity which, under usury, now exists in an age of unparalleled plenty even more than in the days of actual scarcity.

As both, the promise of interest payment and the artificially-created scarcity in an age of plenty, are brought about, as has been shown, by the operation of the principle of usury in its major and minor forms, this practice must be abolished, not only in the relationship between the banks and the public (the major form), but also in the relations of mutual indebtedness between individuals and business (the minor form). It is only because banks are legally entitled to claim interest on their fictitious loans that they are expected to pay interest (albeit at a much lower rate), on "deposits". And as capital can also be borrowed privately, through loans or investments, the lender is equally entitled to charge whatever rate of interest he can get.

In order to cut this situation clean away, Mr. Mark considers the following propositions to be essential :

(1) Governments must resume their control over the issue and ownership of all forms of currency, whether in coin, notes or credit. The banks would be left in charge of all administration, and would be recommended for doing so, as explained in section (6) below.

(2) The Government must be required to hold, through the agency of its banks, or be fully empowered to demand, the minting, printing and issuing of currency tokens, in such proportion between bronze, nickel, silver, gold or notes as may be discovered to be best in practice—in whatever quantities they may be demanded by the public.

In practice they would probably be demanded and circulated in less quantities than at present, as payments would tend, more and more, to be made by cheques.

(3) All these tokens, whether bronze, nickel, silver, gold or notes, must have the same status as currency, up to the full amount of their denomina-

tion, and must be accepted equally as legal tender for all transactions, irrespective of the amount in which they may be separately or conjointly presented.

(4) The gold standard, in both its internal and international aspects, as a basis for currency creation and as a basis for the creation and resolution of internal and external debt, must be abolished in all its forms. Glod might be used for the minting of metal coin, but it would be purchased at its market value as a commodity. All existing external debts would be paid, if they were ratified, in goods.

To these four, the following two should be added since these are of special significance at this stage of our argument.

(5) Loans must only be granted against the deposit of evidence of fixed assets owned by the borrower. The accumulation of these assets by the community as a whole, should be the only authority for the expansion of a currency.

These loans should be repayable, and property should be distrained on, as at present, if they are not repaid. As, however, these loans are held by the Government, acting through the banks on behalf of the community, all such distrained effects would revert to and would become the property of the State.

(6) All deposits and credit balances should be taxed. This would take the form of a combined yearly charge for service, safe custody and punitive taxation.

This charge should be greater than that necessary to pay the entire cost of all bank administration and should be increased, if possible and necessary, so as to form part of the permanent machinery of taxation.

It is obvious that under this new form of taxation proposed in section (6), savings would be reduced to a minimum. As savings in any deposit circulation cycle automatically create an unpurchasable "surplus" of commodities relative to that cycle to an equal amount; it is only fair that savings should decrease.[3]

Securities and all other instruments of debt, would cease to exist, as individuals and businesses would not borrow privately at interest when they could obtain Government-issued bank loans free.

All buying and selling of gold at fancy prices, all trafficking in the money-commodity would automatically cease, as well as all buying and selling of shares, bonds, debentures and all the absurd paraphernalia of the present debt-structure; all the sordid bargaining of brokers and investment trusts and all "bulling" and "bearing" in these transactions; all financial corporations and underwriting companies and all the pyramiding of these corporations and the fictitious expansion, contortion of the capital values involved through stock market mani-

[3] It should be remembered that we are here concerned with the complete internal distribution of production, under a system in which foreign trade would not take away "surpluses" by forced absorption, as at present, but would be the complementary and voluntary exchange of goods to mutual advantage.

pulation ; all commissions and take-offs on these transactions ; all discounting and rediscounting of bills and successive bidding for them ; all National Debts and interest payments thereon ; all offering and competing for Treasury Bills, and all the disastrous transferring of short-term capital for speculation in Foreign Exchange.

In short, all debt (except bank loans, extended to and held in trust by the Government for the people) and all the present machinery for its negotiation, would automatically disappear. The entire accounting of industry and society would be organised from a centralised, responsible institution and would consist solely of book entries. An impartial and expert monetary research authority would compile statistics from this accounting, in relation to the rise and fall of industry, and would advise modifications and improvements. Brokers and speculators would be taken away from the prosecution of what is, in effect, a vast, legalised racket, and would be free to participate in the material and spiritual reconstruction of society. All the present interference with and the ghoulish sucking away of the blood-stream of the industrial organism would cease. The money-changers would be driven from the Temple, which, in this sense, is the material welfare and the free opportunity for the development of the human entity, individually and collectively.

As a precautionary measure, all forms of private lending at interest would be forbidden and punishable by law. The Catholic Church would reassert and reinforce its traditional ban on usury.

The general tendency would be borrow rather than save so that the volume of money in existence (although largely a matter of book entries) would continually increase, and the volume of wages, salaries and "profits", as well as the volume of goods, with it. This would not result, as at present, in inflation and a rise in prices, as the increase in the volume of money would always be balanced by the appearance of an increased volume of goods, marked up at a price which would invariably recover all production costs, for the simple reason that all the costs, distributed as wages, salaries, overhead and "profits", would be spent. The rise in prices, which under the present system always accompanies inflation and expansion of the currency, is due to the fact that expansion itself creates a corresponding increase in savings, investments and the unpurchasable "surplus", and so raises the price of that which is purchased.

To get the situation completely into focus, it should be realised that a certain proportion of goods is always physically unobtainable because it is in the process of delivery. All the channels of distribution from the factory and the retailer's shelves which store the goods, to the vans whichactu ally deliver them to consumers, contain and, under the most efficient conditions are indeed full of goods in the process of delivery. If they are not full, delivery is retarded, and the whole productive mechanism thrown out of gear. Inasmuch as under the terms of the analysis in this section, "surpluses" (*i.e.*, goods not bought and therefore not consumed internally), are created by savings and investments, deposits must always be in existence in an aggregate amount at least equal to that proportion of the production flow which, at all times, is in transit to the consumer. As the productive mechanism expands, the financial equivalent of this wealth in transit as well as the total of savings in existence, must increase proportionately ; and *vice versa.*

The main function of the monetary authority, already referred to, should, therefore, be to regulate the tax on deposits so that the aggregate of savings is equal to the financial value of this "wealth in the pipes", as Professor Soddy calls it. If the tax tends to decrease savings fall below their running aggregate of wealth in transit then it must be lessened ; and *vice versa.* This fluctuating taxation rate on deposits, fixed from time to time by an impartial monetary authority, would exist as a true bank rate, calculated specifically to facilitate distribution of the whole products of industry to consumers.

If, in practice, it is found that the tax on deposits which is necessary to keep aggregate savings and wealth in transit in equilibrium, yields an amount greater than that required to run the banking system efficiently, the margin will be passed on to the treasury to spend. If it is less, it will be supplemented by direct taxation on income.

As, however, some form of saving for individual and business will be necessary—probably in excess of that which, in the aggregate, is equal to the total wealth in process of delivery, it is essential that these savings, and particularly those coming under the head of insurance, should be held in trust and then spent by the Government in the interest of the community in general. As the Government would create and control the whole of the currency and will not, as at present, be working under an external and ever-increasing debt to its banking system, all forms of taxation will be concerned, on the one hand, with the mobilisation of all savings, personal and commercial and, on the other hand (through the spending of them), with the (indirect) distribution of the corresponding commodity, "surpluses" to the community.

Seen in this light, it is obviously immaterial whether these community savings, collected through taxation, are redistributed as insurance benefits, old-age pensions, or in the promotion and maintenance of social services of all kinds. If an individualistic rather than a socialistic basis for insurance in all forms is favoured, an account of savings recovered through taxation might be kept with respect to every individual, so that he or she might receive disbursement, during disability or retirement in proportion to his or her contribution through taxation. The most important thing, however, is that these savings should be spent and that as soon as possible, so that the community shall receive all that it produces as soon after it is produced as possible.[4]

With all incomes spent as soon as possible after they have been received, loans will quickly be re-paid. New incomes will immediately be generated by the circulation of new loans themselves based on the continuous accumulation of fixed assets in each succeeding cycle. All assets acquired by the State by distraint on loans not repaid will be sold in the open market as soon as they are acquired.

Under these, circumstances, it is clear that through this continuous taxation of savings (supplemented, if necessary, by direct taxation of income) the Government can finance, without the creation of any public debt whatever, not only all forms of insurance and poor relief as at present administered, whether privately or publicly, but also finance schemes—

(*a*) for the building and entire maintenance of all hospitals, "work-houses", lunatic asylums and prisons;

(*b*) for all public works, whether of commercial, social, artistic or ethical nature;

[4] In Mr. Mark's opinion all systems of insurance, under any system, ought to be controlled by the Government and all profits spent in the interest of the community Insurance companies work under a system which makes it mathematically certain that they make large profits and as such the whole net-work of private insurance today is another vast legalised racket.

(*c*) for the voluntary retirement from active participation in industry and the maintenance of all adults above a certain age; and

(*d*) for the education and maintenance of all juveniles until such time as they may be thought to be fit under the continuous evolution of all social standards to participate actively in industry.

Here it should be understood that no particular emphasis is intended for governmental as opposed to private or municipal organisation support of these social services. So long as these services are created and maintained by savings (in direct contradiction to their financing by loans as largely at present), it is again immaterial whether they are financed by deposits privately held or by municipal or Government taxation of those deposits. In general, the extent to which these services will be supported and administered publicly rather than privately, will depend on the extent to which savings are persisted in, in face of municipal or Government taxation progressively increased against them.

It is difficult, indeed, to imagine a Government or Municipal Treasury free from all debt, and free, therefore, from the necessity of increasing it through the continuous flotation of new Government or municipal loans, whether as long or short-term issues. Under the conditions outlined above, the sole function of all municipal or governmental bodies would be to recover through taxation, all savings (beyond that necessary to equal the value of all wealth in transit); to supplement the yield, if necessary, by direct taxation of income; and to spend all of it in social services, as described above. on behalf of the whole community.

With such an automatic mechanism in operation. the miser would involuntarily benefit the community in exact proportion to the scope and extent of his service. And here it should be understood that the word "miser" includes all hoarders of currency, whether in gold, coin, notes or credit. The historical miser, who accumulated and gloated over his collection of visible gold or coin, is in no way different from the modern miser—essentially a financier in a private or public capacity—who invariably spends a fraction of his income and reinvests the remainder.

This circulation of money, in all its forms, is, at present, the circulation of the evidence of debt, and the hoarding of it, whether in coin or notes, or in the piling up of securities originally derived from loans or savings, constitutes a prime interference with the flow of the very life-blood of industry. Under usury, the social system is nothing more or less than a vast, organised legalisation of this fatal principle of interference.

Under the system outlined above, the central bank, which would receive the totals from all individual banks in the system, would thus contain a summarised record of all internal transactions. As already explained, all loans from the banking system, inasmuch as they will initiate the creation of plant and commodities, as well as the complementary distribution of wages, salaries and profits to this amount would be written up to the credit of the community. All repayments of these loans, effected, as they are, by the purchases and consumption of these commodities would be written off against the total of all loans outstanding. The net balance, at any time, representing commodities held in the system and not consumed, would therefore stand, as it should, to the credit of the State.

The function of the Monetary Research Authority would be to regulate the tax rate on savings so as to keep these two totals, loans issued and loans repaid, as far as possible in equilibrium—not forgetting, of course, the necessary reservation to balance the wealth in process of delivery. This, although an important, should not be a very difficult matter. The main function of the Government should be to determine to what extent this constant source of income should be supplemented by direct taxation of income for maintenance of such social services, on the lines already indicated which it, as representing the wishes and as guardians of the welfare of the people, might consider advisable.

With regard to foreign trade, all that would be necessary would be for the banking system to finance the importation of goods by a similar extension of free loans to home traders (and not through the discounting and selling of bills of exchange, as at present). These loans, representing the ultimate importation of Real Wealth into the country would automatically, as in the case of all other loans from the banking system, be written up to the credit of the community. Proceeds from the sale of imports, representing foreign consumption of internal production would be used, of course, to repay these loans and would through the mechanism of the deposit circulation cycles, automatically be written off against them. In this way, imports would stand, as they should, as a credit to the community, and exports as a debit.

There would then be no suicidal onus on any country to acquire either a favourable balance of trade or suffer an "unfavourable" balance as at present understood. The effort would be, as in internal accounting to keep the national trading account more or less in equilibrium so that internal production, through such a complementary exchange of goods against goods with other nations, would be altered as to diversity and quality, but not as to financial value. The problem of distributing this mixture of domestic and foreign produce to citizens collectively of equal financial value at all times with that of internal purchasing power, would thus remain absolutely the same.

If Mr. Mark had taken a little trouble to study the Islamic literature on the subject, his task would have been certainly much simplified. Instead of arguing in such a roundabout way, he would have achieved his purpose with a very simple and cogent explanation.

In Islam the sole monetary authority is the State. The Baitul-Mal performed the functions of a State Bank and the 2½ per cent Zakat levied on those who had surplus funds, was spent on the activities mentioned on pages 169-170 and many more. Deposits were received free of any payment. As a matter of fact, in some cases, the depositor had to pay for the safe custody of his funds and in addition had to pay the Zakat at the end of each year. This tax on the one hand helped to raise funds to be spent on welfare activities thus helping the poor and on the other hand gave an incentive for the investment of idle funds. Trade and commerce in the Islamic system are encouraged by the active participation of the finance with trade and industry and the absolute prohibition of money-lending, but at the same time allowing profits from investment and partnerships on the condition that risks were also equally shared.

CHAPTER V

THE EFFECTS OF USURY ON SOCIETY

The ordinary effects of usury and consumption loans on society are too well known to be mentioned here in any details. It is well known that such loans not only cripple the borrowers but also demoralise the lenders. In India it is said that " a cultivator is born in debt, lives in debt and dies in debt ".[1] If once a person gets into the clutches of money-lender, he always remains there and although he continues to pay the interest, and the amount paid by him as interest in many cases exceeds several times the original sum borrowed, but, in spite of these heavy repayments, he is not able to repay the principal.

Sir Malcolm Loyal Darling in his classic book, *Punjab Peasants in Prosperity and Debt*, remarks that the interest paid by the cultivators in the Punjab is twice the amount of the total land revenue payments. Comparing the poverty of the Punjab peasants and the prosperity of the money-lenders, he observes that in every village the best house usually belongs to the money-lenders.[2] There is no doubt that the money-lenders perform very useful service

[1] Report of the Royal Commission on Agriculture in India.
[2] Darling, M. L., *The Punjab Peasants in Prosperity and Debt*, Oxford University Press.

in the rural economy of the country and help the cultivators at times of need, but the cost of this help is very disproportionate to the service rendered. It has been very pertinently remarked that this "credit holds the borrower just as the rope holds the hanged ".

It is very strange to observe that in highly civilised Western countries and the United States of America, where the State spends a good deal of money on social services and provides all sorts of amenities either free or at a nominal price, no arrangements have been made to provide loans free of interest or even at the bank rate of interest to needy persons. Such unfortunate persons have to resort to pawn-brokers and have to part with their best and dearest possessions, which are sometimes the very necessaries of life, such as, personal wearings, etc., and borrow at a rate of interest (which is sanctioned by the law) which we can hardly believe. In England the pawn-holders are allowed 48 per cent interest.[3]. In the United States the rate varies from State to State, varying from 30 to 60 per cent.

It is hardly necessary for us to describe the disastrous effects of such usurious rate of interest on the lower classes of society. Such loans degenerate the borrowers and create a very mercenary, greedy, selfish and unsympathetic outlook in the lenders. This situation exists not in the poor countries only,

[3]British Money-Lenders' Act, 1927, section 10.

but also in rich countries like Great Britain and the U. S. A. The following account of the widespread use of usury and consumption loans in most highly civilised countries given by Mr. Ryan may be read with interest.[4]

There is not much controversy about the fact that the working population even in countries with a developed banking system—such as England, the U. S. A., Germany—has nowadays only negligible banking credit facilities and must satisfy the pressing needs for credit through various other channels.

In the U. S. A. half of the wage-earning population lacks banking credit facilities, according to Bergengren's estimate.[5] Another authority's estimate that in 1911, 20 per cent of the voting population were borrowing from the money-lenders and usurers. The deficiency of credit organisation is recognised in the U. S. A. and the United States Ministry of Labour has admitted in its official organ that the bank, as an institution, has not reached the " great body of persons with small incomes. In times of financial stress, most of these persons know only two avenues of relief—charity and the loan shark".[6]

In Germany, too, those with the keenest insight into modern banking problems have come to the same conclusion, that the German Credit Banks have done

[4] Ryan, *Usury and Usury Loans.*

[5] Bergengren, *Co-operative Banking.*

[6] *Monthly Labour Review*, November 1930.

little up to the present for the working popula and for the small producers. Recent figures p lished in Germany fully confirm this conclusion.

Small borrowing is generally a result of pres need. There are many emergencies—death, sick and accidents—which must be met by immediate penditure, whether ready-money is at hand or In addition, the system of weekly or monthly w makes it very difficult for wage-earners to buy of the present income, expensive articles such furniture and clothes which will remain in use a considerable period. Consequently, credit p chasing from shopkeepers has long been an est lished practice, and in recent years it has b transformed into a kindred system of great mag tude. The hire-purchasing system, which invol in the U. S. A. an annual turnover of many milli of dollars, demonstrates very clearly how extensi the present demand for credit; the urgency of n is made obvious by the revised policy of the operative Movement in Great Britain in the mat of hire-purchasing. Even that long establish steady and financially conservative movement h to depart somewhat from the strict cash trad methods instituted by the Rochdale Pioneers.

Apparently a proper organisation of financ credit facilities will be the best method of deal with the over-extension of the hire-purchas system and the evils which it involves; but present the organisation of personal credit is still the initial stage, as the individual borrower belonging to the working population has not much security to offer. He is, therefore, fully exposed to the dangers of usury, and it is necessary to find some means of protecting him not only by law, but also by a proper credit organisation.

The following examples, illustrating the situation in Great Britain; the U. S. A., India, etc. show clearly how pressing is the need of combating usury.[7]

Usury in Great Britain

The far-reaching effects of usury in Great Britain can be seen from the Report by the Joint Select Committee of the House of Lords and the House of Commons on the Money-Lenders' Bill (H. L.) in 1925, and from the enquiry into the money-lending evil in Liverpool in 1924.

The people realise the magnitude of the money-lending business in England. The representative of the Money-Lenders' Association explained to the Joint Select Committee, that "Money-lending is an enormous trade. I give you the figures. Will it surprise your lordship to know that there are upwards of 30,000 registered money-lenders in this country.[8] It was also disclosed during the investigation into the money-lending evil in Liverpool, conducted by the Social and Industrial Reform Committee of Liverpool Women Citizens' Association in 1924, that there were in Liverpool and Birkenhead

[7] This section is based on Mr. Barou's book on Co-operative Banks.
[8] Report of the Joint Select Committee, H.M.S.O., London, 1925.

1,380 registered money-lenders in a population of 1,005,900, or one money-lender to 730 inhabitants.

The rates of interest charged are equally appalling. Sir Mackenzie Chalmers (former Permanent Secretary of the Home Office) pointed out to the Joint Select Committee that " the ordinary terms on which the working class borrowed were these :

As a rule there were two sureties ; a joint and several note for £5 was signed ; £4, 10*s.* were advanced with a provision that in case of default, or default in instalments, the whole sum should become due with interest at the rate of half penny in the shilling a week. This, I think, works out about 250 to 260 per cent. But the rate paid to the money-lenders is frequently over 400 per cent. The most usual rate of interest charged by the 100 women money-lenders in Liverpool appears to be a penny in the shilling per week, or 433 per cent per annum although cases of 1*d.*, 2*d.* and even 3*d.*, in the shilling per week have been known ".[9]

Easy borrowing becomes chronic, and the borrower frequently raises a second loan to pay the first. The money owed on the first loan is deducted from the second, and the transaction starts again with perhaps double as much to repay. The report gives a number of examples of borrowers who thus become hopelessly involved. Some of the cases cited by this Committee are scarcely credible Mrs. K—

[9] Sir Mackenzie Chalmers' evidence before the Joint Select Committee.

for instance had six loans in five years on this system. The first was for £6 for which she had to pay £9. She renewed for a larger amount each time and finally had to repay £110 although she had received only £30 in cash.

It is very interesting to note that there are different types of money-lenders for the well-to-do and the poor; the latter are charged much higher rates. The types of money-lenders were thus described to the Liverpool Committee. Those of class (1) for the richer people investigated in the enquiry, charge a minimum rate of interest of 22 per cent per annum, and after considerable pressure and delay they could usually produce some record of the case in question. They all quoted number of cases of fraudulent borrowers who had caused them serious losses, and they usually stated that their terms were much easier and more lenient than those of other lenders. Of the money-lenders forming class (2), in the poor streets, in every case examined by the investigators the interest charged was 1*d*., 2*d*. and 3*d*., in the shilling per week (equal to 433 to 866 per cent and 1300 per cent per annum).[10]

That the position has not much improved since the publication of the Report can be seen from an article in 1930 on the subject by the Chairman of the General Council, British Trade Union Committee, who denounced usury as one of the worst of

[10] Report of the Liverpool Committee on the "Evils of Money-Lending."

the evils besetting the working classes. "In many factories," he writes, "a money-lender will be found. The factory money-lender is usually an adult working for another who would not be allowed to enter the works. The business of the agent is to keep a watchful eye for a worker in trouble, and then wait for the luckless one to come for the loan. I have known cases of a loan of £5 on which interest is paid at the rate of one penny in the shilling. Week after week the interest mounts, while the loan shrinks but slowly. One case of this has been revealed in a London factory where the poorest of women are employed. It was discovered that woman had repaid in two years over £12 for the £5 borrowed. Mr. Clarke Hall, the Magistrate in Old Street Court, is indignant that as much as 180 per cent interest is paid. Perhaps he would be still more outraged if he realised his inability to prevent two, and even three hundred per cent interest".[11]

That for the last century the struggle against usury has made little progress in an advanced country like Great Britain can be seen, by comparing the evidence presented above with the fact that in 1846 the working population in England paid to pawnbrokers not less than 100 per cent per annum.

Usury in the United States of America

The position in the United States of America is no better than in England. There is a keen demand for money; the number of money-lenders is

[11] *Daily Herald*, August 6, 1930.

considerable, and there is no lack of borrowers. Mr. Ham, Director of Division of Remedial Loans of the Russell Sage Foundation of New York, in an address delivered in 1911, asserted that in every city or town with a population of more than 30,000 one usurer was to be found to every 5,000 of population, but the position has become much worse since.

Money-lending in the United States today is a complex organisation. It exists practically in every city and town and there has been built up a large organisation and a systematic technique of business, nonetheless effective because contrary to law. Not only do the money-lenders—the so-called "loan sharks"—charge extortionate rates, but some of the banks too have been trying to do the same. Mr. J. S. Williams, Comptroller of the Currency, announced in 1915 that 1,247 banks in 36 States covering 36 per cent of the area of Continental United States outside Alaska, in their statement of September 2, 1915 admitted under oath that they were charging on some of their loans rates in excess of the maximum rates permitted by the law of their own States or of the United States ; 1,022 National Banks in 25 States were by their sworn statement, charging an average of not less than 10 per cent and in some cases 18 per cent, on all their loans.[12]

He pointed out also that the maximum rate charged by 20 widely-scattered banks was 100 per cent and more per year. These charges of usury,

[12] *New York Sun*, November 27, 1915

brought against the banks, were investigated in 1916 by the House of Representatives of the U.S.A. and it was discovered that they were well founded.

Usurious rates are charged not only on secured business, but also on mortgages. This was disclosed in New York by the Lockwood Committee, which made an investigation of the housing difficulties in New York City in 1921, and incidentally unearthed a large mass of evidence that mortgage lenders have been breaking the New York Usury Law by charging interest from 20 to 50 per cent on real estate loans.

In so-called the "salary purchasing" business the evil of usury manifests itself in an extremely dangerous manner. "Salary purchasing" is described in a report as follows[13]:

"A so-called sale of wages is a simple transaction . . . . The would-be borrower, calling at a salary-buying loan-shark office, signs both parts of a two-part perforated sheet, one part of which is headed "Application to sell Account for Wages or Salary" and the other part of which is a standard bill of sale. On the bottom of the bill of sale the borrower is required to write 'this is a sale not a loan'. Only those who have wages already earned may secure such a loan. The bill of sale calls for delivery of the wage sold, plus the lender's discount at pay-day. The date line is left blank. Should the borrower fail to appear on pay day and deliver the

[13] Report by Leon Henderson, Russell Sage Foundation.

amount promised, the shark fills in the current date and notifies the employer, asking that the employee's next wages be delivered direct to him. The rate is never less than 260 per cent per annum and is usually higher".

Joel D. Hunter, General Superintendent of the United Charities of Chicago, concludes from an investigation in 1926 into salary purchasing by lenders in Chicago that, "There are some cases where the rate amounts to almost 40 per cent a month . . . . These companies rely almost entirely on the fear existing in the minds of the wage workers who are in their clutches".

Despite these abuses the fact remains that the registered money-lender fulfils a definite economic function. He depends on a steady demand for credits which cannot be eliminated by merely restrictive measures. The truth of this is borne out by the annual report of the Supervisor of Loan Agencies in Massachusetts, who writes, "There is always a general idea abroad that if the licensed lenders lose money and go out of the field, it is, perhaps a good thing This assumes that when legitimate capital goes off the field, borrowing ceases. This is untrue. When legitimate capital goes out of the field, the loan shark appears; that is, because borrowing is a necessity, and as long as the demand exists, some supply will meet it".

Islam has been fully alive to the needs for loans by needy persons and gives definite injunctions for providing loans to such persons free of interest.

Usury in India

Two official publications[14] have recently drawn attention to the dead-weight of debt which hangs round the necks of the working population in India and to the system of usury which undermines any attempt at improving the general conditions of life throughout the country. The Labour Commission Report emphasises that " among the causes responsible for the low standard of living of the workers, indebtedness must be given a high place . . . the majority of the industrial workers are in debt for the greater part of their working lives".

" It is estimated that in most industrial centres the proportion of families of individuals who are in debt is not less than two-thirds of the whole. We believe in the great majority of cases the amount of debt exceeds three months' wages, and it is often far in excess of this amount". The common rate is, " one anna in the rupee per month", or 75 per cent per annum, " much higher rates are also charged, 150 per cent or more per annum being by no means uncommon, one of the enquiries mentioning 325 per cent annually (one anna per rupee weekly) on small sums". " We believe that debt is one of the principal obstacles to efficiency because it destroys incentive to effort".[15]

[14] Statement of the Moral and Material Progress in India, 1929-30, H.M.S.O., London, and the Report of the Royal Commission on Labour in India, H.M.S.O. 1931.

[15] Report of the Royal Commission on Labour in India, pp. 224-226.

Usury in Agricultural Countries

From the numerous enquiries conducted in various agricultural countries it can be inferred that usury is a social evil of very great magnitude, involving millions of borrowers and causing great suffering and vice. The small landholders in agricultural countries are even more mercilessly exploited by usurers than the working population in the towns. "In most semi-civilised countries", writes Taussig, "the village usurer, who lends at high rates to the improvident or necessitous, is a familiar figure. The peasant of Hindustan lives upon a very narrow margin . . . . Not only is he often necessitous, he is often improvident. At the marriage of a daughter or at a funeral he will squander sums quite out of proportion to his means and will borrow on any terms to raise the money . . . . The usurer has him in his clutches . . . . In many parts of Europe, in Austria, in Ireland, in Russia, the lender of small sums to agricultural producers is a usurer. That is he is removed from the influence of competition, he lends to poor and ignorant persons, and he exploits the possibilities of the case".[16]

The main evil effect of usurious borrowing by agricultural producers lies in the fact that the money borrowed does not increase the productive capacity of the household.

The borrower, as Karl Marx has very rightly

[16] Taussig, *Principles of Economics*, Volume I.

observed, "has no occasion to borrow as a producer. When he does any borrowing of money he does it for securing personal necessities".[17] This destroys any hope of improvement in the economic position of the borrower and merely tightens the grip of the usurer, making the struggle against usury in the village increasingly difficult.

One fails to understand that when these countries can spend millions of pounds on providing free education, free medical aid and other such amenities of life, why no arrangements should be made by the State to provide loans free of interest to needy persons for consumption and other such purposes?

Provision in Islam for Consumption Loans

Islam makes definite provisions for meeting such exigencies. First, it has made it incumbent that no interest should be charged for such loans. Secondly, the Islamic institution of Baitul-Mal makes provision for providing loans free of interest under such exigencies. Islam not only makes provision for such loans but also advises its followers that the best service that they can render to themselves and to society is even to remit the principal of such loans when it is discovered that the borrowers are not able to repay their obligations.

The Minor Importance of Consumption Loans

It is frequently asserted that we need not attach

[17] Karl Marx, *The Capital.*

much importance to personal types of loans which, in modern society, are very insignificant as compared with the total loans raised for non-consumption purposes. But this is far from the case as we have shown in the previous pages. Therefore there is a very urgent need to provide this most neglected social service.

Effect of Usury on Loans for Non-consumption Purposes

The two main categories of loans in these days are : (1) Government loans, (2) Business loans. Let us first examine the effects of interest on Government loans.

The Effects of Interest on Government Loans.—Government borrowing is for two purposes :

(1) Productive purposes ;

(2) Unproductive purposes.

We shall discuss the productive loans of the Government under the business loans as the two are fundamentally the same. Here we shall examine the effects of interest on loans which are borrowed by Government for non-productive purposes. As the most important of these loans are war loans, and since they have been attracting attention these days, we shall discuss them at some length.

The Effects of War Loans.—One of the major causes, if not the entire cause of public debt in the modern State, is debt due to the financing of wars, which has assumed staggering heights.

The war debt payments which had to be made by 28 countries in 1931, thirteen years after the end of the First Great War, amounted to 57,741,547,000 dollars. This amount does not include the reparation payments which Germany had to make and which originally amounted to 132 billion gold marks What have been the effects of these loans on the economy of the world? The question has been very thoroughly discussed in a publication of the Brookings Institute. Although the U. S. A. was the principal creditor country, the author of this publication, Mr. Harold G. Moulton, a very distinguished economist of the U. S. A., well known internationally for his many other standard economic publications and his distinguished colleague, Mr. Leo Pasvolsky, have come to the conclusion that—

(1) " a complete obliteration of all reparation and war debt obligation would promote, rather than retard, world economic prosperity.

(2) the collection of the inter-governmental debts would be economically detrimental rather than beneficial to the creditor countries."

"The basic economic implications of the war debt problem are clear. The attempts to collect obligations, resulting not from productive economic developments but from the destructive process of the war, have only served to impede the restoration of international economic equilibrium and world prosperity. While the obligation of the war debts would not solve all the manifold difficulties under which the world is labouring, economic analysis leads unmistakably to the conclusion that the restoration and the maintenance of world prosperity will be rendered much easier if the disorganising effects of the war debt payments are eliminated once for all".[18]

These conclusions are very significant from the economic, and to our mind, from the Islamic point of view. Before stating the Islamic point of view, we shall mention few facts.

These war debts exercised very demoralising effects on the economy of the world as a whole and served to perpetuate the world economic depression which it is believed was the severest and the most prolonged depression in the known annals of world history. As the original war debts were very heavy these were adjusted several times in order to bring these nearer to the repaying capacity of the borrowers, but the machinery broke down in 1931, when President Hoover granted moratorium and finally when Hitler came into power, he repudiated all such debts in 1935, thus closing a very sad chapter of the first world war But, unfortunately debts have reached to still further heights in the second world war.

Inequality of Sacrifice.—It is strange to observe that while there is conscription of man-power in the war in most European countries, there is no conscription of capital. Let us take the ex-

[18] Moulton and Pasvolsky, *War Debts and World Prosperity.*

ample of England, where all fit adults betwee the age of say 18 and 45 were conscripted an had to offer their lives for the sake of their countr In that very country there was no conscription capital. The following account given by Mr. Jeffe Mark, in his very trenchant book, may be read wit great interest.[19]

"To common sense as opposed to financi reasoning it should appear that the war was real paid for during its progress as are all constructive destructive enterprises, by the expenditure materials and the labour of men which went to i furtherance. The fact that a large part of the com modities created were blown to smithereens on t battle-fields, and the lives of a million men and th complete or partial maiming of millions of othe went to swell the totals of labour time expended home on the creation of commodities for use or d struction, does not interfere with the fact that th gross expenditure of life, labour, and materials w the real cost of the war and that this cost was pa on the nail while the war was in progress.

How then does it come about that the count still is paying for a " cost ", which it has in reali already paid, by interest payments on an enormo increase in the National Debt at the rate of near three-quarters of a million pounds per day? Th British tax-payer is still paying interest on t money borrowed by the Government to finance t

[19] Jeffery Mark, *The Modern Idolatry*, *op. cit.*

war that ended in the Battle of Waterloo (1815). The American tax-payer has already paid back four times over the money borrowed to finance the Civil War and still owes, with interest, another billion dollars.

The profits and capital appropriations made by the profiteer as well as by these intermediate financial enterprises were similarly used, to some extent, to buy up war loan. This increased the volume of the National Debt.

Specifically the increase in the National Debt from £700 millions to £7,000 millions was made up of four factors. Firstly, by a reinvestment of pre-war assets ; secondly, by small holdings purchased out of savings ; thirdly, by an interest-bearing gift of £1,000 millions in favour of the British Banking system ; and fourthly, by purchases largely made by the profiteers and financial *entrepreneurs* referred to above.

If we assume that the first two factors increased the original £700 millions to £3,000 millions (probably an over-estimate) it will be seen that of the remaining £4,000 millions, one-quarter was appropriated by the banks and three-quarters by the profiteers and financiers.

It should, however, be realised that the estimated £3,000 millions of war loan held by the latter represented only a small part of their gross capital accretion during war. In fact, it is of prime importance to realise that the circulation of bank deposits two and a half times the volume of those of 1914, generated capital—that is debt-claims on industry, far in excess of those which were in existence in the pre-war periods. The financial cost of the war, that is to say, materialised as debt-claims which now form the greater part of the gross capitalisation of the country. In the short space of four years, the financiers and profiteers referred to above appropriated the larger part of these debt-claims . . . part of which appropriation is represented by holdings constituting probably more than half of the whole of the National Debt.

So that, although the war was actually paid for, during its progress, by an extraordinary expenditure in human life, labour and materials, the financial equivalents of this expenditure, which is now substantially the gross capitalisation of the country, was largely appropriated as incontrovertible debt-claims by a small minority composed of bank shareholders, independent financial enterprises and profiteering industrialists; while the soldiers were given a shilling a day to risk or lose their lives in France or elsewhere so that this process might be supported.

The soldier returned to a civilian life with virtually no claim on this new capitalisation whatsoever. In fact, far from deriving any capital benefit from these transactions, he actually lost part of that which he did possess by giving up his job and means of livelihood; while he and his family were grossly under-recompensed for loss of life, health and limb.

The Lead given by Islam

In this matter Islam provided a very clear lead. In a National War, Islam not only conscripts labour, but it also conscripts capital. The wars in Islam are to be financed by the generations who live in that period and are not allowed to leave any legacy of interest-bearing debts. No interest-bearing war loans are allowed by Islam. If the physical brunt of the war is borne by the existing generations of mankind there is no earthly reason why the financial burden should also not be borne by the present generation, instead of transferring it to the posterity and crippling its future productive power. If a soldier who offers his services for war pays for it, why should a capitalist who has surplus funds and places it at the disposal of the nation be allowed to benefit not only throughout his own life, but his future generations should also benefit by inheriting the war loans and demanding interest on them, thus crippling future generations and destroying empires.

The way the debt has destroyed empires in the past may be realised from the following examples.

Debt and the Destruction of Empires

The greed of money-lenders has been responsible for the destruction of many empires. G. Ferrero's great work *The Greatness and Decline of Rome* gives numerous illustrations to show how the Roman Empire was destroyed owing to the sinister influence of the money-lenders. In those days, "Italian society had become an inextricable labyrinth of debt and credit, through the agency of "Syngraphae" or letters of credit, which were renewed as soon as they fell due, they were negotiated in the same way as securities and bills of exchange today, because the scarcity of capital relative to the debt-structure and the frequent oscillation in prices should have made it ruinous for them to be renewed frequently. The desperate competition for wealth in which all Italy was engaged . . . (all which ended) as it seems that all such competition will always end, in a gigantic accumulation of vested interests which it needed nothing less than a cataclysm, to break down. The empire was broken by usurers and usury."

McNair Wilson, the author of *Napoleon's Love Story* contends that the French Empire and Napoleon were beaten through the influence of finance. He remarks, " It cannot be too strongly insisted that finance and not territorial aggrandizement is the key to Napoleon's reign. Had the French Emperor consented to abandon his financial system in favour of the system of London—that is in favour of the loans by the money market—he could have had peace at any time." Jeffery Mark, the author of *Modern Idolatry*, further observes in this connection that, " It should be necessary to add that historians, writing in the interest of modern democracies, based on usury, have completely falsified this situation. Napoleon, according to them, was a romantic figure who was nevertheless 'dangerous' to the peace of Europe. Napoleon was only 'dangerous' to the dominance of the usurers, and the most significant thing about him is that he was loved by his people and served by his soldiers with a loyalty and devotion which is probably unequalled in all history. He was with them and was fighting for them and they knew it ".

Lawrence Dennis, in a speech before the Bureau of Personal Administration, New York City, on January 19, 1933, was even more emphatic. He observed :

" Aristotle, the Roman Catholic Canonists, the Jewish Torah . . . all forbade loans at interest, or denounced interest as usury. Lending at interest took its rise in the mediæval centuries largely as a matter of accommodating princes who needed and could not raise enough money for war and other public purposes.

Contrary to current ideas, lending was not originally developed as a way of financing commerce. The Venetians, Dutch, Henseatic, British and other merchants up to the 17th Century financed their operations with partners' capital contributions ".

Mr. Dennis then further remarks that " The Catholic Canonists did not disapprove of profits on commercial ventures, rent for the use of land or of the sale of the fruits of the land or other capital. They disapproved of money interest on money lent.

" During the Reformation Period, interest came to be rationalized mainly by the Protestants in a way to get around Canonist objections. The Catholic Church never abandoned its attitude towards usury, but it acquiesced in, or tolerated loans on, the basis of certain assumptions.

"This moral acquiescence by the Catholic Church and positive endorsement by the Calvinist traders came to be embodied in laws and thoughts and behaviour patterns of modern societies".

The results of this sanction are too well known to be described. The following observations of Jeffery Mark may again be read with interest :

"The now universal adoption and complete legal ratification of the principle of usury, against the authority of these high precedents has caused money and credit as well as the gold on which it is based, to be regarded as highly-priced interest-bearing commodity, which can be bought and sold in the national and international money markets. This trafficking in the money commodity is the true and sinister function of international financiers and the heads of central banks, whether they realized it or not. It is this trafficking, and usury's emphasis upon it, which has brought about the progressive decline of money as a medium of exchange, which is its true and which should be its only function.

As has already been stated, money and credit is the blood stream of the body politic. It cannot, therefore, be regarded as the property of, or be hoarded, through investment by any of its members.

Goods are not exchanged because the medium of exchange is restricted through investment, the interest payments of which chiefly go to feed a permanent blood clot in the diseased brain of society. This is the socio-biological explanation for the excessive 'intellectual' rationalizing activity, and the choking academicism which exists in all forms of sociology, art and industry today".

These defects are now realized by keen observers. Mr. Arthur Kinston, in his evidence before the Macmillian Committee on Finance and Industry on May 15, 1930, said emphatically:

"I am against usury in every form. Usury has been the curse of the world from the beginning; it has broken other empires than this, and it is going to break this empire. There is not a single great moral or religious teacher who has not denounced it."[20]

No attention, of course, was paid to this evidence by the "experts" who made up the Committee; although in its widest possible aspect, Mr. Kinston has summed up the situation exactly.

Difference between Profits and Interest

Most of the opponents of the Islamic theory regarding interest assert that when profit is allowed by Islam, and when it also allows unearned income, there is no justification in prohibiting interest which is only a profit on the lending of capital. We shall

[20]Macmillian Committee Report: Minutes of Evidence, Vol. III, p. 335.

discuss this matter at some length in a later secti[illegible] but we might mention here that in this matter Isl[illegible] has endorsed and confirmed the view of the Chr[illegible]-tian Church.

Aristotle and other ancient philosophers a[illegible] held similar views. Islam, in the same spirit, allo[illegible] profits, but prohibits interest because the effects [illegible] fixed interest-bearing loans are very detrimental [illegible] business, trade and industry.

We shall examine these implications in the ne[illegible] chapter. We would like to conclude this chapt[illegible] by quoting some figures showing the colossal amou[illegible] of interest charges which the U.S.A. has to pay [illegible] her war debts.

" Since the adoption of the United State Const[illegible]tution in 1789, wars have cost America more tha[illegible] its total accumulation of wealth since that tim[illegible] according to a report by the University of Illion[illegible] The University's Bureau of Economic an[illegible] Business Research has issued a statement, saying[illegible] ' Since 1789, approximately 85 per cent of all Feder[illegible] expenditure has gone on purposes connected wit[illegible] war—an amount estimated at 414,000 million dollar[illegible] This figure compares with a total valuation [illegible] property and wealth in the United States at 300,00[illegible] million dollars.

" The last war cost America nearly six times [illegible] much as all previous wars combined," the Burea[illegible] estimates.

The War of Independence cost 500 million dollar[illegible]

The Civil War, for both sides, cost 14,000 million dollars, World War I cost 33,000 million dollars. The Mexican War, Indian wars, and Spanish-American wars brought the direct war cost by 1921 to 52,000 million dollars; and World War II cost 320,000 million dollars.

Our present public debt of 275,000 million dollars, except for approximately 35,000 million dollars which were borrowed to cover budgetary deficits during 1930, has arisen almost entirely from warfare. The annual interest charges alone in the post-war period will be about 6,000 million dollars."

CHAPTER VI

THE EFFECTS OF FIXED INTEREST-BEARING LOANS ON BUSINESS

This is perhaps the most crucial point of our thesis. It is commonly asserted that when Islam has allowed trade, it has allowed profits, and when it allows unearned income in the form of rent from land and income from property and profit from sleeping partnership, what justification is there for not allowing interest on business loans, most of which are productive in their nature ? This prohibition in the eyes of critics becomes all the more objectionable when they are told that even in the modern commerce, trade and industry, Islam permits the income received by the shareholders of the companies but objects to the income from bonds and from other fixed interest-bearing securities.

Apparently this seems a very formidable objection and many well-read Muslims who do not possess adequate knowledge of the intricacies of the working of the modern economic mechanism, have been influenced by these objections and have even gone to the length of declaring that all these loans are of impersonal type and are granted for productive purposes, hence the interest earned from such investments does not come under the category of Riba, which Islam has prohibited keeping in view the conditions then prevalent in Arabia.

We think such persons have done a great disservice to the cause of Islam. As Muslims it is our faith that the teachings of Islam as a religion are not confined to the desert island of Arabia alone. We believe and believe rightly that the teachings of Islam are universal in their bearings and are applicable to all countries, societies, civilizations, and to all times.

The studies of modern sciences and that of economics in particular has enlarged our faith in the teachings of Quran and the reading of the most advanced treatises on economics has convinced and confirmed our belief that Islam provides very definite solutions for our problems, and those problems which seem most baffling to us today and he best minds of the modern progressive world are unable to solve, Islam provided very easy and clear-cut solutions several hundred years ago. We have already discussed the baffling aspects of war debts and have shown how Islam has provided their solutions.

Now we shall first analyse the implications of fixed interest-bearing securities, however productive such debts might be and their effects on economic mechanism, and then shall proceed to discuss the solution provided by Islam.

It will be conducive to clarity of thought and a better understanding of the problem, if we answer certain objections first as to why Islam has pro-hibited interest, and secondly, why it has allowed profits and other unearned incomes.

In our discussion of the various theories of interest, we asked the question why is interest paid and showed conclusively that all the prominent schools of economics have given varied answers to this simple question and none of these answers is satisfactory. It is asserted that if the borrower of money is able to earn an income by its use, why should the lender be deprived of this? But at the same time it may be asked if the borrower incurs loss by the use of borrowed capital, why should the lender be allowed to insist on his "pound of flesh"? Islam provides the middle way. It says you should lend your capital to those who stand in need of it. If they gain by the employment of your capital, you should share the gains with them. If unfortunately they lose in their venture, you should be prepared to share the loss also. It should not be "heads I win tails you lose".

This is simple enough and needs no further elaborations, to show why Islam is against the lend-
as ing of money. It is against lending it ~~at~~ a predeter-mined contract of repayment with additions whether the borrower gains or loses and in which the lender has the right to insist on his pound of flesh. It is usury. But if money is lent and gains and losses are shared, it becomes business partnership. It

very much encouraged by Islam because Islam knows that capital is essential for the development of trade, commerce and industry. The difference between fixed rates and non-fixed rates is not imaginary or a mere case of hair-splitting and allowing a thing by another name as it is sometimes asserted. It is far from being so. It will become very clear if we ask what is the difference between a shareholder of a company and a bondholder of a company ; for Islam allows shares and prohibits bonds. Those who are not fully acquainted with the modern business mechanism are likely to quote this as an extreme instance of hair-splitting. We have already remarked that this is far from the case. There is a fundamental difference between bondholders and shareholders. The shareholders are the owners of a company. They have a right to have their say in the management and the affairs of the company. The Board of Directors who manage the company are all elected by the shareholders and can be removed by them. They manage the affairs of the company on behalf of the shareholders and the policy of the company is eventually determined by the shareholders.

As the shareholders are the owners of the company they share its fortunes as well as misfortunes. They earn good profits when the company is doing well and they get negligible or even zero profits when the company is not doing well. On the other hand the bondholders are the creditors of the company.

They have only lent some money to the company at a fixed rate of interest.

They are not the owners of the company. They have no voice in the management of the company. As long as the company remains solvent they receive their fixed rate of interest irrespective of the rates of profits earned by the company. If they have lent say at 6 per cent and the company is earning a profit of say 10 per cent, they will continue to receive only 6 per cent while the shareholders will get 10 per cent. On the contrary, when the company is not doing well and is not earning any profits the shareholders will get no dividend while the bondholders will continue to get their 6 per cent and if the company is declared bankrupt they will have the first lien' on the assets of the company.

The fixed rate of interest exercises a very tyrannical influence during the period of depression and seriously retards recovery. Lest we should be accused of imagining things, we quote a prominent Polish Banker[1] rather extensively to show the

[1] *Credit and Peace: A way out of the crisis*, by Professor Feliks Mlynarski, Ph.D.

Professor Feliks Mlynarski is an eminent international financier. After the armistice he devoted himself to the reconstruction of Polish finances, and the stabilization of Polish currency. When the Bank of Poland was established, for which he was in part responsible, he was appointed vice-president, a post which he held for five years. He was also responsible for the successful negotiations for the foreign loan granted to Poland in 1927. After the expiration of his statutory term at the Bank he became Professor o Banking at the Warsaw Academy of Commerce and was simultaneously member of the Financial Committee of the League of Nations and was one of the most active members of their Gold Delegation. His scientific studies and his practical labours have detrimental effects of the fixed rates of interest. He observes :

" The years after the war brought with them a continuous process of stiffening of the cost of production. The structure of costs was changing to the disadvantage of elasticity. The proportion of fixed costs was going to the detriment of the proportion of variable costs. Cartels were stiffening prices of raw materials and semi-manufactures. Trade Unions were stiffening wages. In addition to that, the system of unemployment insurance was creating limits below which wages could not fall.

The biggest changes, however, were taking place in regard to overhead charges, consisting mostly of costs of invested capital, costs of working capital, fiscal charges on account of State and local taxes and social insurance. It is in this respect that a real revolution has taken place in the post-war economy.

Simultaneously with this unparalleled expansion of short-term credit, the increase of population and development of production were proceeding at a much slower pace. From 1913 to 1928 world population increased by only about 10 per cent, and production of food-stuffs and raw materials by about 25 per cent. The production of means of payment, the increase in bank deposits and expansion of short-term debts exceeded very considerably the growth of population and the development of the production

resulted in a long series of books and articles in Polish, English, French and German. The more important of his English works are the *Functioning of the Gold Standard*, and *Gold and Central Banks*.

of food-stuffs and raw materials.

Whether we want to call it credit inflation or not is a matter of terminology. The fact remains that at the end of 1928 the world had available in relation to its population and production of raw materials a far larger supply of short-term credit and means of payment than in 1913. In this situation only one conclusion is possible.

The relative increase of short-term credit in relation to population and production constitutes at present a relatively greater burden on the overhead costs of production than before the war. In the same proportion, as the expansion of short-term credit was exceeding the growth of production, the burden on overhead costs of production was increasing as a result of the greater increase of the costs of credit.

The cost of credit was a fixed non-elastic cost. It was rising not only because of the greater part played by credit but also because of the well-known fact that the average rate of interest was in most cases higher than before the war. Credit became a burden not only because of its larger sum total but even more because of its dearness.

The principal form of credit consists in long-term investment credit. The crisis which affects today this form of credit, proceeds not only from the excess of indebtedness but also from a faulty system. The tradition of the system is that the debtor gives sufficient guarantee and obtains a loan for a long period, say twenty to thirty years. The repayment of capital takes the form of annual or semi-annual payments. The interest on the loan is fixed in the contract for all the period of the loan at the same level. In the case of loans publicly issued, the banker acts as intermediary between the debtors and the creditors who purchase the securities, which fact, however, does not influence the principle of the transaction. A debtor who has contracted a loan of that kind, say at the end of 1928 at an interest of 7 per cent per annum, is under obligation to pay interest and amortisation at fixed annual figure. In the meantime, however, prices have fallen by about 50 per cent. As a result the debtor has to sell roughly twice as much of his products in order to pay interest and amortisation. The nominal value of the service has remained unchanged, but the real value has increased very violently through the rise in the purchasing power of the currency unit that is, of gold. The burden has become excessive for the debtor, who cannot pay and is forced into bankruptcy. Those who, in spite of the crisis, can still pay (we emphasise "still") are becoming fewer and fewer.

Payments on account of interest are always greater than sinking fund payments and higher than the average of economic progress which fluctuates around a fairly regular figure of 3 per cent per annum. In the majority of cases interest rates are 6 to 7 per cent, often higher, and rarely lower.

This point contains the greatest danger. If prices rise or are stable, the debtor can meet his obligations. If prices fall rapidly, the best debtors fail sooner or later. If the total of long-term credit had not risen so considerably, the amount of bankruptcies would have remained relatively small. In view of the great expansion of this form of credit, especially in international relations, the number and amount of bankruptcies rise in proportion.

The reform should touch exclusively the method of fixing the interest rates. Stable interest rates over a period of twenty to thirty years constitute in the twentieth century an anachronism. The evident light-heartedness on the part of the debtor and lack of forethought on the part of the creditor is to be deplored. The size of indebtedness and the part played by credit in general have risen very considerably, and credit is bound to become an even more important condition of progress, so fixed interest on long-term debts is taking on the character of a destructive anachronism.

The idea of a variable interest rate depending upon movements of wholesale price indices, which register most rapid changes in the purchasing power of gold, does not constitute a discovery of America. In the midst of the old system elements of the new system are usually born. We already possess today such elements born in the midst of the present system. Industry has already become used to obtain investment credit through issues of shares or issues of debentures with a composite coupon rate ; part of the coupon is fixed and part depends on the earnings of the enterprise. The problem is nothing but that of spreading this system to all forms of long-term credit. Agriculture obtains investment capital exclusively from loans at fixed interest rates, and the same condition obtains in building operations and in public credit. It is not strange, therefore, that the burden of fixed interest rates is mostly felt in agriculture, building and budgets of public bodies. It constitutes one of the causes of the deepening and prolongation of the crisis. Agriculture and building operations have the greatest significance for the development of the business cycle. Budget deficits tend to retard further investments and to deepen deflation.

At first glance the problem thus posed appears to be heresy. Nevertheless, whoever realises the enormous part played by credit and its growth from year to year has to be struck by the necessity of reform, because the process which we are witnessing constitutes a sentence of death on the traditional principle of fixed interest on investment of credit. Any one who still has doubts should remember that interest on capital constitutes the price of that capital. Is there any producer today who in a long-term contract for supplying water, gas, or electrical current would agreé to fix the price of water, gas, or electrical current for twenty to thirty years ahead? Do not all contracts of that line foresee a variable price depending upon one form or another of an index number? Would any banker be willing to finance nowadays the producer who makes a long-term contract on the basis of a fixed price for the relative goods or services? Why, therefore, is only the price of capital in long-term contracts to remain inelastic?

In practice various ways of solving the difficulties can be found. When making the contract the debtor can undertake, for instance, to pay a fixed rate of 3 per cent per annum or a figure corresponding to the average of economic progress; in addition he could agree to, say an additional coupon of 4 per cent as an additional part depending upon changes in wholesale prices in the years to come; if the index rises the debtor will be bound to pay more than 4 per cent. If the index falls the debtor will be bound to pay less than 4 per cent. What the creditor loses nominally during a period of falling prices, he will gain nominally during a period of rising prices. On the other hand, he will always receive the same real amount of goods which he will purchase for the interest of $3+x$ which he will be receiving during all the life of contract. In no case, however, would nominal interest fall below 3 per cent. As the average rate of the economic progress amounts to about 3 per cent per annum, the creditor is entitled to receive 3 per cent on his capital as his minimum share in the increasing national income. Obviously, it does not preclude contracts providing less than 3 per cent as the interest due and then inelastic.

The suggested arrangement would have important additional advantages. This purchasing power of gold would be established in the realm of long-term credit that is within the most important foundation of our economic civilization. Undoubtedly, the introduction of this element of stability would facilitate the moderation of the fluctuation to which so far the purchasing power of gold has been subjected to an excessive degree.

Today we are witnesses and victims of so violent a rise of the purchasing power that the world's economic fabric is crumbling in its elements. Would it not have been easier to check the downward course if the system of variable interest rates on long-term credit had existed before 1929? Would this not have improved the position of agriculture, building industries, public bodies and all those elements whose demand for new investment goods is most liable to support markets?

After reading the above account, the meaning of the verse

خَتَمَ اللّٰهُ عَلٰى قُلُوبِهِمْ وَ عَلٰى سَمْعِهِمْ وَ عَلٰى اَبْصَارِهِمْ غِشَاوَةٌ

(God hath set a seal on their hearts and on their hearing, and on their eyes is a veil.)

becomes very clear.

These people realise that the fixed rates o interest are exercising a very sinister influence o economic development and instead of openly pro claiming that the society should abolish the bond and debentures (interest-bearing debts) and allow only "shares" (partnership in which they shar profit and losses), they beat about the bush by wanting interest varying bonds and other complicated measures and not facing the single real problem of abolishing interest.

The Evil Effects of Interest on Economic Development

If the writer was asked as to what was the main cause of the economic backwardness of India and its slow industrial development, he would feel no hesitation in saying that the money-lending system was the greatest stumbling block in our way. The unchecked, uncontrolled and unlicensed money-lending that was prevalent in this country until recently has been responsible for the present meagre industrial development of the country. When without any check or hindrance the money-lender could easily get at least 12 per cent interest by lending money, what need had he to invest his funds in the development of industry where the profit was usually less than 12 per cent.

Since 1933 almost all provinces have passed laws imposing severe restrictions on the lending of money and have fixed the maximum rates of interest. This most profitable avenue of investment has gone out of the hands of money-lenders and they have been compelled to invest their funds in trade and industry. If the author was asked how to rapidly industrialise the country, his answer would be to prohibit all types of money-lending. Thus the money-lenders would be compelled to invest their funds in industry. If the moneyed classes seriously divert their attention to this problem, the country is likely to make very rapid industrial development.

It must always be borne in mind that if the country is to develop industrially, the finance must be made to co-operate whole-heartedly on equal basis with industry. It must be on the basis of partnership and not mere payment of a fixed interest. If the financier is a partner in the industries, his keen business outlook and experience of the management of funds, is likely to stand in good stead and would lead to the better development of the country. On the other hand, if they are only bondholders, they are likely to take little interest as long as they get their fixed interest.

The railway development of India suffered a good deal under the old Guarantee System whereby the railways were guaranteed a minimum interest of 5 per cent on their investment.

This system, however, proved to be a great drain on the resources of the State and a burden on the tax-payer in India. For the companies were unable to earn their 5 per cent and called upon the Government to make good their deficiency. The deficit in the Railway Budget amounted to Rs. 1,66,50,000 by 1869. This was attributed by several critics like Lord Lawrence, who in his minute in 1867 had strongly condemned the Guarantee System, to the extravagance of the companies who had no incentive for economy of construction under the Guarantee System.[2]

The Acworth Railway Committee, however, have expressed the opinion that the foundation of English-domiciled companies was the only wise course for the time, in view of the urgent need for railways in India, and the shyness of Indian capital made it necessary to offer special attractions to British Capital for this purpose. However, others have questioned the wisdom of this policy, that the inducement of a guaranteed rate of interest was the only method to attract British Capital. For example, it was put in evidence before the Parliamentary Committee of 1872 by William Thornton that unguaranteed capital would have gone into India for the construction of railways had it not been for the guarantee. England had an immense amount of capital which had no scope for remunerative investment at home, and which, therefore, was seeking outlets in South

[2] R. Dutt, *The Economic History of India in the Victorian Age* pp. 355-356.

America and other countries, and it was not conceivable that it would persistently have neglected India.[8] It also remains an unproven assumption that the rate of interest that was actually guaranteed was necessary. There are good grounds for believing that British Capital and enterprise could have been tapped by the offer of an appreciably lower rate, having regard to then prevailing easy conditions of borrowing in the English money market. This contention is strengthened by the later experience of the Government when they were, without much difficulty, able to enter into contracts under the revised Guarantee System on terms much less favourable to the companies in respect of the guaranteed rate of interest and other concessions. Apart from the loss to the country due to unnecessarily liberal terms granted to the companies, we may also point out that while the Government showed their active interest in the promotion of railways, they did not exert themselves to build up any of the industries required to supply the materials demanded by the railways and this made them all the more expensive.

One cannot very much blame the railways for their inefficient management because they had no stake in the business as their profits in the form of 6 per cent interest was guaranteed. But things changed considerably when the Guarantee System was abolished.

[8] R. Dutt, *The Economic History of India in the Victorian Age*, p. 390.

Some Concluding Observations on the Tyranny of Interest

In the olden days, production could not be expanded owing to lack of capital. But now in a number of rich countries there is superabundance of savings and large sums of money are simply lying idle. We find simultaneously with this superabundance of capital a very large class of unemployed persons. People are unemployed because the capitalists do not find it worth their while to invest their funds in the fields where the rate of returns is less than the current rate of interest. For instance, if the current rate of interest is 4 per cent and money is investigated in irrigation works which directly yield only 3 per cent then according to the capitalistic view, irrigation is unproductive. The money will not be invested in irrigation works however useful these may be for society. The result is that the capital remains idle on the one hand, the resources remain undeveloped on the other.

All public works, however conducive they may be for the benefit of society, remain undone in an interest economy if the yield from such works is less than the current rate of interest. Had there been no predetermined notion of fixed rates of interest many more useful things would have been done.

It is here, we think, that Zakat plays a very significant role. Islam penalises those who keep their funds idle. A tax of 2½ per cent is imposed upon all those savings which remain idle for a year. If the modern capitalists had to pay a 2½ per cent tax on their idle funds, they would have soon taken steps to invest these funds and thus created employment and prosperity and it would have been no burden on them to pay the Zakat dues, because they would have been getting some income on their investments.

Some economists, for example Professor Robinson, have been asserting that interest acts like a sort of sieve and sifts out only those works that are able to pay for themselves. It helps in the proper allocation of resources and encourages only the better paying works. They assert that as capital is still limited and there are number of competing ends, we must economise the use of capital and allot it only to the best paying works.

This theory has now been thoroughly exposed by Lord Keynes who asserts that investments create their own savings, and the public works must be increasingly used to cure unemployment.

In an extreme laissez-faire economy, these arguments of Professor Robinson have a good deal of force. For in such an economy if brothel houses and breweries pay more than residential houses and water supply the former are certainly to be preferred to the latter.

But this type of economy is soon giving way and in a world which is suffering more from unemployment than from the lack of capital, every day it is becoming clearer that interest should not be allowed to exercise its tyranny and it should be subordinated to the general welfare of society.