

CONTINUATION OF INTERESTS ON GOVERNMENT BORROWING

REJOINDER TO FINANCE MINISTER:

Statement in the Senate

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By Prof. Khurshid Ahmad

In replying to the debate on the adjournment motion tabled by me in the Senate on February 10, 1986 in regard to Government policy on Islamization of financial system, the Finance Minister had referred to "the difference of opinion" on whether the return paid to a citizen for investment in national development could be considered as 'Riba'

Since this statement of the Finance Minister has receives a wide Press coverage and is likely to mislead the public into believing that interest received by the investors in Government bonds and savings schemes may not be regarded as 'Riba' which is prohibited by Islam, I consider it my duty to issue this rejoinder through the Press to remove any misunderstanding on this issue.

In the first place, it must be pointed out emphatically that there is no evidence available about the so-called "difference of opinion" on this issue. The Finance Minister has also not provided any supporting evidence for his statement. Contrary to this, there exists concrete evidence of complete unanimity among Ulama that interest paid or received by the Government on its borrowings/ landings fall within the purview of 'riba'. This is borne out by the fact that the last Council of Islamic Ideology, which consisted of prominent Ulama of all major schools of thought in Islam, had in its Report on Elimination of Interest from the Economy" devoted a full chapter to Government.

Transactions in which specific recommendations had been made for elimination of interest from all types of Government financial j transactions. The Council's Report was published in 1980 and to date no religious scholar is known to have challenged the Council's views in this regard. In fact, it could also not have been otherwise because the position of Shariah in this regard is axiomatic and there is no scope for any difference of opinion. According to the Shariah, any additional amount that accrues to a lender over and above the principal amount of the loan is 'Riba'. The Shariah also makes no discrimination in this regard, whether the loan is provided to a private person, a business concern or to a Government, and whether it is meant for productive purposes or for consumption. The reason why no return is allowed even on loans for productive purposes is that the lender does not share the risk of loss and it is inherent in loans that the principal amount is fully guaranteed. Therefore, any return paid over and above the principal amount is 'Riba'. This applies equally to loans obtained by the Government.

Unfortunately, inspite of the crystal clear position of the Shariah, as stated above, attempt is being made to justify the continuation of interest-based Government borrowings on the basis of flimsy arguments, which should not go unchallenged. For instance, it is argued that payment of interest by Government to those citizens who provide loans to it for development of the economy should not be regarded as riba because they contribute to the welfare of the nation. In this connection it

needs to be pointed out in the first place that all the funds borrowed by the Government from the public are not used exclusively for financing development. In actual practice, these funds form part of the whole pool of Government receipts from which non-development and development expenditures are financed alike. Secondly, if this argument is accepted in principle, then it should equally apply to loans obtained by private businessmen for productive purposes which also result in development of the economy and thereby enhance the welfare of the nation. Let those people who, on the basis of the above argument, do not regard return on Government borrowings for development purposes as not being 'riba' explain on what grounds they considered return on borrowings by private businessmen for development purposes as 'riba' and had to take all the trouble for replacing interest by other techniques in the banking and financial system!

Another argument that is advanced for legitimizing the payment of interest by Government on loans obtained by it from the does not cause exploitation and should not, therefore, riba". This argument is also naive and shallow. Evidently, the Government does not get money out of thin air to pay interest on its borrowings, but has to mobilize resources from the ways economy itself. This can be done only in two ways i.e. through taxation or deficit financing. In either case, there occur redistributive effects in which the gain of the lenders to Government by way of interest receipt is the loss to large segments of the rest of the population, including the poor. If resort is made largely to indirect taxes or deficit finance: which generally cause inflation, the regressive redistributive obviously, the resultant would be even larger. Obviously, the resultant re-distribution of income from the poorer sec of the society to the well-to-do sections made inevitable by the Governor in either way, debt servicing, financed in either way cannot be regarded as anything but exploitation.

Complaints are often heard about lack of suggestions for/ to replace interest in Government transactions. These complaints are unfounded and only betray a lack of will to initiate concrete action in this direction. The fact is that practical suggestions in this regard are embodied not only in the Report of the Council of Islamic Ideology but also in the Report of the Workshop on Elimination of Interest from Government Transactions published by the International Institute of Islamic Economics in 1984. Had these suggestions been given serious consideration, at least some positive progress could have been achieved by now.
