

# ELIMINATION OF RIBA: A NATIONAL COMMITMENT

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## SEMINAR ON ELIMINATION OF RIBA FROM THE ECONOMY

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# Elimination of Riba: A national commitment

The article has been adapted from a speech by the writer at a seminar on Elimination of Riba from the Economy, held by Institute of Policy Studies, Islamabad. A book with the same title is recently published by the Institute. The writer is a senator.

**P**ROHIBITION of Riba is an article of faith with the Muslims, and as such we cannot challenge its prohibitory nature. But what is the rationale behind its prohibition and what repercussions it will have on the economy if it is eliminated are valid areas of inquiry.

Starting with the first major policy speech the Quaid-i-Azam at the inauguration of the State Bank of Pakistan in July 1948 which committed itself to the abolition of Riba and the introduction of a Riba-free system, all the three constitutional documents produced in Pakistan's 46-year history affirm that elimination of Riba is an objective of the state policy. All the reports of the Council of Islamic Ideology unanimously called for eliminating Riba. The final report of the council, based on the report of the panel of economists and bankers, in 1980, also proposed a three-year programme. Case law at the levels of High Court and Supreme Court is also available and the most important judgement, which could come only after the constitutional ban of 10 years on the Federal Shariat Court to examine the legality or otherwise of laws relating to monetary and fiscal issues, was pronounced in December, 1991, and rightly affirms that it is a national resolve and a commitment to abolish interest from the economy.

Second, what is Riba? Lately, this has generated a lot of discussion. As far as the question of interest on monetary transactions, money lent or borrowed, is concerned, there has never been any difference of opinion on its definition. Any addition to the loan amount related to the time of loan constitutes Riba regardless of the term used for it or the language in which the concept is translated. This comes from the Qur'an itself which makes it very clear that whatever is above the loaned amount one has no right to charge it or pay it. As far as financial dealings are concerned any increase on the original loan money which is predetermined, whether it is simple or compound, is Riba. Again, any increase whether it is on loan borrowed for business purposes or production and consumption purposes, whether it is among the individuals or between individuals and institutions, whether it is between people and government or government and government, is Riba, forbidden in Islam.

There had been some side diversions whether bank interest and interest given or charged by individuals is same or different. I would not go into the debate, but the consensus of Muslim scholars and economists, as has also been affirmed by the judgement of the Federal Shariat Court is that bank interest is as much Riba as interest charged by other persons or institutions provided it falls in the category of a predetermined return on money lent. There can be a large number of other services the banks are engaged in and where service charges are not based on this premise. They may not invoke the mischief of Riba, yet all those bank transactions that relate to this particular area

Thus the challenge we are facing is:

a) How to eliminate Riba in all these forms?

b) How to evolve a Riba-free system of financial and economic dealings?

Third, Islam is indivisible. Its whole socioeconomic programme comes from its core (faith) in the same way as a tree grows from the seed. The whole tree is one organic unit, each part supporting the other and drawing sustenance from each other. Any effort to implement only one part to the exclusion of the rest is not going to produce the results. Thus, the isolationist approach would not be a realistic one. This, however, does not mean that everything can be done at the same time. There can be a gradualism in the implementation process starting from building faith to education, social motivation, individual motivation, institutional and legal changes.

Fourth, even at the level of elimination of Riba perhaps, this is my personal submission, we are faced with a three-tier situation. How to avoid what is haram? What is explicit and categorical that our moral, spiritual and social conscience abhors? But this would be only in the negative aspect. From there we have to proceed to the second phase, i.e. what is our positive vision of economic and financial dealings? What is the alternate basis on which Islam wants to organise it?

Unfortunately, during the last two centuries the evolution of economic financial relationship has been engineered towards a debt-based economy and this includes both consumption and production spectrum of economy. As against this as a basic value, Islam abhors a debt-based life.

Elimination of interest is not the be-all and end-all of Islamic economic programme. It is one of the key elements of the Islamic economic programme, but it would be incorrect to assume that this is the whole of Islamic socioeconomic programme.

**T**HERE are certain people who feel that the elimination of Riba may lead to the collapse of economy. Everyone has a right to his opinion, still I think we should not go by scare-mongering. Instead, we should try to analyse things in their perspective. After all, elimination of Riba does not mean zero-return on capital. What Islam has forbidden is a fixed predetermined return for a certain factor of production — one party having assured return and the whole risk of entrepreneurship to be shared by others.

This is not something as novel or naive as some people are trying to project. After all, if one looks into history, one finds that capital, loan capital as well as venture capital, has played the role in promoting industrialisation and economic development. Also, we find that their relative roles have been rather different in different parts of the world, in different periods of time. For example, in the British model of banking, the role of deposit banking in promoting economic development was dominant while equity-based investment was limited. But as against that, in the French tradition, investment banks had played a very important role throughout the 19th and even in 20th centuries. Similarly in Germany, we find that commercial banking was not allergic to

a number of international institutions or organisations had shown an openness that we expect from international organisations, bankers and investors. In a number of studies, the IMF, World Bank and IFC have shown interest in the alternate arrangement for participation of capital and entrepreneurship. Some of the economists have been voicing great concern over the distorted proportion between loaned capital and equity capital even in the western economic system. The German economist Albach has produced a number of studies, demonstrating that even the western economies are not getting enough equity capital. New instruments and institutions are needed to put in equity capital. So when we say that equity-based banking and finance are possible, we are not talking in a language foreign to the professionals.

**W**E ARE discussing this issue at a time when very important changes are taking place in the world. We find that there is a lag of seven to eight years in debt recovery. Inflation has dug its teeth deep and unemployment is still a menacing phenomenon. All these are causing worry to economists, policymakers and politicians. With the collapse of socialism there is a perceivable optimism for the alleged "final victory of the market liberalism." Still, we find that the World Bank in its latest report on the challenge of development cautions that while market economy should play a very important role, the state's positive role should not be totally neglected. Realities have to be faced. After four decades of developmental experiment in over 120 developing countries, we find that the developmental efforts have not borne real fruits, not

even a predominant success. As to a few success stories like South Korea, Taiwan and Singapore, there is no evidence to suggest that their developmental efforts owe much to loaned capital or aid in the form of loans; instead, each represents a particular case with a critical entrepreneurship and effective utilisation of a number of factors.

We do not claim that all the questions have been answered. Human efforts must always continue and commitment must always be made. We should be pragmatic to face the problems as they are and not as prisoners of certain biases. My main concern is that some of the western intellectuals, journalists, scholars and politicians instead of trying to understand us in our effort to seek our identity and build our society in accordance with our own moral and ideological ethos are casting us in the role of adversaries. We are part of the contemporary world and want to make the world a better place to live in for all.

If you read *Ronald Reagan: An American Life*, the autobiography of the former US president, you will find that the spectre of "fundamentalism" seems to be haunting him page by page. In late Richard Nixon's book *Seize the Moment*, "fundamentalism" is very much there. Even those who are talking of the end of history are searching a new enemy in the Japanese corporate model and in the Islamic fundamentalism. What I want to submit is that we are not afraid of titles. People are free to dole out whatever names and titles they want. Yet the Muslim world is going through a period of creative tensions.