

# **PROHIBITION OF INTEREST (RIBA) IN ISLAM – THE SOCIAL, MORAL AND ECONOMIC RATIONALE (PART I)**

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## **INTRODUCTION**

Islam is a complete code of life which offers its own social, political and economic systems to guide human behavior in all spheres of life. History has recorded that the economic system of Islam, for the first time in the world had established social and economic justice during the period of al-Khalifah al-Rashidah. In any ideal Muslim society, socio-economic justice is considered as one of the most significant characteristics for the social, political, and economic as well as all realms of human interaction. Exploitation and any source of unjustified enrichment in Islam are prohibited. The Holy Qur'an has emphatically instructed Muslims not to acquire each other's property wrongfully<sup>i[1]</sup>. Islam is not an ascetic religion. It takes a positive view of life as the natural outcome of the belief that human beings are the vicegerents of Allah (swt).

The goals of socio-economic justice and equitable distribution of income and wealth are integral parts of the moral philosophy of Islam. However, one of the socio-economic reforms made by Islam was the prohibition of riba (interest). About the efficacy and usefulness of the prohibition of interest in Islam, Muslim economists have tried to provide the juridical clarity and support based on reason, as opposed to mere belief. The purpose of this paper is to spell out the meaning of riba or interest, its different kinds, and the social, moral, as well as economic rationale of its prohibition.

## **INTEREST**

In modern secular economic systems interest plays a very important role. In fact, in the Western world people cannot think of any economic system without interest. From a theoretical standpoint, interest has been a debatable subject among economic and political theorists. Abu Saud defines interest as “the excess of money paid by the borrower to the lender over and above the principal for the use of the lender's liquid money over a certain period of time”<sup>ii[2]</sup>. Economists have presented different interpretations of interest. Samuelson states that “Interest is the price of rental for the use of money”<sup>iii[3]</sup>. Don Patinkin gives the following definition: “Interest is one of the forms of income from property, the other forms being dividends, rent and profit”<sup>iv[4]</sup>. However, J.M. Keynes did not define interest but mentioned the rate of interest as “The percentage of excess of a sum of units of money contracted for forward units of time over the spot or cash price of the sum thus contracted for forward delivery”<sup>v[5]</sup>.

However, Muslim, socialist and a number of capitalist economists have questioned these explanations on both theoretical and technical grounds. They often stress the point that money capital cannot be treated as capital goods on the same basis as productive factors. It is pertinent to remark here that lending of money for interest was abhorred and, in most cases, prohibited by all the monotheistic religions<sup>vi[6]</sup>. An eminent Western economist,

Roy Harrod<sup>vii[7]</sup>, regards the abolition of interest is the only way to avert a collapse of capitalism. Not only this, but he speaks with great admiration for an interest-less society in his work on *Economic Dynamics*. Harrod clearly recognizes that, “It is not the profit itself, earned by services, by assiduity, by imagination, or by courage, but the continued interest accruing from the accumulation that makes that profit taker eventually appear parasitical...” and he further states that an interest-less society which will be a totally new kind of society” would be the correct and final answer to all that is justly advanced by the critics of capitalism.

## **PROHIBITION OF RIBA (INTEREST) IN ISLAM**

Riba is prohibited in Islam as it appears explicitly in the Holy Qur’an. There is complete unanimity among all Islamic schools of thought regarding the prohibition of riba. Since the Qur’an is the undisputed source of guidance in Islam for all Muslims, there is unanimous agreement on the fact that Islam has forbidden the practice of riba. The debate on whether interest is riba or not has been settled. The ulama have made crystal clear that interest is riba. The modern banking system is organized on the basis of a fixed payment called interest. That is why the practices of the modern banking system are in conflict with the principles of Islam which strictly prohibit riba. Islam is opposed to exploitation in every form and stands for fair and equitable dealings among all men. To charge interest from someone who is constrained to borrow to meet his essential consumption requirement is considered an exploitative practice in Islam. Charging of interest on loans taken for productive purposes is also prohibited because it is not an equitable form of transaction<sup>viii[8]</sup>. Now let’s have a look on the prohibition of interest in the light of the Qur’an and the Sunnah (tradition of Prophet Muhammad (saw)).

## **PROHIBITION OF RIBA IN THE HOLY QURAN**

In several verses of the Holy Qur’an, Allah (swt) has mentioned the consequences of riba. The Qur’an did not declare the prohibition of riba in the early stage of revelation; rather we find that the complete prohibition of interest came sequentially.

In the Qur’an Allah (swt) says:

*“That which ye lay out for increase through the property of (other) people, will have no increase with Allah: But that which ye lay out for charity, seeking the countenance of Allah (will increase): it is these who will get a recompense multiplied”. (30:39)*

*“That they took riba (usury), through they were forbidden and that they devoured men’s substance wrongfully – We have prepared for those among men who reject faith a grievous punishment.” (4:161)*

*“O ye who believe! Devour not usury doubled and multiplied; but fear Allah, that ye may (really) prosper.” (3:140)*

*“Those who devour usury will not stand except as stands one whom the evil one by his touch hath driven to madness. That is because they say: ‘Trade is like usury.’ But Allah hath permitted trade and forbidden usury. Those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for Allah (to judge). But those who repeat (the offence) are companions of the fire, they will abide therein (forever)” (2:275)*

*“O you who have attained faith! Remain conscious of God, and give up all outstanding gains from Usury, if you are (truly) believers” (2: 278)*

Abdullah Yusuf Ali<sup>ix[9]</sup> in his commentary on the Holy Qur’an mentioned that usury is condemned and prohibited in the strongest possible terms. There can be no question about the prohibition. Owing to the fact that interest occupies a central position in modern economic life, and specially since interest is the very life blood of the existing financial institutions, a number of Muslim countries have been inclined to interpret it in a manner which is radically different from the understanding of Muslim scholars throughout the last fourteen centuries and is also sharply in conflict with the categorical statements of the Prophet Muhammad (saw).

#### **PROHIBITION OF RIBA IN THE HADITH <sup>x[10]</sup>**

*Jabir reported: The Prophet (saw) cursed the receiver and the payer of interest, the one who records it (the contract) and the two witnesses to the transaction and said, “They are all alike (in guilt).”*

*Jabir ibn Abdullah, giving a report on the Prophet’s farewell pilgrimage, said: The Prophet (saw), addressed the people and said, “All the riba al-jahiliyyah is annulled, the first riba that I annulled is our riba, accruing to al-Abbas ibn Abdul Mutalib (the Prophet’s uncle).”*

*Abu Hurayrah (ra) narrated that the Prophet (saw), said: “riba has seventy segments, the least serious is equivalent to a man committing incest with his own mother.”*

*Abu Hurayrah (ra) narrated that the Prophet (saw) said: “”God would not allow four persons to enter paradise or to taste its blessings: he who drinks wine, he who takes riba, he who usurps an orphan’s property without right and he who is undutiful to his parents.”*

#### **THE MEANING OF RIBA**

The word riba has been used in the Holy Qur’an on several occasions. So it is necessary to know what it means or what it really stands for. Riba has been extracted from Raba. It means addition, increase<sup>xi[11]</sup>. So, riba literally means to increase, to grow to rise, to add, to swell. It is, however, not every increase or growth which has been prohibited by

Islam. In the Shari'ah, "riba" technically refers to the premium that must be paid by the borrower to the lender along with the principal amount as a condition for the loan or for an extension in its maturity. In this sense riba has the same meaning as interest in accordance with the consensus of all jurists without any exception<sup>xii[12]</sup>. So the Holy Qur'an and the *Hadith* do not make any such difference between usury and interest. Interest and usury both are taken as synonymous for the Arabic word riba.

## **TYPES OF RIBA**

Although the Qur'an did not specify any particular kind of riba, it is generally held that the word al-riba in the Qur'an is that kind of dealing which had been in vogue during the pre-Islamic days<sup>xiii[13]</sup>. Muslim jurists have classified riba in two types: 1. *riba al-nasi'ah*, and 2. *riba al-fadl*.

### **RIBA AL- NASI'AH**

The term nasi'ah means to postpone or to wait and it refers to the time period that is allowed for the borrower to repay the loan in return for the addition of the premium. Hence it refers to the interest on loans. The prohibition of *riba al nasi'ah* essentially implies that the fixing in advance of a positive return on a loan as a reward for waiting is not permitted by the *Shari'ah*<sup>xiv[14]</sup>.

### **RIBA AL-FADL**

Islam, however, wishes to eliminate not merely the exploitation that is intrinsic in the institution of interest, but also that which is inherent in all forms of unjust exchange in business transactions.

*Riba al-fadl* is the excess over and above the loan paid in kind. It lies in the payment of an addition by the debtor to the creditor in exchange of commodities of the same kind. The following tradition of the Prophet Muhammad (saw) is cited<sup>xv[15]</sup> as evidence. It is related that Abu Said al-Khurdi said: "the Prophet Muhammad (saw) has said that gold in return for gold, silver for silver, wheat for wheat, barley for barley, dates for dates and salt for salt, can be traded if and only if they are in the same quantity and that is should be hand to hand. If someone gives more or takes, then he is engaged in riba and accordingly has committed a sin."

To sum up, *riba al-nasi'ah* and *riba al-fadl* are both covered by the verse, "Allah has allowed trade and prohibited riba" (2:275), while *riba-al nasi'ah* relates to loans and *riba al-fadl* relates to trade. Although trade is allowed in principle it does not mean that everything in trade is allowed.

*(to be continued)*

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- <sup>i[1]</sup> Al-Qur'an 2:188, 4:29.
- <sup>ii[2]</sup> Abu Saud, M., "Money, Interest and Qirad in Islam", *Studies in Islamic Economics*, The Islamic Foundation, Leicester, UK, 1983. p.64
- <sup>iii[3]</sup> Samuelson, P., *Economics*, 10<sup>th</sup> Edition, McGraw Hill, New York, 1976, p.50
- <sup>iv[4]</sup> Patinkin, D., *Studies in Monetary Economics*, Harper and Row, New York, 1972, p.118
- <sup>v[5]</sup> Keynes, J.M., *The General Theory of Employment, Interest and Money*, London, 1936, p.22.
- <sup>vi[6]</sup> Al-Harran, S., *Islamic Finance: Partnership Finance*, Pelanduk Publications, Kuala Lumpur, Malaysia, 1993, p.6
- <sup>vii[7]</sup> Harrod, R., *Towards a Dynamic Economics*, London, 1973, pp58-81.
- <sup>viii[8]</sup> Ahmed, Z., "Prohibition of Interest in Islam", *Journal of Islamic Banking and Finance*, Karachi, Pakistan, Vol.1, No.1, 1984, p.20
- <sup>ix[9]</sup> Ali, Abdullah Yusuf., *The Meaning of the holy Qur'an*, Commentary no.324-326, Amana Corporation, Brentwood, Maryland, USA, 1992, p.115.
- <sup>x[10]</sup> Capra, M.U., "The Nature and its Treatment in the Qur'an, Hadith and Fiqh", in *An Introduction to Islamic Finance*, Sheikh Gazali Sheikh Abod, Syed Omar Syed Agil and Aidit Hj. Ghazali (eds), Quill Publishers, Kuala Lumpur, Malaysia, 1992, pp.380-381
- <sup>xi[11]</sup> Maudoodi, abul A'la, *Sud 'O' Adhunik Banking (Interest and Modern Banking*, translated into Bengali from the Original Book 'Sud' in Urdu), Adhunik Prokashani, Dhaka, Bangladesh, 1987, p.84.
- <sup>xii[12]</sup> Al-Harran, S., op. cit., p.16
- <sup>xiii[13]</sup> Ahmed, Z., in "The Theory of Riba", in *An Introduction to Islamic Finance*, Sheikh Ghazali, Syed Omar, Adit Ghazali (eds), Quill Publishers, Kuala Lumpur, Malaysia, 1992, p.57.
- <sup>xiv[14]</sup> Chapra, M.U., op-cit, p.35
- <sup>xv[15]</sup> Al-Harran, S., op-cit, p.18