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CHARGES OF AN INTEREST RATE ON CAPITAL: THE ISLAMIC LAW PERSPECTIVE*

I. INTRODUCTION

Interest on capital is a common phenomenon in the economic circle even before its conceptualization by the conventional or contemporary economists.¹ The practice had, from time immemorial, been that either the creditor would request the debtors to pay above the sum lent to him, or the debtors, as a result of certain exigencies, might offer to return more than he borrowed. This is to say that the concept had been with man and not just emerging. This can further be attested to within religious circles where there are injunctions relating to interest on capital among generations of human race.² Perhaps because of the dreadful effects of "interest" its conceptualization has variously been criticized as being a cheap way of preserving evil by shylock capitalists for their rapacious and for selfish interest or motive.³ As it will be revealed in this article, Islam prohibits interest but allows profit.⁴ It promotes trade as an occupation and regards profit as a bounty from God. Mainstream economics too revolves around the notion of profit. Price theory, the core of economics, cannot stand firm without the assumption of profit maximization. In the practical affairs of trade, industry and commerce, no concept is more pivotal than profit. This work may be attributed to the reinterpretation of the *riba* doctrine and reconsideration of profit making in Islamic perspective. It aims at discovering their neglected aspect to provide them with stronger theoretical justification in both economics rationale and legal consistence.⁵

There is an affinity between the economics scheme of Islam and Capitalism except what is in contradiction with Islamic values as exploitation of human beings, grossly inequalities in the distribution of wealth resulting in its concentration in fewer hands, dominance of monopoly power, persistent poverty, corruption and other social evils of the sort, has invariably stressed the supremacy of the powerful and material riches to the detriment of spiritual values. It has promoted individualism at the cost of society. Both of them, however, permit private ownership of property, allow freedom of enterprise, and support free markets in a competitive society. They also consider profit as a source of capital formation and growth.⁶

This article examines the meaning of terms involved as well as the understandings thereof in different spheres. Thus, attempts shall be made towards definition and operation of interest on capital; assessing its legal standing both under the acclaimed conventional practices and Islamic Law and juxtaposition of ideas before drawing conclusions and recommendations.

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¹ It is incontestable that the practice of interest had been with man from time immemorial.

² A.R.I. Doi, *Sharia the Islamic Law*, (United Kingdom: Ta ha publishers, 1984), p.375.

³ A.T Shehu, *Islamic Banking — An Introduction*, (Hand note Department of Islamic Law, Faculty of Law, University of Ilorin.

⁴ Q. 2: 275.

⁵ Online @ <http://mpira.ub.uni.muenchen.de/8129> accessed on 30/5/2009.

⁶ Rodinson, Maxime : *Islam and Capitalism*: (London: Allen Lane, English Translation 1974) p.29.

II. DEFINITION OF TERMS

A. Interest

Interest is "money charged for borrowing money or paid to somebody who invests money".⁷ This definition seems to have been espoused even within the circle of economic experts. Thus, interest is defined as "the cost of using someone else's money, or viewed from lender's point of view, as the price charged for allowing someone else to use your money".⁸ Interest for the purpose of this discourse, may simply be defined as excesses charged on loan and / or excesses paid for making investment without having or running any risk in the business which the investment is engaged in.

B. Capital

Capital means "wealth or property that can be used to produce more wealth" or "a sum of money used to start a business." In its technical sense, it has many meanings.¹⁰ Capital refers to real assets like factories, plants, equipment and inventories of finished and semi-finished goods. It is any previously produced input that can be used in the production process to produce other goods".¹¹ Edward, Shapiro opined that capital:

...should be understood to mean only the accumulated stock of plant and equipment held by business. If for the economy as a whole, gross investment in any period equals the amount of capital used up during that period, there is neither net investment nor investment and so no change in the stock of capital.¹²

For the purpose of the study, capital means property or a sum of money that can be used to produce more wealth and/or cater for any economic, social, welfare need at a particular period of time. The two terms, interest and capital put together, therefore, we may opine that interest on capital suggests any excess which a debtor is required or offers to pay over and above the principal amount lent or borrowed. The borrowed money, as could have been observed, may be for investment purposes, procurement of infrastructure or even to meet any other need of necessity.

The notion of interest, here is that it is a major determination of saving and investment. According to classicists or classical economists, "saving and investment are a function of the rate of interest... when the rate of interest, rises, saving rises, and investment declines. On the other hand, with a fall in the rate of interests, saving falls and investment increases".¹³ In other words, it is their belief that interest is an inducement towards saving money in financial houses. This position has, however, been severely criticized even by some foremost scholars of Economics. To this end, Lord Kenyenes maintained that "it is changes in income which brings saving and investment to equality rather than the rate of interest".¹⁴ This, latter argument appears to be more sound in that there is apparent

⁷ A.A. Hornby, *Oxford Advanced learner's Dictionary*, 5th Edition, (Oxford: Oxford University Press, Street, 1995, p. 622.
⁸ Femi Adekanye; *The Elements of Banking in Nigeria*, 3rd edn. Lagos, 1986, p.89.
⁹ A.A. Hornby, *supra* note 7, p. 165.

¹⁰ Edward Shapiro; *Macro Economic Analysis*, 4th edn. (Harcourt Brace Jovanovich, Inc.1978), p.157.
¹¹ M.L. Jhingan, *Macro-Economic Theory*, 10th edn. (Vrinda Publications Ltd, 1997), p. 134.
¹² Edward Shapiro; *supra* note 10, p. 157.

¹³ See note 5.
¹⁴ H, Knight Frank, *Risk, Uncertainty and Profit* (New York, Houghton: Muffin, 2nd edn.,1965), p.27.

competition between savings and interest. It has also been argued that there are no valid reasons to allocate support to interest other than a way of committing resources to the hands of few people and thereby making others subservient.¹²

The foregoing arguments, notwithstanding, it is imperative to note that the concept of interest is protected and enshrined by our laws. Its preservation is not unconnected with the curious nature of our legal system which of course gives ample opportunity for influence of foreign laws especially that of England. Also, laws governing an economy and financial structures are representations of economic theories anchored majority on capitalist ideology. The fixation of interest by financial houses is mainly regulated by the central bank as a mouthpiece of the Government.

C. Profit

The contractual payments firms make from their sales proceeds to the factor they hire for production leave a surplus or gross profit. A part of gross profit represents the value of physical capital used up in the process of production and must accumulate in business as depreciation for capital requirements. Market is powerless to separate depreciation from gross profit and its accounting estimation looks arbitrary. Anyway gross amount minus depreciation leaves a net profit. From net profit, the economists further deduct 'implicit' charges for owners' supplied inputs to the firm measured by their opportunity costs. Implicit costs constitute normal profit is pure or economic profit that economists use in discussion on price formation. Managerial revenue falls in a separate category, it does not enter economic profit.

The profit concept is atomic and arbitrary. In dynamic situations, the normal and pure components of the surplus are difficult to separate even conceptually. The same applies to managerial revenues. Profit can be viewed only as an integrated whole composed of many and varied elements intricately interwoven. Islamic economics would endorse a categorical notion of profit closer to reality.

I. Sources of Profit

For explaining the source of profit, economists generally start with a no-profit model where the remuneration of various factor services exhausts the total revenue product of the firm such that economic profit is zero. These no-profit models are well-known despite differences in details. They all converge to the perfect competition design of the classical setting. Conditions within and outside such model differ vastly, yet their notions identify for the source of profit in which manner the real world situations depart from the ideal profitless exchange. Dynamic change causes the demise of profitless models allowing the emergence of profit as surplus over cost. But each profit theorist has seized upon that rudiment of change which suited his own work scheme. Thus to J.B. Clark and many others, it was risk of losing capital in event of change that gave rise to profit.¹³ But Knight threw overboard all risk theories of profit making a distinction between measurable and immeasurable risks.¹⁴ Measurable risks can be insured against, they can be met at a cost. Uncertainty that cannot be measured causes risk that one cannot avoid. To Knight, profit was the reward for bearing such uncertainty.

¹² Ibid.

¹³ J.A. Schumpeter, *Theory of Economic Development* (Cambridge: Harvard University Press, 1934), p.40.

¹⁴ H. Knight *Frank* *supra* note 14, p.28.

However, uncertainty is a fact of life like sunshine or rain. All people have to bear it. Why then single out capital owners for a special reward?

Knight's analysis is extended to demonstrate that his theory could identify just a windfall element in incomes. It let profit theory into barren probability manipulations. Above all, the uncertainty approach killed whatever claim one could make of profit being a functional return.¹⁸

Schumpeter placed emphasis on innovation in dynamic change and regarded them the carriers of economic development.¹⁹ Innovators were the kingpin of his profit theory. Innovating involved risk; it was like swimming against the current, many try but few succeed. Successful innovators give an edge over competitors and generate a surplus over costs – the profit – for innovators. But Schumpeter soon found that the act of innovating had largely passed from individuals to research teams to institutions; he threw innovational profit into the dust bin of "obsolete ideas". In sum, the search for the source of profit in a dynamic change could only lead to rudimentary analyses, not to a unified theory.

ii. Whose's Profit

Mainstream economists regard profit as a functional return for the entrepreneur since the days of physiocrats. Knight linked the two on the plea that everyone in society is not equally inclined or equipped to make business decisions in the face of uncertainty.²⁰ Only those who had confidence in their own judgment as well as the ability to put their ideas into operation specialize in decision-making and are willing to bear the risk involved. They are entrepreneurs. They translate their decisions into action by hiring other factors of production. The services of the hired factors do not involve making the sort of decision an entrepreneur makes. They work for him in return for a pre-fixed contractual payment. The objective condition for entrepreneurship to Knight was the possession of capital as an empty handed person cannot ensure the fixed payments to the hired factors. Interestingly, Schumpeter did not insist on this requirement; for him, control over resources was enough for the innovator even if they belonged to others.²¹ Thus, Knight made profit the reward for decision-making in the face of uncertainty. He resurrected the classical model of tiny owner-operated firms producing a single commodity in a competitive setting.

The model fits pretty well even today to the case of small proprietary businesses. But since the rise of modern multi-product corporations to prominence both the functions and the identity of the entrepreneur have faced much criticism. The promoters bring the corporation into existence and the stockholders provide the risk capital, which is invariably supplemented by institutional finance. The decision making function and the ownership of the organization are in quite different hands. Ordinarily, those who make decisions are the salaried people and they do not normally bear the consequences of their decisions. Furthermore, decision-making in modern corporations is distributed among a large number of fairly independent functionaries. Who then are the entrepreneurs and what functions do they perform today. This is unclear.

¹⁸ J.A. Schumpeter *supra* note 16, p.42.

¹⁹ H. Knight Frank *supra* note 14, p.28

²⁰ M.L. Jhingan, *supra* note 11, p.202.

²¹ *Ibid.*

Knight attempted to escape the difficulty arguing that real control goes with responsibility.²² It consists in making decisions not about things but in the judgment of people's ability to do things. The exercise of this judgment, though spread over the entire hierarchy of a corporation, ultimately rests in the owners of the organization – the stockholders. After all, who appoints the manager and to whom are they accountable?

In the large corporations, the ownership rights of the small and widely dispersed stockholders have become marginalized representing a mere claim to a 'wage' dividend determined by the managers. Only the rights of those who own large blocks of stocks are real in the sense that they often manage to acquire effective control over the affairs of their corporations. The proxy machine and some other techniques tend to help in the emergence of what one may call the "control-ownership" in large corporations. Though the control may rarely pass in to the hands of a single person, the possibility of a small group of stockholders enjoying such power is always there. The entrepreneur then survives as a unit of interest and control despite the corporations. Textbook of economics have stuck to tradition, for with the entrepreneur goes the motivational base of the capitalistic forms of business organization run by the market.

However, the advent of large corporations has made profit a non-functional surplus in the hands of their control ownership. These developments in the realm of business have shifted the focal point for the study and analysis of profit from the entrepreneur to the firm.²³ The remaining issues of profit theory are: (i) The contractual payments and surplus as determined by the market, where competition is rarely perfect, entirely valid and (ii) is the surrender of the surplus to the dictates of 'control-ownership' tenable?²⁴

It has long been demonstrated that the marginal productivity theory of distribution is based on circular reasoning; it fails to ensure equity in dealing with business profits. And beyond that theory, the mainstream economics has never provided convincing answers to the foregoing questions. But an Islamic dispensation, imbued with moral values, cannot afford escapism. Let us examine what formulation concerning business surpluses can meet its approval.

III. THE NATURE OF INTEREST UNDER ISLAMIC LAW

Interest is termed *Al-riba* that is, usury in Islamic Law. It has no place in the Islamic legal environment; this is because the law abhors it in all ramifications. The practice of receiving or returning excess on loans had been in existence before history-time. It is not wrong, therefore, that the practice was prevalent in the *Jahiliyyah* period.²⁵ Also, in *Fiqh Sunnah*, it is said that religions, which predated Islam had equally prohibited interest.²⁶ In other words, it was prohibited for both the Jews and Christians.²⁷ Apparently because of the catastrophic nature of interest-bearing loans or capitals, Allah (God) forbids it via a plethora of verses and explicated further by the best of mankind,

²² A.T. Shehu, *supra* note 5.

²³ Abdur-Rahman Doi, *supra* note 23, p. 376.

²⁴ Sayyid Sabiq 1; *Fiqhus-Sunnah* v. IV *Dar-al-Fikr*, Beirut, p. 176.

²⁵ *Ibid.*

²⁶ Peace and Blessings of Allah be upon him.

²⁷ Qu'ran, Chapter 3:130.

Muhammad (P.B.U.H).²⁸ The Qu'ran says: "O you who believe devour not usury and multiplied but fear Allah that you may really prosper."²⁹

Chapter 2 verse 225 provides:

Those who devour interest stand like on whom Satan has smitten with insanity. That is so because they keep saying: the business of buying and selling is also like lending money on interest..., but those who revert to the practice, they are the inmates of the fire, there in shall they abide...³⁰

The foregoing verses and many others may be said to have been revealed with a view to maintaining and promoting peace on earth and eradicate mischief in its entire guise. Peace in this context is more connected to economic peace which has been brought about by divine guidance and thus struck balance between capitalist and socialist economy.³¹

Furthermore, appreciating the devastating threat of interest, the Prophet (SAW) is reported to have cursed the one who accepted usury, the one who paid it, the one who recorded it and two witnesses to it, saying that they were all alike.³² Economic growth and economic development are guaranteed in an interest free economy since even distribution of wealth is not hampered. In lieu of interest based ventures, Shariah espouses Murabaha, (contract of sale) Mudarabah (sleeping/dormant/partnership), Musaraqah (general partnership) and many others.³³

IV. ISLAM AND PROFIT MAKING

Islam exhorts the believers to excel in this world as well as hereafter. It urges them to engage in all lawful pursuits for material gain, especially trade. These are verses approving trading activities:

- i). "Allah permitted trading and forbade *riba* (usury)."³⁴
- ii). "And when prayer is ended, then disperse in the land and seek Allah's Bounty"³⁵

But Islam is aware of man's love for material wealth, so it advises them to be moderate in their drive for profit in trade, behave in prescribed ways, and take only what is legitimate.

It advocates for absolute honesty in business to the extent that false praise of the merchandise on sale is disallowed; rather, known blemishes in it must be revealed to the customer. If there is a conflict between wealth and virtue, one must stay content with what is permissible even though it might be little. There are numerous verses in the Qur'an and prophetic traditions that remind men of transient nature of this world relative to spiritual peace and put by implication profit maximization under the control of Islamic moral discipline. At this juncture, Islam looks at wealth as life sustaining, to be used efficiently. God says: "Give not unto the foolish your wealth which Allah has made a

²⁸ Ibid, 2:225.

²⁹ H. Zubair, "Theory of Profit: The Islamic Viewpoint", *Journal of Research in Islamic Economics*, Vol.1, No. 1, 1983 p.8.

³⁰ A.T. Shehu, *Introduction to Islamic Law of Banking*, (Notebook for 500 Level Combined Law Students, Unpublished), p. 6.

³¹ H. Zubair *supra* note 29, p.8 .

³² H. Zubair *ibid* p.6.

³³ Ibid.

³⁴ Q. 2 vs. 27.

³⁵ Q. 6 vs. 10.

means of support for you".³⁶ Also, private ownership is affirmed but viewed as a trust: The Quran is explicit that: "Believe in Allah and His messenger and spend of that whereof He hath made you trustees"³⁷ Muslims also are obliged to fulfill contracts and keep their promises: As the Quran also provides: "O you who believe, fulfill your undertakings".³⁸ "...and be true to every promise, for verily, (on judgment day) you will be called to account for every promise you made".³⁹ Accordingly, all exchange should be with willing consent of the parties concerned. This is also provided in the Quran: "O you who believe, squander not your wealth among yourself in vanity except it be a trade by mutual consent".⁴⁰ The prophet also contributed to the use of wealth and exercise of freedom of enterprise. This is constrained by the obligation not to harm others. The prophet was reported to have been said:

"No injury and no inflicting of injury."⁴¹ This has to be seen in the perspective of the positive obligation to care for others and share with them.

The foregoing clear text provides a sound basis for a positive attitude wealth creation and economic activity. The texts have also laid down significant scheme of distribution that stems from the Islamic view of economic justice to teach what one contributes to output but beyond a limit in the wealth one earns, the deprived has a right that must be honoured. Rewarding, according to distribution, in the face of uncertainty about the business outcome is the crux of distributive justice. Islam aims at shaping exchange relations among the factors of production on the basis of cooperation, mutual benefit and fair play. It directs people to keep transactions free, which is expressive of Islamic anxiety to prevent injury. This is evident from Islamic approach to the determination of various functional returns in output we now discuss.

The broad division of production factors we follow includes land, labour and capital. In fact, the difference between usury and profit has essentially economic bearings and legal perspective. In economic bearings, the *riba*-based activity has no benefit or no economic gain as expected to the participants as a whole but, it leads to a general want and scarcity. However, profit represents the values added, welfare and increase in utility through trade to both participating parties or at least in parties to inefficiency condition, at least either party would be better off without making anybody else worse off.

In legal perspective, since *riba* (interest) stands for a kind of squandering and devouring the property of others in vanity and unjust way, profit stands for natural growth which is permitted in Islam provided the exchange to take place in mutual willingness.⁴² In this connection, the study is designed to address primarily the need of the common Muslims by enabling them easily understand the real nature of *riba* stained economic operations in order to avoid this economic evil and immoral

³⁶ Q. 4 vs. 4.

³⁷ Q. 57 vs. 7.

³⁸ Q. 5 vs. 1.

³⁹ Q. 17 vs. 34, Q 2 vs. 282: "And fear the day when you shall be made to return to Allah; then shall every soul be paid in full what it has earned; and they shall not be wronged", Q 23 vs. 9: "And who are watchful of their trust and their covenants." Q 16 vs. 91-92, Q 28 vs. 26-27.

⁴⁰ Q. 4 vs. 29.

⁴¹ A.Q. Zubair, *An Outline of Islamic Law of Tort* (Lagos: I.T.C., 1990), p.26.

⁴² Nur, Elimi Mahmoud *Riba versus Profit-Sharing Theoretical Foundations and Policy Implications in Islamic Perspective*, Ph.D unpublished thesis, International Islamic University (ISU), Islamabad HTML 28KB, p1.

activity.⁴³ Islam adapted many business instruments and practices from the past including the concept of profit making. It may, therefore, be helpful to have a brief look at profit making theory in the conventional or mainstream economies before examining it from the Islamic point of view. Then, the conventional or mainstream perspective shall be looked into before highlighting some business issues involved from an Islamic perspective. This is because the business itself is unlawful, activities whose profits are unknown to Islamic Law, this is because the business itself is unlawful.

Muslim Scholars agree with few dissensions, that in Islam, the prohibition of *riba* is total and complete. The verdict makes no distinction between usury and interest, between its simple and compound forms and between money and commodity borrowings.⁴⁴ It is not of much relevance here to go over the debate.

For the faithful, it is reason enough to desist from taking or giving interest because their belief system prohibits it. But as an academic discipline, Islamic economics must provide justification for the ban, more so because traditionally, profit and interest both go to the same functionary the capital committed to business. Why then banish one and allow the other? Islamic economists borrow a plea against interest from the General Theory of Keynes (1936).⁴⁵ It is explained that the schedule of expected profit rates rarely remain in tune with the sticky rates of interest.⁴⁶ When profit expectation run high and wide of interest rates, increasing probabilities of gain from leverage fuel investment and soon the economy is on way to inflation. Different event occurs when profit expectations are falling at a faster pace than the rates of interest. The economy faces deepening recession and unemployment. Thus, interest works against growth and stability in an economy.

Again, the marginal productivity theory claimed to ensure distributive justice cannot explain the payment of interest. One need not deny productive attributes to finance in a factor combination. But fundamental is the question: does interest compound to that productivity? The level of interest rates is determined by the state of opinion in the bond markets and the manipulation of monetary policy by the Central Bank. What has the productivity of funds to do with either of them?

Furthermore, all funds – owned or borrowed – are inseparable intermixed in the business of a firm, and are exposed to the same degree of risk in its business. How does productivity or exposure to risk of the owned and borrowed funds differ from the viewpoint of the firm or society? Why should then the two sorts of capital be differently rewarded: one with profit and the other with interest? Financial expedience or legal fiction needs not always be just.

Finally, interest payments cannot be shown meeting the norms of social justice at the macro level.⁴⁷ Borrowings in the past led the flows of money from the rich to the poor in a society. Interest rates used to be high, often exorbitant; the poor suffered. Today the situation has reversed. Savings largely come from the middle classes who contribute to pension funds, take insurance policies, buy units and put money in fixed deposits. This pool of relatively small savings goes to finance mostly the business tycoons via the financial intermediaries. Interest rates are kept low; cheap money policy is the order of the day. Small savers part with their money for a song, if we compare what

⁴³ *Ibid.* p.2

⁴⁴ H. Zubair, *supra* note 29.

⁴⁵ A.T. Shehu, *supra* note 30.

⁴⁶ H. Zubair *supra* note 29.

⁴⁷ *Ibid.* p.6.

they get as interest with the profits their deposits enable equity holders earn. When the interest rates rise in an economy due to a change in monetary policy, the banks are quick to pass the increase to borrowers, but drag their feet to raise interest on deposits.

On the reverse, giving interest rates fall first and faster on deposits.⁴⁸ Thus interest was an institution of injustice in the past and remains so even today. Remember that the Islamic prohibition of interest has nothing to do with either the productivity of capital or the fixity of interest rates as often argued. The ban is from removing an instrument of injustice and exploitation from the economic scene.⁴⁹

V. THE PROHIBITION OF INTEREST AND THE ISLAMIC LAW

The Islamic economic system runs on the total absence of the interest factor. Yet there is no historical nor current evidence to suggest that as a result of no interest, the demon of inflation or insufficiency went amok, and set the prices and needs spiraling beyond control. In the contemporary times, we have a very interesting opportunity to draw comparisons with regard to the influence of interest rates (on capital) or its absence on inflation and insufficiency. The government of China under Mao Tse Tsung's era made many experiments with the economy. Some faltered, and some produced excellent results. But during the entire reign of Mao Tse Tsung, interest was not allowed to play any part either domestically or internationally. Yet throughout the period there was no prominent increase in inflation nor was there any fall in price. Compared to China, is the State of Israel; perhaps the world's most capitalist country, the rate of inflation has been amongst the highest recorded anywhere in the world, except of course, in Latin American countries and the post-War exceptional phenomenon of inflation in Europe, particularly in Germany. But then those were not normal days. Other things being equal, the role of interest in any economy can not be depended as anything other than inflationary and thus the prohibition by the Islamic law.

In an interest nominated society, owners of capital are always ready to lend money without investigating or caring for the ability of the borrower to repay. On the borrower side, there are few who seriously consider their repayment ability. "Little do they know or realize that borrowing from the loan-sharks, the likes of shylock and prestigious finance houses and banks is tantamount to borrowing from their own future earnings".⁵⁰ It encourages the habit of living beyond one's resources. It results in over-spending and an increasing inability to repay and honour one's pledges. Such societies give an unrealistic boost to production to meet consumer demand. The evil aspect of interest run economies has to be further elaborated and illustrated, in a society where keeping up with the Jones becomes an obsession, largely abetted by advertisements of the latest models. An introduction is provided to the general public of the luxurious lifestyle of the rich by displaying the latest design of sofas, luxurious chalets fitted with the most modern kitchen and bathroom appliances and gadgets. According to Mirza Tahir:

People with less means available to buy all that they want are willy-nilly turned to false plastic money to fulfill their desires. Obviously, this means that they buy for more than their earnings. If this

⁴⁸ *Ibid.*

⁴⁹ *Ibid.*

⁵⁰ HM Tahir Ahmad, *Islamuc Response to Contemporary Issues*, (United Kingdom: International Publications Ltd, 1997), p. 188.

money was to be repaid even without interest on the capital, it would be tantamount to increasing one's buying capacity at present at the cost of lowering the same in the future.⁵¹

For instance, if a man earns \$1,000 per month and goes shopping for expensive articles with the help of borrowed money (as his capital and to pay no interest on it) say, to the tune of \$40,000.00, his ability to repay will be determined by his net savings per month. Let us suppose that he can barely make the ends meet at \$600. This will leave him with net savings of \$400 per month with which he has to pay the loan. He will have to live within that tight budget for the next 100 months to repay the loan arising from his spending spree of \$40,000 without interest. What he has done is to borrow money from his future 100 months (that is, 8 years and 4 months) to spend at the beginning of this period. The only advantage he has gained is to satiate his impatience and fulfill his desire instead of waiting for the next eight years or so.

But if he has to pay interest on his \$40,000 borrowing, his financial position will be far worse than the one discussed in the foregoing scenario. At an average rate of say, 14%, his total loan from his own future earnings would work out to be far greater than the actual money he had borrowed. This will lower his ability to repay and lengthen the period of repayment to a considerable degree. Such a person will have to suffer patiently for some 20 years or so as a punishment for his impatience making monthly repayments of about \$500 that is a total of about \$12,000 to repay the loan with compound interest. The loss is most certainly of the borrower and not of the lender. Hazrat Mirza Tahir Ahmad further observed: "The lender is part of every powerful system of exploitation which guarantees, after allowance for inflation and loan loss. That the lender ends up with more money in his pocket".⁵² With inflation, the situation of the borrower in question will further worsen. His buying power will continue to decrease. This is what the Islamic Law frown at, as is concerned with the welfare of all and thus the prohibition.

VI. JUXTAPOSITION OF THE IDEAS

Lots of this, that is, juxtaposition seems to have become self evident from the expositions so far. It need be added, however, that there are varying reasons why people make savings and deposits. These include speculative consumption, security and investment.

Thus, the assumption (even in the circle of classical economists) is not necessarily that people save in order to obtain a return on their savings, nor that they save more or less if the rate of return is higher or lower.⁵³ The new trend tends to be gaining momentum as financial institutions now look up to zero interest rate. Incidentally, this ostensible new trend is what Islamic Law advocates in its pristine principles. The acclaimed orthodox economists are now helpless without having or making recourse to interest. Free economy is the hub of Islamic economics.

In the case of those who may wish to explore Islamic principles, the matter is already settled as interest-free economy is *ab initio* not compromised. Interest-free economy as envisaged and ordained in Sharia is the best financial option.

⁵¹ *Ibid.*

⁵² *Ibid.*, p. 189.

⁵³ Gardner Ackley, *Macro Economic Theory*, (New York: Macmillan Company, 1961), p. 141.

VII. CONCLUSION AND RECOMMENDATION

As it is obvious that a modern economy is a mixed one in which both the public and private sectors exist side by side and that the Government regulates the private sector in a number of ways,⁵⁴ the bulk of the needed stride towards the emergence of an interest free economy lies on the Government. It is hoped that this research gives the Government a fulfilling direction on economy policy. Also, there should be no fear as to the feasibility of an interest-free economy for it has been tested in some jurisdictions and has even boosted the economy rather than down playing same as some capitalist ideologists have argued.⁵⁵ It is, therefore, recommended that an interest-free economy should be accorded an enabling environment to strive in place of an interest-based economy that has failed us as a nation and elsewhere in the world. To achieve this aims, it is further recommended that economic experts should be mandated to embark on in-depth study of interest-free economy via partnership with counterparts in other jurisdiction; and relevant legal framework should be made to accommodate the auspicious new trend.

⁵⁴ H.L Bhatia; *Public Finance*, (India: Vani Educational Books, 1985), p. 1.

⁵⁵ Examples of China under Mao Tse Tsung's era has been given. See H. M. Tahir Ahmad *supra* note 50, p. 183.