THE IMPLICATION OF USURY (RIBA) IN ECONOMIC: A CRITIQUE

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Abstract

In today's world economic activities, the element of interest or 'Riba' can't be separated from the economic activities and it is one of the factor of the fluctuations, business cycles and obstacle in the way of economic development especially in the third world countries. The Shariah of Islam makes no dissimilarity between interest and usury and there is no difference of opinion among Muslims that usury (riba) is clearly prohibited by both the Qur'an and the Sunnah. There are several reasons for the prohibition of riba in the Quran which is *Surah Al-Rum-39, Surah Al-Nisa-161, Surah Al-Imran 130-2 and Surah Al-Baqarah 275-281*.Riba causes various evils such as moral, social and economic evils. However, there is still peoples who disagree that even if the interest is banned in Islam, non-interest banking institution is not workable in the present world. An economic system without interest can't be visualized. The focus of this research has been on the critique of usury (riba) and the possible implication of economic of riba. To conclude the concept of prohibition of riba and its implication in the economic system, researcher have adopted an analytical and historical approach.Thus, this research recommends that positive effects on the economy could be achieved with the riba-free economy.

Keywords: *economy, interest, usury, riba*

1.0 Introduction

In this modern world, interest (riba or usury) has plays an important role in modern and capitalistic economy. Interest plays a major role in our today's life and almost all-economic structure today is lays on interest which affects all the aspects of life. The web of interest engaged in most economic sectors including financial services, industrial, business and agriculture. Interest has step by step and secretly crept into all aspects of man's life, according to Prophet's (PBUH) saying**,**

"A time will come over people when not a single person will remain who does not devour riba, and if there be any who refrain from it still its vapour will overtake him"
(Abu Daud, SunanKitab-al-Buyu,Bab fi ijtinab-al-Shubukat).

the reasons why Allah swt forbade riba (interest or usury) because its hazardous and bad consequences in economic system. Nowadays the role of financial institutions like banks as the backbone of the economy is obvious. The abolition of riba is the most popular distinctive feature and probably the most intensively discussed issue of Islamic economics. Therefore, for the last three decades Islamic institutions, universities, advisory bodies has taken a very serious efforts on making research and studies to meet this challenge. Besides, few commissions have been develop by the government to revise different sectors of their economy specially banking, finance and insurance and opinion on how to abolish interest in order to Islamize the economy. Unfortunately, this still remains as a major topic for further probing and research.

The fact that the riba-based banking system has contributed amazingly to the growth and development of our modern society definitely can't be deny. However, as it has been widely propagated, without the position of financial intermediaries development can't be achieved. The emergence of Islamic financial system has shown us that it is possible to posses the financial institutions which are shariah-compliance but yet competitive. Islamic financial institutions offered us alternative products that are interest-free. Therefore, this paper highlighted on the term definition of 'interest' or 'riba'; interest or riba in different views of religions and finally the impact of riba in the economy system.

1.1 The Definition of Riba

In the Holy Qur'an, the word riba has been mentioned on several occasions. So it is essential to really understand what it riba is all about. The word "riba" extracted from the Arabic word "raba", means addition or increase. So, literally riba means increase, addition, growth or augmentation. Basically, the prohibition of riba in Quran revealed in four separate revelations and comprise of four stages which are as follow:

i. *Al-Rum - verse 39*
ii. *Annisa - verse 161*
iii. *Al-Imran - verse 130*
iv. *Al-Baqarah - verses 275-279*

<u>1st stage:</u>

On the first stage describe a comparison between those who receive riba and those who give alms to get Allah pleasure. This verse was revealed in Makkah (Makkiah) which work as reason to encourage the giving of alms and charity (Engku Rabiah Adawiah Engku Ali).

And whatever you give for interest to increase within the wealth of people will not increase with Allah. But what you give in zakah, desiring the countenance of Allah - those are the multipliers.
(30:39)

2nd stage

This verse revealed in Madinah. This verse explained that those who taking usury or riba shall be punished by Allah swt(Engku Rabiah Adawiah Engku Ali).

"Thus, because of all their wicked actions, We prohibited for the Jews good things that were previously permitted for them. Also, because they repulsed many people from the way of God. And because they charged USURY, though they were forbidden there from, and because they cheated the people out of their possessions. We have prepared for the disbelievers among them a painful retribution." (4:160-161)

3rd stage

This verse was revealed around the second or third year after Hijrah, tp encourage Muslim avoid riba for their own benefits and welfare.

"O you who believe, you shall NOT eat from usury, compounded many fold, and observe God, that you may succeed." (3:130)

4thstage

This revelation occurred near the completion of the Prophet's (pbuh) mission. It mentioned regarding those who taking riba and clear distinction between trade and riba. This verse completely stated that all rates and causes of riba are prohibited without any doubt.

Those who earn from usury stand only like one who is struck by the devil's touch. That is because they claim that usury is a form of trade. But God permits trade, and prohibits usury. Whoever heeds this admonition from his lord and abstains from usury, may keep his past earnings, and his judgment rests with God. As for those who return to usury, they will deserve hell, wherein they abide forever. (2:275)

God diminishes usury and augments charities and God dislikes the guilty disbelievers. (2:276)

Those who believe and work righteousness, and observe the salat and zakat, their recompense is with their Lord. They have nothing to fear, nor will theygrieve. (2:277)

O you who believe beware of God; and give up the usury that isoutstanding, if you are really believers. (2:278)

If you do not refrain, then expect a war from God and His messenger. But if you repent, then you may keep your principal, without inflicting injustice, or suffering injustice. (2:279)

In Shariah, technically "riba" refers to the premium that need to 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 (Ali RizaGul, 2008).

1.1.1 Hadith on Riba or Usury

Reported by Jabir: 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."

1.1.2 Classification of Riba

Generally, according to Islamic law as evidence, clarify 'ribā and divide it into two kinds: ribā an-nasīah (interest charged on loan transactions) and ribā al-fadl (interest inexcess).

i. Riba Al-Nasi'ah

It refers to the boost or growth due to delay. It can be at the beginning of transaction or on maturity of the debt. In the case when debtor is unable to default in payment of debt on maturity and the creditor gives additional time for an additional amount in return it is classified as riba al nasi'ah.

Hence, riba al-nasi'ah refers to the interest on debt. The term of riba has been used in the Quran in the verse ***"God has forbidden interest" (2:275)***. Besides, Prophet (pbuh) also referred when he said, "there is no riba except in nasi'ah".

ii. Riba Al-Fadl

It happens when two things which is same in nature and value are exchange unevenly. For example, a kilo of barley being exchanges for 10 kilos of barley. According to the Holy Prophet (pbuh) following injunction:

"Gold for gold, silver for silver, wheat for wheat, barley for barley, date for date, salt for salt, must be equal on both sides and hand to hand. Whoever pays more or demands more (on either side) indulges in riba".

2.0 Literature Review

The literature reviews in this chapter shows on the result of previous study about the critique of usury or riba by various religions and the implication to toward the economic system.

2.1 Critiques of Usury (Riba) by Various Religions.

Riba (interest or usury) is primarily an economic issue in all religious. in fact, all religions and mythologies have prohibited the practice of riba in one way to another since the beginning of human civilization. Therefore, all three major revealed (Ilhami) religions which are Islam, Hinduism and Buddhism, Christianity and Judaism have strongly criticized riba in its very nature.

2.1.1 Usury (riba) in Islam

As discussed in the last section, even since the Prophet Mohammed's life, the criticism of usury in Islam was well established and reinforced by several of his teachings in the *Holy Quran* dating back to around 600 AD. The Quranic evidence and condemnation on the concept and practice of riba is clear and completely final. However,particularly the Muslims today who are satisfied in their ignorance and unconcern, are probably still and continue to live their lives in and around the system, which is abhorred by God.

"O you who believe, beware of God, and refrain from all outstanding gains from usury, if you are truly believers. If you do not, then know that you are at WAR with God and His messenger..." (2:278-279)

The original word used for usury in this text was *riba* which literally means "excess or addition" which is accepted to refer directly to interest on loans. According to Islamic economists Choudhury and Malik (1992), by the time of Caliph Umar, the exclusion of interest was a well established and integrated into the Islamic economic system.

2.1.2 Usury (riba) in Hinduism and Buddhism

According to Wayne A.M. Visser and Alastair McIntosh (1998), they mentioned that among the oldest known references to usury or interest can be found in ancient Indian religious manuscripts and Jain (1929) provides an outstanding summary of these in his work on *Indigenous Banking in India*. From the *Vedic* texts of Ancient India (2,000-1,400 BC), the earliest record has been derived which the "usurer" (*kusidin*) is mentioned several times and interpreted as any lender at interest. More frequent and detailed references to interest payment are to be found in the later *Sutra* texts (700-100 BC), as well as the Buddhist *Jatakas* (600-400 BC). It is during this latter period that the first sentiments of contempt for usury are spoken. For example, Vasishtha, a well known Hindu law-maker of that time, made a special law which forbade the higher castes of *Brahmanas*(priests) and *Kshatriyas* (warriors) from being usurers or lenders at interest. Besides, usury is referred to in a shameful manner: "hypocritical ascetics are accused of practicing it" in *Jatakas*,

However, usury had become a more relative term by the second century AD as it is implied in the *Laws of Manu* of that time: "Stipulated interest beyond the legal rate being against (the law), cannot be recovered: which they call that as usurious way (of lending)" (Jain, 1929: 3-10). This concept of usury seems to have continued in Indian society until today. Even though, it is condemned by principle, usury only refers to interest charged above the existing socially accepted range and it is no longer prohibited or controlled in any significant way.

2.1.3 Usury (riba) in Christianity

The critique of usury was most respectfully taken up as a cause by the institutions of the Christian Church where for well over a thousand years the debate prevailed with great intensity. The Old Testament decrees were resurrected and a New Testament reference to usury makes it even controversial. In building on the authority of these texts, the Roman Catholic Church had by the fourth century AD prohibited the taking of interest by the clergy; a rule which they extended in the fifth century to the laity (Wayne A.M. Visser and Alastair McIntosh, 1998). The following are taken from the King James Version of bible:

'You shall not lend him your money for usury, noe lend him your food at a profit' (Leviticus 25:36-37)

'Woe is me, my mother that you have borne me, A man of strife and a man of contention to the whole earth! I have neither lent for interest, Nor have men lent to me for interest. Every one of them curses me. (Jeremiah, 15:10)

By the eighth century under Charlemagne, they declared usury to be a general criminal offence. When Pope Clement V made the outlaw on usury absolute and declared all secular legislation in its favor, null and void, at this time, these anti-usury movements gain its momentum during the early middle ages and perhaps reached its peak in 1311 (Birnie, 1952).

Increasingly thereafter, even though numerous prohibitions by Popes and civil legislators, weakness in the law and contradictions in the Church's arguments were found and along with the growing wave of commercialization, the growth of pro-usury counter-movement began. Besides, the rise of Protestantism and its pro-capitalism influence is also associated with this change (McGrath, 1990). As an outcome of all these factors, according to theologian Ruston in 1993, around 1620 "usury accepted from being an offence against public morality which a Christian government was expected to hold back to being a matter of private conscience and new generation of Christian moralist's redefined usury as excessive interest".

2.1.4 Usury in Judaism

According to studies done by Wayne A.M. Visser and Alastair McIntosh (1998), in several Biblical passages, criticism of usury in Judaism has its roots and taking of interest is discouraged, outlawed, or scorned. Literally, the Hebrew word for interest is *neshekh*, means "a bite" and refer to the exaction of interest from the point of view of the debtor. In the associated Leviticus and Exodus texts, the word almost certainly applies only to lending to the poor and needy, while in Deuteronomy, the prohibition is absolutely include money lending, excluding only to business dealings with foreigners. In the text, the words *tarbit* or *marbit* are also used to refer to the recovery of interest by the creditor.

In addition to these biblical roots are various Talmudic extensions of the prohibitions of interest, known as *avakribbit*. Literally, "the dust of interest" applies, to certain types of sales, rent and work contracts. This is distinguished from *rubbitkezuzah*, interest proper in an amount or at a rate agreed upon between lender and borrower. The distinction in law is that the latter, if it has been paid by the borrower to the lender, it is recoverable from the lender, while the former, once it is paid, it is not recoverable, although a contract contaminated by the dust of interest will not be enforced. (The Jewish Encyclopedia, 1912).

2.2 The Implication of Usury (Riba) towards Economic

There are various reasons and rationales for the critique in usury have been forleads to this position on implication of usury (riba) towards the economic system as a whole.

2.2.1 Interest in Investment

According to the classical economists, saving in the shape of interest will be rewarded. The higher rate of interest the larger the premium of savings. Besides, the rise in the rate of interest leads to an increase of cost in investment which will affect the total investment in the country badly (Muhammad Farooq, 2012). Basically, people put their surplus money in banks for various reasons. One of the reasons is to earn money of interest.

Fundamentally, the entrepreneur fixes his share (interest rate) at the time of investment in business. Thre is no divine interest towards the business and he does not be concerned if the dealing earns profit or incurs a loss, since his profit is guaranteed by all means. The operation of business is wholly is the management responsibility. Financiers thus come into existence that supplies money and then sits at leisure. For that reason, if only interests are abolished, the financier class will take an dynamic role in the economic activities, great effort and the rapidity of economic development in the country will be accelerated (Muhammad Arif, AshiqHussain et.al, 2012).The Prophet (pbuh) once asked*:*

"What is the best and most preferred means of ownership? He then responded by saying that it is what a man gains from work of his own hand and any licit trade.

Keynes objected to the classical economists on the opinion that an increase in the rate of interest will decrease investment and as a result the whole economy will be badly affected. This is because, if there is no interest, the amount of savings will be available for investment with zero cost and the rate of investment will increase and the economy will take off based on Mudarabah and Musharakah modes of finance. It is basically the rate of investment that influences positively the total income of the people which ultimately enhances the ability of the people to save more.

2.2.2 Usury as a Mechanism of Inequitable Redistribution of Wealth

The distribution of wealth in a society becomes inequitable due to interest. Interest is an overhead charge which does not form part of any factor of production. Interest is received by the capitalist who continues the use his wealth to earn more wealth.This causes an unjust distribution of wealth in the society. In this way due mainly to interest the rich in the society get richer and the poor, poorer. Research shows that around sixty per cent of world's resources are controlled and consumed by the twenty per cent rich (Muhammad Arif, AshiqHussain et.al, 2012).As stated in the Quran, verse 59:7,

"So that this wealth should not become confined only to the rich amongst you"

Growing poverty is not the problem of the third world alone. The advanced countries face this problem too. Chappra (2000) expresses in Tarjuman-ul-Quran: Financial institutions that operating on the basis of interest will calculate the wealth of the applicants for a loan. They would demand a proper security to ensure that the borrower will not only return their capital but also an additional charge. Islam rejects financial interest on the basis that it contradicts the Principle of Distributive Equity which its political economy strives to enshrine: "Interest in any amount acts in transferring wealth from the asset less section of the population" (Choudhury and Malik, 1992).

2.2.3 Usury as Exploitation of the Needy

Interest has been prohibited by Islam to prevent exploitation. The usury (riba) known for a long time and had been one of the most merciless unjust income appeared with the reason of postponing debt and this means whereby payee exploited their debtor in needs (Ali RizaGul, 2008).Therefore, interest-based loans result to the exploitation of the poor and the needy as it fallout in more poverty, by reducing their future earnings. On the other hand, these interest-based loans make the rich creditors richer and add to their future earnings. In the Quran mentioned that;

"Seek the abode of the Hereafter in that, which Allah has given you, and neglect not your portion of the world, and be kind as Allah has been kind to you and seek not corruption in the earth".

Besides, the interest makes the industrialist and wealthy people greedy and unoccupied too. Hence, they earn easy money while doing nothing in concrete by advancing their extra money based on interest. The banker only lends money to those who do not need it', it does seems contradictory at first sight but that is reality. Islam is genuinely concerned with the life of man both in this world and hereafter, therefore, Islam forbidden interest in total. Islam encourages trade and profit while prohibit interest.

2.2.4 Economic Instability

Chapra (2000) states in Tarjuman-ul-Quran that interest destabilize the economy. Besides, the well-known American Economist Milton Friedman relates economic ups and downs to rise and fall in interest rate. A high rate of interest creates conditions of extreme uncertainty in investment market (Muhammad Arif, AshiqHussain et.al, 2012). Gesell's (1904) state that main objection to interest is that it is an prevalent factor in the volatility of interest-based economies, are the recession, cycles of boom and bust and recovery. Kennedy (1995), suggesting that the inflation may in fact cause by compounded growth of interest. An appreciation in invested monetary capital will results in compound interest, hence it is assumed rational for people to rather having a particular amount of currency now than the same amount in the future (Muhammad Arif, AshiqHussain et.al, 2012).

In the production and investment sector, the interest or riba banking system allows the outflow of currencies to the wealthy people who are able to pay the loans while the poor ones bear the expenses as the prices of commodities rise up; this results also in national economy inflation which is disastrous for any economy.

3.0 Conclusion &Recommendation

The greatest challenge which the modern Muslim states face today is how to eliminate interest from their economies particularly from the banking sector. Even though, many hectic efforts has been made in order to establish a riba-free economy; however it seems to be a long journey and great challenge to meet this objective.

The major cause of our failure in elimination of interest is that we are attempting to make impossible to happen. It is not that the interest cannot be eliminated from economy. But the fact is that it cannot be eliminated from capitalistic system of economy. It is like a pillar on which the structure of modern capitalist economy is standing. To keep this system,this pillar cannot be withdrawn as in that case the whole system would collapse.(Muhammad sharifchaudry). The present Islamic economy frameworks are lack of the presence of the Islamic concept because economic and financial system are majorly imitate from the conventional frameworks.

Thus the genuine resolution of the problem of interest will lies in the total enforcement of whole Islamic economic system. Partial or slowly enforcement of the Islamic economic system will not work. Therefore, enter in Islam fully and establish Islamic economic system in full. As mentioned in the Qur'an says:

"O ye who believe! Enter into Islam whole heartedly and follow not the footsteps of the devil……" (2 : 208).

This indeed, is a great challenge to Islamic Bank too. Thus, Islamic Bank must adopt and diversify their product which do not violate the principle of riba and contribute to progress in eliminating of riba economy for the welfare of human being with the progressive spirit of Islam.

For the conclusion, the element of interest creates hurdles in the smooth running of the economy and one of the main factors which brings about economic crisis. The Almighty Allah has prohibited all forms of interest because the Creator wants a happier and prosperous life of His creature in both the worlds. The verses regarding interest in the Holy Qura'an wants to establish an economic system where there is no exploitation at all. It establishes justice between the lender and the borrower; the capitalist and the entrepreneur who leads to brotherhood, fraternity, economic progress and a better standard of life for all(Muhammad Farooq, 2012). Therefore, know that Allah swt never forbade anything except that there are some harmful effects to it.

Allah Knows best.

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