

# The Philosophy of Islamic Political Economy: Theory and Practice

Prof. Dr. Muhammad Ahmed Qadri  
Department of Political Science, University of Karachi, Karachi Pakistan

## Abstract

The paper aims to identify the contemporary principles of an economy based on compound interest through conventional banking system. Logical arguments have been placed regarding interest free (Mudariba) and its benefits to the society. It has also been discussed to understand the reason of the prohibition of Riba or interest in Islam. Impartially, the author has tried to analyze the benefits of an interest-free society for the needy class.

**Keywords:** Islamic Economy, Muslim Political Economy, Islam and Economy System, Contemporary Economy System, Interest-Based Economy, and Conventional Banking System.

## INTRODUCTION

The Islamic Political System deals with the state and it defines the way of life under the guidance of Quran and Sunnah (The Cosmic Law). The contemporary world is complex and multi-dimensional which requires a lot of skills for state affairs especially the political economy. The Islamic State requires a lot of specialization in the administration and needs decision making to be as per demand of the political society and in line with the rules and regulations set out in the Quran and Sunnah. Although the Prophet Muhammad (Peace Be Upon him) never declared himself as a ruler or an absolute authority, due to will of Allah (God), sent him with a vision and guidance to lead the community under His command. Analysis of the subject matter reveals that the Islamic State means delegated powers exercised by the ruling class is considered vicegerency of God through state power to promote a genuine Islamic Political Economy based on equal share in profit and loss (Mudariba) and prohibition of Riba (Interest based Economy) which is totally banned in the Islamic State.

What Riba (interest/usury) is and why it is strongly prohibited in Islam, is a very vague concept to many Muslims. Most simply choose to avoid it only due to the rulings in the Quran and Sunnah, rather than try to fully understand its harmful effects and comprehend why it is prohibited. It is easy to grasp the concept of why gambling is prohibited, but Riba is more complex and very important, thus it needs a greater explanation that will speak to the minds of Muslims all around the world. To accomplish this, the author of this paper aims to fully explain the idea of Riba, when and why it was introduced, how it plays a role in our societies today, and then compare the Islamic ruling to an ideal society that we would like to achieve. Once these objectives are fully explained and understood by the masses, we can realize that a Riba-free environment is not only beneficial for Muslims, but for all humans alike, for many reasons which will be later discussed. In seeing the end goal and knowing what to work for, societies will slowly start to move towards preferring Riba-free economic systems in order to create a balance that the world needs. This balance will bring about a more just and equitable method of distribution of resources, hopefully globally.

## THE HISTORY OF RIBA

Islam fully justified the distribution of wealth among the people and negated wealth as a focal point of the society. In early times, the Arabia, which was ignorant of civil norms due to their tribal lifestyles, had the concept of "might is right" meaning that power and authority were the political norms and skills to create obedience through fear. Islam, as per Quran and Sunnah, rejected economy-based masters of the society because the Holy Prophet (PBUH) wanted to promote the inferior category of the society which is called the slaves, allowing them the quality of life, freedom of speech, and free trade without any pressure from any elite class of the society. He believed that all humans deserved the basic rights to earn permissibly, speak what they believe is correct, and live their lives the way they wish no matter what their economic standing was.

The word Riba, is an Arabic word which "literally means an 'increment' or 'addition.' In Islamic Fiqh the term Riba has a special meaning. Riba is an unjustified increment in borrowing or lending money, paid in kind or in money above the amount of loan, as a condition imposed by the lender or voluntarily by the borrower. Riba defined in this way is called 'riba al-duyun' (debt usury). Riba also is an unjustified increment gained by the seller or the buyer if they exchanged goods of the same kind in different quantities. This is called 'riba al-fadl' or 'riba-al-buyu' (trade usury)."

<sup>1</sup>This definition by the Institute of Islamic Banking and Insurance explains that the concept of Riba encompasses the English terms usury and interest. Thus, as these words come under the definition, they are not permissible in

<sup>1</sup> Ahmad, Dr. Abdel-Rahman Yousri. "Riba: Its Economic Rationale and Implications." *Institute of Islamic Banking and Insurance*. Institute of Islamic University. Web. 30 Jan. 2016.

Islam. To save the poor class of the society, Islam did not allow Riba, or interest, for the state banks or the local sale and purchase of goods in the community. The strategy of such a plan of action is visible because Islam never wanted to humiliate any human being or allow the elite class of the society to insult the poor class by giving a few coins or a few things.

Even in the earliest societies, the socio-economic balance was not exactly equal because depending on the quality of the land as well as the farming technique, some farmers were able to grow more produce than others. Similarly, with varying techniques of caring for animals, some owners had certain advantages. However, to equalize this imbalance, there was a concept of loaning and repaying in order to ensure that a major socio-economic gap did not occur.

According to Stephen Zarlenga, Co-founder of the American Monetary Institute, the way they dealt with loans and interest was very simple in that the “loans in the pre-urban societies were made in seed grains, animals and tools to farmers. Since one grain of seed could generate a plant with over 100 new grain seeds, after the harvest farmers could easily repay the grain with ‘interest’ in grain. Also since just so much seed grain could possibly be used, there were natural limits to this lending activity.” This meant that there was a control and balance in the lending as well as the fact that it was feasible for borrowers to take on the loan. Furthermore, “when animals were loaned, interest was paid by sharing in any new animals born. The Sumerians used the same word – mas – for both calves and interest. A similar Egyptian word meant to ‘give birth.’ What was loaned had the power of generation, and interest was a sharing of the result. Interest on tool loans would be paid in the produce which the tools had helped to create.”<sup>1</sup>

However, it later evolved into the concept we know today. The change was first introduced by the societies with the rulers who believed that it was okay to exploit the citizens and the low class. They came up with the idea of charging loans of metal with a payback of more metal. This is completely opposite to the idea of interest in which the repayment was in the form of something that could possibly be reproduced. In this way the problem of interest that we know today, came to be.

#### **THE ROLE OF RIBA IN OUR SOCIETY TODAY:**

The entire Muslim and non-Muslim world is under the influence of Riba. Riba has affected every society and individual in today’s world. The conventional banking and financial systems have created a growing gap between the rich and the poor as well as increased the amount of capitalism in our societies. In this way there is an increase in the number of crimes, the amount of dissatisfaction, resent against resourceful people. This creates a negative socio-political environment against the privileged class. History evolves with two categories of human beings which later on established a civil society through Social Contact Theory and assurance of rights and responsibilities from nomadic life to the contemporary national state. The political history witnessed the importance of wealth and its effect on people.

The contemporary Muslim world has mostly forgotten the basic principles of the prohibition of Riba and they continue to follow the conventional financial system of the western world which was in search of genuine peace of mind due to financial satisfaction. It would be very interesting to identify that the Muslim states themselves are confused about the financial system. For example, Pakistan has both conventional and Mudariba (interest-free) systems. The Islamic Cosmic Law allows only Mudariba while a huge number of people like to hold their accounts in conventional banking systems rather than the Mudariba system even though they know that the interest based economy is prohibited in Islam. This contradicts between the idea of theory and practice. Islamic society earlier practiced Riba free financial principles and that state almost ruled all over the world, but today’s muslim world is under the pressure of IMF (International Monitoring Fund) and the World Bank, even though they have natural resources like gas, gold, platinum, and others.

There are several ways in which Riba negatively affects individuals, society, and economy including:

- Society is run by wealth, once wealth is set by a few people then the whole society collapses because the resources are controlled by those few people.
- Riba is a creator of slaves of money. For example in Pakistan, when poor, low class people come under the pressure of Riba, they mortgage everything they own, even their family, to the loan giver, but still they are considered under debt due to the wrong system of the economy through Riba.
- The individual is not free to live his or her own life as they wish, once they are under the influence or the power of interest. This is best explained by the example of buying a house on mortgage and having a high interest rate. The bank offers 0%-20% interest on the purchases which psychologically depress a buyer in addition to mentally trapping them for many years as they attempt to pay back not just the mortgage but mostly the interest rate on the purchase. This has shown time and time again that the individual is spending their entire life on trying to pay back something they do not even own – the

---

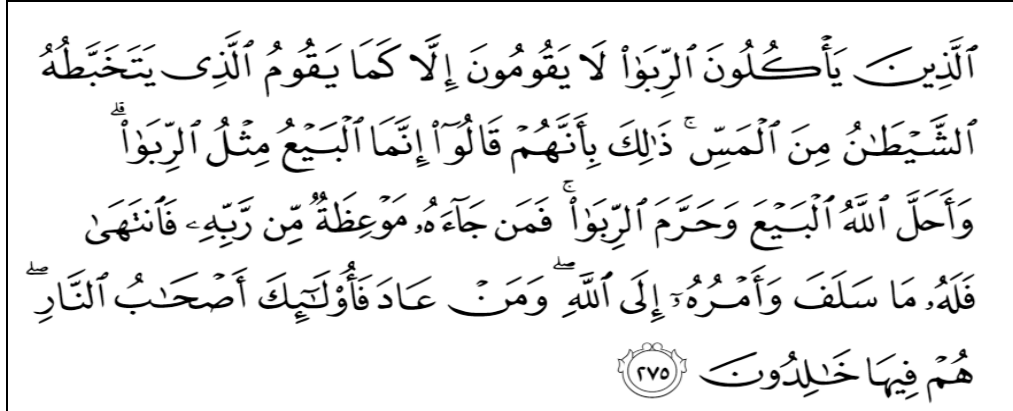
<sup>1</sup>Zarlenga, Stephen. "A Brief History of Interest." *American Monetary Institute: The Independent Study of Monetary History, Theory, and Reform*. The American Monetary Institute, 18 Dec. 2010. Web. 29 Jan. 2016.

interest. In this way they are also never fully satisfied with their possession because it never truly belongs to them while the interest is still being paid off.

#### WHY ISLAM HAS PROHIBITED RIBA:

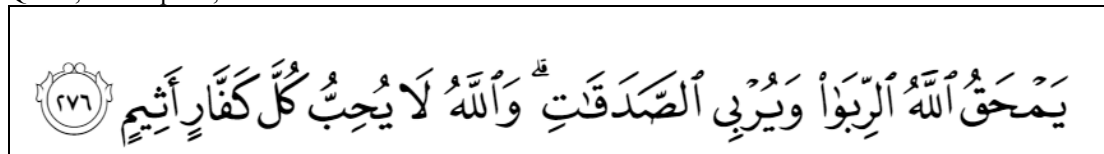
There are many instances in Islamic Law where it is mentioned about the prohibition of Riba. Specifically, several Quranic verses mention the sin of Riba<sup>1</sup> including the following:

1. Quran, Al-Baqarah, 2: 275<sup>2</sup>



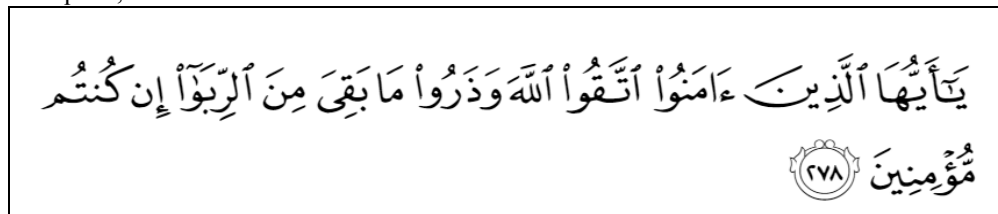
Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, "Trade is [just] like interest." But Allah has permitted trade and has forbidden interest. So whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to [dealing in interest or usury] - those are the companions of the Fire; they will abide eternally therein.

2. Quran, Al-Baqarah, 2: 276<sup>3</sup>



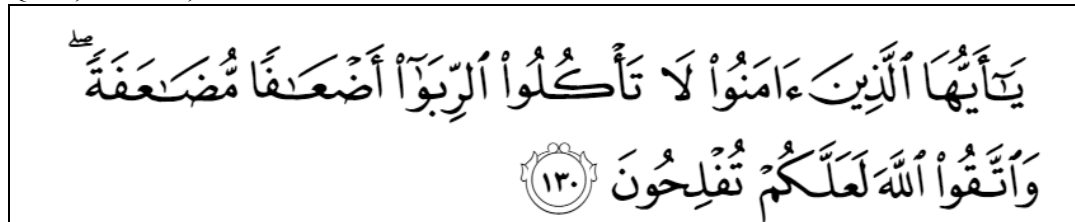
Allah destroys interest and gives increase for charities. And Allah does not like every sinning disbeliever.

3. Quran, Al-Baqarah, 2: 278<sup>4</sup>



O you who have believed, fear Allah and give up what remains [due to you] of interest, if you should be believers.

4. Quran, Al-Imran, 3: 130<sup>5</sup>



<sup>1</sup> Ahmad. "Quranic Verses on Riba (Interest/Usury)." *Alfalah Consulting*. Alfalah Consulting: Islamic Finance and Management, 22 Apr. 2011. Web. 31 Jan. 2016.

<sup>2</sup> The Holy Quran, Al-Baqarah 2:275. Quranic Translations taken from: <http://quran.com/>

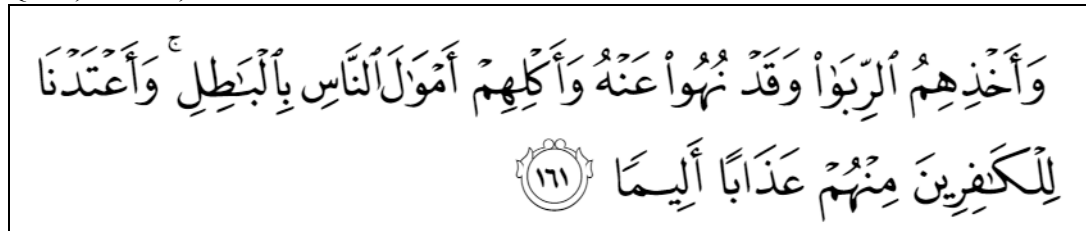
<sup>3</sup> The Holy Quran, Al-Baqarah 2:276. Quranic Translations taken from: <http://quran.com/>

<sup>4</sup> The Holy Quran, Al-Baqarah 2:278. Quranic Translations taken from: <http://quran.com/>

<sup>5</sup> The Holy Quran, Al-Imran 3:130. Quranic Translations taken from: <http://quran.com/>

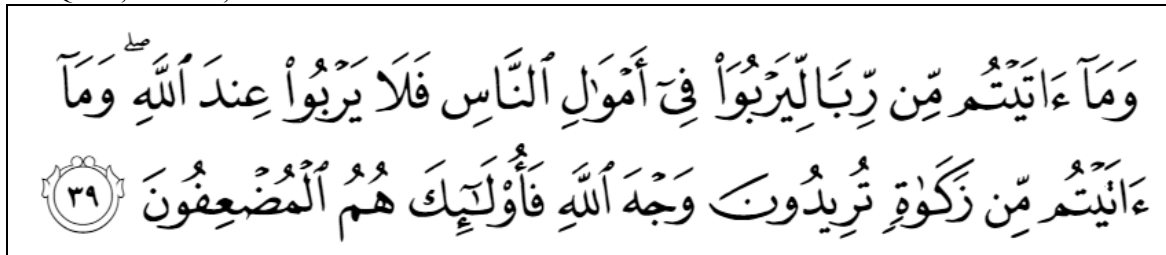
*O you who have believed, do not consume usury, doubled and multiplied, but fear Allah that you may be successful.*

5. Quran, An-Nisa, 4: 161<sup>1</sup>



*And [for] their taking of usury while they had been forbidden from it, and their consuming of the people's wealth unjustly. And we have prepared for the disbelievers among them a painful punishment.*

6. Quran, Ar-Rum, 30: 39<sup>2</sup>



*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.*

The one, who is in need, has nothing but honesty and truthfulness. He has confidence that the banker and society would help him, which is exactly what the Islamic Banking system was designed to do. In a society where Riba was common, so was exploitation. Riba allows a powerful person to exploit society, its resources, and even other human beings. Islam considered the ground realities of human needs, social services, and community requirements. Furthermore, the psychological needs of a human being is always taken into account in Islamic rulings and thus, the Quran and Sunnah have clearly told us the way to keep humanity away from all sorts of exploitation, in which a class of haves and have-nots emerges thus dividing the society into separate unequal groups in which one benefits more than the other, is to rid the Islamic Political Economy of Riba.

In additional to exploitation, Riba brings a sense of injustice into the society. If a man, starts out as being poor and wishes to work hard in order to increase his standing and make an honest living for himself and his family then he needs some help in order to begin his plan, meaning he needs a loan. If the loan is from a conventional bank and is based on the idea of interest, then the man is taking a risk of having to owe the bank money that nor he, or the bank, owns – the imaginary amount created to be the interest. If the poor man is able to flourish in the business he has created for himself with the loan he started out with, then he will be able to pay back the loan that was given to him. However, in addition to the money that was lent to him, he must also pay the imaginary amount that was created by the bank in an attempt to prey on the individual's hard work. Depending on how much the interest was, this may take an extra five, ten, or even twenty-five years. In this way, he is being treated unjustly because he has done his part on repaying the bank the amount he owes, but he is forced to continue to give away his earnings in order to satisfy the bank. Thus, although the man created his business to make an honest living for his family, he may still not be able to make enough with all the money that will go back to the bank. In this example, the bank is the organization that has the power, and is able to create injustice in the society by putting interest rates on the loans, even though they know that the poor people will have to spend their entire lives trying to pay it back. In this way, though they are all human beings, the bank ensures the gap between them and the low class citizens, thereby ensuring that they will remain in power.

Another interesting point to elaborate on is the idea of Riba being imaginary money. The famous philosopher, Aristotle said on the idea of wealth-getting,<sup>3</sup>

<sup>1</sup> The Holy Quran, An-Nisa 4:161. Quranic Translations taken from: <http://quran.com/>

<sup>2</sup> The Holy Quran, Ar-Rum 30:39. Quranic Translations taken from: <http://quran.com/>

<sup>3</sup> Aristotle. *Politics*. Trans. Benjamin Jowett. Vol. 1. Part 10: Daniel C. Stevenson. <http://classics.mit.edu/Aristotle/politics.I.one.html>. Daniel C. Stevenson, 2009. Web. 29 Jan. 2016.

*“The most hated sort, and with the greatest reason, is usury, which makes a gain out of money itself, and not from the natural object of it. For money was intended to be used in exchange, but not to increase at interest. And this term interest, which means the birth of money from money, is applied to the breeding of money because the offspring resembles the parent. Wherefore of any modes of getting wealth this is the most unnatural.”*

Thus, as Aristotle so powerfully stated, how could money beget more money? There is a certain amount of money in circulation in the economy keeping the socio-economic balance in harmony. However, the concept of interest allows there to be an intangible increase in the amount by making the borrower owe more money than was lent in the first place. This places an unimaginable burden on the one who has to borrow the loan because he must now come up with an amount of money that is more than the original amount in circulation. How would that be possible? This is the problem that our countries and states are facing today – with them staying in unimaginable debts that makes no sense as to how they would even begin to pay them back. Which is how big countries like America are able to stay at the top even when they are drowning in debt. The few that are the richest and most powerful are living off of and taking advantage of the struggle of the masses of the working classes.

## CONCLUSION

The contemporary world politics has made the World Bank and the International Monetary Fund tools to control the developing or underdeveloped areas. If we minutely observe the reasons of being developing or overdeveloped areas, we find out financial bungling and common financial corruption and misuse of authority the major reasons of crises in these countries. In these conditions the compound interest on the states make them more vulnerable to the situation and these states are not able to come out from such critical scenarios. The question arises here that if such a big political institution (the state) cannot face the challenges of interest-based loans, then how can an individual face and resolve the issues of interest based economy or support?

On the other hand, the top secret of the developed countries regarding their development is interest based compound loans which make them of the developed and richest countries of the world. Today, socialist Republic of China and the USA have become rivals in international political economy. Both of them want to capture the international market and expand their business and authority over the world through their political economy which can be called interest-based policies or interest-based financial system.

Islam never wanted to promote interest based business knowing that it would never allow self respect and mental peace of the citizens of Islamic state. We can see the period of the Holy Prophet (PBUH), the regimes of the four Caliphs, Banu Ummaya, Banu Abbas, Fatimiyyin of Egypt<sup>1</sup> and Mughal Empire in the subcontinent, all of them were bigger than today's USA, UK, Russia, etc. but they were economically successful countries without Riba or interest<sup>2</sup>. It would be very interesting to mention here that these Muslim countries were so rich and didn't have beggars or homeless people because they were religiously and culturally bound to support these classes of low income people at the governmental level, and giving them loans, as well as, making homes for them free of charge, through the Islamic Banks<sup>3</sup>. Such comparative examples must have cleared any misconception about the Riba-free or interest-free economic system.

## Bibliography

- Ahmad, Dr. Abdel-Rahman Yousri. "Riba: Its Economic Rationale and Implications." *Institute of Islamic Banking and Insurance*. Institute of Islamic University. Web. 30 Jan. 2016.
- Ahmad. "Quranic Verses on Riba (Interest/Usury)." *Alfalah Consulting*. Alfalah Consulting: Islamic Finance and Management, 22 Apr. 2011. Web. 31 Jan. 2016.
- Aristotle. *Politics*. Trans. Benjamin Jowett. Vol. 1. Part 10: Daniel C. Stevenson. <http://classics.mit.edu/Aristotle/politics.1.one.html>. Daniel C. Stevenson, 2009. Web. 29 Jan. 2016.
- Hasan, Hasan Ibrahim, *Tarikh al-Islami al-Siyasi*, (Cairo: Matba Hijazi, 1935) p. 63
- Husaini, S.A.Q. Arab Administration, (Madras: 1949) p. 37
- The Holy Quran, Al-Baqarah 2:275. Quranic Translations taken from: <http://quran.com/>
- The Holy Quran, Al-Baqarah 2:276. Quranic Translations taken from: <http://quran.com/>
- The Holy Quran, Al-Baqarah 2:278. Quranic Translations taken from: <http://quran.com/>

<sup>1</sup> Zaydan, Umayyads and Abbasides, (trans., Margoliouth) *The Orient Under the Caliphs* (Calcutta:1920) 2 Vols, p. 101

<sup>2</sup> Hasan, Hasan Ibrahim, *Tarikh al-Islami al-Siyasi*, (Cairo: Matba Hijazi, 1935) p. 63

<sup>3</sup> Husaini, S.A.Q. Arab Administration, (Madras: 1949) p. 37

- The Holy Quran, Al-Imran 3:130. Quranic Translations taken from: <http://quran.com/>
- The Holy Quran, An-Nisa 4:161. Quranic Translations taken from: <http://quran.com/>
- The Holy Quran, Ar-Rum 30:39. Quranic Translations taken from: <http://quran.com/>
- Zarlenga, Stephen. "A Brief History of Interest." *American Monetary Institute: The Independent Study of Monetary History, Theory, and Reform*. The American Monetary Institute, 18 Dec. 2010. Web. 29 Jan. 2016.
- Zaydan, Umayyads and Abbasides, (trans., Margoliouth) *The Orient Under the Caliphs* (Calcutta:1920) 2 Vols, p. 101