

On the Ethics of Man's interaction with the Environment: An Islamic Approach

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Whereas in the quest of maximizing benefits from his environment man had an excellent record, he has in the process also created serious environmental disruptions. The problems range from "the spectacular, such as atmospheric pollution and water contamination, to the insidious, such as slow rise in the D.D.T. levels in some living species associated with human food chain".¹ Kates reports that presently in the United States technological hazards account for fifteen to twenty percent of human mortality with an associated economic cost and losses of \$ 50 – 75 billion annually. In the case of less developed countries, due to the lack of systematic studies of technological hazards, Kates finds it difficult to estimate such losses precisely, but giving due allowance to the lack of health care and other services, he observes that the losses can be expected to approach or even exceed U.S. levels in heavily urbanized areas.²

The increasing magnitude and proliferation of the undesirable by products of man's interaction with the environment can indeed be ascribed to human failings as well as fouling – namely, greedy manipulation of the environment, mismanagement of resources, extravagance, and ignorance of the complexity of the ecosystem – not to mention the intended impact of man's chosen actions, which may also be detrimental. Good examples of what happens when developmental processes are generated without any ethical in feed are not difficult to find.³

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8. Peter F. Drucker: 'Theory and Practice of Management'.
9. 'Holy Qur'an': Surah "Al-baqarah", Verse 275
10. 'Holy Qur'an', Surah 'An-Nisaa', Verses 160 and 161

exploitation of the masses, who toil and save and deposit their savings with interest-based banking. The result is that more than 90% of the world's wealth is confined in the hands of less than 10% of the people! In every 'guidance' 'revealed' by the Infinitely Merciful, for the eternal good of mankind, 'usury' was as strongly prohibited as it has been in the 'holy Qur'an'. "ALLAH demolishes '*riba*' and makes charity prosper." How can the selfish, materialistic, disbelieving world of today have the conviction that '*riba*' demolishes the well-being of man; and charity makes him prosper? Does man really know what is good for him and what is not? If after seeing the havoc '*riba*' has played, particularly with the poor countries, people are not prepared to 'believe' the eternal truth revealed by ALLAH, it is because '*riba*' does serve the selfish interests of a few, who have lost 'faith, but happen to wield political power.

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4. S. Bolles: "Practical Banking", (pp. 3-5)
5. Adam Smith: An Inquiry into the Nature and Causes of
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7. 'Holy Qur'an'; Surah "An-Najm", Verse 39.

called 'bridge-financing'. If the business suffers a 'loss', nothing is lost. The bank is prepared to advance further loans on interest, in order to realize the amount of loan advanced earlier and also the amount of interest on it. The bank keeps doing so up to the time the business somehow turns the corner and becomes profitable. The business which was not worth more than a million becomes worth say twenty million. To be able to serve a larger capital base, more profit has to be earned, 'prices' have to increase, setting in motion the inflationary spiral, supported by expansion of interest-bearing credit and corrupt monitoring and regulatory devices, if installed.

The other side of the picture is that the owner of the business has built his business with the 'capital', which did not belong to him. He repays the 'bank loan' from the 'profits' earned, paying an infinitesimally small 'rate of interest', compared to the 'rate of profit' earned with the help of somebody else's money. And as soon as the 'bank loan' is repaid, he is twenty times richer, while the small depositor, whose money the bank loaned him, becomes poorer than before, because 'inflation' has eaten into his 'deposits', which the forbidden, '*haram*', small 'rate of interest' can never make good. The richer thus keep becoming richer and richer, even when they are immersed right up to their ears in 'debts'. That is modern business. And the poor, having small 'resources', keep becoming poorer and poorer, for want of an honest 'manager' of their resources. Interest-based banking is helping the businessmen, the Corporations, in becoming richer and bigger at the cost of small depositors. Can there be a more glaring example of "taking other's property wrongfully." Taking others property wrongfully has been prohibited in several verses of the 'Holy Qur'an'. How '*riba*' is taking others property wrongfully has, in fact, become more evident today, than it ever was before. 'Riba-based' financing and 'riba-based' banking has resulted in the worst form of 'concentration of wealth'. But we have perhaps become 'deaf, dumb and blind' to the

'sale' and two types of '*riba*' or 'increment' earned without 'sale':

'*Bey*' or 'sale':

1. 'Sale' of 'services; and
2. 'Sale' of 'goods'.

• '*Riba*' or 'gain' without 'value addition' or sale:

1. 'Interest' on money loaned.
2. 'Gain' on loan of goods, or 'rent' or 'hire' of property, in which no human 'service' is provided. 'Gain on loan of goods or property is like 'interest' on 'converted form of cash'.

Using the criteria given in the 'Holy Qur'an', the various financing activities of the '*riba*-free banks' may be judged to see if they are *riba*-free. Circumventing the clear definition by giving *riba*-based financing different, Arabic or non-Arabic names, does not change the nature of the financing transaction. In fact, all financing on any other basis, except the basis of participating in 'value addition', would come under '*riba*'.

The obvious injustice in the interest-based financing: During more than half-a-century's experience as practising accountant, I have seen how 80% of the cost of a project has been stuffed in the pockets of individuals on the basis of political considerations or corruption. If the project becomes successful, the promoters become 100% owners of the project and if the project does not succeed, the loss is entirely borne by the bank. Equity has lost its meaning. More than 20%, the amount shown by the promoters as their equity, they save in buying capital goods out of the project finance made available. In so many projects, getting the financial sanction and the discretion in spending the amount, have been far more profitable than implementing and running the project. When a project comes into operation and it needs more 'capital', the 'capital' is made readily available to it in the shape of 'interest-bearing' loan,

not make such investment to be in *riba*-free enterprises! By giving '*riba*' such deceptive names as 'mark-up', 'profit and loss sharing', the nature of '*riba*' cannot be changed. '*Riba*' is '*riba*' and '*riba* is a crime. It is absolutely essential that the 'believers' must deliberate upon and understand the definition of '*riba*' given in the 'Holy Qur'an'. The definition is clearly given in a part of Verse 275 of Surah 'Al-baqarah':

وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا

"But ALLAH has allowed (value addition in) sale and forbidden 'riba (illegal gain)."⁹

The two words used in the 'sign' of ALLAH, '*bey*' and '*riba*', are so comprehensive that they cover all forms of profit, gains, interest, wages, rent, and all accretions, both allowed and forbidden or criminal. 'Verse' 275 of Surah 'Al-baqarah' is as frequently quoted as '*riba*' is discussed, but the word '*bey*', which '*riba*' has been juxtaposed to, does not receive adequate attention. The 'word' '*bey*' and its derivatives have been used fifteen times in the 'Holy Qur'an', and it means both 'buying' and 'selling' or 'trade'. The word '*bey*' in the above 'verse', has been juxtaposed to '*riba*', an illegal 'increment' or gain. The word '*bey*' in this 'verse' means an allowed 'increment' or 'gain' or 'profit', which is the 'value addition' in 'sale' or trade. In 'trade', there can be no 'value addition', without 'sale'. So, any 'increment' or 'profit' earned without 'value addition' or 'sale' is prohibited.

A trader may buy any amount of goods, no 'profit' can be earned unless it is sold. Similarly all the 'factors of production' may manufacture, fabricate, grow, or 'mine' the most useful thing in the world, there can be no 'profit' earned unless the 'product' is sold. 'Sale' alone results in 'value addition', which is allowed or made '*halal*' by ALLAH. There can be two types of

loan, i.e. pay back the principal amount and also keep paying the fixed 'interest' charge, irrespective of the profitable utilization of the 'fund', or otherwise. Banks will not only be able to evaluate 'management performance' of projects in which they have 'invested', but they should also be able to provide necessary assistance in terms of improved management practices.

It is a common practice with 'development financing institutions' (DFIs) to closely examine the feasibility of the projects, they are approached to finance. Before 'disbursing funds', they also make sure that an adequate system of management and control is in place. At present there are many shortcomings in making sure that the prescribed procedures are followed. Full care is not exercised in approving and financing projects. After the initial study of the project, proper monitoring of its implementation is not carried out. Such lapses are either due to 'incompetence', as DFIs generally do not have adequate staff for technical and financial appraisal or for monitoring implementation and commercial operation. Moreover, DFIs operate under undue 'political influence' and indulge in 'corruption'. If development banks have management potential, they can initiate projects, much more effectively meeting the economic development needs of the country. By abolishing 'interest' and extending the scope of commercial banks and financial institutions, to that of development financing, the pace of economic development in the under developed countries can be accelerated.

Riba-free Banks and the definition of 'riba': There are more than two hundred banks which claim to be operating as 'riba-free banks'. Most such banks were established with their eyes on the large un-invested funds of the 'believers', who wanted to avoid 'riba' at any cost. However there is hardly any 'riba-free bank, which has been able to avoid 'riba'. Similarly opening a 'window' at a Stock Exchange, specifically for investing in the shares of corporations, which have a very low gear-ratio, does

same 'capital' is borrowed, 'interest' has to be paid irrespective of the fact that a 'profit' has been made or not. Under exceptional circumstances if a business suffers a loss, the amount of loss goes to reduce the amount of capital available to the business; it does not go to reduce the remuneration of the management or of the entrepreneur. The remuneration of the human factor employed in a business has to be paid in any case. Loss suffered by a business entity in an interest-based economy does not reduce the borrowed capital or the interest on it.

Under interest-based banking, the real owners of money or 'capital' are paid a very much smaller amount of 'profit' than their 'capital' has actually earned. They are not paid even the full amount of 'interest' earned on their 'capital' as the middleman, the bank, keeps a substantial part of the 'interest' earned on 'advances'. The interest based banking keep multiplying their share of 'interest' by a higher turnover in money deals, charging higher amount of interest on short term advances. The money given in 'advances' actually belongs to the 'depositors'. The amount of 'interest' earned can hardly be called a result of any good management, when so much of 'mismanagement' in banks, is common knowledge. The 'appropriation' or 'misappropriation', therefore, is not made by an independent, professional 'management', but by an intermediary money dealer. The 'injustice' is in the fact that the real owner of the capital is deprived of his rightful share, because of the presence of the middleman and the middleman's failure to fully safeguard the interest of its clients, which it could be by becoming a 'shareholder' in the borrowers' business on behalf of its depositors.

Banks in an 'interest free economy': Banks in an 'interest free economy' should not only be a 'reservoirs of savings', but also a 'reservoirs of management know-how'. Providing 'financial assistance' to trade and industry, under 'interest free banking' makes the financiers' interest more than just providing the money and making sure that the 'borrower' has the capacity to service the

share of profit which their capital has earned. Interest helps not only in the concentration of wealth but also in the wrongful appropriation of others wealth.

Just as the banking sector is controlled, so is the corporate sector of business. There is a set of corporate laws and regulations to control and monitor the corporate sector in every country.

BENEFITS OF ECONOMIC DEVELOPMENT AND THE 'RATE OF RETURN':

Management:- Before assessing how the various types of 'financing functions' will be performed by the existing banks in an 'interest-free banking system', it is necessary to appreciate the role of 'management'. Although western economists insist on identifying, land, labour, capital, organization and entrepreneur as separate factors of production, the fact remains that 'labour', 'organization' and 'entrepreneur' are all 'human elements' in the resources required for production. Any number of factors may be identified to establish a theory, but the fact remains that 'capital' or 'material' is the only other 'factor of production' apart from the 'human factor'. The nature of 'capital' is that of 'saved-up labour', which is very much needed to achieve higher production. 'Management', which is the 'human element', may be the 'entrepreneur' himself or the professional management employed by the 'stakeholders' of a corporate entity. It is management, which brings together all the elements required to run a business successfully. About 'manager', Peter F. Drucker observed: "The Manager is the dynamic, life-giving element in every business. Without his leadership 'the resources of production' remain resources and never become production".⁸

'Interest' is considered to be the 'remuneration' of 'capital' and everyone knows that if business is carried out with 'equity', there is no 'return' on 'equity' unless a 'profit' is earned. But if the

in lawful trade, within the means available to him. When he wants to expand his business, he will need such friends and acquaintances as have money to invest, and have full confidence in his profit-making ability. This is business under the principle of '*modarabat*'. Bigger businesses shall have 'corporate structure' and interest-free banks, holding depositors money under various terms, will invest the available funds in the business which according to their assessment has greater potential for yielding profit, keeping in view both the countries economic potential and the available alternative opportunities of investment. Banks as stakeholders will make sure that the business enjoying their support is professionally managed.

Regulation of the banking and the corporate sector of business: Every country establishes an 'institution' to control and regulate the banks, who as custodians of a large amount of 'public money', can exercise tremendous influence over the country's economic growth, through their policies of making 'money' available for the development of commerce, industry and agriculture. The controlling institution in Pakistan is the 'central banking institution', which in addition to controlling and regulating the banking sector, also acts as the bankers' bank and as the Government's Bank. The controlling 'institution', in an 'interest-free economy' will have to play a more vigilant role, as apart from the health of the banks, their policy objectives of economic progress and their independent, professional management of resources will have to be ensured. The 'loan able' or 'invest able' amount of large deposits held by the banks will be invested in projects, which have profit potential. Management resources available within the bank will not only be responsible for selecting projects but also for promoting projects and monitoring their implementation and commercial operation. No proof is needed that the rate of profit will always be much higher than the rate of interest. In fact, interest comes out of the profit earned. If there is no profit there can be no interest. Interest ruthlessly exploits the depositors, as they do not get their due

not relate to this world. Not only socialist countries abolished 'interest', but the foundation of strong economies of most of the countries of western Europe was laid down during the period when there was no interest. Some of the north European countries did not have any 'interest' up to the beginning of the nineteenth century. It is not considered necessary to trace the history, or launch a full fledged explanation of an 'interest-free economy'. Eminent authors have written a number of books and papers on 'interest-free economy'. It is enough to observe here that such an 'interest-free economy' is not only 'feasible' but highly advantageous, particularly for a developing country. The 'banks' shall play an essential role, far more vigorous than their present role. Banks are valuable 'institutions'. Most people know that Swiss Banks have a great name for safety and security of deposits made with them. It is said that they had been keeping a copy of updated computer records of their account-holders safe in Australia, in case their records get destroyed in an atomic holocaust! Swiss Banks have therefore, started charging their clients for the safe-keeping of their money, that is not a 'zero-rate of interest' but 'negative interest'.

Expanded role of banking in an interest free environment:

Before further explaining the expanded role of banks in an interest-free economy, it should be appreciated that elimination of 'interest' would also bring into focus the importance of 'professional management', thinking on which has not been very clear. Commercial banks and other financial institutions under an 'interest-free economy' shall have a 'management orientation', which would accelerate economic, technical and technological advancement. Elimination of interest would set the 'financial institutions' free to perform a far more active and effective role. The emphasis will have shifted from 'dealing in money' to 'managing money'.

Once 'interest' is abolished, capital or investment will be available only on a participative basis. Everyone is free to engage

undertake business and everyone cannot find a trustworthy manager to manage his money. Banks are exploiting their depositors and themselves by allowing an infinitesimal return to their depositors, as they cannot manage their depositors' money. They lend it to people who have credit-worthiness in their eyes at a little higher rate of interest, to be able to earn a differential for themselves. If banks manage money they should invest in a professionally managed business where they can receive due share of profit on the capital of their depositors. This is the concept of 'development banking'. This is what can be achieved through professionally managed corporate business. Banks should have sufficient business know-how not only to decide the corporation and the business to invest in but also initiate new project, which promise higher profitability.

Interest-free Banking and an interest-free economy:

Generally a discussion of 'interest-free banking', either remains confined to the exposition of the basic injunctions of Islam, which prohibit '*riba*' in the strongest possible terms, or runs into an exposition of the complex financial structure, fiscal policies and international financial assistance. current 'financial infrastructure', 'financial instruments', 'derivatives', only to establish the inevitability of 'interest'. In fact, an 'interest-free economy' is no alternative, distinctly different from the prevailing economies. In other words, 'interest' can be eliminated anywhere at any time without causing any upheaval. It is true a new approach to the so-called 'foreign aid' and international borrowing and lending will have to be developed. Such businesses as have been prohibited in Islam are generally prohibited under the so-called 'secular' economies, because these are against social interest. Elimination of interest is bound to have a salubrious effect on any developing economy.

The firm entrenchment and the prevalent influence of 'interest' has led many to think that 'interest-free economy' does

within a reasonable time otherwise the allotment shall be cancelled, there will be no 'politics of plot', no problem in hardworking individuals getting housing, no land grabbing and no corrupt practices related to land.

'Interest', when allowed always comes out of the 'profit' earned and is always very much lower than the amount of 'profit'. Without 'profit', there can be no 'interest'. 'Profit', according to the false notions of western economics, is the share of the 'entrepreneur'. It is true that success in business or trade is a trait, which can hardly be acquired by education and training. Business knowledge acquired by training and experience does help the successful businessman in the present day world of business, but success in business, as the whole business knows, may be called a gift or a matter of luck. That may be called the 'entrepreneurial skill' and all the 'profit' earned does belong to the 'entrepreneur' if all the 'capital' or 'material' employed in the business belongs to him. If he has borrowed 'capital' employed in the business, then the share of 'borrowed capital' should be the same as his own 'capital'. As a person, the salary of a successful businessman may be any amount agreed with the lender of capital. According to the 'Holy Qur'an':

وَأَنْ لَّيْسَ لِلْإِنْسَانِ إِلَّا مَا سَعَىٰ

"And there is nothing for man, but what he would strive for;"

LIII/39.

The third wrong presumption is that without 'interest' there will be no incentive to save: **Man saves for the rainy day. He saves for his old age. He saves for his own future and for the future of his children. He does want to multiply his savings through trade, but everyone does not have the confidence to**

more land to cultivate or make or invent some contraption to increase his production. 'Capital', both in the form of money or converted form of money alone cannot produce any return, unless the owner hands over the 'capital' to someone else, guaranteeing no loss up to the time the borrower is alive and does not go bankrupt, then the return is '*riba*', the 'reward' or 'hire' or 'rent' or 'wages' of capital, is the patent way of wrongful appropriation of others wealth. A brief discussion of the definition of '*riba*' given in the 'Holy Qur'an' shall follow. However, let us first see what Prof. Smith, a critic of Islam has to say about interest and 'rent': "It is hardly necessary to add that these religious proponents not only have never put forward the argument, but cannot even understand, that the prohibition of interest, if taken seriously, would include the prohibition of land rent and of the whole landlord system---would mean precisely the socialization of agriculture in the interest of those who labour on land."⁶

Absence of a correct appreciation of land rent and house rent, in fact have been the principal hindrance in the universal acceptance of the definition of '*riba*' given in the 'Holy Qur'an', because there is a controversial interpretation of the '*ijma*' about 'rent'. As is well know there is a long drawn dissertation about 'land rent'. There is no need to prolong this article with a discussion of '*khiraji* land', '*ghanimat*' and '*fei*', but the position can be clear by deciding whether 'land' is a part of 'wealth' or not. All land belong to ALLAH and 'land' is required only for three purposes, residential, agricultural and for establishing production units. If all land was allotted free by the Government on a non-transferable basis to be utilized for one of the three specified purpose,

- providing/arranging clearing/forwarding service;
- collection of bills;
- investment advice;
- purchase and sale of shares of Joint Stock Companies;
- share registration service;
- giving tax advice;
- providing data processing service;
- agency services;
- underwriting new flotation.

Such services, both charged or free, shall continue to be needed by the business community and provided by banking, when 'interest' is abolished, as there is no linkage between these services and 'interest'. Under the interest based banking system, the banks need a 'license' to collect 'deposits' and some support of 'institutions', who can influence 'deposits' move in their way, to be profitable. Every interest-based bank is profitable, at least on paper, unless their advances prove bad. However the illegitimate interest earned by banks, make their money trade so profitable that substantial national loss, bad debts, wrong selection of borrowers and of business, remain largely covered, and go unnoticed.

It is wrong to say that 'interest' is the 'reward' or 'wages' of capital: **It is wrong to presume that 'capital' or 'material' can earn any reward or wages, except an illegitimate 'return'. 'Capital', as appropriately defined by Ricardo, is 'saved up labour', which helps in achieving a higher level of production by man than he can do without it. Saving by consuming less than what he produces or working extra hours, man can make a hoe, an axe or a scythe, to be able to cut more grass, more firewood or pick more fruits, to be able to increase his production and his turnover than he could without the help of these tools. Similarly, he may save to increase the volume of his trade, develop**

appointed to receive revenue, pay interest, and handle transfers of stock. Since northern Italy was controlled by Germans, the word Banck, which the Italians changed to banco, as well as monte was used.”⁴

The development of commercial banking in ancient times was closely associated with the business of money-changing. Another factor, no less important than money-changing, responsible for the development of early banking were the exigent financial requirements of the monarchical governments of the day who granted banking privileges in exchange for loans. Throwing light on this, Adam Smith has observed: “The earliest banks of Italy, where the name began, were finance companies...to make loans to and float loans for the government of cities in which they were formed...” “After these banks had been long established, they began to do what we call banking business, but at first they never thought of it.”⁵ After seeing the historical role of banking, let us briefly examine the three false presumptions, highlighted at the beginning of this article, on the basis of which some bankers and economists try to prove that modern banking and economy rest on the institution of ‘interest.

It is NOT ‘interest’ which is the base of banking; As a result of the vast expansion of the money trade, ‘interest’ has become the predominant source of income of modern banking business, but the institution of interest is not the base of banking. Banking provides a number of useful services to the business community, which have no relationship with ‘interest’ or ‘*riba*’. The services banks normally provide, other than dealing in money include:

- safe-keeping of their clients' money;
- settlement of foreign trade transactions;
- opening of Letters of Credit;
- issuing Travellers Cheque;
- arranging remittances;
- arranging delivery of goods;

B.C. the famous Temples of Ephesus, Delphi and Olympia were used as depositories for peoples surplus funds and these temples were the centres of money lending transactions. The priests of these great temples acted as the financial agents until public confidence was destroyed by the spread of disbelief in the religion. Traces of credit by compensation and by transfer orders are found in Assyria, Phoenicia and Egypt before the system attained full development in Greece and Rome. In India, the ancient Hindu scriptures refer to the money-lending activities in the Vedic period. In India during the Ramayana and Mahabharata eras, banking had become a full-fledged business activity and during the Smriti period which followed the Vedic community, Manu, the great law-giver of the time, speaks of the earning of interest as the business of Vaishyas. The banker in the Smriti period performed most of those functions which banks perform in modern times, such as the accepting of deposits, granting secured and unsecured loans, acting as their customers' bailee, granting loans to kings in times of grave crises, acting as the treasurer and banker to the state and issuing and managing the currency of the country."³

Up to the middle of the sixteenth century, 'riba' or 'usury' (the word 'interest' had not entered the English language till then) was prohibited throughout Christendom. 'Money trade' which the modern banks do, was always considered 'illegal' ('*haram*') by 'believers' of every 'revealed guidance', but it always existed, like any other crime. The development of the term 'bank' also throws some light on the historical role of banking. "The term bank is supposed to be derived from *banco*, the Italian word for bench, the Lombard Jews in Italy having benches in the market-place where they exchanged money and bills. When a banker failed, his bench was broken by the people and he was called 'bankrupt'." "Actually the term probably originated in financing the city of Venice in 1171, when each citizen was forced to buy stock. This joint stock fund, *monte*, was managed by commissioners

times, in the selection of both management and the business, because their sole criterion for making 'advances' is to make sure that their borrowers have, according to their reckoning, capacity to service the loan. As middlemen they lend, charging borrowers a higher rate of interest than they pay to their depositors. The more money of the depositors they have to play with, the more interest differential they earn. Banks' equity hardly has anything to do with the profitability of their operations. Depending on the size of 'deposits', substantial '*riba*' income' of banks is out of all proportion to what their 'equity' can earn. The struggle to get more and more 'deposits' to deal with, results in handling illegitimate funds and in 'corruption'. By making wrong choices of 'borrowers', the 'banks' smother creativity and incur tremendous national loss. However, dealing in money has not been the only historical role of banking.

The historical role of banking: The traditional role of banking has been 'safe-keeping' of money and valuables of their customers, determining an equitable ratio between various types of currencies and arranging financial settlement of cross-border business transactions. According to A.Marshall, "in Greece, the temples of Delphi and other safer places acted as store houses for the precious metals before the days of coinage, and in later times they lent out money for public and private purposes at interest, though they paid none themselves. Private money changers began with the task of reducing many metallic currencies, more or less exactly to a common unit of value, and went on to accept money on deposit at interest, and to lend it out at higher interest permitting meanwhile drafts to be drawn on them."²

According to Indian research, "In its naïve form, banking is as old as the authentic history and origins of modern commercial banking are traceable in ancient times. The New Testament mentions about the activities of the money-changers in the temples of Jerusalem. In ancient Greece, around 2,000

BANKING, INTEREST AND INTEREST-FREE BANKING

**Mahmood Ashraf*

Most of the bankers, economists, fiscal policy and financial experts emphatically argue that the grand edifice of modern banking is based on 'interest'; and if interest is abolished, not only the grand edifice of banking shall come crumbling down but the whole business and financial world shall come to a grinding halt. Such an assertion is based on three false assumptions. The first false assumption is that the present day banking rests on the institution of 'interest'. The second false assumption is that the 'reward' or 'wages' of capital is 'interest' and if the 'reward' or 'wages' of 'capital' is eliminated, no capital will come forward to 'work' and it will fly to a place where it can be fed with its 'pound of flesh'.¹ The third assumption is that 'interest' provides incentive to save and the banks 'mobilise' savings by offering 'interest' to its depositors, as if people will stop saving if they cannot earn 'interest', or there will be no capital formation without 'interest'. However, the facts are otherwise. As will be shown in this article, abolition of 'interest' in the present day world of business and finance shall need a strong banking system, a healthy corporate sector and professional management. It will be difficult if not impossible to abolish interest today, without a strong banking system. Let us first examine what the historical role of banking has been and has interest been the foundation of banking?

No doubt, the predominant role of modern banks has come to be acting as middlemen between the depositors and the borrowers. As banks do not consider 'managing money' to be their role, they lend money to 'managers' of all sorts, making gross errors at

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Editor in Chief's Message

All the gratitude to the Almighty Allah that we have been able to present the winter, 2003 issue of *Karachi University Journal of Islamic Studies* for your study. This journal will introduce some new additions since it bears analyses and critic views besides research topics. Hence, it is varied from previous journals in this sense and I am confident that variation of the sake of improvement is always appreciated.

This is an effort with sincere intensions in the service of the objective of education. I have tried that necessary information, as far as possible, should appear in the journal. I understand that this practice shall continue in tome to come.

I am thankful to my colleagues with whose continued assistance and cooperation, the publication of this journal has been possible. I hope that this humble effort will prove informative and beneficial for the esteemed readers.


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MESSAGE

It is a matter of great satisfaction that our Faculty of Islamic Studies is continuing the publication of its research journal and the issue of winter 2003 is being published. Research and its dissemination are compulsory in today's world; without this no University can justify its existence.

The performance of the Faculty of Islamic Studies in this respect is very encouraging. It has achieved much in a short time, thus setting an example for other faculties.

I congratulate the learned faculty members on the publication of this research journal and hope that the teachers and the students of the Faculty shall further contribute to its development.

I assure of my full cooperation and assistance in the dedication for the development and progress of the faculty.

Prof. Dr. Pirzada Qasim Raza Siddiqui

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**Faculty of Islamic Studies
University of Karachi
NATIONAL CONFERENCE**

ON

مذہبی رواداری: قومی ضرورت

Aug./Sept., 2004 (proposed)

&

INTERNATIONAL CONFERENCE

ON

TOLERANCE: A GUARANTEE FOR WORLD PEACE

October, 2004 (proposed)

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