



4<sup>th</sup>

# International Conference on Islamic Business 2016

Quaid-e-Azam Auditorium,  
IIUI Faisal Masjid Campus,  
Islamabad, Pakistan

20 - 22  
February, 2016



Islamic Economics, Finance, Entrepreneurial  
Development & Public Policy for the Ummah's  
Socio-economic Wellbeing

Under the above theme, the speakers / paper presenters will discuss the vision of Islamic economics, business and finance, public policy for entrepreneurial development and to enhance social inclusion and good governance, meaning how to develop Islamic countries' economies giving fair opportunity to all segments of the society and provide them not only suitable jobs / employment but also dignity and respect in the society and falah in this world and the Hereafter. As it is possible only through application of the principles of the Shariah, in letter and spirit, in all socio-economic disciplines and business and finance affairs, Shariah compliance of all institutions, products and activities would also be covered in the Theme of the ICIB-2016 event.

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International Shari'ah Research Academy for Islamic Finance

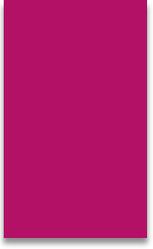
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# Interest is extortion

Presented by  
Asma fiaz



# Abstract

- ▶ We find volume of literature on interest. Some explain what interest is while other mentions what interest is not. Likewise, scholars provide various reasons regarding why it has been prohibited in Islam such as it is exploitative etc. In this paper, we conjecture that Interest is prohibited because it is tantamount to extortion. Extortion means taking something by force (give its definition). To explain how interest becomes extortion I explain firstly as interest increase debt burden and secondly interest increase inequality. To show interest has impact on inequality we empirically test this by implying ECM technique. Results show that interest increase debt burden and increase inequality.

# □ Introduction

## □ Interest

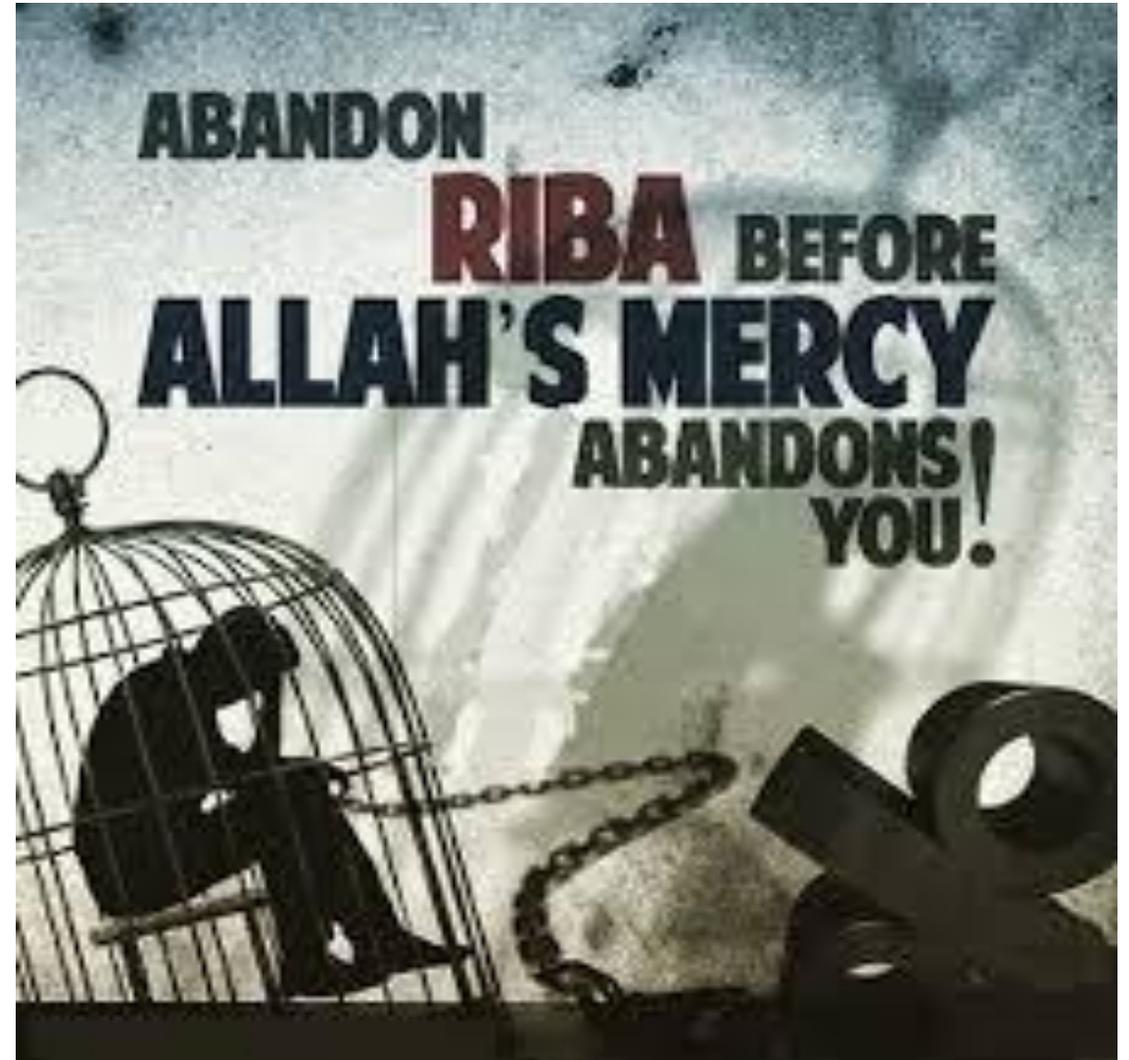
“Interest is the charge for the privilege of borrowing money, typically expressed as annual percentage rate.”.(Investopedia)

## □ Consequences of interest

- Injustice
- Inequality
- Inefficiency
- Unfair burden
- Achieving welfare at the cost of other.



□ Interest  
according to  
Quran &  
Sunnah



## □ In Quran

### □ Surah Al-Baqarah 275-279

- **275.** “Those who devour usury will not stand except as stand one whom the Evil one by his touch Hath driven to madness. That is because they say: "Trade is like usury," but Allah hath permitted trade and forbidden usury. Those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for Allah (to judge); but those who repeat (The offence) are companions of the Fire: They will abide therein (for ever).”

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- **276.** “Allah will deprive usury of all blessing, but will give increase for deeds of charity: For He loveth not creatures ungrateful and wicked.”
  - **277.** “Those who believe, and do deeds of righteousness, and establish regular prayers and regular charity, will have their reward with their Lord: on them shall be no fear, nor shall they grieve. **278.** O ye who believe! Fear Allah, and give up what remains of your demand for usury, if ye are indeed believers.”
  - **279.** “If ye do it not, take notice of war from Allah and His Messenger. But if ye turn back, ye shall have your capital sums: Deal not unjustly, and ye shall not be dealt with unjustly.”



## □ **Surah Al-Imran 130**

- **130.** “O ye who believe! Devour not usury, doubled and multiplied; but fear Allah. That ye may (really) prosper. “

## □ **Surah An-Nisa 161**

- **161.** “That they took usury, though they were forbidden; and that they devoured men's substance wrongfully; - we have prepared for those among them who reject faith a grievous punishment.”



## □ Surah Ar-Rum 39

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

## □ In Ahadees

- From Jabir: The Prophet, may peace be on him, cursed the receiver and the payer of riba, the one who records it and the two witnesses to the transaction and said: "They are all alike [in guilt]." (Muslim, Kitab al-Musaqat, Bab la'ni akili al-riba wa mu'kilihi; also in Tirmidhi and Musnad Ahmad).
- Jabir ibn 'Abdallah, giving a report on the Prophet's Farewell Pilgirmage, said: The Prophet, peace be on him, addressed the people and said "All of the riba of Jahiliyyah is annulled. The first riba that I annul is our riba, that accruing to 'Abbas ibn 'Abd al-Muttalib [the Prophet's uncle]; it is being cancelled completely." (Muslim, Kitab al Hajj, Bab Hajjati al-Nabi, may peace be on him; also in Musnad Ahmad).

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- ❑ From Abu Hurayrah: The Prophet, peace be on him, said: "On the night of Ascension I came upon people whose stomachs were like houses with snakes visible from the outside. I asked Gabriel who they were. He replied that they were people who had received *riba*." (*Ibn Majah, Kitab al-Tijarat, Bab al-taghlizi fi al-riba*; also in Musnad Ahmad).
  - ❑ From Abu Hurayrah: The Prophet, peace be on him, said: "*Riba* has seventy segments, the least serious being equivalent to a man committing adultery with his own mother." (*Ibn Majah, ibid*).
  - ❑ From Abu Hurayrah: The Prophet, peace be on him, said: "There will certainly come a time for mankind when everyone will take *riba* and if he does not do so, its dust will reach him." (*Abu Dawud, Kitab al-Buyu, Bab fi ijtinabi al shubuhah*; also in Ibn Majah).
  - ❑ From Abu Hurayrah: The Prophet, peace be on him, said: "God would be justified in not allowing four persons to enter paradise or to taste its blessings: he who drinks habitually, he who takes *riba*, he who usurps an orphan's property without right and he who is undutiful to his parents." (*Mustadrak al Hakim, Kitab al-Buyu*).

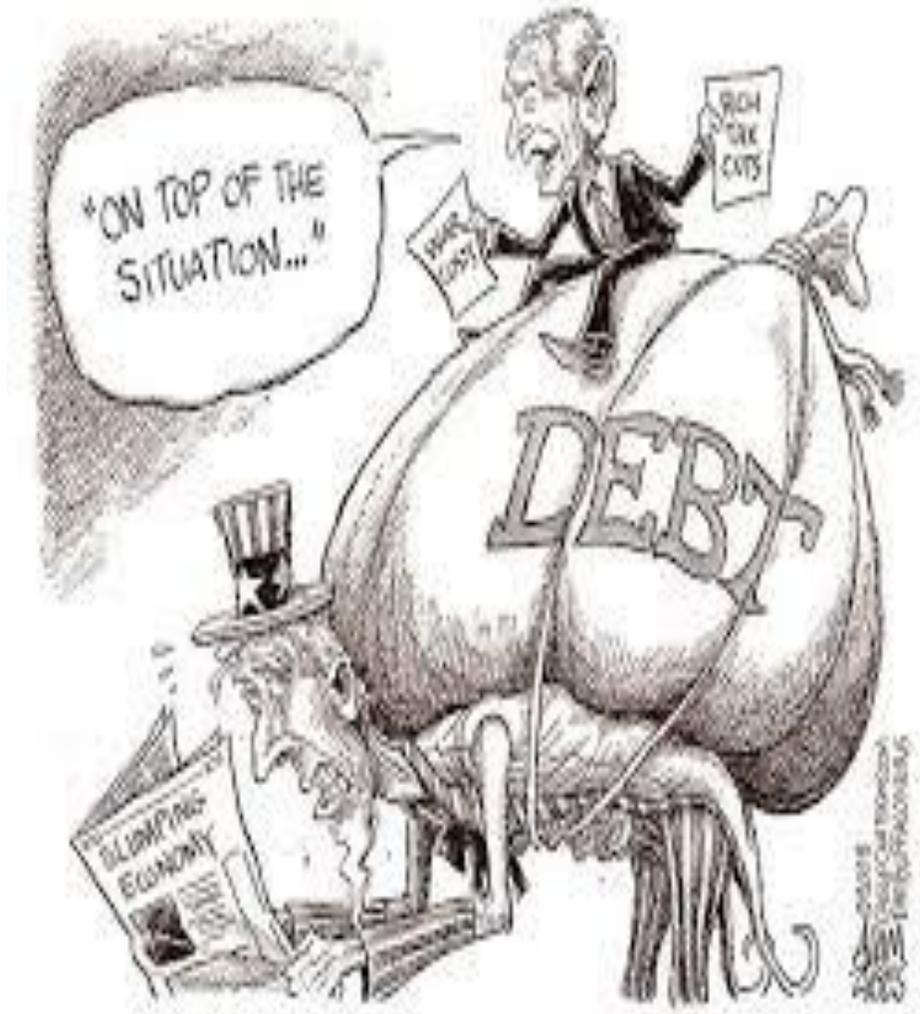
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- ❑ From Anas ibn Malik: The Prophet, peace be on him, said: "When one of you grants a loan [of money] and the borrower offers him a dish, he should not accept it; and if the borrower offers a ride on an animal, he should not ride, unless the two of them have been previously accustomed to exchanging such favours mutually." (*Sunan al-Bayhaqi, Kitab al-Buyu, Bab kulli qardin jarra manfa'atan fa huwa riban*).
  
  - ❑ From Abu Said al-Khudri: The Prophet, peace be on him, said: "Do not sell gold for gold except when it is like for like, and do not increase one over the other; do not sell silver for silver except when it is like for like, and do not increase one over the other; and do not sell what is away [from among these] for what is ready." (*Bukhari, Kitab al-Buyu, Bab bay i al-fiddati bi al-fiddah*; also Muslim, Tirmidhi, Nsai i and Musnad Ahmad).

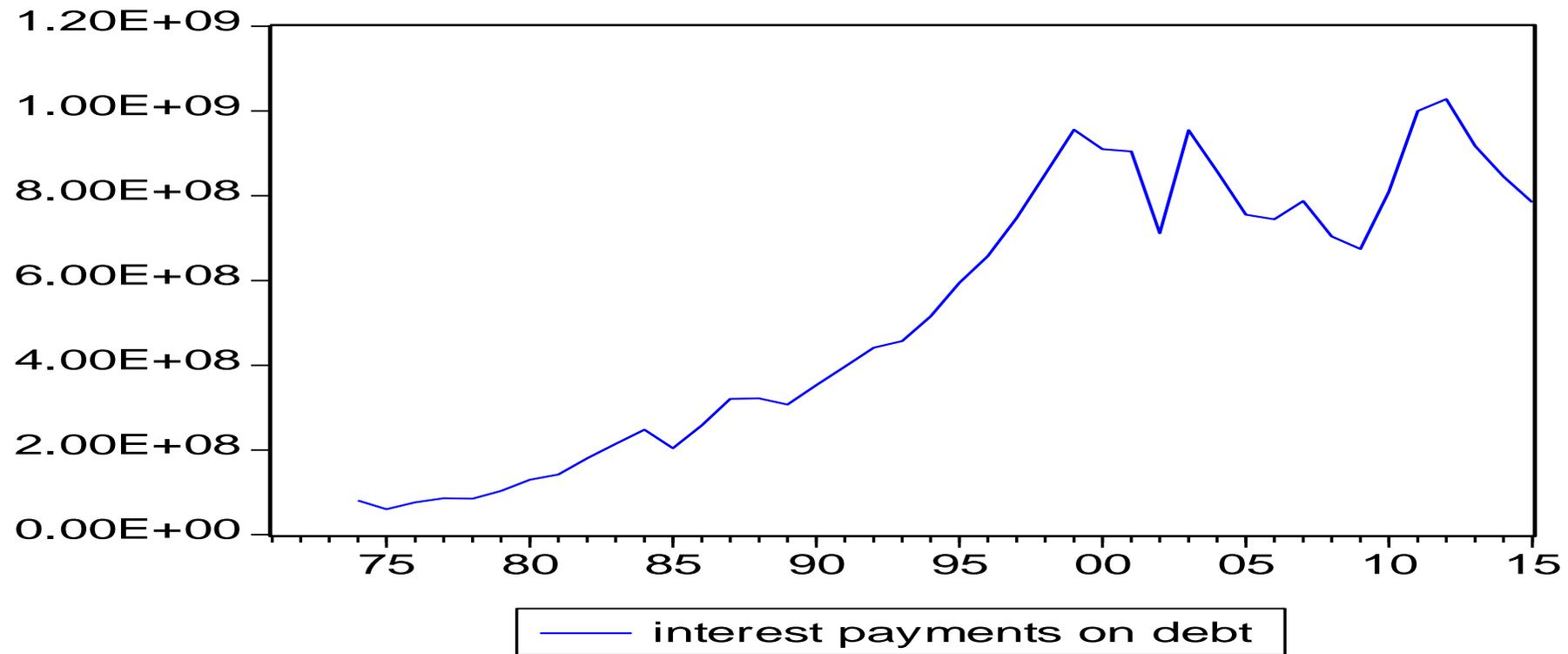
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- ❑ From 'Abdallah ibn Hanzalah: The Prophet, peace be on him, said: "A dirham of riba which a man receives knowingly is worse than committing adultery thirty-six times" (Mishkat al-Masabih, Kittab al-Buyu', Bab al-riba, on the authority of Ahmad and Daraqutni). Bayhaqi has also reported the above hadith in Shu'ab al-iman with the addition that "Hell befits him whose flesh has been nourished by the unlawful" (ibid).

❑ Interest is extortion:

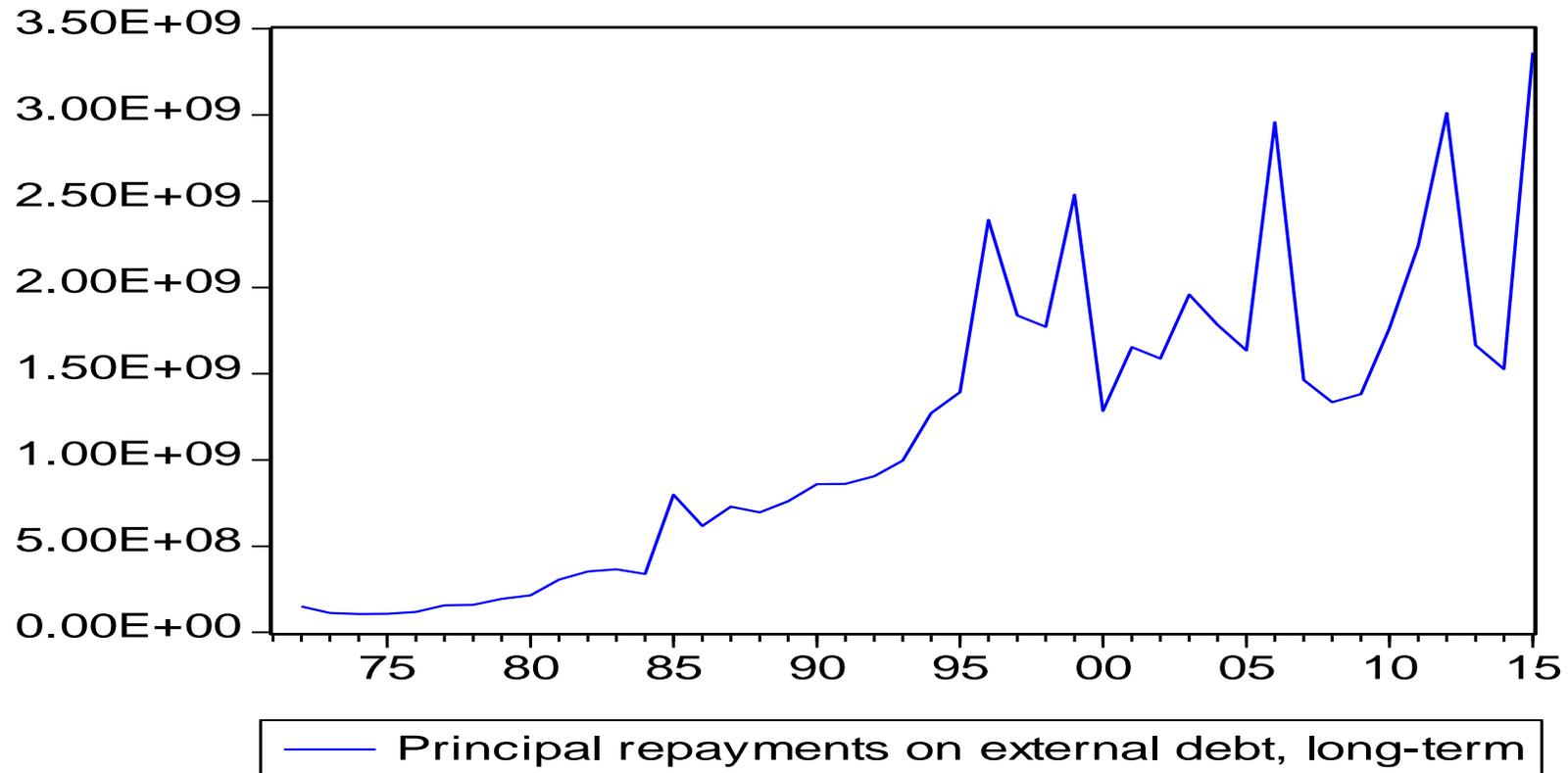
1. INTEREST INCREASES BURDEN OF DEBT
2. INTEREST CAUSES FINANCIAL INEQUALITY

# 1. Interest increases burden of debt

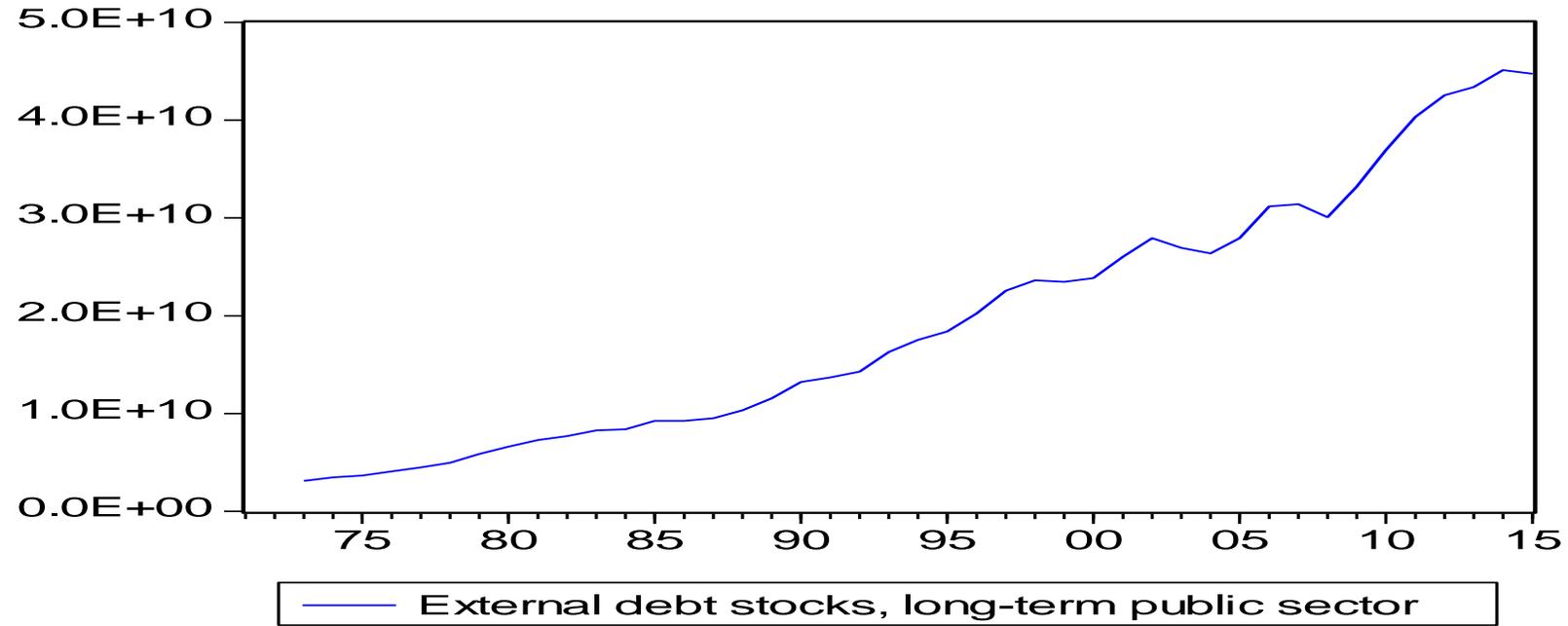




Interest payment on debt in pakistan from 1971-2014



Principal repayments on external debt, long-term in Pakistan from 1971-2014



External debt stocks, long-term public sector in Pakistan from 1971-2014

## 2. Interest increases Income Inequality



- Impact of interest rate on income inequality

Variable	Coefficient
C	0.177 (0.66)
D(INTEREST)	0.388 (0.04)
D(GDPP)	0.152 (0.11)
D(GDP2)	-0.001 (0.05)
D(BTRADE)	0.000 (0.54)
e	0.665 (0.00)

P-value are in parenthesis

# Conclusion:

Concentration of wealth is condemned in Islam and for this purpose the Quran has clearly documented that interest and law of inheritance are two important factors which leads money or wealth in circulation. Any method used to concentrate wealth in a few hands is not allowed in Islam. The interest is a source of the concentration of wealth in the hands of the rich. How can an economy flourish and how can the Islamic system prevail when even the Muslim countries are not practicing principles of Islam.

- ▶ This paper empirically discusses the harmful effects of interest on economies. For this purpose we took data of Gini coefficient, interest, GDP and trade balance and found that interest increases income inequality which is problematic. So if we want to flourish, we need a system which is free from interest rate because interest always creates a burden on the poor and causes extortion. It deprives them of resources which is not allowed on ethical as well as on religious grounds. Due to interest income being unevenly distributed in the economy, this inequality is increasing day by day. This can be reduced only by the application Islamic rules and laws in the economy. Otherwise decreasing income inequality and a healthy and prosperous society is only going to remain a dream for all of us.

# Recommendations

- ▶ It is concluded that banning of interest rate has many advantages for society as it enhances growth, reduces poverty, increases employment, makes better distribution of resources and most importantly maintains country's sovereignty and independence. The Interest system should be abolished.
- ▶ Waqaf institution should be introduced and interest free loans schemes should be initiated. The love for money should be discouraged and spending for the welfare of others should be motivated in societies. In this way the economy can become self-reliant and there will be less need to take loans from the IMF and other sources. This will pave way to a healthy and prosperous country.

