

Comments of

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on

***Ribā* Versus Profit in Exchange Economy:
Conceptual Foundations for Stable Financial System
in Islamic Perspectives**

By Elmi Nur

Prohibition of *ribā* has passed a gradual process in Islam, this is the method that has been practised in some other laws in Qur'ān too. In a gradual process, little by little Qur'ān prepares the ground and social environment for final prohibition. *Ribā* was one the most popular corruptions in human society and needed to be dealt carefully. Arab society's economy and the world as whole were deeply involved in *ribā*. And it is the source of other corruptions in the society. Hence the Qur'ān prohibited *ribā* gradually and clearly in four sections.

First, verse 39 from Rume Chapter announces the prohibition as a moral advice: *“That which you give in usury for increase through the property of (other) people, will have no increase with Allah: but which you give for charity, seeking the Countenance of Allah, (will increase): it is these who will get a recompense multiplied.”*

In this verse Qur'ān does not prohibit *ribā*, but implicitly mentions that *ribā* can not bring any increase and introduce it as useless.

Secondly, verse 161 of Nesa Chapter criticizes the habit of Jewish in usury: *“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”*.

Here Qur'ān by bringing the story of Jewish as an example tries to show how usury can be resulted in the sinful behaviour that will end to punishment.

In verse 130 of Al-Emran Chapter the prohibition of *ribā* is announced clearly: *“O ye who believe! Devour not usury, doubled and multiplied; but fear Allah. That ye may (really) prosper.”*

Here prohibition has been announced clearly for a kind of multiplied usury that was very popular in societies.

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Finally, in verse 275 of Baqara, the strong prohibition of usury has been announced *“Those who devour usury will not stand except as stand one whom the Satan 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 Fire: they will abide therein (for ever).”*

So we see how prohibition of *ribā* passes a gradual trend. Here I might notify the importance of interpretation of Qur’ān as a fundamental analysis of *ribā*. For example, some author neglected this point and permitted *ribā* for investment loan, however Qur’ān directly uses the word capital that is explicitly for investment loan in following verses;

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

Before entering the debate of *ribā* vs. Profit, terminologically the equivalence of *ribā* in Economic tradition is usury, something that was prohibited in Jewish and Christianity also. But little by little in modern banking to get around of prohibition of usury, institutions replace the word of interest instead of usury and as author clearly mentioned the words interest and profit can be used interchangeably. Today, practically in banking system, the interest is functioning the same rule as *ribā* defined and prohibited in Islamic Economics.

Also the word “profit” in conventional economics has been used for difference of revenue and cost in production economy. The author tries to use this term as a general term in both exchange and production. It seems to me using a word far from its conventional usage is a focal point of confusing for reader.

Also the word of “trade” can be used as a general term for all kind of transactions, even in Qur’ān it has been used in the way that human being behave in spiritual sphere and dealing with his creator. However the word of “exchange” some times used only for transactions excluding production activities. Particularly when we talk about exchange economy we are emphasizing on the distribution of goods only.

But let us look at the nature of trade and exchange, there should be some causes of trade as clearly was mentioned by the author are (i) differences in endowments and abilities of producing goods and services (ii) differences in preferences or

tastes. As these differences causes different evaluation for different people. When there is trade, the seller evaluate his good less than what he receives, and similarly the buyer evaluate his good less than what he receives. As it is necessary trade should occur in a free environment and in search for a higher satisfaction or utility. As it is clear the difference in evaluation of goods because of two above causes leads to transaction, and surely and clearly trade is a gain for both sides but clearly it should be subjective value for both sides, and not real value. So let me disagree with author that trade by itself does not generate real income as it is mentioned in page 5. We know that there is a voluminous and controversial literature on the source of value whether it is instinctive or contractual, it will be determined by the market or by the labour, something needs to be discussed some place else.

In the context of the Islamic *fiqh* we can allow exchange to take place on the basis of mutual willingness, just standards, and freedom of economic activities; these are the rules that we can find the reasons for prohibition of *ribā* in compare with trade.

Author clearly classified different kind of transactions in terms of time and kind of goods. Based on this classification the most common and simple kind of *ribā* is trade of homogenous good in a deferred transaction for an extra amount, something that is popular in the societies. The problem is not for time as it accepted in other cases that the time has a price "*Le-ajal qeston min al-thaman*" such that deferred price is usually higher than the spot price. The problem mostly relates to homogeneity of the good. This is clearly mentioned in the Ḥadīth of Prophet (pbuh) narrated by the author. Now for elaboration of the issue we look at such a trade that a lender lend a bread today in hope that receives two of the same bread in future, in this way the evaluation of two breads in future is bringing a gain for lender, what about borrower, does he can evaluate one bread higher today for two breads of the same in the future? Is there any gain or willingness for borrower to accept such transaction if he is not forced economically to do that, does it happens in the freedom of the economic activities for borrower? Is such kind of transaction based on mutual willingness? In this way for a homogenous good we have two different relative price in system of prices. We see how *ribā* violates the aforementioned rules of *fiqh*.

Here, I should mention the importance of *qard ḥasan* (lending and receiving for the same amount in future) when Qur'ān mentions it as lending to Allah, since the lender forgives the cost of time for the borrower. Islam beyond the materialistic behaviour of humans through economic transactions follows a line of educating and training human being that some times needs sacrifices of self-interests.

Also breaking the *ribā* into two bargains is not accepted in *fiqh* as it violates the freedom of choice. Each partner should be free in decision about accepting or rejecting the second bargain, but breaking the *ribā* into two bargains such the second one is a condition for the first one and restricts the options of partners. Also

as it was mentioned by the author one person assigns two prices for the same item in the same time. Because of that, two sales in one transaction are forbidden in *fiqh*.

In subtitle of **productive transformation versus transference** author tries to mention similarities of exchange and production process. It seems to me that such kind of simulation over simplifies the nature of production process as a process of generating value that is objective value in compare with value in exchange that is totally a subjective value.

In subtitle ***ribā* versus Profit in Resource Allocation** author clearly brings the damaging result of *ribā* for the society as accumulation of wealth in hand of some minority rich people in one side of society and a majority poor people in other side of society that violates the justice rule of Islamic Economics. That something that Islam rejects it strongly.

Most important part of paper as the title of paper signals is the rule of *ribā* in instability of financial system. Author tries clearly shows how the *ribā* spreading a kind of systematic risk and misinformation into the economic system. His explanation is among the best ways of attacking the problem; however it needs to be explored in more detail, case by case and in a rigorous manner.

For a better comparison of *ribā* and Profit it seems to be suitable that author also considers a section for philosophy of prohibition of *ribā* that brings a better contrast of issue. For example injustice can be considered as a philosophy for prohibition of *ribā* as it is mentioned in verse of Qur'ān.