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## Muslim's Arguments Against Interest

The Islamic law of prohibition of interest was originally not based on economic theory but on Divine Authority, which considered the charging of interest as an act of injustice. Muslim scholars, however, place the major emphasis of their explanation of the Law on the lack of a satisfactory theory of interest as attempts to rationalize the existence of an institution which has become deeply entrenched in modern economics.

To the arguments that interest is a reward for savings, they respond that such payments could only be rationalized from an economic standpoint, if savings were used for investment to create additional capital and wealth. When an individual saves, his saving gives rise to creation of an asset or a debt. But, as a rule, he has no power to decide which it will be. According to these scholars, in the absence of simultaneous increment of new investment either a debt is created or an asset will change hands but there will be no increment to wealth. Hence, the mere act of abstention from consumption should not entitle anyone to a reward.

To the argument that interest is justified as productivity of capital, Muslim scholars respond that although the marginal productivity of capital may enter as one factor into the determination of the rate of interest, interest, per se, has no necessary relation with capital productivity. Interest, they argue, is paid on money, not on capital and has to be paid irrespective of capital productivity. Muslim scholars argue that it is an error of modern theory to treat interest as the price of, or return for, capital. Money, they argue, is not capital, not even representative capital, it is only "potential capital" which requires the service of the entrepreneur to transform the potentiality into actuality; the lender has nothing to do with the conversion of money into capital and with using it productively.

To the argument that interest arises as an inevitable consequence of the difference between the value of capital goods today and their value a year hence, they respond that this only explains its inevitability and not its rightness. It explains why borrowers are willing to pay interest and why lenders are able to exact it. While they do not deny the difference of valuation between present and future goods, they argue that a theory of interest based on this notion is abstract to the point of unrealism. The so-called "pure rate (or own rate) of interest", resulting from the time factor in valuation may never enter into the calculation of the suppliers of funds and it seldom, if ever, is paid as such.

Muslim scholars maintain that when a person loans money, the funds are used to create either a debt or an asset (i.e., through investment). In the first case, there is no justifiable reason why the lender should receive a return. Nor is there a justification, either from the point of view of the smooth functioning of the economy, nor from the point for the State to attempt to enforce and unconditional promise of interest payment regardless of the use made of the borrowed money.

If, on the other hand, the money is used to create additional capital wealth, the question is raised as to why the lender should be entitled to only a small fraction (represented by interest rate) of the exchange value of the utilities created from the use made of his loaned out money. Justice demands that extent of the involvement of his financial capital in creating the incremental wealth.

(Source : Abbas Mirakhor, "Theory of An Islamic Financial System", *Encyclopaedia of Islamic Banking and Insurance*, London, 1995).

### U.P. Rabita Committee to hold Seminar on Zakah

U.P. Rabita committee in its annual meeting held at Muzaffar nagar during April 3-4, 1999, has decided to hold a "national level seminar on "Economic Perspective of Zakah". at Aligarh in November 1999. The UPRC has sought the Co-sponsorship of Indian Association for Islamic Economics and Aligarh Zakat Fund. The IAFIE will consider the issue in its forthcoming meeting of the executives.

### Muslim & Arab Perspectives' Focus on Islamic Economics

The International Islamic Magazine, Muslims & Arab Perspectives' latest issue has focused on Islamic economics, banking and finance. The issue Vol. 4, NO. 13 comprehensively covers the development of the discipline of Islamic economics and practices of Islamic banking and finance.

### International Seminar on contemporary Islamic Economic Applications

Casablanca, Morocco : The Islamic Research and Training institute (IRTI) organized during the period 5-8/5/1998, an international seminar on contemporary Islamic Economic Applications. The seminar was attended by a number of senior Shariah and Islamic economics and banking scholars. A total of fifteen research papers were presented in the seminar including research papers presented by senior executive officials of some Islamic financial institutions.

### Islamic Finance in University of Durham

The Postgraduate Secretary in Economics and Finance, University of Durham, UK has informed Dr. A.A. Islahi, Hony. Secretary IAFIE, through a letter dated March 26th that from October 1999 a new MSc Programme in "Islamic Finance" will be available in the Postgraduate Study in the Department of Economics and Finance. General inquiries may be directed to :

Postgraduate Admission Secretary  
Department of Economics and Finance  
University of Durham  
23-26 Old Elvet, Durham, DH1 3IY UK.  
E-mail. PGadmissions.Economics@durham.ac.uk

### Islamic Economists On Website

The Website of School of Islamic Business Education and Research (SIBER) has decided to maintain at its site

(<http://islamic-finance.net>) webpages of scholars and experts in the field of Islamic Economics, Banking and Finance. Presently it has data base of more than two dozens scholars from all-over the globe.

### Justice Uthmani speaks on Islamic Banking

Phulwari Sharif (Patna) : Justice Muhammad Taqi Uthmani of Pakistan delivered a thought provoking lecture on Islamic Banking at the eve of 11th Islamic Figh Academy (India) Seminar which was held here during April 16th to 19th, 1999. Justice Uthmani pointed out that the bank is an institution which collects small savings, pools then into a big reservoir of money and direct them to producing units. This is also Islamically desirable, as ones the prophet (p.b.u.h.) himself advised a caretaker of an orphan to invest his capital so that Zakah might not finish it. As far interest is concerned, it is not a necessary element of banking. Banks can be organised without interest under Islamic principles on participatory basis. The lecture was followed by lively discussion and question answer session.

### Urdu book on investment in share market with Islamic Perspective released

Phulwari Sharif (Patna) : In the inaugural session of the 11th Islamic Figh Academy seminar which was organised here on April 17, 1999, Maulana Mujibullah Nadwi, the rector of Jamiah al-Rashad, Azamgarh, released the first book in Urdu language on investment in share market with Islamic perspective entitled "*Shares Bazar men Sarmayahkari : Maujudah Tariqa-i-kar aur Islami Nuqta-i-nazar*" by Dr. Abdul Azim Islahi. The book contains seven chapters on explanation of the existing practices in the share markets, followed by three chapters on Islamic perspectives in which the author examines opinions of *ulama* and Islamic economists on the issue and Zakah on the share. It also consists of introductory notes by Prof. M. Nejatullah Siddiqi and Dr. F.R. Faridi. The recommendations of Islamic Figh Academy (India) on various aspects of the share market have also been appended at the end. The book has been published by :

Idara-i- Tahqeeq-o- Tasneef-i- Islami  
Panwali Kothi, Dodhpur  
Aligarh-202001- India

### IAFIE Executive meeting Scheduled

Aligarh : The IAFIE executive to meet here May 3, 1999, to discuss issues like Delhi seminar of September 1999, Natural lent seminar on economic perspective of Zakah, etc.

## BOOKS :

1. **Choudhury, Masudul Alam**, *Reforming the Muslim World*, London: Kegan Paul International, 1998, pp. 269.
2. **Hoexter, Miriam**, *Endowments, Rules and Community : Waqfal Harura Yan in Ottoman Algiers*, Leiden, Neitherlands; E.J. Brill, 1998, pp. 192.
3. **Khalilieh, Hassan S.**, *Islamic Maritime Law, An Introduction*, Leiden, The Neitherland: Brill Academic Publishers, 1998, pp. 202.
4. **Vogel, Frank E. and Hayes, Samuel L.**, *Islamic Law and Finance: Religion, Risk and Return*, The Hague: Kluwer law Intl. 1998.

## ARTICLES :

1. **Ahmad, Khurshid**, 'Poverty in the World; Some Points to Ponder', In : Mohibul Haq Sahibzadah (ed.), *Poverty Alleviation in Pakistan: Present Scenario and Future Strategy*, Islamabad, Pakistan: Institute of Policy Studies, 1997, pp. 19-26.
2. **Akkas, S.M.**, 'Theoretical Foundation of Islamic Economics', *Thoughts On Economics* (Dhaka, Banagaldesh), Vol. 8, Nos. 1-2, July-December 1998, pp. 42-66.
3. **Cox, Stella**, 'The Role of Conventional Banks in the Development of Islamic Financial Products & Services', *New Horizon* (London), No. 79, September 1998, pp. 3-6.
4. **Hassan, Abul**, 'Prospects of Islamic Banking Units Under Western Conventional Banks', *Muslim & Arab Perspectives* (New Delhi), Vol. 4, Issues 7-12, February 1999, pp. 350-356.
5. **Islahi, Abdul Azim**, 'Indian Association for Islamic Economics : An Introduction', *Muslim & Arab Perspectives* (New Delhi), Vol. 4, Issue 7-12, February 1999, pp. 481-482.
6. **Mallat, Chibli**, 'Tantawi On Bankings in Egypt', In : M.K. Masud (ed. al.), *Islamic Legal Interpretations: Muftis and their Fatwas*, Cambridge, MA, USA: Harvard University Press, 1996, pp. 278-85.
7. **Pervez, Imtiaz Ahamad**, 'Liquidity Requirement of Islamic Banks', *New Horizon* (London), No. 79, September 1998, pp. 7-10.
8. **Rahman, A.R.**, 'Trends in Islamic Banking and Finance', *Muslim & Arab Perspectives* (New Delhi), Vol. 4, Issues 7-12, February 1999, pp. 341-349.

**Increase the fond Dominance of Interest And the Way Out**

By. Hifzur Rab

Published by : Rehmani Foundation, Mazagaon, Mumbai, 1998, pp. 160, Price: Rs. 40/-

Address for Communication : Alhamd Charitable Trust, Rahmat Nagar, Jhapia, Bamrauli, Allahabad-210012.

The basic theme of this book is that, on the one hand there lies an exploitative nature of capitalistic system which according to author, has dominance on the Muslim Ummah, making them a weak community that is still unaware as well as in different to this massive exploitation and oppression of the capitalist world. On the other, it explains some salient features of monetary and fiscal economics of Islam with major emphasis given to the problems of interest and its impact on the economy, issues related to the depreciation of currency, inflation and indexation, stock markets, shares along with the profit-sharing, profit maximization, investment problems etc. He also discusses to a great length a Unit Standard of Account' comparing with early Islamic time and explains why the 'use of a non-standard' increase in contemporary accounting process leads to total confusion) P. 81-84). The writer has attempted to compare the currency system (Saman) of early Islamic period with that of the contemporary floating exchange system, and has suggested as well to adopt a 'standard of wealth as standard of account.

Although, the author has a breathless criticism of the exploitative nature of capitalists economic system throughout his book which according to him is sustained by fraud, deception and oppression, his attack on the Western economic theories is not supported by sound economic analysis of the issues concerned. To say that inflation of money and depreciation of currency are the "two faces of a fraudulent and deceptive economic procedure and that inflation is not any separate part of monetary policy" is rather a generalized economic analysis of problems, totally ignoring the market mechanism in a macroeconomic framework. Moreover, his argument that 'interest has seriously harmed the interest of Muslim countries, businessmen, traders and Islam' does not seem to be convincing as he fails to provide the sufficient evidence to prove this. Muslim world may be in the grip of capitalist world, but it does not mean that whatever, economic policy they frame is dictated by the Western world. It is in fact, their own folly and mismanagement of resources, undemocratic way of functioning the economy, their irrational public expenditure and high consumerism, that have made them one of the highest deficit financing economies in the world.

The author puts rather one sided view when he says that 'the interest paid is indirectly charged on the masses in the form of increased prices of the products or by keeping labour wages and raw materials prices relatively lower (p. 26). This may be one of the causes of interest but other areas that need further investigation from the Islamic viewpoint are the ways the monetary and fiscal system of an economy work under the market mechanism, and that how to develop a rationing device in order to utilize the resources in most productive way.

However, his concern for interest-free loan (Qard Hasan) in an inflationary economic situation is genuine and he rightly feels that the depreciation of currency is responsible for the non-availability of interest-free-loan.

The book has a much relevance in the sense that it focuses on the most pertinent issues presently facing the monetary and fiscal economics of Islam and it would be a quite useful for the beginner of Islamic economics.

## Islamic Economics, Banking and Finance Orientation Seminars 1999

*Organised By : The Islamic Foundation in Co-operation with The Islamic Development Bank, Saudi Arabia and Loughborough University, UK.*

### OBJECTIVES AND AUDIENCE

These seminars provide exceptional opportunities for studying aspects of Islamic economics, banking and Finance. They are designed for bankers, accountants students, researchers and all those interested in both the theory and practice of Islamic economics and banking. The seminars will help in exploring, analysing and discussing at length the issues and challenges of this fast-emerging discipline. They also aim at providing the participants with a clear sense of direction as well as guidance in the projects in which they are engaged.

### CONTENT LEVEL-I [May 20-30, 1999]

- \* Islamic economic: Definition, scope and methodology
- \* Islamic economic system : A comparative approach
- \* Basic needs and distributive justice in Islam
- \* Significance of zakah and awqaf as Islamic economic institutions
- \* Insurance and Islam
- \* Prohibition of riba and other religions: Its economic rationale
- \* Prohibition of interest in western literature
- \* Principles of and modes of Islamic finance
- \* Islamic banking in theory & practice and a current profile
- \* Non—banking financial institutions
- \* Workings of an Islamic bank : A case study
- \* Islamic house finance : The Canadian experience
- \* Panel discussions.

### CONTENT LEVEL - II [September 23-27, 1999]

- \* Present state of Islamic economic : An overview
- \* Ethics and economics : A cross cultural comparison
- \* Economic development : Islamic and western perspectives
- \* Public policy issues from an Islamic perspective
- \* Present state of Islamic banking & finance An overview
- \* Islamic and conventional banking: A comparative study

- \* Balance sheet analysis: Case study of an Islamic bank
- \* Issues in accounting methods and banking supervision
- \* Capital and money markets from an Islamic perspectives
- \* Financial engineering : An Islamic approach
- \* Fixed versus variable return modes: An economic analysis
- \* Structure of Islamic financial contracts
- \* Challenges facing Islamic financing
- \* Workshops & Panel discussions.

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### Programme in Islamic Finance Through Distance Education

School of Islamic Business Education and Research (SIBER), a unit of Financial Ethics Foundation, has started a Post Graduate Diploma in Islamic Finance programme through distance learning with the following objectives :

1. To present manager and prospective managers in Islamic banks and financial institutions with the conceptual overview of the theory and practice of Islamic finance in each of the key financial products and services.
2. To integrate this formal academic learning with their business related experimental learning so that meaningful professionalised learning results-that relates to their individual needs, and
3. To enable them to experience self-improvement and professional growth.

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