

# The Philosophy and History of Usury

With Special Reference to Islam

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**U**SURY has two interpretations. The first is a conservative scholastic concept based on moral grounds which forbid the charging of interest. Here money is lent for consumption purposes and not for production uses; an interest charge is considered exploitation of the poor. The second interpretation of usury is a liberal view which considers interest justified compensation to the lender for risking his money. However, high interest rates are considered exploitive.

There was no distinction between economics and philosophy in the Hebrew and Greek periods. Religious, moral and ethical laws dominated life. The laws of Moses forbade charging interest, but applied only to Jews. A Jew was not allowed to charge another Jew interest for lending money, but could do so with a non-Jew.

The Greek philosophers considered agriculture the only accepted occupation. Trade and commerce were unnatural and undesirable activities. Slavery was a socially accepted institution. The state played an important role. Plato saw the state as rising out of the needs of the people. Aristotle conceived man as a social animal. He found the origins of the state in the household. The individual is a part of the community which comes before him in importance.

It is the Greek distinction of types of societal values which leads to condemnation of usury. Aristotle discussed two types of values: Value in use is utility, while value in exchange is the market value. This exchange value is based on the just price idea.<sup>1</sup> The exchange value is not based on the equal costs of commodities, but on equal wants of the people. There is

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regard for money as a medium of exchange, but the Greek philosophers denied its productability of loans of it. Aristotle stated, "Money cannot beget money," hence, interest is unjust.

In the Roman period, the development of individualistic ideology and the right of freedom of contracts replaced the collectivistic phenomena of the Greeks. Money was regarded as a commodity of exchange value, and this value was not to be fixed by law. The Romans did not forbid the taking of interest. The interest rates varied, depending upon the risk.

After the fall of the Roman Empire in the Fifth Century, Europe entered into a closed, self-sufficient, non-monetary, feudalistic, land-holding system. This system lasted until the end of the Fifteenth Century. The collectivistic ideology of society emerged again to replace the individualistic phenomena of the Romans. The Church was the dominant ruling institution through the Medieval period. As in the Greek period, agriculture was recognized as the principal occupation. Commerce and trade were less regarded.

<sup>1</sup>With regard to just price, St. Thomas Aquinas pointed out, "... whether the price exceeds the value of a thing or conversely, the equality required by justice is lacking. Consequently, to sell dearer or to buy cheaper than a thing is worth is in itself unjust and unlawful." See Robert Leckachman, *A History of Economic Ideas*, (New York: Harper and Brothers, 1959), p. 25.

As in the Greek period, the writers of the Medieval period, especially St. Thomas Aquinas, distinguished between value in use and value in exchange and that goods should be sold not more than what they are worth. This idea is reflected by the "Just Price" concept, derived from the Aristotelian philosophy that "Money cannot beget money." Money should be lent only for consumption and not for production uses.

When the feudal system broke down, commercial capitalism emerged and was accompanied by the great use of money. There were two streams of thought with regard to usury. First, Calvinism broke away from the conservative philosophy and permitted the use of profit money allowing interest on money lent. The second stream, Lutheran, continued the conservative thinking of usury, which forbade the taking of interest on money lent.

Mercantilism, which replaced the feudal system, stressed the importance of the state and wealth. The main goal was to have a favorable balance of trade. Exports have to exceed imports to bring more gold and silver to the country. Low rates of interest on money lent was advocated. Low interest made capital cheap and encouraged economic development. High interest rates made money scarce because interest is the cost of using money.

#### **The Ideology of Usury in Islamic Doctrine**

Saudi Arabia, before the emergence of Islam, was characterized by primitive Bedouin collectivistic tribes. There was no central government to rule them. Local laws and customs governed and managed the relationship within each tribe and among tribes themselves. The main occupations in Saudi Arabia were trade and commerce, which were looked upon as favorable blessings, as a profitable set of institutions. Trade and commerce were based on barter

bargaining. The city of Mecca was the center of internal trade, as well as the external center of trade with foreign countries. Agriculture was looked upon as an unfavorable occupation, and thus the job of the slaves. While in the Hebrew, Greek, Roman and Medieval periods, agriculture was the only worthy occupation and trade and commerce were looked on as unprofitable and unfavorable occupations.

With the advocacy of trade and commerce as a natural set of institutions, the practice of usury was widely employed. However, if the debtor failed to pay back his debt, then he became a slave and he and his family had to work for the creditor until he could pay back all his debt. But it was impossible to do so. Therefore, the slavery, as in the Greek era, was recognized as a natural, acceptable social institution.

The Islamic doctrine had grown up with the emphasis and framework of an urban civilization and settlement of tribes and centralized government. There was a combination of religion and state. The head of the Islamic Church, who is also the head of the Islamic State, Dr. F. Z. Mohamad, emphasized this fact. He stated:

" . . . the head of the state, the Caliph, . . . is elected by the people and . . . he is responsible to them. In other words, the Caliph derives his powers from the Islamic Umma (Umma means a nation)."<sup>2</sup>

Islam stressed the individualistic ideology by recognizing private ownership of land. Agricultural land should be privately owned by its actual cultivator. Public land contained originally unowned land or land left without heirs after the death of the owner, or land donated to the state. Islam encouraged agriculture as well as commerce and trade. Any kind of job is

<sup>2</sup>Fadhil Zaky Mohamad, *Foundations of Arabic-Islamic Political Thought*, (Bagdad: Ministry of Culture and Guidance, 1964), p. 31.

blessed as long as it is productive and profitable to the man himself and did not include any exploitation of another person. Thus, private capital was allowed to seek its profitable uses. But the interest on lending money was not allowed. The Qur'an clearly stated this fact:

"Those who devour usury will not stand except as stands one whom the evil one by his touch hath driven to madness. That is because they say: 'Trade is like usury,' but God hath permitted trade and forbidden usury."<sup>3</sup>

"God will deprive usury. But will give increase for deeds of charity."<sup>4</sup>

From this it can be deduced that the Qur'an upheld the prohibition of taking interest on money lent. This is similar to the Greek and Medieval thinkers, on the ground that money is lent for consumption uses and not for production objectives. The Islam's prohibition of usury was contrary to that which existed before the emergence of Islam. This prohibition came as a result of the exploitation of the borrower by the lender. The borrower would be a slave if he failed to repay his debt. In the meantime, capital formation, i.e., investment, required to run a business was small. This is because businesses were run by small private enterprise. Thus large amounts of capital were not needed to run a business, and a man with his small capital could run his own business. This led to the prohibition of interest on money lent to the needy person where the money would be used only for consumption uses.

Over the centuries, the idea of usury as a prohibition lingered with the Islamic faith, but as the economy grows and modernization creeps a different approach to its illegality has come to the fore. The prevailing eco-

<sup>3</sup>*The Holy Qur'an*, (Washington, D.C.: The American International Printing Company, 1946), pp. 111 and 112. Translated from Arabic to English by Abdullah Yusuf Ali.  
<sup>4</sup>*Ibid.*, p. 112.

nomical conditions make usury acceptable. Running business enterprises requires a huge capital investment. Thus the traditional prohibition of usury has been broken down and interest on lending has been practiced. As for example the agricultural bank in Iraq charges its borrowers an interest which is fixed at seven percent per year.<sup>5</sup>

At the present time, there are two opposite schools of thought. The representatives of the first school carry on the same conservative thinking, that any charge of interest at whatever percentage will include an exploitation of the needy person where the latter uses the money for subsistence consumption purposes. The representatives of the second school broke away from the conservative school to a liberal concept of usury. They connect the usury ideology with the interest charge on lending money above the rates of interest that is stated by the law. If the rate of interest, which is stated by the law, is seven percent on money and the lender charges more than this percentage, then he is exploiting the borrower.

Mohamad Ibi Zahrah, Professor of Islamic Doctrine at Law College of Cairo University, follows the same line of thinking as the conservative school. He stated that usury encourages people to enroll in adventures which will include useless results. A trader might be able to run his business with his own capital. But he might borrow money with interest to increase his business and this might turn out all right. However, the problem is if the price of his commodities drop then he will lose and will not be able to pay back his debt. Then he will run out of busi-

<sup>5</sup>This rate is considered much lower than that of private money lenders which reach as high as 100%. For more details see H. Thamer, "Problems of Agriculture Credit in Iraq," in *Proceedings of the International Conference of Agricultural Cooperative Credits*, (Berkeley: University of California, 1952).

ness.<sup>6</sup> In taking the economic approach he has failed to point out that if the business prospers, employment will be created and thereby the national prosperity and the standard of living will be increased. On the other hand, Mr. Zahrah stated that the ease of lending money will encourage many people to spend rather than to save. If the spender can easily find somebody who will lend him money at interest, then he will not save and worry about the future. So there are employees with high incomes who can satisfy their present needs and can save some of their incomes for future need. But they do not do this, because it is very easy for them to borrow money at interest at any time.<sup>7</sup> Professor Zahrah has taken the view on usury at a micro level and only from the spender's point of view. But we all know that interest on lending money encourages savings and the eventual capital formation so that the investors can have funds to employ for productive purposes. One spends not only on consumer goods, but also on producers goods. The government can play a positive role in the case of fiscal policy. Mr. Zahrah's view is that the government can enter into the market to protect the main crops (presumably Mr. Zahrah refers to supporting the price of primary commodities) which will lead to eliminating the reasons for borrowing money at interest.<sup>8</sup> Professor Zahrah's advocacy for price support may be an alternative to agriculturists, but this will not supply farm to businessmen and investors who borrow money on interest.

Mr. Al-Saud, Advisor to the National Bank of Libya, raised the question is interest usurious? His answer

<sup>6</sup>Mohamad Ibi Zahrah, *Prohibition of Usury: Economic Organization*, (Kawit: Al-Manar Library Press, 1955), pp. 7 and 8. (from Arabic).

<sup>7</sup>*Ibid.*, p. 8.

<sup>8</sup>*Ibid.*, p. 6.

was indubitably "yes."<sup>9</sup> Then the conservative view stayed with the same religious phenomena of recognizing interest on money lent as usury. On the other hand, the liberal view connected the usury concept with interest rates that are above the interest fixed by the law. Mr. Al-Thama stated that some scientists do distinguish between the compound interest rate which Islam forbids and the simple interest rate which Islam does not forbid.<sup>10</sup> Mr. Ali, who translated the Qur'an from Arabic to English, connected the discussion of usury with the distinction between money lent for consumption and for production. He pointed out:

"Our Ulama (scientists), ancient and modern, have worked out a great body of literature on usury, based mainly on economic conditions as they existed at the rise of Islam. I agree with them on the main principles, but respectfully differ from them on the definition of usury. As this subject is highly controversial, I shall discuss it, not in this commentary but on a suitable occasion elsewhere. The definition I would accept would be: undue profit made, not in the way of legitimate trade, out of loans of gold and silver, and necessary articles of food, such as wheat, barley, dates and salt (according to the list) mentioned by the Holy Apostle himself. My definition would include profiteering of all kinds, but exclude economic credit, the creature of modern banking and finance."<sup>11</sup>

Islam Doctrine, as well as Christian Doctrine, built their analysis of usury the same as in the Greek tradition. Usury was connected with just price

<sup>9</sup>Mahood Ibo Al-Saud, "Interest Between Usury and Money," (*Al-Muslimoon Journal*, Geneva, Switzerland, First Issue, July, 1963), p. 74. (From Arabic).

<sup>10</sup>Hassan Al-Thama, "The Stand of Islam on the Interest Rate," (*Al-Muslimoon Journal*, Geneva, Switzerland, Sixth Issue, April, 1965), p. 50. (From Arabic). But Al-Thama did not share this view, and claimed there is no such a distinction between these two kinds of interests according to Islam.

<sup>11</sup>A.Y. Ali, *op. cit.*, ft. p. 11.

of the Greek ideology. The conservative thinking in Islam looked upon interest on money lent as a usury in the light of money being lent for consumption uses rather than for a productive objective. "Money cannot beget money." A charge of interest on lending money will be considered an exploitation of the needy poor.

In the second half of the feudalistic land holding system of Europe, when

commercial capitalism emerged, there was a second school of thought recognizing the existence of interest on lending money. The same with Islam: the conservative group holds its view on the ground that interest on lending money is usury; while the opposite liberal group claimed that interest on lending money is not usury, if and only if it does not exceed the rate of interest which is fixed by law.

## The Option For Financing Subways

THE Westinghouse Engineer for January, 1970 presents in wide scope a discussion of city transit service, having researched all phases in an effort to promote Westinghouse "Transit Expressway" service. Subway construction is contrasted with development of motor routes requiring more high-cost land area and accommodating fewer people. Rooftops of subway-stations, for instance, are suggested as multilevel parking lots. A plea is made for fine modern subways, replacing such old and dirty equipment as has served New York for many years but is now breaking down. The authors, G. W. Jernstedt, J. S. Robinson and R. E. Skorpil, all have bachelor of science degrees in some phase of engineering.

In discussing optional strategies for increasing the return on transit investment, Mr. Skorpil speaks of land value increases as a source of benefit, especially where there is a public desire to raise revenues without additional support from general municipal funds.

It was noted that new developments around a rapid transit right-of-way are difficult to imagine if they haven't been seen. Toronto's central business district was shown to have sprung to life as land values along the transit line tripled in two to five years, and at sta-

tions land values increased 300 to 400 percent. Since quick-acting speculators and developers have capitalized on this appreciation and realized enormous profits, it appeared to the author that the community should find a way to receive greater benefits from such gains.

The important role of land acquisition in the transit picture is suggested by the following:

"There are two potential sources of 'extra' land for resale: the first is obtained by necessity when larger-than-required parcels must be purchased for rights-of-way and stations; the second is land originally intended for future transit facilities but later found to be unnecessary or uneconomical for its intended use. An example of this might be found in parking grounds for park-and-ride facilities. At an early stage, when land is relatively inexpensive, large areas surrounding stations may be purchased for parking needs. When property values increase, parking can be concentrated in multiple-level structures and the balance of the land sold profitably on the open market, or leased on long-term contracts."

The original purchase price would be based on the value of land without transit and the ultimate sale price would reflect the value added by transit. A soundly conceived program