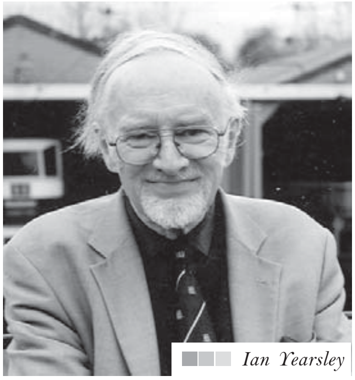
Economics without usury

Islamic banking raises important questions. Can western economics offer answers consistent with Christian faith?

by Ian Yearsley


Ian Yearsley

Two years ago I opened an Islamic bank account. I did this as a Christian, a member of the Church of England. I was and remain secure in my faith, but I have a growing concern about the way that money and monetary values have come to dominate western society. And I am also concerned about the apparent lack of concern for these matters within the Church.

This article aims to reflect on that two-year experience, the conversations it has opened up, and the development of my own thinking on the subject. I write as a journalist, not as an accountant or specialist in finance, and I have no professional qualifications to claim any voice in these debates. But the mere fact of being a Christian with an Islamic account has taken me into a whole range of discussions, as well as bringing invitations to write and broadcast. It also reflects the increasing urgency of debates about debt, whether the warnings of Ann Pettifor about a debt crisis impending in the developed world, [1] or the Church of England's *Matter of Life and Debt* campaign on personal debt, launched in January.[2]

Initially, at least, Islamic banking appeared to me to offer an attractive radical alternative to the western banking system. It is based on profit-sharing, partnership, no uncertainty, no unethical investment (for instance in alcohol or tobacco), and no giving or taking of *riba* or interest which is forbidden in Islam.[3] Largely speaking the bank functions as a conventional bank, but the contract becomes 'Islamic' because no interest is involved. Instead there may be a deferred sell price, profit-sharing, or in the case of a mortgage, a simple rent (with a sale to the rentor after 20 years). Islamic banks are profitable, even more so than conventional banks. But it is often hard to see the difference. It is said that there is even an Islamic credit card on the way.

For a Christian to understand the debate on usury we first need to look at the biblical evidence. The Mosaic prohibition on usury rests on three biblical passages: Exodus 22. 25-27; Leviticus 25. 35-38; and Deuteronomy 23. 19-20. This last permits usury on loans to a stranger living in a foreign land. In all, there are twelve prohibitions. There is very little direct reference to usury in the New Testament; in a recent unpublished paper Higginson and Parsons point out that the reference by Jesus in the Parable of the Talents was probably a comment on the way the world was, rather than an endorsement of usury.[4] From an Islamic source, however, comes the view that Jesus expelled the moneychangers from the Temple because they were practising a form of usury, *riba-al fadl*, the exchange of inferior goods for the superior.[5]

Money is a major consideration in scripture as a whole, with more than 2,000 references, and in the Patristic period money and wealth rank high in debates; more consideration was given to these than to issues of war and peace. Generally speaking Christians were forbidden to lend at interest until the sixteenth century, in Britain until 1571,[6] but because of the let-out clause in Deuteronomy 23, Jews were able to charge interest on loans to Christians. In an increasingly mercantile world this made them at once needed and despised. In Shakespeare's *Merchant of Venice* the speech of Shylock the Jewish money-lender sums up the situation of the time,[7] when Christians despised the Jews who lived with them, but were only too ready to turn to them when they needed money. Nevertheless, canon lawyers used much ingenuity to find a variety of ways around the prohibition.

Higginson and Parsons discuss the way in which, from the time of Calvin, the charging of interest became acceptable within limits; up to 10 per cent was allowed by Elizabeth I's Parliament in 1571. They see the thrust of biblical teaching on usury as being mainly towards protecting the poor and the vulnerable, but they regard the sixteenth century as "a crucial watershed" in the Church's tradition on usury, as Aquinas' argument, derived from Aristotle about the barrenness of money was overtaken by the development of commerce.[8] R. H. Tawney calls the change of thought momentous, and asks if any intellectual revolution could be more profound than one which substituted expediency for a supernatural criterion.[9] Roman Catholic sources continued to speak against usury but in rather low-key terms: the Papal Encyclical *Rerum Novarum* of 1891 is often cited as a high point of Catholic social teaching, but its condemnation of usury is ignored. As Patrick Cleary points out in *The Church and Usury* (1914) the Roman authorities thought it better for people to deduce the conclusion for themselves, rather than giving a ruling in a particular case that might then be taken as a precedent for others.[10]

Islam, by contrast, is unequivocal. Usury is forbidden, whether in terms of interest on loans *(riba an nasiah)* or giving inferior goods for superior *(riba al fadl)*. In the Quran there are references in Suras 2, 3, 4 and 30, but 2.275 is the definitive verse. It might then be assumed that interest-free was universal for Muslims. But this is not so. We need to remember that until October 2004 there was no legal framework in this country for Islamic financial institutions. As recently as 2002 Rashid Mengers said in London that anyone wanting to invest in an Islamic bank would probably have to go to Dubai.[11]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Edgbaston House
3 Duchess Place
Birmingham
B16 8NH
0845 6060786

MR IAN A YEARSLEY
Road
London
SW1

Customer Services: 0845 6060 786

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Savings Account GBP Statement
Summary for 31DEC07 to 31MAR08

Previous Balance	£34.98
Money In	£75.92
Money Out	£0.00
New Balance	£110.90

Statement Number: 00009
Account Name: MR IAN A YEARSLEY
Account Number: xxxxxxx
Branch Name: Southall - London

When transferring funds from other UK banks
Your account number is: xxxxxxx
Your sort code is: 30-00-83
IBAN: GB52 LOYD 3096 3401 0241 92

Date	Type/Details	Money Out	Money In	Balance(£)
31DEC07	Brought forward			34.98
31JAN08	Profit FTDFTDU2SORQ0002		75.62	110.60
	Profit Value date - 1FEB08		0.05	110.65
29FEB08	Profit Value date - 1MAR08		0.14	110.79
31MAR08	Profit Value date - 1APR08		0.11	110.90
31MAR08	Carried forward			110.90

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Statement from an Islamic Bank of Britain savings account; the first Profit item is a half-yearly transfer from a deposit account. How different is this 'profit' from the 'interest' of a western banking account?

Individual Muslims made accommodations in different ways; some gave anything they received in interest to charity, other regarded themselves as exempted from the Quranic provisions because they were not in an Islamic country. Some even claimed to know nothing of the requirements to avoid interest. It is interesting to note that the legalisation of Islamic banking in 2004 caused nothing like the fuss that was made in February this year when the Archbishop of Canterbury made his remarks about Sharia law.

The advent of legal Islamic banking in Britain has opened new possibilities, even though, as Professor Mona Siddiqui said in the *Church Times* earlier this year,[12] many Muslims see the sharia-compliant financial packages as little more than wordplay on the term interest, yet the Islamic banking sector is growing. On the face of it there is very little difference, the 'profit' I receive from my deposit account with the Islamic Bank of Britain is very little different in amount from the interest I receive from a Nationwide InvestDirect account. The underlying difference is, or should be, how it comes to be created. For in the Islamic system this should be the result of labour expended, not simply of money being created out of money. And the risks should be shared. There is however no hint of shared risk in the bank deposit account and no information on how the 'profit' differs from interest other than in name. An Islamic investment involves real risk-taking and the source of profit has to be made clear.

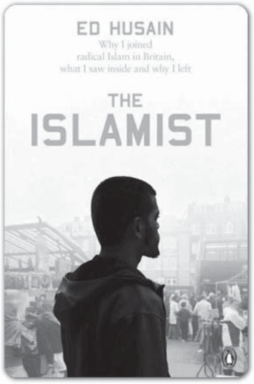
Every *takaful* (mutual co-operation) financial undertaking, whether it receives deposits, makes loans or provides insurance has a panel of theological experts to whom any product is submitted to see whether it accords with Sharia law. But as Tarek El Diwany has pointed out, the number of

Tarek El Diwany

scholars who adequately understand both the interpretation of the Quran and the complexities of modern finance is quite small.[13] And even if 98 scholars out of 100 turn down a proposal, if two can be found who approve it, then it will be permissible and the bank has simply to employ those two. What should emerge is a sharing of profit and loss. What all too often happens is a combination of permitted contracts to produce prohibited ends. An example of such a legal stratagem would be to buy £100-worth of metal for cash and to sell it at once for £110 payable next year, giving £10 profit. There is thus an ongoing debate in Islamic financial circles between those who see Islamic banking as something genuinely Sharia-compliant, and those who aver that an Islamic tree can never be made to grow in the soil of usury. This latter group therefore look for Islamic finance to become a complete usury-free alternative to the western system.

It needs also to be said that although several attempts have been made to set up a usury-free Islamic nation (the latest was in Pakistan in 2002), none has ever reached the statute book. And Islam is very far from being uniform or monolithic. It is not just the different views of authority held by Sunnis and Shias, or the contemplative tradition of the Sufi brotherhoods, or the desert austerity and literalism of the Wahhabis. The culture of Islam in the Levant differs greatly from that of the Gulf States, and Malaysia and Indonesia are different again, while Pakistan, where I once lived for a little over a year, has its own approach. And Saudi Arabia is something on its own, with the respective spheres of politics and religion demarcated in a way which would be quite strange to other Islamic states.

Meanwhile the overall picture of Islam is kaleidoscopic, with many different colours and patterns and constant change. Ed Husain's book *The Islamist* is the story of one who joined Radical Islam in Britain, saw it from the inside, and left it for mainstream, moderate Islam.[14] But in the process he demonstrates the variety of Islamic culture and practice, and at the same time the commonality with Christians in several countries, particularly in the Lebanon. Yet it was there that he had to shorten his first name, Mohammed, to Ed, because in that culture it was not considered appropriate to use the name of the Prophet for oneself.



Ed Husain's book The Islamist

Thus the question I am often asked: 'how do the poor benefit under an Islamic system?' cannot easily be answered because there is no overall Islamic system. Muslim people everywhere are expected to pay a tax of 2½ per cent of their wealth (not just income) over and above basic needs for charitable purposes including the benefit of the poor. This is known as *Zakah* or *Zakat* - literally 'purification' or 'growth' - and individuals are expected to give it without being policed. This is done through charitable institutions and there is a list of eligible recipients including the needy, travellers, orphans and new converts to Islam. But these criteria could be applied quite differently in the relatively liberal regime of Malaysia and the highly stratified Saudi culture where poor black African Muslims from Chad might well be at the bottom.

So what have I learnt from all this? I had long been concerned about the Church's apparent failure to get to grips with the problem of interest on capital, and I first said so publically in an article in *Crucible* in 1988.[15] By 2006, when I opened the Islamic account, it seemed to me that there were serious and growing problems with the western capitalist system of finance, and I wanted to see whether the interest-free banking system might provide a model for something better. In an article in 2007 I did suggest rather cheekily that a Church council might consider transferring its funds to an Islamic account in order to be biblical, but nobody has taken me up on this. But more seriously, the publication of Ann Pettifor's *The Coming First World Debt Crisis* later in 2006, followed shortly by the Northern Rock crisis and the Church of England's *Matter of Life and Debt* report that 18 per cent of adults have personal unsecured debts of £10,000 or more, made me focus more closely not only on usury, but its consequences and related problems.

Two of these are the multiple on-lending by banks, and the apparently unlimited growth of national debt to financial institutions. Both of these are driven by interest. So is the reluctance of financial institutions to allow governments to issue their own currency, other than coins. Banks take deposits and make loans against the security of them. Or so we imagine. In fact loans are made largely of money which the banks do not have and interest is charged against this non-existent capital. HSBC's 2006 Annual Report shows that its customers held in aggregate some £150 billion of sight deposits, yet at the same time HSBC held only £3.5 billion of cash to honour requests for withdrawal of those deposits. If

Treasury notes, known as 'Bradburys' were issued by the British government in 1914 to replace gold sovereigns

The Isle of Man Government still issues its own notes

all of HSBC's customers asked for their money in cash on the same day, HSBC would be forced to close its doors.

Truly, it would appear, money can make money out of nothing. Whatever would Aquinas have to say about that?

National debt has been growing ever since 1694 when William III needed to finance his wars and borrowed from the bankers.[16] Though it flourishes under many guises, the public sector borrowing requirement today means that each citizen is in debt to the financial institutions to the tune of more than £6,000. And this amount is growing.

Financial institutions stand to make money out of lending to governments. Thus they are rather reluctant to allow governments to exercise their right to interest-free loans in the form of Treasury Notes as was done in Britain during World War 1 when the famous 'Bradbury' notes were issued, signed by the secretary to the Treasury. The Isle of Man continues to issue notes in the name of the IOM Government, not the bank. Although this procedure is often said to be inflationary, it is far less so than having to pay interest on what is in effect a loan from the banks.

Somehow we have to move away from the fraud which is implied by creating money out of nothing and its subsequent lending at interest, or as our Islamic friends would say, *riba*, something forbidden by God. Not merely nonsense, but forbidden nonsense. Finance, with all its complexity, is one of the means by which God reveals to us his purposes for the world, creative and also redemptive, to use a good money-based metaphor. As Bishop Peter Selby has said, faith is about today's bread and giving thanks that there is enough for all our need, if not for all our greed, and that we do not need to borrow our children's assets and leave them with the problem.[17] Others have linked this theme with that of climate-change.[18]

So I shall continue with my Islamic account and encourage those others who, following my example, have opened such accounts. But I shall also ask them to do it with their eyes wide open. One of the difficulties is that there is a growing number who can identify the problems, but few who offer solutions. Islamic banking may well give us a glimpse of what a financial paradise lost might be like. Much more hard to find is a financial paradise regained, although I have been recommended to look at www.binaryeconomics.net.[19] And I have yet to find a bank with a Christian basis or origin that takes the Mosaic prohibitions on usury as seriously as the Quranic injunctions are taken in Islam.

Finally, as an aside, the current Islamic year is 1429. What was happening in the year 1429 of the Christian era? Were we still being nostalgic about Wycliffe and John Huss, or were we tilling the ground that later brought forth John Calvin in 1509? And may we look forward to the emerging of an Islamic equivalent of Calvin, treating usury "as the apothecary deals with poison" yet being enthusiastically represented by his banker and merchant followers as giving approval to it? Maybe none of us will live to see it, but already within Islam there are many people devising ever-more ingenious ways to avoid the Quranic strictures; indeed they follow the footsteps of the medieval canonists who devoted their energies to circumventing the Church's teachings, rather than understanding and applying them. And what are we going to do?

Islamic Bank of Britain invites visits to its website

I would be willing to continue to discuss these matters through the weekly London meetings of ccmj; contact details:-

Christian Council for Monetary Justice, 21 Bousfield Road, London SE14 5TP, or visit www.ccmj.org.

I am greatly indebted to many people for help with this article, and particularly to:-

Peter Challen, Christian Council for Monetary Justice,

Richard Higginson of Ridley Hall, Cambridge,

Tarek EI Diwany, Islamic Finance Consultant, and

Rodney Shakespeare, Visiting Professor of Binary Economics, Trisakti University of Jakarta.

I am also grateful to the editor of *The Reader* to quote from my article "Islamic Banking, a Voyage of Discovery", Spring 2007.

Ian Yearsley writes on transport economics and history and on religious matters.

Notes

1 Pettifor, A. (2006), *The Coming First World Debt Crisis*, Basingstoke and New York: Palgrave Macmillan

2 Preston, J. (2008), *The Money Revolution*, Authentic Media; part of the Church of England's campaign "A Matter of Life and Debt"

3 The *Quran*, Sura 2, verse 275

4 Higginson, R. and Parsons, M. (2007), *Usury, Investment and the Sub-Prime Sector*, Church Investors Group

5 El Diwany, T. (2003), *The Problem with Interest*, London: Kreatoc

6 Goyder, G. (1987), *The Just Enterprise*, London: Andre Deutsch, especially Appendix 1, A *Note on Usury*

7 Shakespeare, W. *The Merchant of Venice*, Act 1, Scene 3:

Shylock:

Signior Antonio, many a time and oft
In the Rialto you have rated me
About my moneys and my usances;
But have I borne it with a patient shrug,
For suffrance is the badge of all our tribe.
You call me misbeliever, cuthroat dog,
And spit upon my Jewish gaberdine,
And all for use of that which is mine own.
Well, then it now appears you need my help;
Go to then, you come to me and you say:
Shylock, we would have moneys: you say so;
You that did void your rheum upon my beard,
And foot me as you spurn a stranger cur
Over your threshold: moneys is your suit.

8 see Aristotle, *Politics* 1,3, 1.10; *Nichomachean Ethics* V.10; see commentary in Gaarder, J (1996), *Sophie's World*, London: Phoenix, p.95

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11 Mengers, R. (2002), 'Islamic Banking in Europe: the Reintegration of Faith and Economy', South London Industrial Mission Lecture, Southwark Cathedral, May 15 2002, and in conversation with the author

12 Siddiqui, M. (2008), "Why Sharia is so misunderstood", *Church Times*, 15 February

13 EI Diwany, T. (2006), "How the banks are subverting Islam's ban on usury", *Financial Times*, 13 July

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15 Yearsley, I. (1988), "Where are buses taking us?" *Crucible*

16 Andrews, R. (2006), *It's the economy, so what?* Greenspur, Birmingham

17 Selby, P. (2007), "It's time to stop giving credit to our culture of debt", *The Times*, 13 October

18 Goodridge, E. and Yearsley, I. (2007), *The grace that overcomes debt* www.parishpump.co.uk

19 Shakespeare, R. (2007), *The Modern Universal Paradigm*, Christian Council for Monetary Justice