BOOK REVIEWS


Elimination of ribā is not like eliminating murder because ribā has a socio-economic function (which must be replaced) and murder has not. This, in crude terms, may help to explain why dealing with the issue of interest on capital is different from implementing other parts of the shari'ah, even for countries like Pakistan and Iran for whom Islam is the raison d'etre.

Already Muhammad Ali Jinnah had called for the abolition of ribā. So did each one of Pakistan's constitutions (1956, 1962, 1973). And yet, interest remains so deeply entrenched in the Pakistani economy that "it will be a yeoman's task to abolish it" (Muhammad Akram Khan, p. 25). True, in 1977 the President of Pakistan asked the Council of Islamic Ideology to prepare a blueprint of an interest-free Islamic economic system which led to the adoption, in 1979, of a plan to eliminate ribā within three years. In fact, in the early 80's the Pakistani banks, controlled by the government, Introduced a parallel system of interest-free and interest-based banking. However, the government itself — the biggest domestic debtor — to this day continues to issue interest-earning bonds.

In sum, the nation has essentially kept postponing the issue for half a century. In particular, Pakistani banks and businessmen resorted to the ancient Muslim device of circumventing the shari'ah with the help of fictitious agreements. Most prominent among them are "mark-up sales" (the fictitious purchase by banks of a good from their client and their fictitious resale of the same object to him — on a deferred payment basis and with a "marked-up" price.) Dr. Ziauddin Ahmad calls this "the height of our deviation (...) that as a Muslim nation we are using the word mark-up for interest" (p. 83).

Nevertheless, things seem to get moving after all On 7 December 1991 — a historical date for the country — the Pakistani Federal Shari'at Court ruled
that the interest provisions in Pakistan's fiscal laws were "repugnant to the Shari'ah" and thus unconstitutional. In a decision covering more than 500 pages, the Court decided that these norms were to become null and void — but not retroactively — on 30 June, 1992. This did not happen because the government appealed the decision. The case is now pending before the Supreme Court which — like the Sharī'at Court before — with a questionnaire is widely collecting view's of legal, economic and financial experts on this monumental issue. Regardless of the final decision, one can already say that as a consequence of this Pakistan will have the world's best researched documentation on ribā!

Against this exciting background, Senator Professor Kurshid Ahmad in 1992 assembled almost 83 Pakistani experts, including Finance Minister Sartaj Aziz, for a workshop on ribā of which the book under review is the record. In addition to 14 papers presented at the time it contains Professor Khurshid Ahmad's answer to the questionnaire of the Supreme Court and, as part II, two articles by Professor Ausaf Ahmad on the 30 year old history of Islamic Banks and their contemporary experience worldwide, with a useful list of 30 such banks (even in Switzerland).

Not remarkable, perhaps, that there was consensus among the participants that the Qur'ān forbids any kind of predetermined return on capital, whether a loan is for investment or consumption, whether the parties are both Muslims or not, whether the governments act as debtors or not, and whether or not the rate of interest is exorbitant. More surprising was the rejection by most participants of interest even in situations of extreme inflation where an interest free loan amounts to nothing less than an involuntary gift by the creditor. In such a case indexation of a compensatory interest based on actual price increases should be allowed, just as wages and pensions are being indexed (p. 329). To argue that inflation was a general and different problem, unrelated to ribā, means ducking the issue. Indexation should of course also be applied in cases of deflation.

The discussions at Islamabad were so rich that I can only whet the appetite by listing some issues awaiting solution:

* Given that enterprises are quite skilled in concealing profits, what can be done to make profit-and-loss sharing arrangements (PLS), including mushārakah and mudārabah more attractive?

* Could such arrangements become more viable if the creditors were insured against loss by a (third party) insurance company?

* Could the effect of the sudden abolition of interest-based deposits be alleviated through debt-equity-swapping? Should savings account owners be turned into (temporary) share-holders?
Is it allowed to recompensate a loss from the reserves of a PLS-company?

Are bay'salam arrangements (purchase of goods by banks from their clients on the basis of immediate payment of the marked-up price but deferred delivery) halal and economically sound?

The elimination of interest not being "the be-all and end-all of the Islamic economic programme" (Khurshid Ahmad), how much time is needed to cast the foundations of such a programme? Can an economy be submitted to "Shock treatment" without derailing altogether (p. 54)?

Can foreign debts be served in the future, as well, justified by the principle of (dire) necessity?

I would personally like to add the following queries:

When banks generally charge a "service charge" for loans but not for "compassionate" considerations (al-qard al-hasn), does this not cast suspicion on the service charges?

Is it not an exercise in self-delusion if the instruments mainly used by Islamic banks — leasing and murabahah — continue to fulfil the function of interest? In either case, a debtor is furnished by the bank with what he wants to buy or rent, paying later at a higher ("marked-up") price than he would have had to pay if he had been able to buy or rent directly on the market.

When asked whether an interest-free Pakistani bank could successfully operate abroad, Nawazish Ali Zaidi answered: "Yes! But doing it will require a very high level of motivation" (p. 101). This sums it all up. The attempt to change a debt-based economy into a risk-sharing one presupposes a radical Islamization of the hearts and minds of most citizens (Hasanuz Zaman, p. 198; Faiz Muhammad, p. 156). Khurshid Ahmad himself showed the way for this "gradualism": first faith, then education leading to social motivation, and finally individual motivation supporting institutional changes (p. 4). Such "gradual progress" (Sartaj Aziz, p. 329) — and not "shock therapy" is the promising way ahead — even though some risk is involved, for it might serve as a pretext for doing nothing.