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From Debt to Prosperity: Abolishing Riba for an Economic Revolution

(Translated)

News:

In its report entitled “Banking Publication 2024 – Road to Sustainability,” A. F. Ferguson & Co., a member firm of PwC (PricewaterhouseCoopers International Limited) network, stated, “Investments to Deposits Ratio (IDR), on the other hand, has surged from 33% in 2007 to 88% in 2023 and 94% in Jun-24.” (Source)

Comment:

This high rate is primarily due to banks channeling substantial capital into government lending, with financial institutions investing an astounding Rs7.6 trillion into risk-free government securities. According to the same news report, this practice has deprived the private sector, choking growth and stifling innovation.

This issue itself is multi-faceted, involving four main actors: the government, which borrows excessively to fulfil its debt obligations; central bankers, who struggle to maintain employment and inflation levels through monetary policy; investment bankers, who lend to both the public and private sectors, charging interest as their fees; and the fiat currency, through which all of these transactions occur. The government’s huge borrowing from the central banks to fulfill debt obligations, coupled with banks diverting their investments towards government lending in times of falling interest rates, all contribute to a chokehold over the economy.

In capitalist economies around the world, central bankers continuously grapple with the Phillips Curve, which illustrates the trade-off between unemployment and inflation. Monetary policy constantly shifts to balance this trade-off, manipulating interest rates to influence the value of the fiat currency. Typically, when unemployment is low, inflation tends to spike, and vice versa.

However, there is also the grim reality of stagflation, when both inflation and unemployment are high, and economic growth is stagnant. This scenario exacerbates the challenges faced by capitalist economies, leading to prolonged periods of economic hardship and uncertainty. This balancing act presents a significant challenge for governments and central bankers globally, as they must navigate this inherent economic instability.

Moreover, the engagement in interest-based practices (Riba) significantly undermines the economic stability and well-being of nations. Fiat currencies continually erode in purchasing power at a rate directly correlated with the central banks' annual interest rates. For instance, the US Dollar, which serves as the current global reserve currency, has lost nearly 90% of its purchasing power since 1971.

Fiat currencies are also susceptible to speculative manipulation. For example, in 1992, billionaire George Soros bet $10 billion against the overvaluation of the British Pound, leading to the pound's crash despite the UK government's efforts to stabilize it. This incident, known as 'Black Wednesday,' highlights the vulnerabilities inherent in fiat currency systems. Even today, betting against fiat currencies remains entirely legal across capitalist economies.

Debt is not only internal but external as well. Smaller economies, particularly those reliant on foreign debt, face unique challenges. This so-called sovereign debt often comes with high-interest rates and stringent repayment terms that can cripple economic growth. These nations are trapped in a vicious cycle of borrowing and repayment, hindering their ability to grow and develop. The burden of debt repayment often leads to austerity measures, further exacerbating poverty, stifling economic development and causing social unrest. These countries, including Pakistan, often spend more on debt servicing than on essential services like education and healthcare. The developing nations' collective external public debt has doubled since 2010, reaching $3 trillion, hindering their ability to invest in crucial areas essential for their survival.

All of these capitalist governments, their central bankers and traditional bankers, through their monetary policies, investment tools, local and sovereign debts, all deal in Riba and would be accountable on the Day of Judgement in front of Allah (swt). As Allah (swt) has revealed in the Qur'an, ﴿ٱلَّذِينَ يَأۡكُلُونَ ٱلرِّبَوٰاْ لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ ٱلَّذِي يَتَخَبَّطُهُ ٱلشَّيۡطَٰنُ مِنَ ٱلۡمَسِّۚ ذَٰلِكَ بِأَنَّهُمۡ قَالُوٓاْ إِنَّمَا ٱلۡبَيۡعُ مِثۡلُ ٱلرِّبَوٰاْۗ وَأَحَلَّ ٱللَّهُ ٱلۡبَيۡعَ وَحَرَّمَ ٱلرِّبَوٰاْۚ فَمَن جَآءَهُۥ مَوۡعِظَةٞ مِّن رَّبِّهِۦ فَٱنتَهَىٰ فَلَهُۥ مَا سَلَفَ وَأَمۡرُهُۥٓ إِلَى ٱللَّهِۖ وَمَنۡ عَادَ فَأُوْلَٰٓئِكَ أَصۡحَٰبُ ٱلنَّارِۖ هُمۡ فِيهَا خَٰلِدُونَ﴾ **“Those who consume interest will stand on Judgment Day like those driven to madness by Satan’s touch. That is because they say, “Trade is no different than interest.” But Allah has permitted trading and forbidden interest. Whoever refrains—after having received warning from their Lord—may keep their previous gains, and their case is left to Allah. As for those who persist, it is they who will be the residents of the Fire. They will be there forever.”** [Surah Al-Baqarah, 2:275]

According to a Hadith of the Prophet Muhammad (saw), reported from Jaabir, «لَعَنَ رَسُولُ اللَّهِ صلى الله عليه وسلم آكِلَ الرِّبَا وَمُوكِلَهُ وَكَاتِبَهُ وَشَاهِدَيْهِ وَقَالَ هُمْ سَوَاءٌ» **“Allah’s Messenger (saw) cursed the accepter of interest and its payer, and one who records it, and the two witnesses, and he said they are all equal.”** (Sahih Muslim, 1598).

The Islamic Economic System stands in sharp contrast to the convention today. By completely abolishing Riba, in its transactions both within and across borders, and instituting a currency based on gold and silver—Dinars and Dirhams—it fosters an exceptionally stable financial environment. Unlike fiat currencies, which are susceptible to the volatility of interest rate fluctuations, a gold and silver-backed currency provides a steady economic foundation that does not rely on extraordinary growth rates for employment and sustainability.

In Islam, banks do not function as financial intermediaries as they do in capitalist systems. With the prohibition of Riba, institutions are limited to facilitating connections between investors and entrepreneurs, merely charging a meeting fee, without engaging in financial transactions. However, they can still offer essential services such as ATMs, money transfers, and other Halal services.

In Islam, the lack of need for an explosive growth rate to maintain full employment due to the abolition and absence of Riba, the stability of the gold and silver-based bimetallic currency, and the ease of doing business, where entrepreneurs are free from the burden of paying off interest to banks, would lead to an economic revolution.

Furthermore, the equitable distribution of wealth and the ethical financial practices promoted by the revenue generation and distribution structures in Islam ensure that all members of society benefit from the fruits of the system, fostering a tranquil and prosperous community.

In conclusion, the abolition of Riba is not just an economic necessity but a Shariah imperative. By adhering to the principles laid out in the Qur'an and Sunnah, we can transform our condition from that of debt and exploitation to one of prosperity and justice. As Allah (swt) revealed in the Qur'an, ﴿وَلَوۡ أَنَّ أَهۡلَ ٱلۡقُرَىٰٓ ءَامَنُواْ وَٱتَّقَوۡاْ لَفَتَحۡنَا عَلَيۡهِم بَرَكَٰتٖ مِّنَ ٱلسَّمَآءِ وَٱلۡأَرۡضِ وَلَٰكِن كَذَّبُواْ فَأَخَذۡنَٰهُم بِمَا كَانُواْ يَكۡسِبُونَ﴾ **“Had the people of those societies been faithful and mindful ˹of Allah˺, We would have overwhelmed them with blessings from heaven and earth. But they disbelieved, so We seized them for what they used to commit.”** [TMQ Surah Al-A'raf, 7:96].

May Allah (swt) guide us towards working for a just and prosperous economic system, under the shade of the second Khilafah Rashidah (rightly guided Caliphate) on the Method of Prophethood.

Written for the Central Media Office of Hizb ut Tahrir by

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