# BOOK REVIEW

*Interest Free Banking*[18]

Since the inception of Pakistan as a Muslim State, one important matter bothering the heads of the intellectuals as well as thi common man is as to how the social, political and economic organisation of this country be adjusted to conform to the tenets of Islam. In the context of economic organisation, the problem of elimination of interest ranks high. In our existing economic organisation, interest plays the pivotal role. On the contrary, Islam has prohibited it. The crux of the problem, therefore, is that of eliminating interest from our economic organisation without impairing the latter's efficiency. In the booklet under review, the author has nicely dealt with this problem and has given some practical suggestions for the elimination of interest. Most of the books on this subject have denounced interest because it has been prohibited by Islam. Hardly any contains practical suggestions for it. The author of this booklet, with his practical experience of banking, has aptly done this job.

Usury has been denounced by all the Monotheistic Religions of the world. Islam has, however, prohibited interest also. In an Islamic State banking must, therefore, be conducted without the element of interest. The author suggests that an Islamic State must have a Central Bank, Commercial banks, Industrial and Agricultural banks, Insurance companies etc. like any other state. However, instead of making loans and advances on a fixed rate of interest, these banks should participate in industry, commerce and agriculture on a loss-profit basis. In other words, they should share the profits and losses in proportion to the amount of capital invested by them and in accordance with the time for which this capital is invested. In Islamic economic system, the principle of *Mudarabah i.e.* participation of labour and capital has an important place. Banks must also follow this principle.

---

[18] *By* S. A. Irshad. *Published by:* Orient Press of Pakistan. p.p. 100, Price Rs. 10/-.

The commercial banks accept the deposits of the public in two forms—the demand deposits and the time deposits. Demand deposits are the deposits that can be withdrawn without any notice. On the other hand, the time deposits are for a fixed period of time. On demand deposits, the banks can take a service charge from their customers. Time deposits must be invested in business and industry on loss-profit basis. The profit or loss must be distributed among the deposit-holders proportionately. Similarly, the Central Bank must give loans to the commercial banks on loss-profit basis. Agricultural and industrial banks must also operate on the same basis. Insurance companies have been denounced by the writers on Islam. The author of the booklet suggests that if insurance companies invest their capital in business and industry on loss-profit basis instead of giving loans on fixed interest, there is no harm in their continuation.

Under the present system, the Government of a country takes loans from the public and commercial banks on a fixed rate of interest. In an Islamic state, the public and the banks that lend their money to the Government must share in her schemes and projects on a loss-profit basis.

The Islamic state will also have to maintain trade relations with other states. It will, therefore, be very difficult to avoid interest in this case. The foreign trade must be under the direct control of the Islamic Central Bank. The Central Bank must maintain a Pool to set off the effect of interest on its foreign trade transactions. For example, the importer of goods from a foreign country who receives goods under a letter of credit has to pay interest to a bank in the exporting country. On the contrary, the exporters' bank in the Islamic state would receive interest on the goods exported under letters of credit. The importers in an Islamic state must pay a part of the profits earned by them through the sale of these goods to the Islamic Central Bank to be credited to a Pool. Interest to foreign banks must be paid out of this pool. The Islamic Central Bank will also receive interest from the foreign importers. This money will also be credited to the pool and out of this a reasonable profit must be paid to the exporters' banks in the Islamic State. In this way the effect of interest will be levelled out.

The author has also emphasised the importance of Zakat in an Islamic State. He pleads for the creation of Community Zakat Funds. The Islamic banks should establish these funds and should contribute towards it as their own share of Zakat. The well-to-do people of the community must also voluntarily contribute towards this Fund. These Funds must look after the welfare of the poor and the distressed. They must also participate in the economic development programmes of the community.

These are, in brief, the main recommendations of the author. Apparently, these proposals seem to be very difficult to implement. However, I sincerely believe that if the society and the Government in Pakistan are willing to accept a major change, some of these proposals may well be implemented gradually.

It is, however, necessary to point out that the proposals made in this booklet and the analysis rendered by the author is of a very elementary nature. The problem in hand requires considerable research and this booklet may well be a starting point for it. The booklet under review contains some printing mistakes. At times the expression also becomes obscure. **However, on the whole it is a readable book.**

**Q. H. SIDDIQI,**

**Reader in Economies,** University of Karachi.