

Background article: Practices, Money to those in need

A just economic system

On several occasions in the Qur'an, Muslims are commanded to “establish the prayer and pay the *zakat*” [Q. 2:277]. From this we can see that Islam places a double emphasis on the vertical pole of prayer and the horizontal pole of bringing one’s economic life under divine guidance; but what does it mean: “to pay the *zakat*”? As a starting point, we can say that *zakat* is about the purification of wealth by making money circulate in due proportion from those who have more than is necessary to cover their basic responsibilities to those who lack sufficient money to meet their needs.

Every human being has the high dignity of being the *khalifa* and the *abd* of God: the regent and the loving servant. To be the regent means to be the steward of the good things of God. This means that whatever it appears that we own is not ours to do with as we please, but rather human beings are the custodians of goods that ultimately belong to God and are to be used according to divine guidance. To be the servant means to obey the commands of God. All that we possess is to be used according to God’s guidance for the benefit of humankind and in the service of God. Just as God has no favourites, all are sustained and guided, so the regent of God must practise *sadaqa*, which we can translate as “bearing one another’s burdens.”

An economic system

Muslims will always be concerned about money; how it is made, saved and spent. Money must be made in ways permitted by God. If something is forbidden (*haram*) for Muslims to do, then Muslims cannot profit by it. Alcohol is forbidden for Muslims to consume, therefore it is forbidden to profit from the sale of it or to invest money in its manufacture or distribution. Our money is a moral extension of our selves. Being in business for profit is good as it creates employment, provides a service and provides more money for us to use wisely according to God’s guidance. But trade must operate on principles of fairness and justice. It is forbidden for a Muslim to withhold goods so that there is a shortage and thus an unjust price can be charged. Similarly a buyer must be prepared to pay a fair price for goods and not try to force the seller to let the goods go for an unjust price. Muhammad said that workers must not be exploited and thus should be paid their wages before the sweat dries on their foreheads. When it comes to choosing a profession, Muslims are encouraged to look for something that builds up society and serves the common good. A profession or business that leads to corruption on the earth would be forbidden by the Islamic code of living.

It is a reality of human societies that some people have more money than others and that those with less will sometimes need help from those who have a surplus. If someone needs to borrow money, then those who have surplus are encouraged to lend

it to help them out but not to seek to make money out of the other person's need. Interest-free loans are a way of helping those in need without exploiting them. The borrower is obliged to pay back the loan in full on the agreed date but the lender should not seek to profit from the transaction. In this way, human society becomes a mutual undertaking rather than a system of exploitation by those who have financial power. This system requires a stable currency in which money is dependent on tangible assets, such as a gold standard. Scholars debate whether, in a society in which money is divorced from assets and therefore subject to inflation, the borrower should repay the numerical sum or return to the lender the equivalent amount based on the purchasing power of money at the time of repayment.

No gain without risk

Profit in business is good but profit can only come when the money is exposed to a proportionate share of risk. An Islamic bank or wealthy person might invest in a business as a way of injecting money. The investment is open to both profit and loss. If the business does well, then both borrower and lender profit. If the business does badly, then both borrower and lender must accept a due proportion of the loss. A loan that is guaranteed against assets in the business in such a way that the lender gets an agreed guaranteed return without any danger of loss is not permitted. This means that business loans are based on taking a share in the equity of the business; thus money is not a commodity in its own right but must be based on assets. Financial speculation on fluctuating currencies would be an example of a non-asset-based transaction and thus forbidden, e.g., I buy a million pounds worth of dollars in the expectation that the dollar will rise against the pound, so that when I sell them I get more pounds in return.

Money lent at guaranteed interest without risk is an example of a forbidden loan. If someone takes a mortgage based on interest to buy a house in which the loan is guaranteed against the value of the house it means that the lender does not share in the risk. Even if the house goes down in value, the borrower still has to repay the original loan. If the lender owns a share in the equity of the house and it goes down in value, then the lender's share goes down in value too. This makes for a much more responsible lending system. It is in no-one's interest to see house prices rise and fall dramatically.

An example will make this clear. If I take an interest/guaranteed asset mortgage of £220,000 to buy a house for £250,000 and the house drops to a value of £200,000, then I still owe the bank £220,000. If instead, under an Islamic system, the bank invests £220,000 to buy a house valued at £250,000, then the bank owns 88% of the house and I have to pay a rent to the bank for the use of their share. If the house drops to a value of £200,000, the bank now owns the same 88% share in the house, which means that their share is worth only £176,000; the bank has taken a share of the loss as well as me! In such an Islamic mortgage, in addition to the rent that I pay, I save up and buy an additional portion of the house each year and the bank's share and rent are reduced. In this shared equity system I gradually become the owner of the whole house as my share increases and the bank's share and rent decrease.

This would be the ideal Islamic system but in reality, there are currently insufficient funds available to meet the demand for such Islamic mortgages; the repayment on loans for house-buying is necessarily long-term and thus requires huge amounts of capital on the part of the bank in the beginning. In a society based on home ownership, there are therefore real difficulties for Muslims as to whether taking a simple repayment mortgage can be permitted as the only available means of housing one's family. Some Muslim scholars in Britain have given guidance on this question and see it as the only possible means of achieving the higher ethical goal of housing one's family. Typically, such guidance lays down five necessary principles to be considered: it can only be for the principal family residence and not for a second home (only the higher end of housing one's family makes it permissible); the house purchased should be adequate for the family's needs but not luxurious; the term should be for the smallest number of years possible so that one does not fall into the debt-based economy; the loan should be for the smallest necessary amount (interest-free loans from family and friends can reduce the amount needed to be borrowed at interest); and the mortgage must be of the simple repayment type in which there is no element of seeking a further gain, for example, through an end-term endowment.

Riba

The Arabic term *riba* literally means "doubling and re-doubling." In pre-Islamic Arab society, the practice was that a loan would be taken for a year and if the lender could not repay it when it fell due, it would be re-negotiated so that the term would be extended for a further year but then the lender would have to repay double the original loan. If the double-loan could not be repaid at the end of the two year term, the amount would be doubled again and the term extended for a further year. This was *riba* and amounts to economic exploitation. It is easy to see that people could get into un-repayable debt, which would be a form of slavery. In some societies around the world today, children are born into debt-slavery in which they are working to repay loans taken out by their parents or even grandparents.

Riba is a hard term to translate into a direct English equivalent. Some Muslim scholars have seen it as usury or exploitative levels of interest. The majority see it as forbidding all forms of interest, no matter what the rate. This is especially problematic in modern times when developing countries need huge loans in order to develop infrastructure, education and health provision to provide for the needs of their populations, to lift them out of poverty. Such massive loans are only available from financial institutions that operate on an interest-based system. The consequences can be seen around the world where poor countries are in overwhelming debt, in which a major proportion of their national product goes in servicing the debt and thus making rich countries, which provide the initial loans, even richer, often at the expense of the poor. It is this interest-based world economy that is challenged by the principles of Islamic economics.

The same situation can be seen on an individual basis too when developed societies operate on the basis of personal debt. Merely to survive and meet their family running costs, many people come to rely on bank loans, credit cards and pay-day loans, often at exorbitant rates of interest. In this way, the poorest within society work to make rich institutions and the rich investors who own them, even richer. It is this debt-based personal economy that is likewise challenged by Islamic economic principles.

When Muslims live in societies not governed by Islamic economic principles, this makes for some difficult decisions. How can one deal with banks that are based on interest? Can one survive without a bank account? Can one live without a plastic payment card issued by such a bank? This leads to a struggle to live in such an economic system, which is likely to involve compromises. The mere struggle alone is a constant reminder to the Muslim to strive to live as much by God's guidance as is possible in the circumstances. In this way, the economic struggle promotes an awareness of standing before God and being accountable to God. The struggle itself promotes a sense of *taqwa*.

How to save money?

When it comes to saving money the same principles apply. Money must be invested in things that build up society according to God's guidance. Such money must also share in a proportion of risk in order to make a fair profit. In practice, this might be done through ethically-screened unit trusts or bonds, in which money is invested in approved businesses in the expectation of making a profit, even though it is exposed to a share of risk. In this way, Muslims can save for a pension or to pay for their children's education or for any other need.

A reality-check

It is obvious upon reflection that not all Muslims, especially some of the wealthiest in the world today, organise their financial affairs fully according to the economic principles of Islam. If they did so, then the human condition on earth might be very different. This is a matter for which they are accountable ultimately to God.

Purifying one's wealth – *zakat*

Surplus money must be made to circulate to those in need. Human beings are the stewards of what we earn and own. Each year a Sunni Muslim calculates the money that is surplus after they have met the basic living costs of their family. Once it has been calculated, one-fortieth, 2.5% of this surplus wealth no longer belongs to them but must be distributed as *zakat*. These funds are to be used in eight different ways: to assist the poor, to help those in need, to relieve people in impossible debt, to assist the stranded traveller, to free slaves, to assist those who would suffer financial hardship if they converted to Islam, to spread the message of Islam and to pay those who administer the funds.

The Shi'a have a similar system calculated on surplus income, net profit and wealth (plus other specific monies or unused items) after the basic needs of the family and commercial expenses have been met. This is called *khums*, which literally means “one fifth.” *Khums* is thus calculated at the rate of 20% and the funds are to be passed to a Grand Ayatollah (in the name of the Hidden Imam) to be used for the welfare of society. Both Sunni and Shi'a pay *zakat* on the produce of agriculture and gold and silver. Sunni understanding limits *khums* to the spoils of war.

Both *zakat* and *khums* should not be seen as charity, which is a freewill offering, or as a modern tax, as the rates are fixed by divine decree and cannot be increased or decreased by the government, but rather as a device for redistributing wealth from those with more than they require to those in need. The best equivalent is to see these payments as a “legal charge” on surplus assets. Once calculated, they no longer belong to the one who pays but are the right of the recipients. Those who draw on these funds should not be seen as beggars; the funds belong to them and they draw only what they need. Neither should they be seen as “alms to the poor”; the stranded traveller, for example one who has been robbed on their travels and is thus in need of help to buy a ticket to return home, has a right to such assistance. Those who administer the funds have a right to be paid an appropriate salary from them, so that they can discharge their responsibilities to their families and thus have dignity and be relieved of any temptation to help themselves to the funds in an inappropriate way.

Part of the meaning of the word *zakat* is purification. By passing on the portion that no longer rightly belongs to them, the remaining wealth of Muslims is purified so that it can be used according to God's guidance. In addition, Muslims are recommended to perform charitable giving, which has no limits provided that responsibilities have been met. Each individual adult Muslim is responsible for calculating their own *zakat* and *khums*. The scholars are there to help and guide as necessary but it remains the responsibility of the individual to calculate the funds honestly before God, to whom one will be accountable on the Day of Judgement. Again the relationship between the believer and God is direct and the struggle to resist temptation and calculate with care is itself a striving for *taqwa*.

More money than one needs?

The first responsibility for Muslims is to take care of and provide for their families. This does not stop at spouse and children. There is a responsibility towards elderly parents and other members of both partners' extended families. There is a responsibility towards neighbours, those in need and for general welfare. People should make adequate provision for the future needs of their families for housing, health care, education, retirement and so on. What about if there is money left over after all these responsibilities have been met?

Such surplus wealth should not be hoarded: it would be ethically better to make it circulate and put it to good use for the welfare of society. This is the principle of *infaq* (the circulation of wealth). Here the money is given wisely to help others set up

in business or otherwise become economically active so that they can take care of their families and become productive members of society. Such money is given without any return to, or control of, the giver. God will reward the giver as God knows best, either in this life or in the life hereafter.