

# RIBA, USURY AND KEYNES

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**Abstract:** This paper proposes TWO benchmarks to ascertain whether a particular financial transaction is acceptable or not in the context of Islamic finance: the 'shari'ah-compliant' benchmark and the shari'ah-based '*raf' al-haraj*' (the Removal of Hardship) benchmark. As a cardinal objective (*maqasid*) of the shariah, the principle of '*raf' al-haraj*' prohibits 'usurious' trade. Simultaneously, this paper suggests the necessity of having 'a wise government', or at least a strong government, in order to sustain the elimination of *riba* ('usurious' profit)—by means of creating and maintaining the *marginal efficiency of capital* (MEC) à la Keynes at an optimal level. As an alternative to *riba*, the Muslim community has to pursue an economy where a certain level of MEC is created and maintained for investors and investees. At the moment, these points are understated in existing debates on *riba*.

**Keywords:** Islamic finance, Prohibition of *riba*, Marginal efficiency of capital, Exploitation, *Raf' al-haraj*.

## Introduction

John Maynard Keynes's ideas on usury laws can be found in Chapter 23 of his book *The General Theory of Employment, Interest and Money*. Interestingly, yet not so surprisingly, his view on the matter is quite Islamic in the sense that it is compatible with the morality shared among the Abrahamic traditions. Keynes wrote:

There remains an allied, but distinct, matter where for centuries, indeed for several millenniums, enlightened opinion held for certain and obvious a doctrine which the classical school has repudiated as childish, but which deserves rehabilitation and honour. I mean the doctrine that the rate of interest is not self-adjusting at a level best suited to the social advantage but constantly tends to rise too high, so that a wise government is concerned to curb it by statute and custom and even by invoking the sanctions of the moral law.<sup>1</sup>

Provisions against usury are amongst the most ancient economic practices of which we have record. The destruction of the inducement

to invest by an excessive liquidity-preference was the outstanding evil, the prime impediment to the growth of wealth, in the ancient and medieval worlds. And naturally so, since certain of the risks and hazards of economic life diminish the marginal efficiency of capital whilst others serve to increase the preference for liquidity. In a world, therefore, which no one reckoned to be safe, it was almost inevitable that the rate of interest, unless it was curbed by every instrument at the disposal of society, would rise too high to permit of an adequate inducement to invest.<sup>2</sup>

I was brought up to believe that the attitude of the Medieval Church to the rate of interest was inherently absurd, and that the subtle discussions aimed at distinguishing the return on money-loans from the return to active investment were merely Jesuitical attempts to find a practical escape from a foolish theory. But I now read these discussions as an honest intellectual effort to keep separate what the classical theory has inextricably confused together, namely, the rate of interest and the marginal efficiency of capital. For it now seems clear that the disquisitions of the schoolmen were directed towards the elucidation of a formula which should allow the scheduled of the marginal efficiency of capital to be high, whilst using rule and custom and the moral law to keep down the rate of interest.<sup>3</sup>

Because of excessive concentration on the *murabaha* mode of finance, Islamic banking and finance has received enormous criticisms. Many scholars have concluded that Islamic banks are not much different from conventional banks. Ariff and Rosly argue that most Islamic banking products and services mimic those of conventional banks and operate with interest, albeit in a disguised form.<sup>4</sup> Kuran notes that although Islamic banks claim to be interest-free in their operation, the deposit-taking and lending operations of these banks tend to be based on interest, a fact Islamic banks disguise through the use of terms like ‘mark-up’ and ‘commission’ to designate what is tantamount to pure interest.<sup>5</sup> Rosly and Bakar are also critical of the contemporary practices of Islamic banks. They judge Islamic banking through the lens of morality and argue that major Islamic banking products resemble interest-based financing and thus can be regarded as immoral.<sup>6</sup> Similarly, El-Gamal regards the existing practices of Islamic banks as “shariah arbitrage” because, for him, conventional lending practices are replicated in Islamically acceptable ways in the balance sheets of Islamic financial institutions.<sup>7</sup>

Although some of these criticisms are ill-founded or misdirected, a universally endorsed proposition for the Islamic banking and finance system is that debt-based instruments, despite gaining approval from shariah scholars, should be kept to a minimum.<sup>8</sup> However, I feel it is difficult to simply adopt the Islamic ‘perfectionist’ economists perspective concerning *murabaha*. Basically, I would support the perspective of Islamic ‘realist’ economists, such as Daud Bakar, who warns against those Islamic economists who advocate for ‘wealth distribution’ while forgetting a much more important element, that is ‘wealth creation’.<sup>9</sup> This paper aims to draw from the above notes by Keynes and apply them in the context of Islamic finance, thus proposing a new angle to the debate between ‘perfectionists’ and ‘realists’ over the controversial issue of prioritising either shariah-based or shariah-compliance in Islamic banking and finance.

“Allah has imposed no hardship (*haraj*) upon you in religion” (22:78)

One of the salient features of Islamic finance that distinguishes it from the conventional financial model is that the former complies, in objectives and operations, with shariah (Islamic law). Prohibition of *riba* (interest) is one of the major prohibitions in shariah. The Qur’an (2: 275-6) clearly states that dealing with *riba*—profit on loans—is ‘sinful’. However, it is difficult to point to any single Qur’anic text that specifically explains the reason behind its prohibition, perhaps because the rationales are more implicit. Nevertheless, several Islamic scholars (for instance, Siddiqi) after analysing the context of various Qur’anic verses, summarise five broad reasons: (1) interest corrupts society, (2) interest implies improper appropriations of other’s property, (3) interest slows down the growth of real sectors, (4) interest demeans and diminishes human personality and (5) interest is simply unjust.<sup>10</sup> Because the Qur’an does not provide a specific reason for prohibiting interest or *riba*, the only rationale that can be derived from the Qur’an are verses related to ‘exploitation’ or ‘injustice’.<sup>11</sup> For instance, the Qur’an states: “deal not unjustly (by asking more than your principal) and you shall not be dealt with unjustly” (2: 279).

In general, profit on sales has no ceiling and may be determined by market competition or technology. If we assume that *murabaha* is trade, the associated profit should also have no limit. However, in conventional finance, ‘usury’ is prohibited. Here, usury is defined as a rate of interest greater than that which the law or public opinion permits.<sup>12</sup> For instance, in Japan, the law prohibits money lenders from forming any contract with an annual interest exceeding 20 per cent. Any lender who breaches the law is subject to imprisonment with labour for not more than five years, a fine of not more than 10 million yen, or both. This

leads us to ask the question: in what framework the Islamic lender can also be prohibited to charge a profit margin greater than that which is equivalent to the ‘usury’ referred to in conventional finance? This question remains understated among academicians as well as practitioners in Islamic finance.

This article proposes TWO benchmarks to ascertain whether a particular financial transaction is acceptable or not in the context of Islamic finance—the ‘shariah-compliant’ benchmark and the ‘shariah-based’ *raf’ al-haraj* (the Removal of Hardship) benchmark. The former benchmark is focused on ensuring that a transaction brings ‘profits on sales’, NOT ‘profits on loans’. The latter benchmark is focused on ensuring that a transaction does not engage in exploitation. Most Islamic scholars may wish to believe that the two benchmarks are interchangeable, in the sense that being shariah-compliant would bring the desired outcome of social justice. However, as previously shown, even in the shariah-compliant *murabaha* transaction, the lender is still able to impose an extraordinary high mark-up, resulting in unnecessary hardship to the borrower. In passing, we should note that the role of ‘a wise government’ (or, at least, a strong government) is intrinsically necessary to curb such extraordinary high mark-ups.

## Instrumental Rationality and Procedural Rationality

This section is related to the debate between ‘instrumental rationality’ and ‘procedural rationality’ in social philosophy. Our economic activities are subject to our bounded rationality because we are not an absolute being bestowed with omniscience and omnipotence, but human beings with limited computational-capacity brains. In order to get closer to the Truth, it is quite rational for Muslims to give their best effort in exercising *ijtihad* to understand and incarnate the logic and rationales implicit in the Qur’anic text. This exercise of *ijtihad* can be considered as being ‘instrumentally’ rational to get closer to the Truth. On the other hand, our behavioural pattern aims to be instrumentally rational at the beginning, but, as more complex factors are encountered, the pattern would quite often become limitedly instrumental, and eventually become ‘procedurally’ rational at best.

According to Weales,<sup>13</sup> *homo sociologicus* is introduced in the process of investigating how the freedom of manoeuvre might be bounded by the preference of others. In particular, this introduces constraints on human action through norms. The associated sociological concept of a role shows how *homo sociologicus* is educated from childhood to adulthood, thereby encoding norms and conformity into roles that become immediate motives of behaviour. Norms

make the calculation tasks easier, but actions based on prevalent social norms will typically be difficult to justify in terms of instrumental rationality. If all individuals reason in a role- or rule-bounded way, their collective action may fail to achieve and maximise individual and collective benefit.

Instrumental rationality can be matched with *maqasid al-shariah*. Islamic banks must not only follow shariah principles as a legal system of pragmatism and convenience, but they should uphold the guiding spirit of *maqasid al-shariah* as well. From an Islamic economic perspective, *maqasid* can be observed in two dimensions: the shariah (law), and the objective of *mukallaf* (religiously responsible or accountable). Obviously, most Islamic banks comply with the shariah. However, they should also reflect on the spirit of shariah in their implementations by striving to achieve justice, equity and fairness. Dusuki and Abozaid state, “the values which prevail within the ambit of the shariah, are expressed not only in the details of its transactions but also in the breadth of its role in realizing the *maqasid al-shariah*.”<sup>14</sup>

It is important to understand the real reasons and logic behind the prohibition of *riba* in the Qur’anic text. Merely trying to gain shariah-compliance without seeking its rationale can be construed as procedural rationality. The shariah-compliant benchmark is a necessary condition, but not always a sufficient condition. Financial transactions in Islamic finance should be monitored not only on their shariah-compliance but also on their shariah-based benchmark. Unlike conventional banks, the maxim of profit-maximisation alone is incompatible with *maqasid al-shariah* and should be accompanied by mechanisms that ensure justice and fairness at all levels of human interaction.<sup>15</sup> In this sense, Islamic banks must not exploit their customers *ex-ante* nor *ex-post*. It is, however, difficult to provide rigorous empirical evidence on the compliance of *maqasid al-shariah* because the literature is very scarce on the issue.

“Allah has imposed no hardship (*haraj*) upon you in religion” (22:78)

“Allah does not burden a soul beyond its capacity” (2:286)

“Allah desires not to inflict any hardship upon you” (5:6)

This article proposes to identify *taysir* (ease) and *raf’ al-haraj* (the Removal of Hardship) as objectives (*maqasid*) rather than rules for a specific application. It can be argued that making things easier for people and removing unnecessary hardship from them are among the cardinal objectives of the shariah, and these principles tend, in many ways, to characterise Islam itself. “This is because each is inherently dynamic and comprehensive and tends to involve a process capable

of continuous application and refinement. In this sense, the two principles are as relevant to the conditions of society today as they were in the early days of Islam.”<sup>16</sup>

### Prohibition of *Riba* from the Post-Keynesian Perspective

According to Keynes, the *marginal efficiency of capital* (MEC) as the major inducement to invest depends on prospective yield and replacement cost (Chapter 11 of *The General Theory*). However, in the pure mode of Islamic finance, the investor’s (fund provider’s) inducement to invest depends on the investee’s (fund user’s) MEC. In other words, the prospective yield calculated by the investee is (or should be) reflected in the prospective yield by the investor upon the mode of PLS. If the MEC stays at a low level and does not sufficiently attract investees or investors, no inducement to invest would occur in the society, consequently causing the economy to stagnate with a higher rate of unemployment. A *laissez-faire* market does not necessarily guarantee a higher prospective yield for investors and investees. Quite often, the government is expected to intervene in the market and stimulate the stagnant economy to raise the MEC by creating effective demand.

In order to realise the prohibition of *riba* in its true meaning, the Muslim community has to seek an economy where a certain level of MEC is created and maintained for investors and investees. In my view, mainstream Islamic economists often understate the role of government as a powerful institution to stimulate a stagnant economy and thereby realise the pure mode of Islamic finance upon the PLS, where a certain level of MEC would be created for fund providers. This is also considered a pre-condition for realising the prohibition of *riba*.

It appears that mainstream Islamic economists are more concerned about ‘social justice’ in terms of ‘wealth distribution’. However, it is obvious that society needs to first create wealth (‘wealth creation’) before distributing it. To create wealth, to borrow a term from Keynes, society needs to increase ‘effective demand’. To facilitate the principles of Islamic finance, including in PLS, and the prohibition of *riba* and *gharar*, Muslim society must get back to the issue of how to increase effective demand.

Shariah-compliance is a necessary condition for Islamic finance. However, if such compliance results in a stagnant economy, it would not be a sufficient condition for Islamic finance. Islamic scholars should be more concerned about under what conditions Islamic principles can create enough effective demand to uphold social justice, as taught by the shariah. The role of government, which

can stimulate, in particular, I (Investment), G (Governmental Expenditure) and X (Export), should be discussed more in the context of facilitating the Islamic mode of PLS.

According to Keynes, the scale of investment is promoted by a low rate of interest (as well as the schedule of MEC), provided that we do not attempt to stimulate it beyond the point which corresponds to full employment. “It is to our best advantage to reduce the rate of interest to that point relatively to the schedule of the marginal efficiency of capital at which there is full employment”. In the Islamic context, this phrase can be interpreted as “it is to Islamic finance’s best advantage to reduce the rate of ‘profit’ to that point relatively to the schedule of MEC at which there is full employment”. One of the important implications here is that an inducement to invest (the creation of effective demand through Investment or Governmental Expenditure or Export) that is enough to achieve full employment in a society might be a pre-condition for realising the Islamic mode of PLS (and accordingly realising the prohibition of *riba*). However, it is not so easy for developing countries to meet such pre-conditions.

There exists a dilemma for Islamic finance, particularly in a developing country. It is ironic that in a country like the US, the PLS mode, based on equity and equity-like capital market, would be more feasible since a large and diversified base of investors already exists who are willing to absorb various types of risk and uncertainty. Meanwhile, for developing countries, wealth creation and capital accumulation through governmental initiatives towards full employment—which would incubate a large and diversified base of investors—would be key to developing a ‘pure’ mode of Islamic finance. In my view, the Muslim community may need to live with and accept the ‘transitional’ mode of Islamic finance which would be more concerned with wealth creation and capital accumulation. To reach the ‘pure’ mode, it might be necessary to develop the ‘transitional’ mode. However, it appears that many Islamic economists and some schools of Islamic law are always concerned about the pure mode. This might be another dilemma in developing Islamic finance.

## Usury in Muslim Countries

Conventional financial institutions prohibit usury. Usury is referred to as a rate of interest greater than that which the law or public opinion permits. As was mentioned earlier, in Japan, the law prohibits lenders operating as a business unit to form any contract to receive an annual interest exceeding 20 per cent. In theory, so far as there is a free and fair competitive market between Islamic and conventional financiers, any Islamic lender would not charge a profit margin

in the *murabaha* transaction greater than that which is equivalent to usury as defined in conventional finance. This is because any higher profit margin would not attract clients to enter into its *murabaha* contract. In other words, the prohibition of usury within conventional financial institutions would be influential, at least ‘indirectly’, amongst Islamic financiers, preventing them from exploiting their clients. For instance, in Bangladesh (which is a Muslim country), ‘usurious’ loans are regulated by giving Courts additional powers to deal with them (The Usurious Loans Act, 1918 (Act no. X of 1918) in Bangladesh).

In Muslim countries, the term ‘usury’ is empirically used as a completely unacceptable or illegal transaction. For instance, Indonesian regulation defines ‘businesses based on shariah principles’ as businesses that do not contain, including but not limited to, the element of: *usury*, *maisir*, *gharar*, *haram* and *zalim* (Article 2, Elucidation to the Act of the Republic of Indonesia Number 21 of 2008 concerning Shariah [Islamic] banking). Here, ‘usury’ is defined as “illegally obtain[ing] additional income (*batil*) through, among others, the exchange transaction of similar types of goods but of different quality, quantity, and delivery time (*fadhil*), or in lending transaction requiring the Facility Receiving Customer to repay the fund received exceeding the principal due to the passing of time (*nasi’ah*)”.

Since the above regulation in Indonesia does not refer to ‘*riba*’, the demarcation between *riba* and usury appears vague. However, it is apparent that the term ‘usury’ here refers to *batil*, *fadhil* and *nasi’ah*, and is understood as an unacceptable and illegal transaction rooted in ‘opportunism’. In general, opportunism, in terms of pursuing self-interest with guile, involves subtle forms of deceit and refers to the incomplete or distorted disclosure of information, especially in a calculated effort to mislead, distort, disguise, obfuscate, or otherwise confuse.<sup>18</sup> In addition to profit on loans, usury upon opportunistic behaviours is also prohibited in Islamic banking in Indonesia.

From another perspective, we wonder if there might be a ‘grey zone’ where usury, without or with less opportunistic elements, would be acceptable as a customary practice or a necessary evil. However, the regulatory definition of usury is unclear, making it difficult to determine whether the Islamic lender is prohibited from charging a profit margin in a shariah-compliant *murabaha* transaction greater than that which is equivalent to usury in conventional finance.

Figure 1 shows the category of ‘grey-zones’ in Islamic banking on the different combinations between the shariah-compliant benchmark and shariah-based *raf’ al-haraj* benchmark. The net social benefit would be the highest in quadrant

I, where Islamic financiers are highly contributing to the removal of hardship among borrowers while attaining shariah-compliance. In quadrant II, Islamic financiers are complying with the shariah, but contributing less to the removal of hardship among borrowers. From the perspective of Islamic ‘perfectionist’ economists who respect the pure mode of PLS, the so-called ‘*murabaha* syndrome’ could be considered to fall into this quadrant. Nevertheless, as mentioned earlier, I support the Islamic ‘realist’ view. I therefore categorise the shariah-compliant *murabaha*, if it is still contributing to the removal of hardship amongst borrowers though the function of wealth creation, as a contract in quadrant I.

	Less contributing to <i>raf'al-haraj</i>	shariah based contributing to <i>raf'al-haraj</i>
	←————→	
shariah-compliant	(II) shariah-compliant but contributing less to the removal of hardship	(I) shariah-compliant and contributing to improving social justice
↑ Controversial on compliance (or non-compliance)	(III) Controversial on compliance and contributing less to the removal of hardship	(IV) Controversial on compliance but contributing to the removal of hardship

Figure 1: Category of Gray-Zones in Islamic Finance

Here, quadrant II suggests a grey zone. If the profit margin charged by Islamic financiers in a shariah-compliant transaction is greater than that which is equivalent to the usury referred to in conventional finance, the transaction will be considered as a ‘usurious trade’ that exploits the borrowers. Meanwhile, charging a high but socially permissible profit margin, (or less usurious trade) may also create a grey zone in the quadrant of contributing less to the removal of hardship for borrowers. Then comes quadrant III (the worst zone), in which contracts are non-shariah compliant or controversial in terms of compliance, while also contributing less to the removal of hardship for borrowers. Transactions in this quadrant—most likely underpinned by ‘opportunism’—are difficult to justify, and can be considered a ‘black’ zone.

Figure 1 also suggests another grey zone in Islamic finance. In quadrant IV, the transactions or contracts are controversial in terms of their shariah-compliance, but they do contribute to the removal of hardship for borrowers

through the function of wealth creation. We may recall the issue of *tawarruq*, which is prohibited in Indonesia, where most scholars consider it to be non-shariah compliant. We can therefore say that the grey zone quadrant IV will be narrower in Indonesia's Islamic banking system, thereby partly undermining the profit base of its Islamic banks. In other words, the grey zone quadrant IV in Malaysia can be considered to be wider, which creates and maintains a more level-playing field between conventional and Islamic banks.

Should the above mentioned 'grey zone' in quadrant IV be allowed to enable Islamic banks to charge a higher margin as long as public opinion permits? Such allowance may be related to the profitability of Islamic banks. This view may provide us with a bold hypothesis when explaining the market penetration levels by Islamic banks in Indonesia and Malaysia. Indonesia is the most populous Muslim country in the world. In 2017, the total population of Indonesia was estimated at 263.9 million people, the Muslim proportion of which was about 87.2 per cent. Indonesia is expected to become a magnet for the development of Islamic banking and financial markets. However, Indonesia's Islamic banks occupy a very marginal market share—no more than 6 per cent of the national banking industry. Compared to Islamic banking penetration in Malaysia, Indonesia is extraordinarily low (see table 1).

Pramono and Suzuki hypothesise that Indonesia's Islamic banks are not given adequate incentives (including financial sector rent opportunities)<sup>19</sup> for contributing to Islamic financial deepening.<sup>20</sup> Due mainly to severe competition with conventional banks (also among Islamic banks), Indonesian Islamic banks cannot earn sufficient profits for maintaining their franchise value and reputation. Suzuki *et.al.* (2017) compared the situation of Islamic bank rent opportunities in the banking sector of Indonesia and Malaysia. In order to compare the performance of the Islamic banks and the conventional banking sector as a whole, the Return On Assets (ROA) of Indonesia and Malaysia during the period 2007 to 2012 is used. The ROA of the Islamic banking sector in Malaysia was almost the same as that of the conventional banking sector. In contrast, the ROA of the Islamic banking sector in Indonesia was consistently lower than that of the conventional banking sector during the full period (table 1). It was implied that the Indonesian banking regulator(s) failed to incubate Islamic banks by giving them learning rent opportunities and thereby failed to properly setup a 'level-playing field' between the conventional and Islamic banks in an appropriate timeframe, while the Malaysian regulators did so successfully<sup>21</sup>—though the rationale behind the protective framework for Malaysian Islamic banks should entail further clarification.

Countries	Resident Muslim Population (million)	Muslim Percentage in Population (%)	Islamic Bank Market Share (%)	Average ROA (%) of Islamic banks	Average ROA (%) of overall banking sector
Indonesia	218.7	88	4.8*	1.76	2.78
Malaysia	18.0	60	21.9	1.22	1.48

Table 1: Comparison of Muslim population, Muslim percentage, Islamic Bank Market Share, Average ROA of Islamic banks and Average ROA in overall banking sector in Indonesia and Malaysia

\*According to Otoritas Jasa Keuangan (OJK), the market share of Shariah banking in Indonesia reached 5.94% as of March 2019.

Another hypothesis is that the ‘grey zone’ provided for Indonesian Islamic banks is not as wide as for Islamic banks in Malaysia. For instance, while the contract of *tawarruq* (reverse *murabaha*) is allowed in Malaysia, it is not in Indonesia. In this contract, the buyer buys an asset from a seller (usually from a bank) at a cost-plus basis on a deferred payment system. The buyer then sells the same asset to a third party (the bank, which usually manages the sale) on a cash basis. The buyer basically borrows cash from the second transaction, and the buyer pays the original seller the instalment or lump sum payment he owes. This sort of transaction is controversial because the intention of the commodity purchases is not for the buyer’s use or ownership.<sup>22</sup>

## Can ‘Usurious Trade’ be Prohibited? - Concluding Comments

Apparently, the more problematic ‘grey zone’ is quadrant II. Particularly in the Marxian tradition of viewing economic activities through the lens of ‘class struggle’, lending money at interest without any means of sharing the risk between lender and borrower creates a relationship where weak and vulnerable individuals can be easily exploited by more powerful ones. In theory, if the negotiation and contracting between lender and borrower are monitored by society (or the community, *ummah*), the opportunity for exploitation would be less.

By differentiating trade from usury, the Qur’an reaffirms the practice of trading as a respectable profession.<sup>23</sup> Nevertheless, due to asymmetric information, fraud, and distrust between counterparties, exploitation remains a possibility. Potential ‘usurious’ trades should be prohibited in the context of *raf’ al-haraj* (the Removal of Hardship), which is a cardinal objective (*maqasid*) of the shariah. As Hazak and Hassanian pointed out, the democratisation of formal financial services is indeed crucial for the economic empowerment of the

Muslim *ummah* and the general public.<sup>24</sup> If usurious trade is to be prohibited, the usurious pricing of *murabaha* contracts by Islamic financiers should be prohibited too. The principle of prohibiting *riba* should be argued not only from the perspective of shariah-compliance but also from the benchmark of *raf' al-haraj*, which in this context means prohibiting 'exploitation' for the purpose of benefiting the general public and realising social justice.

At the same time, we should not overlook that a certain amount of 'grey-zone' might be necessary to incubate Islamic financiers who would contribute to the community by mediating financial resources. Simultaneously, we should note that an inducement to invest (the creation of effective demand through Investment or Governmental Expenditure or Export) that is sufficient to achieve full employment in society might be a pre-condition for realising the Islamic mode of PLS, which will accordingly realise the prohibition of *riba*, including the prohibition of usurious profit.

What we can draw from Keynes is that the Muslim community should note that the role of 'a wise government' (or, at least, a strong government) is intrinsically necessary to realise the prohibition of *riba* (including the prohibition of 'usurious' profit) by means of creating and maintaining the *Marginal Efficiency of Capital* (MEC), ideally at an optimal level. What I wish to emphasise here is that mainstream Islamic economists are less concerned about the 'means' or 'ways' of realising the prohibition of *riba* in its true meaning. The prohibition of *riba* should not be sought in a merely procedural way, but should be sought in an instrumentally rational way. An adequate level of profit rate for investors should also be sought.

This article concludes with the following:

- First, we should note that the *laissez-faire* market, which relies heavily upon self-enforced morals and ethics, will not realise a prohibition of *riba* in its true meaning.
- Second, we should note that creating and maintaining the MEC at a certain level is quite important to realise a prohibition of *riba*.
- Third, and most importantly, Islamic banking and finance regulators should be aware of these points.

## Notes

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