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A COMPLEMENTARY SET FOR GROWTH: INTEREST FREE MARKET AND PHILANTHROPY

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ABSTRACT

This theoretical research highlights the effects of interest and realizes the Interest-free market and philanthropy as a solution to its adverse impact on the economy and society. Interest is always well-thought-out as a vice in all the earliest and existing religions. Authors try to explain that in spite of the adversarial effects of interest, its role is significant in the business transaction in the global world. The study concludes that interest is immoral and unrealistic, and Islam has given the solution in the form of joint ventures, and its investment modes are Mudharabah or Musharakah. In this way, the welfare of an individual and the social welfare of society can be achieved.

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INTRODUCTION

Interest is an ancient institution and every society is well-known about its impacts on the economy. Even it persists from ages to ages but it is not appreciated by any religion. All of the religious institutions and their different sects do not consider it is a virtuous one. It is always considered as a vice in all the ancient and current religions like Hinduism, Buddhism, Judaism, Christianity and Islam. It is very interesting to note that even in the Greek philosophy this is not accepted as a moral institution, for example Aristotle (1885) considered it as a vice. Ancient, medieval and current literature discussed a lot about Interest and its impact on a society as well as on economy. It is worthwhile to note that despite of its adverse and harmful impact on the economy and society still it is playing its very important role in the business transaction all over the world and have a significant room in the development projects of most the countries. International organizations like World Bank and International Monetary Funds are unable to run their activities without giving a proper space to the Interest.

It is also a well-known phenomenon that religious institutions as well as the philosopher of that time are always emphasizing and warning their followers about the destructive and immoral impacts of this institution. Due to Interest, world has seen a number of times the vicious cycles of business, for example in the third decade of nineteenth century and also in the first decade of twentieth century. In both of these periods, it has been realized the damaging effects of the Interest on the whole world. Even after this realization, it is not possible to rid it off because of the current structure of the financial market. Through this instrument the rich segments of the economies

are becoming richer and poor segment is becoming poorest. In resultant rich people are acquiring more economic and political power in the world. Consequently, through this instrument they are not only exploiting the individuals but they are also able to exploit the poor countries. Most of the conventional economists are in the favor of this institutions and they are suggesting that it is better to leave its mechanism on the market. If there is a demand for this variable then it should be persist in the market. For example, Hayek (1967) supporting the free market and arguing that free market is offering the environment of equity and also optimally distribute the income among the different segments of the economy. However it is not supported by a number of other social scientists. For example, on the other hand, Polanyi (2001) is negating the arguments of Hayek (1967) and not advocating the idea of free market. He is arguing that state should intervene in the market mechanism and regulate the civil society as it is desired and required by the civil society. Professor Minsky (1993) predicted in eighties that most of the economies would certainly observe the financial crises because of the persistent of heavy debt and Interest in the whole world. When he presented his hypothesis then at that time most of the experts and policy makers did not accept his analysis even most of the academicians did not believe on it. However when it became the reality of the time in the different parts of the world then they realized it and then it was named as Minsky moments (Prychitko, 2009).

Keeping the above discussion in view, the structure of the current paper will be as: After introduction, section I will discuss about the epistemology of Interest in the above

mentioned religions and will also discuss its legal position. Section II will discuss that how in Islamic sense the usury and Interest are not analogous to each other. This section will be based on two injunctions which are mentioned in the chapter *Al Baqrah* of *Qur'an*. i.e. trade is permitted while Interest is abolished and "Allah destroys interest and gives increase for charities". The charity is the cause of growth whereas Interest destroys the whole economy. This section will also discuss the free market, the structure of Islamic moral market, philanthropy and how without Interest, the capital other than financial and physical capital will be generated. Then at the end conclusion will be presented.

Epistemology of Interest and Its Legal Position

Interest is always condemned in each and every faith. Most of the religions spelled out the difference between the Interest and usury. It is always considered as immoral or amoral and non-productive. In this section an effort will be made to present the survey related to the Interest described by the different faiths and philosophies.

Ancient and Medieval Religious Thoughts

Ancient Indian religious manuscripts gave us an idea about the old banking system which was based on Interest. In all the religious books of Hindus and Buddhists warned about the Interest. However later on Interest and usury were defined separately and it was allowed to receive Interest but still usury was not permitted (Jain, 1929; Visser and McIntosh, 1988). Brook (2007) described as: "Sometime around 1220, a new term was coined to replace certain forms of usury: the concept of Interest¹. Under circumstances where usury was legal, it would now be called the collecting of Interest. In cases where the practice was illegal, it would continue to be called usury." And "Interest was, in a sense, 'damages,' not profit. Therefore Interest was sometimes allowed, but usury never" (p.11). He further added as: "Lending at 'interest' came to designate lower-premium, lower-risk, less-greedy lending, while 'usury' came to mean specifically higher-premium, higher-risk, more-greedy lending" (p.21).

The ancient Western philosophers like Plato, Aristotle and many others showed their concern with the Interest and considered moneylending on Interest is a vice for the society as well as for the economy, violation of the God's law, unjust, exploitative, selfish, unethical and immoral. According to Aristotle interest is "unnatural and unjust". He believed that money cannot create money because it is unproductive. In his opinion, money can be used as a medium of exchange but not for the Interest because it is non-productive and cannot produce any additional value. In his philosophy it is "unnatural and unjust". Aristotle could not able to understand about the productive role of money or money lenders. In his understanding usury is not giving anything but opposite is there, i.e. moneylender is taking instead of giving anything to the society. So in his opinion this practice is unnatural as well as unjust. It means "immoral and impractical". According to

Brook (2007), "there is no dichotomy between the economically practical and the morally permissible". Another Greek philosopher Plutarch (1874) said that moneylender who is receiving the usury is despicable, brutal, cruel and vicious. In the ancient Roman literature also usurers are considered as equal to murder and hatred one.

In Judaism taking Interest is also discouraged, forbidden, and disliked by the religious scriptures. In Hebrew, the word "neshekh" is used for Interest which means "bite". However, it is only allowed in the business dealings with the foreigners but it is prohibited when Jews are dealing with their brothers, i.e. God did not permit usury among the brothers (Jews) however it is allowed to take Interest when the transactions are not taking place among the Jews (Visser and McIntosh, 1998).

The basic source of knowledge for the Christians is Bible and Bible clearly mentioned that Interest is illegal phenomenon even if the lending is for the survival of the borrowers. During the medieval ages every type of usury was prohibited. Even according to some orthodox Christian teachings even profit is not permitted particularly from money it is strictly prohibited (Tucker, 2011; Olechnowicz, 2011). Brook (2007) expressed that in the religion of Christianity "profit is evil" and if it is through moneylending then degree of vice more severe. According to Brook (2007) the morality of this religion is based on the altruism, selflessness, helping the poor and weak segment of the society. Christianity dislikes the selfish behavior, exploitive and unproductive activities. Brook (2007), Tucker (2011), Olechnowicz (2011), Visser and McIntosh (1998) and many others have discussed the banning of Interest during the 11th, 12th and 13th century, it was considered as theft, church denounced it and there was punishment for the moneylender if he is demanding the usury from the borrowers. However Jews were allowed to practice usury. Brook (2007) describe as : "Thus, European Jews, who had been barred from most professions and from ownership of land, found moneylending to be a profitable, albeit hazardous, profession" (p.6). Christians borrowed the money from Jews and Jews were making money through money lending which created the conflict and violence in between the Jews and Christians. Partick (2004) describes that the rivalry in between Jews and Christians during the medieval age was due to the lending of money. A number of Jews were killed because of most of the Jews were money lenders and Christians were debtors. And there was a great opportunity for the debtors to destroy the records through violence. As Brook (2007) reported that because of the profession of Jews as money lenders King Edward expelled them from England at the end of 13th century. According to the religious teachings of Jews, they can charge the Interest from their enemies because Interest makes the borrowers weak so it is good to weak the enemies through the process of money lending (Homer 1963). In most of the religions, usurers were considered as the symbol of vices. It was clearly mentioned in their religious books that the money which moneylenders were earning is the woods for the hell. It was the firm believed that devil created the usurers.

¹ "The term "usury" is now almost universally taken to mean "excessive" or illegal premium on loans, while the term

"interest" designates tolerable or legal premium" (Brook 2007 p.21)

During the 13th century trade of Europe was expanding and the traders needed more capital. Money lenders were providing the funds to the traders. Exchange of currencies opened the new doors for the usury which was disguised. Intellectuals and scholars of that time were trying to find the ways for the permission of usury. And they were trying to find the answers of the different questions about the productivity of the money, about the productiveness of the Interest, and so on. However, according to Church, until the 16th century, usury was immoral and unproductive (Le Goff, 1988).

Economic Rationale

Industrial revolution and economic growth of the Western world changed the whole scenario of the business world. More trade, more demand for capital, innovations, technological change created the more demand for funds and then moneylenders supported the whole industrial products. These all changed the dimensions of the financial activities. The Church relaxed its opinion about the usury and now the church tried to convey the message to the masses that Interest is permitted whereas still usury is not allowed. Graafland (2010) mentioned the opinion of famous Christian scholars Calvin, according to Calvin if the motive of moneylenders is to help the poor and weak segment of the society then usury is blessing but if motive is to exploit this segment then it is vice. In the 17th century the divorce of economics from ethics was developed and Bacon (1892) argued that moneylending is an important ingredient for the growth of economies and commercialism. Salmasius a famous French scholar refuted the concept of barrenness of money and usury. He emphasized that there must be more usurers because in this way the rate will go down (Bohm-Baverk, 1890). Turgot proposed the relationship in between property right and usury. He also observed the present and future value of money (Gordon 2011). Bentham (1787) narrated that restriction on usury is closing the doors of innovation. According to Brook (2007) this was the first step towards the defense of usury. However Bentham correlated it with the social utility. Adam Smith was also in the favor of usury but in his opinion there should be intervention from the government and government should regulate it otherwise the high rate of usury will badly effect the growth of the whole economy. Later on classical and institutional economists developed their theories related to the productivity of Interest and determination of Interest in the free market. However Karl Marx considered that Interest is the major evil and money lenders are corrupt, Interest is non-productive and immoral. Even Keynes (1963) expressed Interest as an evil but necessary. He was agreed with Marx that it creates the hatred among the lenders and borrowers, and also agreed with Adam Smith that there should be some regulation for determining the interest rate. He added that society would suffer if government is unable to regulate it. However, either that was the depression of 30s or financial chaos of 2007, the blameworthy are moneylenders, usury and the huge amount of debt. Professor Minsky extensively wrote about the abnormal growth of debt and Interest. He warned that this growth will lead to the instability and uncertainty in the economies, claimed that this excessive growth of credit will be the cause of the collapse of the economies and world

will observe the depression which will be more severe than the depression of thirties. The term "Minsky moments" which was after his name became a popular term in the literature of finance and in the financial news media. He also mentioned in detail about the different roles of the financial investors as hedger, speculator and Ponzi. Minsky was not in the favor of the abnormal growth of the banking sector and which was later on realized by the world in the financial chaos of 2008. Moreover with the efforts of Allen Green, Larry Summer Robert and the gurus of banking sector the US government abolished the Glass-Steagall Act. In resultant the financial world observed an abnormal growth and ultimately ended up with the financial crises of 2008.

It is concluded from the above discussion based on the conventional literature that due to usury the environment of selfishness is created which leads to social injustice, economic instability, ecological destruction and intergenerational inequity.

The Usury and Interest are not Analogous to Each Other

It is believed that in the Islamic system usury is immoral, unethical, impractical and unproductive. *Qur'an* and sayings of Prophet Muhammad (SAW) condemned usury and strictly announced that usury is not allowed in the business transactions and trade. The *Qur'an*, similar to the other Abrahamic teaching guides its followers against the usury. There is a consensus among the Muslim scholars that every excess is usury. There is no distinction in between usury or Interest. In *Qur'an* it is mentioned as *Riba*, i.e. lending the money with excess. Islam strictly says that money cannot create money.

In Chapter Al Imran Allah (SWT) ordered as: "O you who believe! Eat no Riba (usury)" (Al Imran 3:130). *Qur'an* teaches to its followers that Allah (SWT) permits trade whereas forbids usury. In an authentic narration by Abu Huraira, the Prophet said: "Avoid the seven great destructive sins... to eat up Riba (usury)." (Sahih Al-Bukhari 2766).

Islam guides his followers that one can earn profit which is uncertain whereas fixation of profit before the business venture is not permissible. Islam considers usury as the exploitation of poor, it leads to the environment of injustice, exploitation, selfishness and greediness. The main objective of Islamic system is to maintain the social justice and promote the distributive equity. However, it is not possible to achieve these targets in the environment of selfishness. It does not mean that Islam is not considering capital as a factor of production. Islam gives due importance to capital and considers it as a very important and significant factor of production. Interest is not permissible but joint ventures are appreciated, where both labor and capital are sharing the profit. The owner of capital is sharing both loss and profit, however, return on capital is not pre-determined. There are different modes of investment which are permitted by the Islamic jurisprudence (*Shari'ah*), *Mudharabah*, *Musharakah*, *Istisna*, *Salam* and others. However, risk is involved in the Islamic financial and business transactions.

Islam also promotes charity. *Qur'an* says "Allah destroys interest and gives increase for charities" (2:276) and also in *Qur'an* mentioned as:

“Those who consume Interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, “Trade is [just] like interest.” But Allah has permitted trade and has forbidden Interest. So whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to [dealing in Interest or usury] - those are the companions of the Fire; they will abide eternally therein” (2:275).

In the current Islamic Financial System one can see two categories of the business contracts, one is based on *Musharakah* and *Mudharabah* which is known as “uncertain contracts” whereas on the other hand contracts based on the instruments of *Ijarah*, *Murabaha*, *Salam* and *Istisna* based on the “certain contracts”. However these contracts are asset based or asset backed. However these are not based on the financial papers as we have in the conventional financial system. And they are also assuming the risk of real assets and commodities otherwise it will not be validated by the Islamic jurisprudence. It is also worthwhile to note that financing in the Islamic system is only for the permitted activities and cannot be applied these instruments for the financing of those activities/prodution which are not permissible by *Shari’ah*.

However it is important to note that equity participating is the basic spirit of Islamic financing which will bring the equity and just distribution of income in the Islamic economy. On the other hand the debt ridden economy is not the objective of the *shari’ah* because debt-ridden economy accelerating the unjust distribution of income and wealth, accelerating the concentration of wealth, increasing the rate of inflation and creating the many other disturbances in the economy. However in reality, most of the current transaction in the Islamic banks are based on the certain contracts. However *Shari’ah* scholars did not object them because of the transitory phase of Islamic banking, i.e. transformation of the financial system from Interest based to Interest free one. This transformation have not that impact which is the objective of the *Shari’ah* and that can only be achieved if banks will serve the society through charity. As we have mentioned above that in this system charity and trade are complementary to each other. It is not recommended that if one person is running his business and involved in the trade then he has no other responsibilities. It is compulsory to every Muslim (if he is *sahib-i-nisab*) that he has to pay charity. This is the promise of Allah (SWT) that charity will increase the wealth. In the following section we will try to discuss the concept of philanthropy and how it will help in the growth of interest free economy.

Market and Philanthropy

Hayek (1968) mention two “worlds” while he was developing his extended order, i.e. “the world of gift” and “the world of commerce”. Aftermath a debate among economists, psychologist,

sociologists and anthropologists was started and they raised a number of questions regarding these terms and about the worlds of “gift” and “commerce”. For example, is there any significant difference in between the terms of gift and commerce? How it is possible for us to distinguish in between the “commercial sector” and philanthropic sector”? How “market economy” works differently from the “gift economy”? Is any relationship exists in between commerce and philanthropy and how the theory of gift economy can be improved in the present scenario? It is also asked by the experts that how philanthropic sector is able to serve the community better than the commercial and non-profit sectors? However Briner (2009) summarized all above mentioned queries in the following way: “Is it better to have a market society in which all transfer payments are defined by law in terms of rights and obligations, or one in which they are gifts that depend exclusively on the benevolence of individuals?”

It is interesting to note that it is concluded from the thesis of Hayek that market economy has more positive impact than the gift economy. Moreover it is also considered from Hayek’s analysis that the action of philanthropy is counterproductive in this modern era of global economy. He presumed that market mechanism guides us that how one economic agent is able to transfer the economic benefits to another economic agent without knowing to each other. So he suggested that we should use the terminology of market economy instead of “catallaxy”². He explained the morals and ethical values of the market in this way: “do lead us to benefit others, not by our intending to do so, but by making us act in a manner which, nonetheless, will have just that effect. The extended order circumvents individual ignorance . . . in a way that good intentions alone cannot do—and thereby does make our efforts altruistic in their effects” (Hayek, 1988). He further stated that it is better to serve the unknown rather than a known one. Because when we are serving a known one we have our own biases whereas when we are serving unknowns then our behavior is unbiased and he believes that it creates more benefits to the society. He advocated the process of market mechanism, in his view market serves better than the non-market activities because market does not care that who is the beneficiary whereas the gift economy or philanthropy follows the known beneficiaries. He further added as: “to confer benefits beyond the range of our concrete knowledge.” On contrary many others like Polanyi (2001) have the opposite idea. Polanyi’s idea of double movement discussed the reaction of the market economy. Because in Polanyi’s view everything is commodified in the market so ultimately there is a counter reaction from the society for the social protection. Generally an opinion prevails that every action in this world is based on the inner satisfaction of doers, so commodification is not the basic rule for achieving the inner satisfaction as we have in the market mechanism. Mises (1949) has opinion, “the ultimate end of action is always the satisfaction of some

² A term whose Greek root (katalattein or katalassein) means both “to exchange” and “to receive into the community” or “to turn from enemy into friends.”

desires of the acting man. Likewise Knight (1947) has expressed as: "it is a fundamental error to take the individual as the exclusive datum because some sort of family life, and far beyond that, some kind of wider group into which the individual is also born and develops and to which he or she is, in varying degrees, loyal are also data for our understanding of human action" (1947), 84-6). Polayni (2001), Knight (1947), Mises (1949) and many others are supporting the action of philanthropy (gift economy) and in their view the action of philanthropy has positive impact on the community, society and economy. As they argued that we cannot leave the humans alone on the process of market, because humans are humans and they have their own relations, group loyalty and some sort of family life. Tönnies (1940) explained the above in the format of will, he said that social relations are dependent on "natural or essential will" or "rational or arbitrary will". In his opinion the rational or arbitrary will is driven by the thoughts or believes of the members of the society. One can conclude that same can be attributed to the action of philanthropy which is an attitude towards the other members of the group or society. In the explanation of his "extended rule", Hayek (1967) expressed that always we are continuously in the process of adjusting ourselves, our behaviors, our lives, our activities, our views, opinions, thoughts, feelings, sentiments, reactions, excitements and so on. And the above are based on altruism and extended order of the market. However, his main emphasis was on the process of the market and on the market mechanism which is permanent phenomenon whereas altruism is based on the feelings and emotions of that point on time. However on the other hand Mauss has a different opinion and he defines as: "to give something is to give part of oneself". Hayek (1967) and Mauss (1967) have their own opinion and views about the mechanism of market and the actions of philanthropy³. However the above mentioned approaches are not based on any religious and divine instructions. They have their own philosophy and have their own understanding about the under study subjects.

Whereas every religion has its own approach to understand and to deal the different issues. Similarly the Islamic Shari'ah have their own approach to discuss the process of market and charity or philanthropy. The concept of helping others and paying charity is different than in the conventional system, i.e. charity is only for the sake of Allah (SWT) and in the way of Allah (SWT). Islamic jurisprudence is differentiating the almsgiving in to two categories, i.e. compulsory and optional. *Zakah, Usher and Fitrana*, etc., are categorized as compulsory whereas all types of other charities are categorized as optional almsgiving. There are five basic pillars of Islam, compulsory almsgiving is one of them. Allah (SWT) mentioned about charity many times in the different chapters of holy *Qur'an*.

Qur'an also has mentioned about the reward of this virtuous action especially in the life hereafter. The teachings of Islam guide us that in this system philanthropy and market action are not substitute to each other, i.e., those are complement to each other. In fact, philanthropy is filling those gaps which are not filled by the market mechanism. And this complementarity increases the efficiency and productivity under the umbrella of Islamic moral economy.

It is very important to note that philanthropy is the base of the Islamic moral economy. Philanthropy has a numerous impact on the social and economic structure of the Islamic moral economy, i.e. it is the major instrument for the purification of the soul of the givers, strengthening the social network, increasing the degree of brotherhood among the members of the Muslim society, increasing the sense of identity, trust and strengthen the bond among the Muslim community/society/*ummah* and so much so it has the positive significant impact on the growth of the economy. Islam has also determined the rules and regulations related to the almsgiving. Islam does not encourage the receiver of charity even he deserves for it. However on the other hand, it is also appreciated and emphasizing to give the charity to the deserving members of the *ummah*. There is one saying of Prophet (SAW) about begging: "It is better for anyone of you to carry a bundle of wood on his back and sell it than to beg of someone whether he gives him or refuses" (Bukhari and Muslim). And he also said, "I was shown three people who will be among the first to enter paradise: a martyr, one who refrains from begging, and a servant who worships Allah in the best manner and is sincere to his master". (At Tirmidhi), "Verily, Allah loves his believing servant who is poor but does not beg others, and who raises many children" (Sunan Ibn Majah). Once he said to his companions that on the Day of Judgment he does not want to see the sign of begging on the fore front of any Muslim. On the other hand those are better who are giving charity than those who are receiving it, Prophet said, "O son of Adam, it is better for you to spend in charity. To withhold is evil for you, yet there is no blame if you do so out of necessity. Begin spending on your dependents, for the upper hand is better than the lower hand that takes" (Sahih Muslim). It is observed from this saying of Prophet (SAW) that spending on one's family is also considered as charity. One can conclude from the above sayings of Prophet (SAW) that begging is not a noble action, Islam encourages the halal earnings instead of living on charity, Prophet said, "Seeking halal earning is a duty after the duty⁴". However this is the right of deserving members of the Islamic society to receive the charity from the people of *sahib-i-nisab*.

It is also interesting to note there is no obligation of any one to pay charity in the conventional systems. Whereas the same is

³ "The differences between Hayek's and Mauss's approaches are clearly illustrated by their ideas on the emergence and function of credit. For Mauss, financial credit as we know it has evolved out of a system of giving, accepting, and reciprocating gifts that serve as a provision for the future for individuals. Gift-giving, while creating cohesion, is not deprived of elements of self-interest. For Hayek, on the contrary, credit is the result of the spontaneous

emergence of partial-reserve banking in a market economy. Not only did it make it possible for individuals to permanently live beyond their means, it practically forced them to do so, producing ever more in order to be able to pay their debts, thus making credit one of the causes of economic growth" (Birner, 2009).

⁴After the primary religious duties like prayer, charity, fasting and Haj.

not applied to the Islamic system. As we have discussed above that charity has two parts, compulsory and optional. So everyone who is *sahib-i-nisab*, he has to pay this compulsory part of charity. If someone is reluctant to pay then this is the duty of Islamic state to collect it. Islamic state should established an administrative department which will look after the affairs of the collection of "*zakah*". This is the religious duty of the Islamic state to regularize the system of "*zakah*". For this compulsory charity, Islam also fixed the categories of receivers which are mentioned in the chapter of "*Tauba*". Islam is appreciated if someone is spending more in the way of Allah (SWT) and this is the promise of Allah (SWT) that he will get more reward in this life and life hereafter. According to Islamic teachings that philanthropy is not only for the development of the individuals but also for the growth of the society. Historically it was also observed that at the time of second caliph Umar bin Khattab, people wanted to pay the charity but no one was willing to receive it and ultimately they deposited their charities in the treasury of Islamic state (*Bait ul Ma'al*). In the next section an effort will made to analyze that how philanthropy is becoming the cause of economic growth and how it works in this direction.

Growth of Capital and Philanthropy: A Quest

In a typical text book of economics, capital is defined as "All those man-made goods which are used in further production of wealth". On the other hand in finance and accounting it refers to "financial wealth especially used to start a business". According to Hicks (1946), "Capital consists of all those goods, existing at present time which can be used in anyway, so as to satisfy wants during the subsequent years". Whereas Samuelson defined as "Capital goods are produced goods that can be used as factor input for further production." It is observed from the above mentioned definitions that formation of capital in real terms is the net addition of capital stock. It is also theoretically and empirically observed that net addition of capital in any economy increases its national income, its productive capacity, its growth rate, and etc. In the conventional literature physical capital occupied the more space than the other types of capital. "Physical capital implies the non-human assets of the company, such as plant and machinery, tools and equipment, office supplies, etc. That helps in the process of production." However there was less emphasis on other types of capital, i.e. intangible capital, which has different dimensions such as human capital (sometimes

known as intellectual capital), psychological capital, social capital and religious capital. In the contemporary literature these types are discussed by the different branches of knowledge, for example discussed in sociology, anthropology, economics, business, psychology and so on. In all the above mentioned areas the importance and the role of intangible capital is discussed in detail. It is also discussed that how these types are contributing in the process of growth and welfare in the said economies. It is argued that these are also participating in the growth of the national income of the concerned economies.

In the orthodox economics both financial and physical asset got more attention in the area of economics, business and management⁵. However modern and rational managers now realized the importance of the intangible assets beside financial and physical assets. Other than physical and financial capital all are based on the abilities of the "human" which is refereeing to the people with different qualities and characteristics working at all level of the organization whereas physical and financial capital are withdrawn from consumption (savings) and transformed into investment for the future anticipated production and returns⁶.

There are different interpretations that how theories related to the different types of intangible capital are emerged in the field of knowledge. For example Iannaccone (1990) stated that at the first instance the theories of social, cultural and human capital were developed and then the concept of religious capital was emerged in the literature. In his opinion that social capital is the first one which was emerged, actually this is the investment which is gained by the people during the participation in the groups⁷. On the other hand Smith (1986) is in opine that beliefs and morals are the foundations of the human behaviour and other behaviours are emerged from both of them. Finke (2003) expressed as: "Religious capital consists of the degree of mastery of and attachment to a particular religious culture." According to Finke that religious capital based on the concept of human and social capital with household production (Finke, 2003. Whereas Stark and Finke (2000) discussed about religious capital as: "In making religious choices, people will attempt to conserve their religious capital." Azid et al (2019) mentioned the statement of Verter (2003) as: "Verter also recognizes that religious capital can be used to gain cultural capital outside of the religious realm⁸. Spiritual capital poorly invested may lead to personal ruin"

⁵ "Consider the millionaire who continues to use his capital actively in enterprises which give employment and develop the resources of the world. He who manages the ships, the mines, the factories, cannot withdraw his capital, for this is the tool with which he works such beneficent wonders; nor can he restrict his operations, for the cessation of growth and improvement in any industrial undertaking marks the beginning of decay" (Carnegie 2006, 50, cited in Otteson 2009, p.25).

⁶ "Bill Gates has been known to comment that the most important assets in his company walk out the door every night. In other words, he recognizes that the collective knowledge,

skills, and abilities of his employees represent a distinctive competency that has created value and set Microsoft apart from its competitor" (Luthans et al 2004).

⁷ "Rodney Stark and Roger Finke further developed the concept and have written extensively on the subject, amongst other well-known sociologists of religion such as Christian Smith, Jerry Z. Park, Wade Clark Roof, and Nancy Ammerman "(Albaugh, p.2 available at nazarene.org/files/docs/albaugh_ryan_paper.visited on 10 November 2015).

⁸ It is well known phenomenon that those have more religious knowledge and have some authority they have more

All of the activities in the Islamic system are based on the concept of God fearing known as *Taqwa*. So the generation of capital has the same foundations. The development of the whole society depends on the basic Islamic norms. Attitude and behaviour of all the members of the Islamic society always considered as virtuous instead of vice. Teachings of *Qur'an* and practices of Prophet (SAW) build the character on individual as well as on aggregate level. Any individual who spends more in the way of Allah (saw) it means that he has a higher degree of God fearing. It means that there is high association in between the spending in the way of Allah (SWT) and the degree of *Taqwa*. In resultant he is also expecting more reward from Allah (SWT) in the life hereafter because this is the promise which Allah (swt) has mentioned in many verses of *Qur'an*. According to the teachings of Islam we can see two categories of behaviours, i.e. desirable and undesirable⁹. So when any Muslim spends in the way of Allah (SWT) he uses the financial and physical capital and this is the primary source whereas other types of capital are generating from it. In this case the first one is religious capital which is generated from the financial and physical capital. It is defined as "what you believe" The third link of the chain of the intangible capital is psychological capital which is created from the religious capital. And from psychological capital we can see the formation of social capital which is known as the network among the members of the Islamic society.

"Psychological capital" among the set of intangible capital is comparatively new one. "Psychological capital" is currently discussed in the different areas of social sciences, for example in economics, business, sociology, investment and psychology. It is worthwhile to note that Seligman (a renowned psychologist) claimed that the prevailing experts of psychology have not able to fully understand the some dimensions of the subject. He changed the direction of the subject and presented the concept of "positive psychology". Positive psychology brought a radical change "from wrong to right, bad to good, weaknesses to strengths, health and vitality rather than illness and pathology." In his book entitled "Authentic Happiness" Seligman (2002) expressed as: "when we are engaged (absorbed in flow), perhaps we are investing, building psychological capital for our future."

One can conclude from the current literature and also from the above discussion that psychological capital raised after religious capital whereas social and human capital are raised after psychological capital. According to Seligman (2002) the term of psychological capital is based on "who you are" which is the outcome of the belief of someone. He further added that the ingredients of required behaviour are "confidence, hope,

optimism, and resilience". These four variable in the behavioural set are also discussed by Stajkovic (2003) for the motivation of work.

However the above mentioned states are derived from "positive psychology" and the more recent terms which is developed in organization behaviour known as "positive organizational behaviour" (POB), these states can be measured, possible to develop, and manageable for "more effective work performance". Luthans (2002a, 2002b) has drawn an axiom from the positive psychology, i.e. "productive and efficient targets of psychological capital". These four states which we have discussed above can apply in the workplace and enhance the psychological capital. Consequently we can observe the "high returns with improved performance", i.e. higher degree of efficiency and productivity, better customer services and increasing the staff retention. These four states are also helping the companies to emphasize on the triple bottom line. However under the umbrella of Islam, the full potential of psychological capital cannot be realized without following the true Islamic norms.

Social capital is from the family of religious and psychological capital, however, it is more conceptual and not easy to measure it. The ingredients of social capital are "trust, relationship and contact network". As it is depicted in Table 1 social capital is defined as "who you know." It is also interesting to note that the social capital can be raised within the firm ("Whom can I turn to for help in solving this problem?") and also outside the firm("Who can advise me on finding the best price and quality in making this purchasing decision?"). It is also suggested that too some extent we can measure the social capital through "size, structure and composition of the network." After reviewing the literature on the research of social capital, Adler and Kwon (2002) have concluded that social capital has the impact on both of the areas of human resources¹⁰ as well as on the organizational structure¹¹. Currently in most of the organizations it is realized that investment on social capital has positive impact on the efficiency of the firm as well as becomes as the cause of competitive advantage. It is argued in the conventional literature that cultural capital is generated from the social capital and then it makes the foundation of the religious capital.

Whereas Smith and his followers are believing that beliefs, moral values and ethics are the fundamental values of the human behaviour. Likewise in the Islamic society the development of the behaviour is based on the degree of piouness and degree of God fearing. And this is the desired behaviour for the growth of the social capital.

importance among the religious groups as well as also in the different social groups. People are also giving weightage to their opinion and listening them very well.

⁹The desired behavior is good intention, honesty, kindness, moral attitude, virtuous behavior, honors for others and towards brotherhood among the members of the society and undesired behavior is dishonesty, cheating, theft, jealousy,

backbiting, dishonor and etc. This boosts up the psychological state of the charity giver.

¹⁰"career success, turnover, executive compensation, and job search help"

¹¹" inter-unit resource exchange, entrepreneurship, supplier relations, regional production networks, and intercompany learning"

Table 1. Formation of Intangible Capital from Tangible Capital in the Islamic Moral Economy.

Type of Capital	Traditional Economic Capital	Religious Capital	Psychological capital	Social Capital	Human Capital	Σ (End Result)
Traits	What you have	What you believe	What you are	What you know	What you have	Development of the personality
Nature of Capital	Finance Tangible Assets (plant, equipment, patents, data)	Belief Intentions Practice Rituals	Confidence Hope Optimism Resilience	Relationship Network of Contacts Friends (Brotherhood)	Experience Education Skills Knowledge Ideas Healthcare	Incremental change in capital through Moral Economy
Change	Philanthropy	Generation of Resources	Generation of Resources	Generation of Resources	Generation of Resources	New Resources
Expected Return	Profit	Reward in the life hereafter	happiness	Satisfaction	utility	<i>Falah</i> in both of the lives
Motivation to maximize gains (compassion, or some kind of inner fulfilment) while minimize the losses						

Source: Azid and Chaudhry (2015).

The last link of this chain of intangible capital is the human capital. Becker (1975) defines human capital as a “means of production”, similar to “other means of production.” According to the Islamic epistemology, the human capital is erecting on the foundations of “religious norms”, “social network”, and “psychological state” of the society/community. The human capital has its own components¹² and also the components of religious capital¹³, social capital¹⁴ and psychological capital¹⁵. If we have all the above ingredients in the human capital which keeps by the human capital then it becomes a key of success for the performance of any organization. Iannaccone and Klick (1993) have their opinion as: “Intangible capital other than human capital can be measured in ways similar to human capital – years of experience, practice and levels of knowledge and skills”. It means intangible capital cannot be measured in terms of monetary unit but in real terms it is the level of “mastery or attachment”.

It is worthwhile to note that one can segregate social and religious capital, i.e. social human and religious human. Putman (2000) emphasized that religious communities are the main source for generating the social capital. In his opinion

most of the social activities are set by the religion. On the other hand we can differentiate human capital from social capital, i.e. human capital increased the productivity of the production process whereas social capital identifies the “role of relationship” in the process of production.

Last but not the least, we have to discuss the process of transformation of intangible capital. This transformation is completely different than the physical and financial capital. This transformation cannot be purchased, it is irreversible, not static, not continuous, asymmetric among the participants, has the ability to change and it is creating the energy. One aspect is very much important that the transformation is unpredictable. It is ubiquitous so it can be differentiated from the transactions. The same we can assume when we have the impact of philanthropy on the above mentioned different types of intangible capital. It is worthwhile to mention that the transformation of capital is required in both of the dimensions, i.e. vertically¹⁶ and horizontally¹⁷. It can be seen from the teaching of Qur’an¹⁸ and practices of Prophet (SAW)¹⁹. The process of transmission which have mentioned above has its own significance and has the positive impact on the development, growth and welfare of the economy/society.

¹² “education, training and healthcare”¹³“rituals, knowledge, moral attitude”¹⁴ “relationship network of contacts, friends, brotherhood”¹⁵“ hope resilience, optimism, and efficiency”¹⁶“among the generations”¹⁷“among the family members and other members of the Islamic society”¹⁸ Surah Al Tour¹⁹ Saying of Prophet

CONCLUSIONS

The gain of the individual and the welfare of society are complementary to each other. If there is conflict then this is the responsibility of the system to resolve the conflict. As we have seen above that Interest is immoral and impractical. Then what is the solution? Islam has given the solution in terms of joint ventures and its investment modes are *Mudharabah* or *Musharakah*. In this way, simultaneously the welfare of the individual and the social welfare of the community can be achieved. Interest free economy and the regulated market are the solution for the issues which are observing in the current state of art. Justice and equity is the main objective and it should be the target of the community and society. However, it cannot be achieved under the umbrella of selfishness and greediness. This will lead to imperfections and distortions in the market which will further leads to the exploitation of the poor and weaker segment of the society. Islam as a global religion, not particular to any nation, group of people or not belonging to any ethnicity. All of its laws are universal and for the betterment of the humanity.

The ban on Interest has the same objective. The objective is to maintain the justice, equity, reduce the degree of selfishness and greediness and abolish the cruelty. Islam strictly separated fair and unfair means of earnings whereas *Riba* is not permitted. Islam appreciated the reward of the entrepreneurs and also reward for the capital provider. But this reward will be variable and based on those returns which are actually realized. Islam prefers risk sharing and profit sharing to a debt based ventures. Asset based transaction are more appreciated which ultimately create the more stability in the economy and accelerate the wheel of growth.

From the above discussion and the arguments which are submitted in this study it can be concluded that interest free economy and philanthropy both are complement to each other as it is mentioned in the *Qur'an*: "Allah destroys interest and gives increase for charities" (2:276) so these two sets of institution will accelerate the growth cycle of the economy.

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