

A Comparative Study of the Islamic Prohibition of Usury

through examination of the Modern Implications of Islamic Banking
in a Global Recessionary Climate



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Initial Questions

- ☺ How does one define or interpret usury?
 - ☺ Translation of Arabic
 - ☺ Differences in Muslim belief, practice, and culture
 - ☺ What countries should we compare and why?
- ☺ How can one measure the impact of such a prohibition economically?
 - ☺ What economic indicators would be useful and how?

Our Goals for the Study

- ☺ How does this prohibition affect banking practices?
- ☺ How broadly or comprehensively is it applied in reality?
- ☺ How do devout Muslims as a minority in a society adapt?
- ☺ Is Islamic Banking a viable option in a global recessionary climate?



Examining the Central Banks of 4 largely Muslim Societies

For our research we chose four countries with a largely Muslim population to compare along with one predominately non-Muslim country- the United States.

1. Saudi Arabia

- ☺ Saudi Arabia is almost entirely a Muslim country
- ☺ It is the only country to have a legal system that is completely compliant with Islamic law (as of 2006)
- ☺ It is a Constitutional Monarchy advised by Islamic scholars of the conservative Wahhabi school of interpretation



2. Turkey

- ☺ Turkey is predominantly Muslim, but unlike Saudi Arabia has a variety of Muslim traditions with equal presence with a Christian minority
- ☺ It has a secular democratic government that bans religious symbolism in official settings



3. Egypt

- ☺ Egypt has a predominantly Muslim society with a Christian minority
- ☺ It also has a secular republican government, but is not as strict as Turkey in its separation of religion from government



4. Indonesia

- ☺ Indonesia also has a majority Muslim population, but it has a strong multi-cultural tradition with many Hindus, Buddhists, and Christians as well
- ☺ It is not as secular in its government as either Egypt or Turkey, but not as religiously influenced as Saudi Arabia either.



Points of Comparison for the Study and Gathering Data

- ☺ How do these countries conduct monetary policy?
- ☺ If usury is prohibited, then how do banks and businesses conduct themselves?
 - ☺ What principles do they use instead?
- ☺ What other financial indicators could be helpful?

How Did They Compare?

Monetary Policy: Egypt, Turkey, and Indonesia all use the inflation target system while Saudi Arabia uses the reserve requirement method.

Banking Principles Used: As *usury is generally interpreted as the charging of interest*, banks and businesses write *contractual agreements* based upon the *mark-up principle* and the idea of *profit sharing*.

Other Financial Indicators: We looked at *inflation and exchange rates* of currency, stock market indices, and examined broad factors like changes in GDP per capita and Foreign Direct Investment

Complexity in Comparison

Variety of Interpretation: Islamic sects and their scholars interpret the prohibition differently. This results in numerous differences of acceptability and practice.

Theory vs. Practice: While many Muslims feel they devoutly live the tenets of their faith, they tend to be pragmatic when it comes to dealing with modern economic situations.

International Relations: Dealings with other countries and international organizations, such as the United Nations, necessitates a difference in implementation from the personal to the national level.

Conclusion and Future Research

- ☺ While relatively new (in historical terms), Islamic banking appears to be more resistant to global market crises due to less speculation and the absence of a credit/debt based market
- ☺ More long-term data and consistent, comparable time periods in bank and national records are needed for further research to be more concrete and conclusive in its findings

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