Chapter III

THEORETICAL FRAME WORK

3.1. Introduction
3.2. The Conventional Theories
3.3. The concept of Interest Free Financing
3.4. Principle of Profit-Loss Sharing
3.5. Rationale behind the Prohibition of Interest
3.6. Regulatory Mechanisms

Reference
3.1. Introduction

The surveyed literatures in the previous chapter clearly bring forth a comprehensive idea about the functioning of interest-free financing. The presumption that interest is an essential element of modern finance without which the business would no longer take place and production would come to a halt has been challenged by evidences practically tested and empirically proved. The present chapter deals with the explanation of conventional theories and how far they related with the theoretical propositions of IF financing. In fact, IF banks have been responsible for major innovation in the banking sector. They changed the very nature of the relationship between bank and depositor. The conventional relationship based on a lending contract has given way to ‘partnership’ and ‘co-operation’ which really brings forth performance incentive. The second innovation is the integration between financial and real markets and the third one is the incorporation of ethics and moral values on the investment decisions taken by the banks.

The modern IF financial sector represents a series of initiatives to offer alternatives to business and finance based on interest. It represents an ample demonstration that business can indeed be effectively conducted without interest. In spite of the fact that IF Finance is in its adolescent stage in various countries, it has achieved tremendous growth and acceptability in recent decades. The inherent potentiality is so high that the system is to be highlighted with in its theoretical frame work.
3.2. The Conventional Theories

At first, we may discuss the interpretation of the concept of interest by conventional economists – classical, neo-classical, Keynesian and modern and the relative analyses in connection with IF economics. Various classical writers differ a good deal from each other in respect of their views about interest (H. L. Ahuja)\(^1\). The economists like F. H. Knight and J. B. Clark explained the phenomenon of interest only from the point of view of the demand for capital and laid stress on the productivity of capital as a determining factor of interest. The ‘interest’ was interpreted as the earnings of capital, \textit{viz.}, the rate of return over the capital which is invested for productive purposes. An entrepreneur will be in equilibrium when rate of return of capital is equal to the rate of interest. Thus the marginal productivity of capital is called the rate of interest. This approach is in much way closer to Islamic economics since it agrees in one fact that the reward for capital arises due its productivity. Hence, it is essential to link the productivity of capital with its reward in the matter of advancing loans and accepting deposits. This leads to the acceptance of the principle of Profit –Loss Sharing (PLS) in an indirect manner.

The economists like Irving Fisher, Bohm Bawerk \textit{etc.} explained the interest from the stand point of the supply side \textit{i.e.}, ‘savings’ and therefore emphasized the role of abstinence or waiting or time preference in the determination of interest. This interpretation is not fit enough to explain the productivity of capital or its demand side. Thus there has been no complete agreement among the classical economists about the nature of interest. Islamic economics is on the view point that mere ‘abstinence’ or ‘waiting’ or ‘time preference’ can not bring forth the reward for capital, where as it is the positive productivity of capital which determines its reward.

According to the Neo-classical Loanable Fund Theory, the determination of the interest is depending on monetary as well as real factors. That is, the loanable fund theory considers the demand for money for investment purposes and also for consumption and hoarding.
John Maynard Keynes in his ‘General Theory of Employment, Interest and Money’ gave more emphasis on monetary phenomenon. According to him interest is not the reward for ‘waiting’ or time preference but for parting with liquidity. Accordingly, liquidity preferences (demand for money) accompanied by fixed supply of money determines the rate of interest. This explanation too fails to make clear the difference between liquidity preference and demand for money for investment purposes. Keynes ignored the real factors like productivity, thriftiness etc. He made the rate of interest independent of the demand for investment funds which in turn influenced by the marginal efficiency of capital (marginal revenue productivity). Keynesian theory did not take into account the fact that when the marginal revenue productivity of capital is increased there will be greater demand for capital and hence greater the reward for it. Islamic economics is of the view that if the savings are converted into real capital (productive) it may fetch more returns and there by more rewards to the savers.

In fact, Keynesian theory has its inclination to Islamic economics by revealing the inverse relationship between interest and liquidity preference or demand for money for speculative motive. Hence he agrees to the point that a lower interest rate may make the capital more productive and there by more returns. He also opined that unemployment cannot be extinguished without the euthanasia of interest. Harold Domar also has strongly expressed his view point that the reduction in the interest rate is a must to avoid unemployment. All these statements fetch the occurrences of an ideal situation in the economy where the economic activities are undertaken without the existence of the elements of interest.

But, it is a true fact that Keynesian theory do not go for a ‘zero’ interest. Accordingly the rate if interest cannot fall below a particular minimum since the lower part of liquidity preference (LP) curve is a horizontal straight line or perfectly elastic. That is, below a particular rate of interest people prefer to hold cash as inactive balance rather than preferring to invest leading to ‘liquidity trap’. But under Islamic economics, it is easy to mobilize idle cash balances or savings at ‘zero’ interest and
pooled together and invested for productive purposes and profit or losses are shared by the savers and investors.

Some modern economists like J. R. Hicks and A. H. Hansen also have brought about a synthesis between the classical and neo-classical theories on the one hand and the Keynesian liquidity preference theory on the other. Still there are criticisms for this theory by the economists like Don Patinkin and Milton Friedman saying that Hicks-Hansen synthesis as too artificial and over simplified. In their view, the division of the economy into two sectors – monetary and real is artificial and unrealistic; they are quite interwoven and act and react on each other (K. K. Dewett)².

3.3. The concept of Interest-free financing
Islamic economists approach the matter entirely in a different manner. Accordingly ‘interest’ itself cannot be treated as a reward for capital. Capital is rewarded according to its productivity. It redefines the factors of productions and treats ‘capital’ and ‘enterprise’ not as two factors but one single factor of production (F. R. Faridi)³. The entrepreneur uses the capital as a tool for regulating the other factors of production like land and labour. The reward is the profit which is jointly accrued by the collective operation of both ‘capital’ and ‘enterprises’. This reward is shared by the savers, investors and the intermediary institutions. i.e. the bank. Thus there is a three tier sharing process in the matter of distribution of rewards. Moreover, when the profit is shared it is imperative that the losses, if any, that too is shared. This is the basic principle of PLS on which the Islamic Banking stands for.

The proponents of Islamic finance are very keen to follow a set of principles propounded by the religion in which they firmly believe. All economic activities like day to day expenditures, earnings of wealth, savings, business operations, industrial undertakings, farming etc. are exclusively done within the frame work of the religion. The financial operations like savings, deposits, advances, financial contracts and other forms of activities are also based on the ‘Sharia’.
“At the core of Islamic Finance are the religious percepts governing what is good and permitted, or ‘halal’, and what is harmful and forbidden, or ‘haram’. The ‘sharia may be said to govern every aspect of Muslims life”. (Yusuf Talal Delorenzo)⁴.

The interest (riba) is prohibited by Holy Quran as “Allah makes trade lawful but prohibits riba” (2:275)⁵. Riba is purely an injustice since something is taken in return for nothing of real value; whereas the trade is an exchange of different counter values.

It should be noted that under Islamic Finance a loan is considered as a gratuitous contract. Prophet⁶ said, “A charitable gift will earn rewards of ten times its value, where as a loan will earn a reward of eighteen times its value.” The reason is that “a beggar will ask for charity even when there is no need for it; where as a borrower will not ask for a loan unless it is needed”. Obviously, when a loan is considered a gratuitous contract, the idea of lending at a premium is antithetical and hence must be rejected.

In Medieval times Christian theologians preached that lending money on interest is morally wrong, since it is as if one takes advantage from the needs of another man by offering to lend money on interest. “If you lend money to any of my people who are poor, do not act like a money lender and do not charge him interest”. “You shall not lend with interest to your brothers, either in money or food or in any other thing”. (Old Testament)⁷ The Revelations in New Testament⁸ also firmly stands in favour of prohibiting the interest. “But love your enemies and do good to them, and lend when there is nothing to expect in return”.

The principle of “Profit Loss Sharing” (PLS) is basically framed as per the religious law that, “Profit (comes) with liability” (sayings of Prophet Mohammed)⁹. This means that one is entitled to profit only when one bears the liability or risk of loss. Thus the profit is linked with the possibility of losses.

In the Islamic scheme of business and finance, money, on its own, many not generate profit. Money (capital) may earn rewards only when it is combined with the sort of risk inherent to business enterprises. The investor should be willing to be
responsible for loss as for gains. This is because of the fact that whenever there is an
element of risk, people tend to take the matter more seriously. The owners and
investors will be very careful about the enterprises in which they become involved.
Such carefulness will lead to full transparency and accountability. Management will
work hard to produce results, business will run more efficiently and thus result will be
more positive. The interest (riba) on the other hand, has a discouraging effect on all
the above aspects. When the investors are more concerned with the rate of interest and
guaranteed returns, the results in the long run may be negative. By encouraging
finance based on sharing, rather than simply lending on interest, Islamic Finance helps
to achieve real asset creation by way of high level commitment and responsibility
inherent in it. It helps to avoid risky speculations and reckless business.

Money cannot be treated as a tradable commodity. Since it has no intrinsic
value it cannot be traded to acquire an extra earnings. It is neither a ‘consumer good’
nor a ‘productive good’. Having no intrinsic utility money could not be included in
‘consumption’ goods’. It cannot be sold out just as one merchant sells his commodity
for a higher price than its face value. Utility of money is restricted mainly for the
purpose of acting as the medium of exchange and measure of value, at the same time,
the commodities have different qualities and several utilities. If in exceptional reasons,
money is to be exchanged for money (for the purpose of borrowing and lending), the
payment of both sides must be equal. It should not be used for the purpose of which it
is not meant for; i.e. trading.

Imam Al-Ghazzali pronounced the nature of money almost 900 years ago, in
an early period when the Western theories of money were non-existent. He says “And
whoever effects the transactions of interest on money is, in fact, discarding the
blessing of Allah and is committing injustice, because money is created for some other
things, not for itself. So, the one who has started trading in money itself has made it an
objective contrary to the original wisdom behind its creation, because it is injustice to
use money for a purpose other than what it was created for…. If it is allowed for him
to trade in money itself, money will become his ultimate goal and will remain detained
Chapter III  

Theoretical Frame Work

with him like hoarded money. And imprisoning a ruler or restricting a postman from conveying messages is nothing but injustice.” (Imam Al-Ghazzali)\textsuperscript{10}

Money can also not be treated as a ‘productive good’. Productive good is one which is directly involved in production. Money becomes productive good only when it is converted into ‘capital’ or capital equipment. ‘Capital’ fetches variable returns; hence, charging interest as the reward for capital in a fixed rate is injustice. The variable returns can only be shared among various parties involved in the production process. Charging interest for the loans for productive purpose may lead to price rise and inflation since the element of interest is included in the cost of production. Thus, injustice in charging interest for personal consumption loan is restricted to the debtor only, whereas the injustice on productive loan is affected the economy as a whole.

By classical definition ‘money’ has four functions – a medium, a measure, a store and a standard (Harold Barger)\textsuperscript{11}. Among the four above, the first one, facilitating the exchange is the main function of money, practically intended for. With the intervention of money, the barter system of direct exchange has been abolished and the operation is split into two parts, \textit{viz.} selling goods against money and buying goods against the withheld money. This is the fact why the other three functions came into operation. When the major part of the money supply is not used for transaction purpose; its main function is spoiled. Without real exchange function, if money exists in large quantity it will ultimately cause harm to the society.

When money is a standard of measuring the value, it would be noted that all other standards of measurements like meter, ton, liter etc. are fixed in their value denominations; whereas money does change. It has no stable value due to its malfunctioning as a measure of exchange. Similar is the case when money is used to store the value; since it depends on the trend of prices. Regarding the function of money as a standard of deferred payments too, the instability of the measurement complicates all future economic transactions and it leads to illegitimate claims like the payment of interest. Thus the existence of money without its real function of ‘exchange’ is the reason behind the emergence of interest. If this function of money is
fully operative, without giving unnecessary gap between selling and buying, most of the economic problems experienced in the liberal economies could have been eliminated. “In order to ensure that money performs its true function of operating as a means of exchange and distribution, it is desirable that it should cease to be traded as a commodity”. (E Dennis Mundy)\(^\text{12}\)

The conventional ‘interest’ is the excess of money charged over the lending of money and not the reward for capital as an agent of production. Former case is an injustice since it treats money as a commodity which is not correct. Hence the various theories put forward by the economists to treat interest as a reward for capital is not justifiable. “Interest is the excess money paid by the borrower to the lender over and above the principal for the use of the lender’s liquid money over a certain period of time”. (Mohammed Abu Saud)\(^\text{13}\)

But the conventional interest theorists treated ‘money’ as ‘money capital’ which is a deliberate mistake committed by them to justify the charging of interest on borrowed money. \(\text{eg: - Don Patinkin}^{\text{14}}\) considers interest as a part of functional share earned by ‘capital goods’ as well as ‘money capital’. This share is paid to the lender in fixed percentage irrespective of the yield even before the returns are realized. Hence, it is not the real share of yield from capital, but an excess price simply charged over the money which is borrowed.

Sir Roy Harrod (1969)\(^\text{15}\) describes interest something untrue. He wrote “and so why is there interest? …………… surely there are mental phenomena to which the dictum may correctly be applied that there is nothing true but thinking makes it so”. From the above illustrations it is clear that the ‘interest’ as defined by conventional economists is an illusion or it is only a fiction. The reward for the ‘capital’ as a factor of production is the outcome of its production i.e. the profit, which is shared in between the borrower and lender in a predetermined proportion. What is important at this point is the fact that money, being a medium of exchange and a measure of value cannot be taken as a ‘productive good’ which yields profit on daily basis, just as it is wrongly presumed by conventional interest theorists.
Chapter III

The capital is the produced means of production which is used for further production. It is the active money used for production and is rewarded for its services rendered in production. A portion of the profit from productive enterprises should be earmarked as the reward for capital. Hence, in Islamic economics ‘capital’ and ‘enterprise’ cannot be treated as separate factors of production. Both are one and the same and treated as a single factor of production. The justification is that in the modern time a large portion of capital is utilised by entrepreneurs as ‘risk capital’. The profit is the outcome of the ‘risk capital’ which is to be shared by capitalist and entrepreneurs. Now a days modern banks and financial enterprises are not functioning merely as money collecting and advancing agencies; but they have become more or less investing agencies in productive ventures. Hence the amalgamation of ‘capital’ and ‘enterprise’ in to one factor of production is meaningfully justified.

“Thus, consequent elimination of interest as a form of reward for capital is justified for two reasons: First, that conceptually a sound and correct explanation of interest as remuneration has not been possible by the economists who have thought little on the subject. Secondly, looking at the practical operation of the present day economy we know that the sharp line of distinction between capital as a factor of production; and enterprise as a factor of production, is not tenable, as it could be in a primitive society where everything can be explained in terms of labour theory, as done by Karl Marx.” (Usair Mohamed)\(^{16}\).

“The entrepreneur, as a regular factor, has been excluded from the list of the factors of production, and only three factors have been recognized, instead of four. But this does not imply that the very existence of the entrepreneur has been denied. What it does mean is just this – the entrepreneur is not an independent factor, but is included in any one of the three factors. It is not ‘interest’ but ‘profit’ which has been considered as the reward for capital”. (Mufti Muhammed Shafi)\(^{17}\).

When ‘capital’ and ‘enterprise’ are merged together the fixed rate of interest as return of capital will turn into the variable rate of return. As capital is productive the investor should get profit out of its investment. This profit is variable. Sometimes it
may be negative. When the investor gets profits in most of the occasions he is also liable to bear losses in a few unavoidable circumstances. Thus the investor of capital is liable to share the profit and losses in predetermined proportions.

The mode of deposit under interest-free banking is depending on the motives of the depositors. These motives have the similarities to the motives of ‘parting with liquidity’ as propounded by Keynes (Uzair)\(^1\). The interest-free depositors have three motives – primary, secondary and precautionary. The people who deposit in long term investment accounts have the primary motive of investing their idle funds and to earn profit. Hence it is also called as ‘investment motive’. The depositors who have saving bank account have ‘secondary motive’ which is similar to the ‘precautionary motive’ of Keynes. This motive may be to earn a little income provided that their savings should be always available to meet their immediate demands. The fund from this type of deposits are invested in short term securities or quick yielding projects and the savers / depositors of this category are entitled to get very little share from the profit earned. The third category depositors deposit in ‘Current accounts’ with the intention of ‘transaction motive’ and thus keep their liquid money in readily available accounts in which no returns are entitled to get.

These are the sound economic reasons to reach in a justifiable conclusion that a banking system without interest is a reality. It is a different kind of banking system which is in operation wholly or partly in different parts of the world.

3.4. Principle of Profit-Loss Sharing

In the financial structure of any country banking has got an important place by way of mobilizing idle savings and advancing the required funds for investment purposes. In this context it is very important to find an answer for the question whether interest-free banking is feasible or not to fulfill the above purpose. With the emergence of Interest-free Banking, the intermediary function so far performed by the conventional banks will undergo a transformation from simply advancing loans and accepting deposits on the basis of interest to an effective function of Profit-Loss
Sharing (PLS) which is the fundamental principle underlying it. Interest-free financing is highly significant in the modern investment arena due to the fact that it gives more emphasis on sharing the risks and also on financing productive endeavors. It promotes asset creation and social oriented developments which are materialized through project financing.

This system is emerged consequent on a wide scale demand for an alternative system which eliminates interest. Thus the interest-free financing is introduced not as a supplement to but as a substitute for the prevalent system of banking. The commercial banks are moving from the simple function of commercial banking to the realistic function of development and investment banking. The banks have a shift from mere interest earning bodies to profit sharing or dividend receiving bodies. There is a triangular partnership deal between the supplier of savings, user of savings and the bank (as an intermediary for both). The mode of agreements reached between the above stake holders are depending on the situation in which the financing is made. For example the ‘Mudaraba’ (co-operation) agreement is different to the agreement of ‘Musharaka’ (partnership).

At first there is an agreement between the bank and the entrepreneur in the matter of sharing the net profit. This net profit is again shared between the bank and savers / depositors by way of another agreement. The sharing ratio is fixed and predetermined unilaterally or bilaterally either by the bank and depositors or by the bank and entrepreneurs. Usually the proportion is 50/50 or 60% to the entrepreneurs and 40% to bank (in the case of bank and entrepreneurs) and 40% for the savers and 60% for the bank (in the case of bank and savers). The Government or central bank is entitled to make changes in the ratio as a part of its regulatory mechanism; which is similar to the ‘bank rate’ policy of the present system. The above arrangement is mainly applicable to ‘investment account’ holders. No returns are entitled to current account holders. With regard to savings bank account holders a minimum amount is earmarked to distribute as the share of profit.
PLS is a unique principle which can replace ‘interest’. The PLS ratio may be used by the Central Bank of a country as a tool for controlling money supply by way of replacing the ‘bank rate’ policy. If the central bank wants to control inflation, it can fix the PLS ratio at a higher level. Similarly, during the time of depression when the economy wants to boost the private investment the Central Banks can fix the PLS ratio at a lower level by reducing the banks share in the profit. (Mahdi & Al-asaly)\(^9\). Thus the PLS ratio can be regarded an important tool for increasing and decreasing the money supply.

Abbas Mirakhor and Mohsin H. Khan\(^{20}\) have rightly remarked “the system of investment deposits is quite closely related to proposals aimed at transforming the traditional banking system to an equity basis made frequently in a number of countries, including the United States”.

An interest-free economy can also resort to the application of tools of fiscal policy like taxes, government spending and compulsory borrowing. Since an interest-free economy is less prone to inflation and deflation and the monetary and fiscal policies can work satisfactorily for stabilizing the economy; the policy of the government will be normally on a ‘balanced budget’. The deficit budgeting and deficit financing are seldom resorted to. In unavoidable circumstances, for certain developing countries the deficit financing may be allowed to as a last attempt.

In view of the disastrous consequences brought by interest many economists, even of the western world are now advocating in favour of equity based financial arrangement in the place of interest based financing. “Would it be desirable and possible to limit the role of interest more drastically than that, for example by converting debt into equity throughout the economy? This would be in line with Islamic teaching, and with earlier Christian teaching, that usury is sin. Although the practical complications would make this a goal for the longer term, there are strong arguments for exploring it - the extent to which economic life world-wide now depends on ever-rising debt, the danger of economic collapse this entails, and the
economic power now enjoyed by those who make money out of money rather than out of risk-bearing participation in useful enterprises”. (James Robertson)\textsuperscript{21}

Thus, it can be easily noted that economic stability and efficiency can better be achieved in interest-free economy rather than an interest based economy by way of converting the debt based transaction into equity based. “Converting debt to equity is not a panacea for all economic ills. It can, however, produce many positive benefits. These benefits will not necessarily follow automatically from conversion. Concentrated effort will be required to ensure they do. Without conversion they will not happen at all.” (John Tomlinson)\textsuperscript{22}.

The equity based transactions will stabilize the value of money and there is no anxiety for the savers in the matter of reduction in the value of their savings overtime. The nature of savings will change from just units of money to units of shares. There will be a steady flow of money resulting to the avoidance of the occurrences of business cycle. The progress of the economy will be real and continuous. There will be no artificial progress achieved through raising internal and external debt. The nation and society will be relived of debt trap. The prices are more or less stabilized except the cases of slight change which happens during the process of achieving equilibrium by adjustments between the forces of demand and supply.

The burden of individual debts is also reduced considerably. The ‘benevolent’ or charity loans without interest replace the indigenous loans of money lenders who charge exorbitant rates of interest. The employment opportunities are increased and the economy will slowly progress towards the attainment of full employment.

There is sustainable economic growth; the integrity of the society and nation will be achieved to a considerable extend. All the favourable effects of equity based transactions is not a utopian idea, but realistic and practically achieved in several countries. But, the conversion from debt based to equity based transactions is not an easy task. There should be firm determination and strong decision making. The conversion may be slow and gradual. What is needed and inevitable to present economy is the will to make them happen.
Michael Rowbothom has commended on the findings of Tomlinson - “one of the most unusual and original contributions to the monetary debate was that of John Tomlinson – a former merchant banker and presents a powerful case against the debt-based money system; his solution is highly creative and shows the scope for thought outside the normal parameters of monetary reform. The work is currently being incorporated by Nova University in America as part of their master degree in economics.”

“Although this long term shifts from a bond-based to an equity-based financial system accords in many respects with Islamic economic principles, it is a trend which is by no means confined to the Islamic world and which is increasingly being championed globally. The resurgence in Islamic finance worldwide is seen by some simply as a reflection of the global economy's discernible transition from bond-based to equity-based finance.” (Philip Moore)

Thus various countries in the world as a whole are intending to study the prospects of interest-free banking; many of them are already entered into the step by step transformation. Now the topic has become much more comprehensive that the case is not something discussed and implemented in Islamic countries alone. A few non-Muslim Economists aptly suggested the conversions. The evils and uncertainties encompassed in the debt based financial operations is the reason behind to persuade them to think about the alternative.

In equity based financing the savers/depositors are expected to receive much more than they receive in debt based transactions which often becomes negative in real terms due to the exorbitant price rise caused by interest

It is argued that the equity based transactions – ‘Musharaka’ and ‘Mudarabah’ may lead to risk of losses and frequent risk of losses may result in the withdrawal and reduction of deposits by the savers (Bishnoy). He has denoted this matter as happened in Pakistan at a particular period of time.
This argument is baseless since the fact that, what happened in Pakistan at that time was not actually related to loss of returns in interest-free equity-based financing but due to political uncertainties prevailed in the country.

Moreover, it is truly pointed out that, before sanctioning the finance an interest-free bank will conduct serious evaluation of the project proposal for which funds are allotted. The methods like market survey, credit rating etc. is also resorted to. The financial capacity, trust worthiness, moral and cultural background etc. of the client are also looked into.

Again, due to the application of ‘diversified port folio’ investment, whenever there happens a loss the same is aptly compensated by the majority of others who bring forth profits. These profits are likely to be in higher rate compared to that of interest based investments, because the actual returns are fully distributed in between clients and the banks. The possibility of loss is likely to be very rare and extraordinary. Since profit is associated with risk bearing this type of minimum risk is unavoidable.

Another point of discussion in the matter of PLS is the chance of dishonesty shown by the clients by way of producing false accounts and cheating the bank by proving the business is at a loss. The problem can be solved at a great extend by the inherent methods like credit rating, auditing, supervision and monitoring. But the above methods may be superseded by restoring to the practice of bribing which may happen in a country where corruption and favouritism prevails. However, in a country where the principles of moral and ethical values are at a high degree such practices seldom happen. Even in other cases the dishonesty is only a short term affair. If a particular client is suspected to be dishonest he will be subjected to punitive steps. Moreover, an entrepreneur who is not able to run the business profitably is not at all dynamic in the sense and he will be black listed in the banking network of the country and deprived of availing any type of finance in future. Thus concealing actual profit by showing artificial losses will automatically stand against the interest of the client
themselves. The above mentioned drawbacks may still happen in lesser degree and it will be expected to eliminate gradually.

Thus it is rightly observed that an interest-free setup claims to be more superior economically and otherwise, comparing to the conventional interest based system of financing. This is especially true in the matter of achieving economic growth and efficiency by way of easy mobilization of resources and channalising them into productive investments. It can act as an engine of economic growth in the following way:

- The deposit creation and advancing loans on the basis of PLS system leads to the real asset creation and production of wealth, since the financing is based on the viability and profitability of the project. Once the interest is banned, the whole financing structure turns out to be equity based and backed by real assets.
- It also reduces the occurrences of business cycles and helps to achieve greater stability in the economy. The imbalance between production and consumption is considerably reduced.
- The money creation takes place more on the basis of equity generation and less on the basis of debt creation. Hence, it can achieve greater financial discipline and the economy will be less prone to inflation.
- The cost per unit of capital is reduced and thereby prices are fallen.
- Interest-free financing is mainly concentrated on ‘project financing’ associated with close supervision and evaluation. There is no financing for a project in which the MEC is low.
- The PLS system assures that the interest of savers, financial intermediaries and entrepreneurs are aligned together and satisfactorily fulfilled. This relationship provides more incentives to save invest and work. No one gets a share in the produced wealth without having been a part of the team who worked for the creation of wealth. The risks as well as profits are shared by all.
3.5. Rationale behind the Prohibition of Interest

The conventional banking based on interest is highly significant in the modern scenario, without which the whole economic activities will be in standstill. But the adverse consequences arising out of the interest based transactions are in an enormous degree causing acute hardships and sufferings to the society and nations. There is an upward trend in the graph of the suicide rates of those agricultural farmers, small traders and other private entrepreneurs who entered in to the ‘debt trap’ consequent on the availing of loans from banks and other financial institutions at exorbitant rates of interest. The problem of repayment of the principal amount of loan along with the multiple and compound interests happened to be a nightmare for them. The ultimate relief and the only way-out they find is to escape from the life itself. Most of the governments and nations themselves are depending on raising fresh loans just for the sake of repayment of interest in the outstanding debts. During the last budget Central Government earmarked 1,90,807 crores of rupees for the purpose of repayment of interest accrued in the existing debts. It is a wonder to note that this amount is almost 30% of the total GDP of our nation.

Table 3.1 shows that during the period 2006-07 to 2008-09 there is an increase of over 40 lakhs core in the interest payment in outstanding debts. It is surprising to note a sudden jump for an amount of Rs. 12,976 cores in the revised estimate during the same year 2007-08.

<table>
<thead>
<tr>
<th>Years</th>
<th>Interest Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>1,50,272 crores</td>
</tr>
<tr>
<td>2007-08 (Budget Estimates)</td>
<td>1,58,995 crores</td>
</tr>
<tr>
<td>2007-08 (Revised Estimates)</td>
<td>1,71,971 crores</td>
</tr>
<tr>
<td>2008-09</td>
<td>1,90,807 crores</td>
</tr>
</tbody>
</table>

Interest is the most exploitative weapon of the capitalist economy; a short cut formula and hidden method of capturing the wealth of the poor. The earnings of poor and marginalized are drained out and accumulated in the hands of rich. Those who actively involved in the process of asset creation and nation building are brutally exploited by the passive groups like the savers and banks. In a country like India 80% of the per capita income is utilized for the debt management (repayment of principal and interest). Amidst this alarming figure, the introduction of an alternative method of financing on interest-free basis as per the fundamental principles of profit-loss sharing (PLS) is the only practical solution for the problem. (Rahman Khan)²⁷

The genuine answer to the question why interest is banned can be portrayed by listing the following evil effects of interest. Interest leads to concentration of wealth in few hands and leads to inequality of income and wealth. It transfers wealth from poor to rich and exploitation of poor class. Interest based loans have a persistent tendency to allocate resources in favour of the rich and against the interest of the common people. A major percentage of loans in the present banking system are advanced to the rich, who have enough influence and contacts in the banking sector. Most of the interest based financing are ‘security’ oriented rather than ‘purpose’ oriented. Even though there is routine evaluation of the purpose before sanctioning of a loan, the financer is least bothered about the real outcome of the project. Since the rich can offer satisfactory collaterals the credit is easy for them and the financer is satisfied by the fixed returns guaranteed to him. Moreover, micro financing is not yet adequately prioritized and attended by most of the present bankers.

Thus the present banking system leads to mal-allocation of financial resources which ultimately reinforce the unequal distribution of wealth. Of the 21,84,417 account holders in State Bank of Pakistan only 9269 (0.42%) have availed 64.5% of the total advances, amounting to Rs. 438.67 billion²⁸.

In an interest-based system purpose oriented financing is less significant and hence the end-use of the funds does not constitute the main criterion of financing. Since a fixed return is guaranteed the financer is less interested for proper monitoring.
and strict supervision of the project. Hence, the project financing becomes less asset creative in comparison to an interest-free set up and may not always be successful and fruitful. Moreover, a lot many cases of interest based finances are channalised for consumption purposes and for lavish spending.

Public expenditure too are not well planned and asset yielding. Since the Governments have free access to internal and external debts they are least bothered about the productive aspect of the public debt. “Non-project-related borrowings, which were possible only in an interest-based system, have thus helped in nothing but increasing the size of debts to a horrible extent. According to the budget of Pakistan in 1998/99 46 percent of the total government spending was devoted to debt-servicing, while only 18% was allocated for development which includes education, health and infrastructure”. (Taqi Usmani) 29. According to J. M. Keynes, the productivity of capital is inversely related to the interest rate. As a result, interest leads to curtailment of production and there by unemployment and poverty. It is reasonably ascertained that the real asset creation takes place in a better way under an interest-free set up rather than in an interest based set up.

Absence of PLS system may cause injustice either to the borrower if he suffers a loss, or to the financier if the debtor earns huge profits. If the business is at loss the full pain is born by the borrower. On the other hand, if there is huge profit, the financier is entitled to get a meager return in the form of interest and not the actual share of the profit. In both the ways there is injustice. At first, if in a situation where the business is in loss, the borrower will not only bear the burden of the whole loss but also will have to pay interest to the lender. It means that, the profit or return of the financier is guaranteed at the price of the destructive loss of the borrower, which is obviously a glaring injustice. On the other hand, if the business of the borrower earns huge profits, the return of the financier is restricted to a fixed rate of interest which is governed not according to the actual profits produced. This share may be very much less than the reasonable share the financier would have been entitled if the transaction was on interest-free PLS basis. In both the ways there is injustice.
The interest-based borrowings have resulted in glaring inequalities in the system of distribution. The injustice brought by the productive loans is highly horrible to the society as compared to the injustice on the consumption loans which is confined to the personal sufferings of the borrowers. In an interest based system majority of loans are availed by the richer sections. These borrowers/entrepreneurs contribute very low amount (usually 10 or below 10%) towards the project. The remaining is advanced as loan. Thus the major part of the capital comes from the pooled in deposits of the society. The whole profit from the enterprises are appropriated by the borrowers themselves; at the same time the depositors get only a meager share in the form of interest. Thus there is a grave injustice due to the fact that 10% of contributors get 90% return while 90% of contributors get only 10% returns. Even this 10% of return of the depositors is automatically faded away due to the interest resultant upward trend in prices. The interest paid by the entrepreneurs is included in the cost of production and bounce back to the consumers in the way of increased prices. The net result is that the depositors actually gain nothing from the interest oriented productive ventures.

“While deposit comes from a broader cross-section of the population, their benefit goes mainly to the rich”. (Chapra)³⁰

"The pervasive role of interest in the economic system results in the systematic transfer of money from those who have less to those who have more. Again, this transfer of resources from poor to rich has been made shockingly clear by the Third World debt crisis. But it applies universally. It is partly because those who have more money to lend, get more in interest than those who have less; it is partly because those who have less, often have to borrow more; and it is partly because the cost of interest repayments now forms a substantial element in the cost of all goods and services, and the necessary goods and services looms much larger in the finances of the rich. When we look at the money system that way and when we begin to think about how it should be redesigned to carry out its functions fairly and efficiently as part of an enabling and conserving economy, the argument for an interest-free inflation-free money system for the twenty-first century seems to be very strong." (James Robertson)³¹
Interest based system creates idle class of people who try to generate profit out of liquid money without taking any risk of investing the same in productive ventures. People become lethargic; their enterprising character itself would be gradually faded away due to constant involvement with interest based financing.

"Riba is prohibited because it prevents people from undertaking real economic activities. This is because when a person having money is allowed to earn more money on the basis of interest, either in spot or in deferred transactions, it becomes easy for him to earn without bothering himself to take pains in real economic activities. This leads to hampering the real interests of the humanity, because the interests of the humanity cannot be safeguarded without real trade skills, industry and construction."

(Imam Al-Ghazzali)32.

Interest also results in imbalances between production and consumption since the lender is always concerned about the return for his money and not the actual needs of the society. Production is channelised towards luxurious and conspicuous consumption goods. The production of necessaries and essential goods are regulated creating heavy burden up on the Government and the subsidizing and rationing become a continuous process.

The interest always raised the cost of production and there by rise in prices and inflation. It results in cost addition, more or less in four stages, before a commodity reaches in the hands of the consumer, viz: the supplier of raw materials, producer, wholesaler, and the retailer. The resultant cost addition in four stages leads to increase in the price of the commodity. The ultimate burden is upon the shoulder of the consumers and they themselves are even compelled to avail loans on interest to fulfill their urgent consumption requirements. (Abu Shakir)33. Thus interest leads to the multistage cost addition of the commodities produced.

More over in an interest based set up the project financing are not fully operative for productive purposes. Lack of strict monitoring lead to improper operative utilization, diversion and misuse. The bulk amount of financing are also channalised towards non-productive or they are purely consumption oriented. All
these ultimately results in a serious mismatch between the supply of money and the production of goods and services and thereby causing inflation.

The situation is more aggravated by the occurrence of an important function of commercial banks *viz.* ‘credit creation’. Even though the credit creation is treated as a miraculous function of conventional banking which lead to boost production and prosperity; the adverse consequences like creation of artificial money and inflation are not highlighted much. The voice raised against it had become feeble amidst the introduction of several theories in support of ‘money creation’.

The history of ‘money creation’ refers back to the famous story of the goldsmiths of medieval England. People used to deposit their gold coins with them in trust, and they used to issue a receipt to the depositors. In order to simplify the process, the goldsmiths started issuing "bearer" receipts which gradually took the place of gold coins and people started using them in settlement of their liabilities. When these receipts gained wide acceptability in the market, only a small fraction of the depositors or bearers ever came to the goldsmiths to demand actual gold. At this point the goldsmiths began lending out some of the deposited gold secretly and thus started earning interest on these loans.

After some time they discovered that they could print more money (*i.e.* paper gold deposit certificates) than actually deposited with them and that they could loan out this extra money on interest. They acted accordingly and this was the birth of "money creation" or "fractional reserve lending" which means to loan out more money than one has as a reserve for deposits. In this way these goldsmiths, after becoming more confident, started decreasing the reserve requirement and increasing the percentage of their self-created credit, and used to loan out four, five, even ten times more gold certificates than they had in their safe rooms. (Taqi Usmani)\textsuperscript{34}

Modern banks have resorted to the same practice of creating money out of nothing. They used to advance loans many more amounts than their deposits. The coins and notes issued by the government as genuine and debt-free money have now a very insignificant proportion in the total money in circulation, most of which is
artificial money created by advances made by the banks. The proportion of real money
issued by the governments has been constantly declining in most of the countries,
while the proportion of the artificial money created by the banks out of nothing is
ever-increasing.

To sum up it is rightly observed that the interest is a menace for the people
and nation as a whole. The demerits created out of it are far higher than the
merits achieved. This is the reason behind the prohibition of interest by the
religion.

3.6. Regulatory Mechanisms

The banks act as the “central nervous system” of a market economy. Hence it
is the duty of the Government and the public to ensure an efficient banking system.
The dealings of the bank as a ‘fund manager’ should be highly efficient and
transparent. This becomes more and more important in the overall regulatory frame
work of the bank. The interest-free banks face the issue of ‘Corporate governance’
over and above those that arrives in the case of conventional banks. ‘Corporate
governance’ is the mechanism by which a company and its directors are held
accountable to share holders and to a number of other stake holders.

This accountability has to be maintained in higher degree in interest-free
banks than that of conventional banks. This is because the conventional banks receive
deposits on the basis of a debt contract under which the depositor’s capital and return
are not at risk; whereas the interest-free banks receive deposits on the basis of the PLS
contract in which both return and capital bear risk. The customers, savers and the
share holders are keenly interested to make sure that the financial institutions strictly
adhere to the ‘Sharia’ principles and also functions risk free. Ultimately, the
accountability and commitment are intended mainly to protect the interest of the stake
holders like ‘investment account’ holders, share holders and in a lesser degree the
current/savings account holders.
The differences in the functions of conventional banks and interest-free banks cause technical difficulties to the regulators. For conventional banks the ‘banking’ and ‘investment’ functions are separate; whereas in an interest-free banks both these functions are done by the same personnel. Hence, the nature of relationship between the bank and depositors is different in both the cases. In the conventional model this relationship is based on a ‘lending contract’ whereas in interest-free set up it is based on partnership and co-operation. In the case of the latter, the element of commitment is more than in the former case.

The regulatory organizations like AAOIFI (Accounting and Auditing Organization of Islamic Financial Institutions), IFSB (Islamic Financial Service Board) and SSB (‘Sharia’ Supervisory Board) are expected to play leading roles in the matter of corporate governance of interest-free banks. These organizations function by incorporating certain recommendations of ‘Basel Committee Accord’ (1988) which are used to regulate conventional banks.

IFSB is an international body having supervisory and regulatory powers on IFFIs. It is the outcome of the efforts made by AAOIFI, IDB, IMF and Central Banks of several Islamic countries. The main intention behind its establishment was to have an enforcement authority on IFFIs which was lacking in AAOIFI. The IFSB is not only able to advise the IFFIs but also can enforce the regulations on them, as it was established with the strong backing of Central Banks of various countries.

The headquarter of IFSB is at Kuala Lumpur, Malaysia. It has the regulatory role on IFFIs similar to that of Basel Committee on banking supervision on conventional banks. “The primary objective of the IFSB is to develop a uniform regulatory and transparent standards similar to Basel Committee standards that are targeted to address characteristics specific to IFFIs, keeping in mind the national financial environments, international standards, core principles and good practices” (Iqbal and Mirakhor).

The regulatory issues commonly faced by the interest-free banks may be explained under the following heads.
Risk Management

Since the interest-free banks work on the principle of ‘risk sharing’; the major risk confronted with such banks is uncertainty in generation of income from investment of funds. Hence, the bank is liable to make the investment more viable so as to obtain the best profit available in the market. This is called as ‘commercial risk’ peculiar to Islamic banks (Michael Clode)\(^3^6\). Necessary care must be taken by the bank with regard to the long term high yielding investment contracts on ‘Mudarabha’ and ‘Musharakah’ so that the result is fruitful and hence protect the interest of the savers. The savers are expected to get a return over and above what is received from conventional banks (normal returns + a premium for the risk bearing). If not, the savers will consider to deposit their funds in conventional banks where a certain and fixed return is offered. This is the major challenge that faced by interest-free banks to enhance their survival possibilities.

In order to overcome this problem, the interest-free banks choose to deploy their funds in short-term quick yielding and low risk investments like ‘murabaha’ transactions. This is achieved by restricting the investment portfolio in long-term high yielding projects; ultimately loosing the profit margin of the savers and the bank. This problem has to be tackled by formulating efficient mechanisms by which long-term high yielding investment projects are operated smoothly. Effective project evaluation, proper market survey, close monitoring, consistent supervision, transparent accounting etc. are the risk aversion portfolios to be maintained properly by interest-free banks.

Liquidity crunch and liquidity management

Interest-free banks today face the problem of ‘liquidity crunch’ as there is the need for keeping high volume of reserve requirements to meet the withdrawal demands frequently expected from the depositors. Liquidity issue arises due to mismatch between the maturity of assets (loans) and liabilities (deposits), resulting in either surplus of idle cash to be invested or a shortage of cash to be funded instantly. In an interest based system banks can overcome this problem by investing the excess funds
in readily acceptable and negotiable financial instruments like long term securities (shares and debentures) and short term financial papers like treasury bills, commercial papers, CDs (certificate of deposits) etc. On the short term basis the mismatch can be easily adjusted with excess cash being placed or deposited at interest and cash shortages being covered by borrowing at interest.

But in the case of interest-free banks, the non-availability of acceptable financial instruments or capital market operations lead to severe consequences of maintaining a high volume of idle funds in anticipation of sudden need for liquid cash to meet either customer withdrawals or financing needs. This is a type of risk encountered with Interest-free banks which is called as ‘market risks’ arising out of non-marketability of the Islamic securities (Kenneth Baldwin)\(^37\).

Through the short term sale of commodity ‘\textit{murabaha}’ securities and short term ‘trade financing’, interest-free banks have been partially able to overcome this problem and generate a modest return on surplus cash. Efforts have to be made to solve the problem on a permanent basis by introducing long term ‘\textit{mudarabha}’ securities offering high liquidity enabling to trade them in a ‘secondary market’. This necessitates the existence of market-makers, capable of making bid and offer in the secondary market for buying and selling securities and financial papers.

There is also the need for an active ‘inter bank borrowing facility’ so that the interest-free banks can over come the problem of liquidity crunch. “The real challenge of developing an efficient Islamic inter bank market is the development of a set of acceptable instruments that satisfy the liquidity, profitability, security and ‘\textit{Sharia}’ compliance needs of Islamic banks”. (Youssef Shaheed Maroun)\(^38\).

Steps should also be taken to strengthen the secondary markets with necessary supporting services like credit rating, risk management, liquidity and asset valuation. The facilities like lender of last resorts by central bank, deposit guarantee scheme etc. should also be implemented effectively. “Malaysia and Sudan have developed acceptable instruments for establishing an active secondary market and promoting efficient liquidity management like ‘secured commodity \textit{murabaha’}, \textit{mudaraba sukuk}, \textit{etc.}”
salam sukuk, leasing sukuk, Islamic developing sukuk, musharaka sukuk and securitisation” (Youssef Shaheed Maroun)\textsuperscript{39}.

**Credit Risk**

Another major risk associated with interest-free banking is the ‘credit risk’ (Kenneth Baldwin)\textsuperscript{40} inherent in the financing activities. The interest-free banks generally lack expertise to evaluate repayment possibilities of the clients; and are unable to assess the credit risk aversion possibilities. Even if the collaterals and salary certificates are offered as securities, the recovery procedures are tougher than those of conventional banks. Due to the inadequacy of legal and regulatory provisions, Islamic banks are unable to take stringent credit risk aversion procedures on their customers. Moreover, the ‘Sharia’ principles do not allow strong recovery actions against defaulters especially in the case of Qard-Hasan (benevolent loans) and on unintentional delinquencies. Framing up of suitable regulatory and legal measures for the purpose of credit risk aversion and its practical implementation in true sense is the need of the hour for the sustenance of interest-free banking.

**Accounting and auditing**

From an accounting perspective, interest-free banking transactions do themselves differ from those of conventional banks, notably as regards to avoidance of interest. Their financial reporting methods are not covered by International Accounting Standards (IAS) and Generally Accepted Accounting Principles (GAAP). This situation led to the creation of a separate Financial Accounting Organisation (FAO) for Islamic banks, later to become AAOIFI (Accounting and Auditing Organisation for Islamic Financial Institutions) established in 1991.

The accounting standards of AAOIFI are similar in several respects to those of IAS and GAAP; but there are some differences as well. A few standards which conflicted with ‘sharia’ principles are rejected or modified. The standards in respect of ‘financial statements’, ‘asset valuation’, ‘income recognition’, ‘allocation of profits’,
‘allocation for the *Zakah*’ (charity fund) *etc.* are visibly peculiar to IFFIs (Thaha El-Tayeb Ahammed)\textsuperscript{41} and hence AAOIFI serves the purpose of re-formulating them and makes them suitable for IFFIs.

AAOIFI has so far successfully issued 18 financial accounting statements and standards, 4 auditing standards, 4 governance standards, 9 *Sharia* standards and rules and a code of ethics for accountants and auditors in IFFI plus a statement on the purpose and calculation of the ‘Capital Adequacy Ratio’ (CAR) in interest-free banks. CAR is the proposed metric for measuring capital adequacy recommended by Basel Committee in 1988. Even though the application of CAR in interest-free banking is a tougher job, the AAOIFI issued the statements showing the purpose of applying CAR on the treatment of ‘investment accounts’ and the same has been adopted by the Bahrain Monetary Agency (BMA), as the basis of its regulatory mechanism. (Michael Clode)\textsuperscript{42}.

AAOIFI has no enforcing power to compel the IFFIs for the implementation of its standards. It can only persuade the IFFIs to adopt the same. However, by April 2002 Bahrain and Sudan have already adopted the standards put forward by AAOIFI. In spite of the differences in localized regulatory requirements, various countries are in the process of evaluating and verifying the standards of AAOIFI so that they could also implement the same in due course.

**Issues related to ‘sharia’ compliance**

Portfolio in which interest-free banks have to apply proper governance is to make sure that the funds are managed in a ‘*sharia*’ compliant way, at the same time to adhere also to the prudent banking standards. ‘*Sharia*’ Supervisory Board (SSB) is the approved regulatory authority for supervising and monitoring the IFFIS. “The SSB is entrusted with the duty of directing, reviewing and supervising the activities of Islamic financial institutions to ensure that they are in compliance with Islamic ‘*Sharia*’ rules and principles. The ‘*fatwa*’ or rulings of the Board shall be binding on the Islamic financial institutions”. (Mohd Daud Bakar)\textsuperscript{43}.
Each bank should have an SSB constituted by ‘Sharia’ scholars as well as experts in banking, accounting, financing and economics. It is the most essential organ in the governance structure of IFFIs. In order to minimize the differences of opinion and disagreement among the members of the SSB; AAOIFI has issued several standards to be adopted on methods of appointment, composition of members, legal status of the ruling, internal supervision etc.

Interpretation of ‘Sharia’ laws has to be made in an agreeable manner and the same process is done with a cumbersome procedure having prolonged discussions, probing and research works (Ijthihad). Hence, the working of SSB is highly significant as regards to the functioning of IFFI. As per the AAOIFI standard, the authority to appoint the members of SSB is vested with the annual general meeting of share holders. The Board of Directors has no influence or power upon the appointment of SSB; where as it can propose the prospective names of such members. However, in certain countries such as UAE, Sudan, and Malaysia the appointment of SSB is vested with the state government.

**Legal aspects**

Interest-free banking is also confronted with some legal issues which are peculiar to the financial transactions like ‘ murabaha’, ‘mudarabah’ and ‘ijarah’. Legal problems arise mainly with regard to the guarantees and securities, economic related issues between the parties, default and its consequences, problems related to recovery, impact of loss or damage in respect of ‘ijarah’ and ‘istisna’ contracts, tax considerations and resulted implications etc. Since the interest-free contracts are based on ‘sharia’ pre-requisites and often they dispute with the conventional commercial contracts it resulted in complicated legal issues. The contractual mechanism of interest-free financing should be much more freed from occurrences of disputes and the system must be acceptable to the whole community – Muslims as well as non-Muslims. For example, in the case of ‘mudarabha’ contract the banks as the capital owner, would advance capital to the ‘mudarib’ (entrepreneur) who would invest it
using his expertise and skill; at the end both would share the profit in a pre-determined proportion. In some cases, as per agreement, the losses, if any, are to be born by the capital owner alone, unless such loss is caused by misconduct or negligence of ‘mudarib’. This type of contract is likely to cause confusion and the resulted disputes will be extremely complex.

Moreover, the tax codes and tax considerations are different in different countries. This makes the cross border transactions difficult and the resulted non-viability of interest-free investments. The interest paid on a loan is treated as a deductible expense where as the whole profit in ‘mudarabha’ or ‘musharakah’ is counted and taxable. This makes the interest-free investment unviable and less attractive to investors. In the case of savers too the interest is a passive income where as profit share is an active income.

The above discussion makes it clear that the legal issues confronted with IFFIs are much complicated and tougher than those conventional bank financing. The compatibility of ‘sharia’ law with the law of the country, proper interpretation of ‘sharia’ rules, uniformity in the laws and regulations of different IFFIs, development and expansion of research works on ‘sharia’ principles etc. are the need of the hour so that the interest-free financing would be offering certainty and convenience to the stake holders.

Reference


5. *Holy Quran*, 2nd Chapter, 275th Vers


9. ‘*Hadith*’ (Sayings of the Prophet) included in the collection of Abu Dawud (3508).


12. Dennis Mundy E. (1933) report on ‘*Great Depression – 1930*’.


39. Ibid., p171

