

## Comparative ethics of interest: the Islamic prohibition

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The debate on interest is not limited to the Christian tradition. Islamic law prohibits *riba*, a term that covers interest on loans and certain forms of unjust enrichment in exchange. It has developed a system of finance based on profit-sharing, leasing, cost-plus sales and asset-backed securities that avoid the payment of interest. Islamic finance, which has grown considerably since the 1970s, is today an industry with assets estimated in the trillions of dollars, concentrated in the Gulf states, Malaysia and other Muslim-majority countries, but also present in London, Luxembourg and other Western financial centres.<sup>1</sup>

The Islamic prohibition of interest resembles in several respects the medieval Christian prohibition that Calvin rejected. Both are based on sacred texts, both condemn the exploitation of the needy, and both have given rise to legal techniques that allow the financing of economic activity through instruments other than the interest-bearing loan. The Islamic *mudaraba*, a partnership in which one party provides capital and the other labour, and profits are shared, resembles the medieval *commenda*. The *ijara*, a lease, resembles the rent contract. The scholarly boards that certify the compliance of Islamic financial products with religious law recall the canonists who assessed the lawfulness of medieval contracts.

For a Swiss financial centre that serves clients from the Middle East, Asia and Africa, the Islamic ethics of finance is a practical matter. Swiss banks and asset managers offer products that comply with Islamic law to clients who require them. Swiss law accommodates these products within its general framework of contract and financial regulation. The history of the Christian debate on interest, from the scholastics through Calvin to the modern law of credit, helps the practitioner to understand the logic of a system that many Western lawyers find unfamiliar. It also shows that the ethics of credit is a question that every civilisation has had to answer, and

that the answers, although they differ, share a concern for fairness and for the protection of the weak.

## 1 Notes

1. On the prohibition of riba and the instruments of Islamic finance (mudaraba, musharaka, ijara, murabaha, sukuk), and on the size of the Islamic finance industry, see the reports of the Islamic Financial Services Board. Figures to be verified. ↩

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