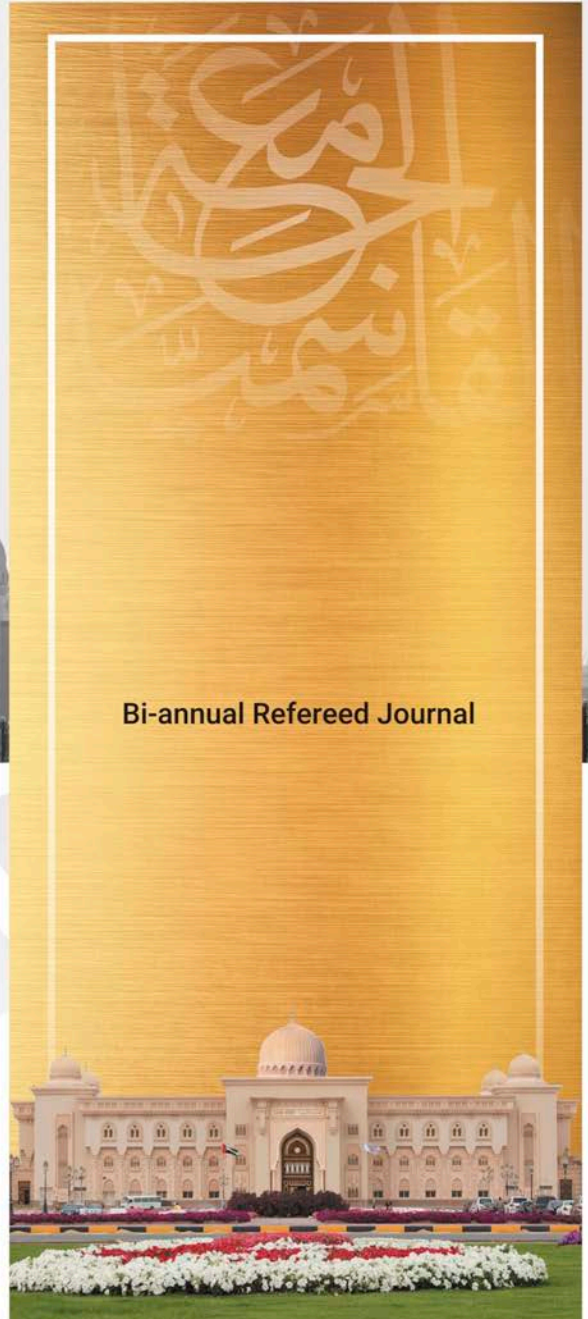
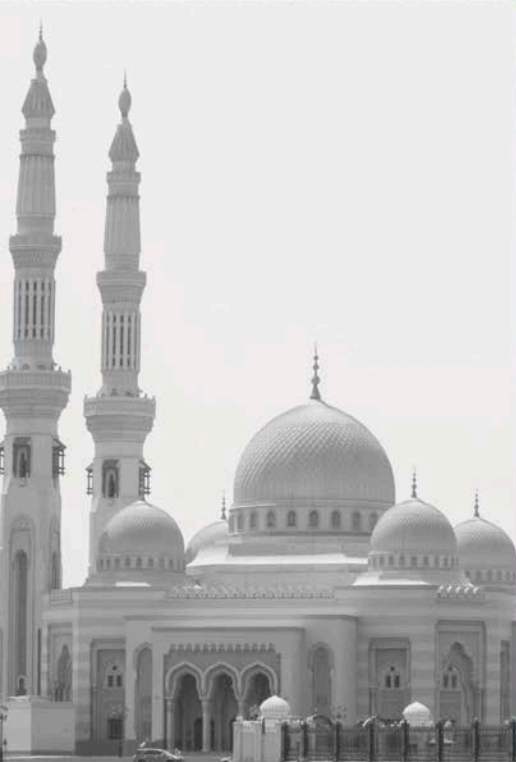


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## الدين والائتمان ونظرية المعرفة الإسلامية

### DEBT, CREDIT AND ISLAMIC EPISTEMOLOGY<sup>1</sup>

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#### الملخص

في الأدبيات التقليدية، يفترض أن التمويل هو حياة الاقتصادات الحديثة ولا يمكن تنفيذ المعاملات المالية بدون ديون. يعتمد النظام بأكمله على سعر الفائدة. من المفترض أنه بدون الديون، لا يستطيع اقتصاد السوق أداء وظائفه بكفاءة، وبالتالي، فإن التخصيص الأمثل للموارد غير ممكن. ومع ذلك، بشكل عام، يعتقد أيضا في أدبيات علم الاجتماع والأنثروبولوجيا والاقتصاد الأخلاقي أن الديون لعبت دورا سلبيا في زيادة الجشع وخيانة الأمانة في المجتمعات. تاريخيا، لوحظ أن معظم الأزمات الاقتصادية والاكتئاب ترجع إلى مستويات مفرطة من الديون. وعلاوة على ذلك، يلاحظ أيضا أن الدين يخلق عداوة بين الدائن والمدين. من ناحية أخرى، يرشد الإسلام أتباعه إلى أن الله (سبحانه وتعالى) قد خلق علاقة تنطوي على ديون مشبعة بالعدالة. سوق الدين في النظام الإسلامي يعزز

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الفضيلة ويخفف الرذيلة. يجب أن يعمل أتباع الإسلام في سوق الديون وفقا لتصميم الله (سبحانه وتعالى) الذي يقوم على قرض الحسن (القرض الخيري). تناقش هذه الورقة سوق الدين في الإطار التقليدي والإسلامي، والعلاقة بين الاستهلاك الواضح والديون، ودور قرض الحسن، وتسلط الضوء على الجوانب القائمة على القيمة للدين والائتمان. وبالتالي، تقدم هذه الدراسة رؤية قيمة فيما يتعلق بالديون والائتمان في الإطار الإسلامي، لصالح الباحثين وصانعي السياسات والمجتمع الأوسع.

### Abstract

In the conventional literature it is assumed that finance is the life of modern economies and financial transactions cannot be executed without debt. The entire system is based on the rate of interest. It is assumed that without debt, the market economy cannot conduct its functions efficiently, therefore, the optimal allocation of resources is not possible. However, in general, it is also believed in the literature of sociology, anthropology, and moral economy that debt has played a negative role in increasing greed and dishonesty in societies. Historically, it is observed that most economic crises and depressions are due to excessive levels of debt. Furthermore, it is also observed that debt creates enmity between the creditor and debtor. On the other hand, Islam guides its followers that Allah (s.w.t.) has created a relationship involving debt imbued with justice. The debt market in the Islamic system promotes virtue and mitigates vice. The followers of Islam should operate in the debt market according to the design of Allah (s.w.t.) which is based on the *qard al-hassan* (benevolent loan). This paper discusses the debt market in the conventional and Islamic framework, the relationship between conspicuous consumption and debt, the role of *qard al-hassan* and further highlights the value-based aspects of debt and credit. Consequently, this study provides valuable insights regarding debt and credit in the Islamic framework, for the benefit of researchers, policy makers and the wider society.

**الكلمات الدالة:** الدين، الائتمان، الاستهلاك الواضح، الإسلام، قرض الحسن.

**Keywords:** Debt, Credit, Conspicuous Consumption, Islam, *Qard al-Hassan*.

## 1.0 Introduction

In economics, finance has a unique function. Financial transactions are the life of economic activities, and historically, financial transactions are considered the foundations of economic growth. It is assumed in the conventional economic system that the growth of economic activities is based on the two aspects of finance involving credit and debt. The concept of credit and debt has evolved differently in every culture, religion, society, and community. After the financial crisis of 2008, experts raised several important questions: for example, what role does finance have with regard to the moral, ethical, and religious values in the process of economic development? Why do societies generally deem credit as good and debt as bad? Is the moral evaluation of credit and debt valid for both lenders and borrowers? Why are creditors considered virtuous and debtors vicious? If a friend is lending to you during your suffering, will you also then lend to him in his distress? When and how much can a person lend to his household and to strangers? Is there any general rule laid down about lending and borrowing? Is lending a constraint on the process of development? Is there any time limit for the lending period? Similar issues were also raised by others (Liang, 2011 and 2012 and Spate, 1959, p.24).

These questions are indeed logical and important from a policy perspective. However, these questions have yet found convincing and explicit answers, since prior literature has not paid the required attention in addressing these concerns. This study therefore attempts to shed light on debt and credit under the umbrella of Islamic epistemology which has been largely ignored by previous literature. More specifically, this paper discusses the debt market in the conventional as well in the Islamic framework to provide clearer understanding for researchers, policymakers and the wider public. Furthermore, this study pays significant attention to the relationship between conspicuous consumption and debt, and the role of *qard al-hassan* as highlighted in Islamic epistemology. Finally, this study also provides significant discussion on the value-based aspects of debt and credit.

Accordingly, this study contributes to the ongoing literature on Islamic epistemology in three distinct ways. Firstly, it sheds lights on the role of credit and debt in the Islamic framework which is rarely

researched. Secondly, it provides detailed discussion on the role of *qard al-hassan* given its central importance in the Islamic framework. Thirdly, it offers new insights regarding the value-based aspects of credit and debt in the Islamic framework.

This study is organized into the following remaining sections. Section 2 provides an overview of the foundations of debt-credit on the basis of Islamic epistemology, while section 3 provides a review of literature on conventional as well as the Islamic framework. Section 4 develops the relationship involving trust and debt in both the cases. The impact of conspicuous consumption on the demand for debt and inequality is discussed in section 5. Section 6 highlights the nature and importance of *qard al hassan* whereas section 7 elucidates the process of lending to borrowing in terms of virtue and vice. The last section provides some concluding remarks.

## 2.0 Foundations of Debt-Credit: An Overview

It is generally believed that Allah (s.w.t.) has created all resources, and Allah (s.w.t.) has absolute ownership. The role of the human being is that of a trustee; therefore, it is the responsibility of the human being as a trustee to allocate these resources in an optimal way. It is also observed that credit and debt can be the source of those activities enabling societies to serve human beings by providing different useful and valuable goods and services such as health, education, food etc. There is a consensus that channels of credit and debt provide resources to those of limited means for their future needs, especially in terms of serving humanity. There is also the belief that the debt market also create love among members of society. It is presumed that the savers supply their surplus resources to those in need for a fixed period, to show their love and care to them.

On the other hand, especially in the system of Islam, borrowers are expected to show their love to the lending party, try to use these resources, and pay them back as guided by the *Shari'ah*. This presents a good opportunity to create an environment imbued with brotherhood. However, with any selfish behavior then there is warning from Allah (s.w.t.) towards those who, "...refuse to give even the simplest aid." (*Al-Qur'an*, 107:7). However, the debt and credit markets involve transactions that occur in the present are concluded in the future. It is

worthwhile to note that the future is always uncertain and hence several risks are involved. It is also a well-known phenomenon that human actions significantly impact future events and the same is observed in the environment of business and finance (Miller, 2007). Due to an uncertain future, risk always persists. In the *Qur'an*, Allah (s.w.t.) has mitigated this risk by stipulating that a loan contract should be written in the presence of two witnesses (*Al-Qur'an*, 2:282). Thus, Allah (s.w.t.) intends that a debt should be handled wisely. In most religious teachings, one should not borrow beyond his needs, and the borrower should be assured that he will be able to pay in the future (Liang, 2011; 2012). It is also mentioned in the different scriptures that there is a sharing of resources in the process of debt and credit, where greed and dishonesty can easily enter into the relationship. If one party is becoming a defaulter, both leave the state of love and justice (Shiller 2009, Stiglitz 2010, Terrill 2010, Davis 2009, Rosner 2008). In reality, the requirement is to create an environment of brotherhood and the welfare of humanity. In the *Qur'an*, Allah (s.w.t.) mentioned that “If the debtor is in distress, then let there be postponement until he is at ease.” (*Al-Qur'an*, 2:280), and Prophet Muhammad (s.a.w.s.) regularly supplicated, “Oh Allah, I seek refuge with You from sin and heavy debt.” (Bukhari, 3:582).

Accordingly, the objective is to protect and promote good relations among fellow members of society. Theologists also agree that the non-repayment of a loan does not mean a debtor is committing sins. When someone offers credit to someone, he willingly accepts it based on his trust in the borrower. In fact, it is a virtuous circle between risk and trust. If someone cannot pay back his debt, Allah (s.w.t.) increases the reward of a lender who remits it as charity, “if you remit it by way of charity, that is better for you if you did but know” (*Al-Qur'an*, 2:280). Hours and Ahmed (2015) opine that debt is a “Janus-faced phenomenon”. On one side, it is positive; after all, it helps society's social and economic norms and on the other side, it is negative because it leads to greediness and dishonesty. If society is not morally well-trained then it also creates an environment of “domination and dependency”. It is also observed by researchers that generally small business holders borrow from relatives and friends because their

priority to avoiding shame and vulnerability if they are not able to pay back on time (Baumann and Fall 2015).

### 3.0 Literature Review

Hayek (1944) is the most propagator of the market economy. He emphasized that the market is the only institution which allocates the resources without any bias. Similarly, the same rules are implemented in the financial market, for example, the supply and demand of funds following the market mechanism, which are neutral in their values. However, it is recognized still some gaps persist in the market economies which require intervention from the other institutions, i.e. government, etc. (Polanyi 1944). Moreover, due to neutrality of the market the degree of greediness, dishonesty, and other immoral values are increasing. On the other hand, it is also admitted by the experts that the presence of moral and ethical values has their own significance in increasing virtuous and reducing vicious values. The followers of Islam believe that Allah (s.w.t.) is the only Creator and Owner of everything. Whereas the role of man is that of a trustee and man is accountable to Allah (s.w.t.) for all his deeds, because the life of this word and that of the hereafter are linked. The source of guidance is the revelation from Allah (s.w.t.) and the practice of Prophet Muhammad (s.a.w.s.), i.e. *Qur'an* and *Sunnah*. Islam provides the guidance for every aspect of life. Therefore, Islam also provides guidance for financial transactions and contracts. With this in mind, the following sub-sections present the literature related to the conventional as well as the Islamic framework.

#### 3.1 Debt and Credit in the Conventional Framework

In the literature of economic anthropology, debt is considered synonymous in some communities with guilt, vice, burdensome, impecunious, importunate, imprisoning, and sin (Howe, 1998; Lowrey, 2006; Taussig, 1987). It is also presumed in most communities that debt is not a sacred phenomenon; however, forgiveness or the ability to eliminate it is considered sacred. Bad debt is when someone does not pay 100% back (minus 100% negative interest); if half paid, then minus 50%; if fully paid, it is minus 0%. Entering into debt might be regarded as gratifying, but paying it back

is not. Debt involves free gifts, but also seizure, and all that is in between. It is also considered a trap instead of a blessing. In this modern age, different organizations are measuring the credit history of the debtor and then label/rank them as good or bad debtors (Leyshon & Thrift 1999).

On the other hand, credit is synonymous with being moral, virtuous, beneficial, credible, involving honor, reputation, trustworthiness, and liberating (Nugent 1996, Truitt 2007, Zelizer 1994). Also, it is worthwhile to note that credit is considered extinguished when associated with bad debt. It is also assumed in some communities that debt is destructive, whereas credit is productive; credit is a sign of power, whereas debt is a sign of weakness (Bataille 1991). Mauss (1954) believes that the state of credit and debt is developing the foundation of the hierarchical state of the community and creates the power of influence over the debtor. On the other hand, these two aspects of the financial market also build a state of solidarity in society. However, credit and debt are inseparable and have a dyadic unit. "The nature and intentions of the contracting parties, the nature of the thing given, are all indivisible" (Mauss, 1954, p.60 and p.36). Malinowski (1922) asserts that the creditor and debtor dyadic relation expresses the creditor's superiority and dominance over the debtor because it transfers wealth from one segment of society to another: "handing over of wealth is the expression of the superiority of the giver over the recipient" (Malinowski, 1922). It is also mentioned in the literature that creditors have social power in some regions, whereas debtor is considered as a weak agent. It is also argued that on one side of the balance sheet, the resources are represented as credit by one owner; on the other side, ownership is changing and represents debt (Dunn 2004; Anderlini & Sabourian 1992, pp.75-106). The creditor is denying current resources for productive purposes and refusing its future perspective. Credit is also known as a "fictitious capital", i.e. investment based upon the expected future returns.

Credit and debt are also the current exchange with the promise of future exchange. However, the future is uncertain in many places, and the time is not fixed (Marx, 1894, p.595). This dyadic relationship is the transformation of future resources into productive current resources. For the creditor, this state is inverse (Anderlini &



Sabourian, 1992, pp.75-106; Guyer, 2004, p.28; Bohannan, 1955). In some cultures, it is a personal qualitative relationship, whereas in others, it is a quantitative relationship. Again, in some cultures, it is silent and invisible among the members of the society and visible in other communities. In some societies, debt is considered constructive because the surplus resources are used for productive purposes (Comaroff & Comaroff, 1990; Ferguson, 1990; Parry & Bloch, 1989. Roitman (2005) discussed “the productivity of debt” and opined that it is a “form of abundance instead of lack” and he also observed that it is not essential that the debtor is needy, but sometimes, he creates new needs and demands the debt. In certain cultures, the desire for fresh products and services is generated through advertising, often leading to the accumulation of debt due to increased consumption (Strathern, 1992, pp.169–91; 1988). Credit will come first, then converted to debt. This transformation is completed in three stages, i.e., the first request for credit (preliminary), the second is the credit potentiality but belongs to the future (luminal), the third, if trustworthy, then granting the loan, and credit becomes history and shifted into debt (postliminary). However, this credit request is familiar among the relatives and friends of the poor. Credit and debt are identical; one (credit) is the preceding position, and the other (debt) is opposition. Potential credit if it is not accepted, and if granted, then it is debt. However, with a credit card, both (credit and debt) are not identical; debt is the amount owed, and credit is the unused limit. It is also observed that sub-prime borrowers are charged a high-interest rate by the banks. Geertz (1978) discusses the current banking system and expresses it as “buying cheap selling dear.” It is assumed in conventional commercial societies that interest is the life of credit, whereas credit is the life of commerce and trade (Nelson, 1969). Currently, if money lending is considered a good thing, it is called credit; when it is considered bad, it is known as debt. Positive and negative reciprocity is common in the conventional financial market, positive in dealing with kin and negative in dealing with others in market transactions. It is assumed in conventional commercial societies that interest is the life of credit, whereas credit is the life of commerce and trade. Lending money to create debt is generally considered negative, while lending money to establish credit is

positive (Nelson 1969). MacDonald (2000) documented that giving on the request or demand to others and expecting to pay back creates a different social dynamic.

There is no general rule about lending and paying back among relatives and friends. In most traditional societies, the request for credit from kin plays a very significant role. The lending process also has similarities with the process of exchange of gifts, i.e. “the gift exchange and the obligations to give.” Small loans are typically sought from family or friends, often at “zero or negative interest rates,” while larger amounts are requested from banks. In traditional societies, it is commonly accepted that loans requested for specific purposes such as a funeral, marriage, and health expenses may not be repaid, and their requests are rarely declined. While still important, education expenses may have lower priority in this context. In micro-financing, micro-credit is shifting into micro debt, and the collectors are harassing the borrowers. Borrowers have the right to make a request, and the creditor has the right to refuse it. Paying the debt of ancestors is the liability of descendent (Klima, 2002; Lambek, 2001; Strathern, 1988) and it has economic as well as has moral effects, “Surely one has to pay one's debts.” However, paying the debt of ancestors is actually a moral value (Gregory, 2012), and the journey of credit to debt, in real terms, is “commercial reincarnation” and credit to debt is like “light to dark”, so that commercial contracts are not necessarily regarded as neutral in the conventional system. Indeed, terms referring to “sharing” (Woodburn 1982), “reciprocity” (Mauss, 1954), “generalized” and “restricted exchange” (Levi-Strauss, 1949; Sahlins, 1972), “transfers” (Hunt, 2002), and “enactions” (Sneath, 2006), reflect transformation of resources in the credit/debt system, which cannot be evaluated based on “economic rationality” or “self-maximization.” Mauss (1954) said it is a market phenomenon. Simmel (1907) said a “debtless man can be a sign of sovereignty and strengthen the social ties because of debt and credit.”

### *3.2 Debt and Credit in the Islamic Framework*

However, in Islamic epistemology, the relationship between the two parties has a different and unique dimension, i.e., brotherhood among the members of the Islamic society. Interestingly, in the Islamic

system, credit has a different dimension and more reward if given to Allah (s.w.t.), i.e., spending in the way of Allah (s.w.t.). Furthermore, in Islamic epistemology, the upper hand is better than the lower hand, i.e., the one that gives is better than the that receives. The Prophet (s.a.w.s.) said, “The upper hand is better than the lower hand (i.e., he who gives in charity is better than him who takes it). One should start giving first to his dependents. And the best object of charity is that which is given by a wealthy person (from the money which is left after his expenses)” (Bukhari and Muslim).

It is worth noting that the interpretation of the future from a religious perspective is different. For example, the Islamic interpretation of exchange is based on integrating both this world and life hereafter. This current life represents the present, and life hereafter represents the future. The creditor will get the reward in the life hereafter. His status in the Islamic epistemology is considered as “*muttaqi* (a pious person)” instead of a powerful personality as in the conventional literature. Therefore, credit in religious epistemology is not considered “fictitious capital” because the creditor is not making worldly profit from this religious investment, however, from the Islamic point of view, the creditor is using his resources for the expected reward in the future, i.e. life in the hereafter. However, it is allowed to pay more during the process of repayment, this was the practice of the Prophet (s.a.w.s.) but it was not predetermined, not decided and not fixed, but any extra amount was a gift (*hibah*). As narrated by Jabir Ibn Abdullah “The Prophet (s.a.w.s) owed me a debt and gave me something extra when he paid it” (Abu Dawud, no.3347). In Islam, debt is not recommended and appreciated if someone requests debt for enhancing his wealth. In addition, Islam does not a borrower to wastefully spend beyond their means if they are not needy. The Prophet (s.a.w.s) said: “Whoever takes people's wealth intending to waste, Allah will destroy him” (Ahmad). Also, the Prophet (s.a.w.s) said: “For a rich man to delay payment (of debt) is a wrongdoing” (Bukhari, 2287; Muslim, 1564).

However, in this system, sharing/participating modes of investments are appreciated in terms of the Islamic *mudharabah* and *musharakah* partnership contracts. With debt transactions, nobody knows whether borrowers will use these resources for productive

purposes or for their extended or unnecessary consumption. Whereas, with the *mudharabah* and *musharakah* the purpose is to use resources for productive purposes in the real economy. From the Islamic perspective, it is a quantitative and qualitative relationship because debt is benevolent without interest; therefore, the expected reward from Allah (s.w.t.) is quantitative as well as qualitative. The creditor earns the utility, due to self-satisfaction which he gains by helping others as well an expected reward from Allah (s.w.t.). From the Islamic point of view, debt-credit is not a silent contract, because the testimony of two witnesses must be there. Furthermore, Islam allows a cash loan as a form of social service from the rich to the poor for providing financial assistance, i.e. *qard al-hassan*, which is loan-cum-charity. It was narrated from Anas bin Malik that the Prophet (s.a.w.s) said: “On the night on which I was taken on the Night Journey (*Isra*’), I saw written at the gate of Paradise: ‘Charity brings a tenfold reward, and a loan brings an eighteen-fold reward.’ I said: ‘Oh Jibril! Why is a loan better than charity?’ He said: ‘Because the beggar asks when he has something, but the one who asks for a loan does so only because he is in need’” (Ibn Majah).

On the one hand, borrowers should repay as early as possible and obtain the reward from Allah (s.w.t.), and creditors should delay repayment as much as possible to also earn the reward from Allah (s.w.t.). As the Prophet (s.a.w.s) said, “Truly the best of people are those who are best and most courteous in their demand for repayment” and he also mentioned how lender will act after paying the loan: “whenever someone gives loan to his brother he is also praising and praying him wherever he goes.” Surely, this will increase love among debtors and creditors. On the other hand, the Prophet (s.a.w.s) also sought refuge from Allah (s.w.t.) from being overburdened by debt as narrated by Anas Ibn Malik, the Prophet (s.a.w.s) said, “Oh Allah, I seek refuge with You from worry, sorrow, incapacity, laziness, cowardice, avarice, being overburdened by debt and being overcome by other men” (Al-Adab Al-Mufrad, 33:801). The Prophet (s.a.w.s) also mentioned that borrowing leads to an immoral state. Aisha (r.a.) asked the Prophet (s.a.w.s.) why he often invoked *dua* against being in debt. He replied, “Whoever gets into debt speaks lies, and makes a promise and breaks it.” (An-Nasa’i, no.5454); and similarly in another

*hadith*: “Oh Allah, I seek refuge with You from sin and heavy debt).” Someone said to him: “How often you seek refuge from heavy debt!” He said: “When a man gets into debt, he speak and tells lies, and he when makes a promise he breaks it” (Bukhari and Muslim). In Islam, lending is considered a blessing, and it is better than charity; a benevolent loan is a socially binding force among the members of the society. However, in Islam, the measurement of risk has a different measurement. In reality, if someone is needy and cannot afford to pay back a loan, it is not a bad risk; forgivingness in this situation is considered virtuous. Lending has economic as well as has moral effects.

In other scriptures, the moral evaluation regards debt as bad and credit as good. Before the distribution of the wealth of a deceased person, it is also recommended that his heirs should pay his debt. As discussed by Klima (2002), Lambek (2001), and Strathern (1988) about paying the debt of ancestors. Similarly, from an Islamic perspective, Allah (s.w.t.) “If you have brothers or sisters, your mother receives a sixth, after any bequest you make or any debts.” (*Al-Qur'an*, 4: 11). Also, the Prophet (s.a.w.s) said, “The soul of the deceased believer remains pending on account of the debt till it (the debt) is repaid.” (Al-Tirmidhi, 7:49). Muslims have to settle debts outstanding from their ancestors, for giving *sadaqah*, in performing *Haj* and *Umra*, and in other rituals. It became the *sadaqah jariya*, i.e., it is a religious debt. In the conventional system, interest is considered productive; however, it is impossible to be productive in the Islamic system because, Allah (s.w.t.) has confirmed punishment for *riba* transactions. The concept of credit and debt has a unique status that does not match with the conventional setting. As Geertz (1978) mentioned, the conventional banking system is based on a theory of interest, and it does not match with the Islamic system, because there is no expectation of any returns. In the Islamic system, the true Muslim is not allowed to put the pressure on the debtor if he is not able to pay; therefore, in return, a creditor will get the reward from Allah (swt). As the Prophet (s.a.w.s.) has said, “May God bless one who is lenient when he buys, lenient when sells, and lenient when collecting his dues from others.” However, in the Islamic system, the transfer of debt is allowed which gives the relief to the lender and creditor, as the Prophet

(s.a.w.s.) said, “Procrastination (delay) in paying debts by a wealthy man is injustice. So, if your debt is transferred from your debtor to a rich debtor, you should agree” (Bukhari, no.2287). It is worthwhile to note that begging is not permitted in Islam, unless a person is burdened with heavy debt, as the Prophet (s.a.w.s.) said, “Begging is not lawful except for one of three cases: a man who is in heavy debt, so begging is permissible for him until he pays it, after which he must stop...” (Muslim no.1044).

From an Islamic perspective, all actions with positive intentions always have positive reciprocity and no room for negative reciprocity. There is no concept of interest, and debt is only interest-free, whereas, for commercial activities, the approach of participatory partnership is more appreciated than trading risk-free financial instruments. It is mentioned in the *Qur'an* charity is the source of growth, whereas interest destroys commerce (*Al-Qur'an*, 2:276). The lending phenomenon explained by Nelson (1969) and MacDonald (2000) does not exist here because there is a specific rule about the lending process. These rules minimize the chances of conflict and enmity between the lending and borrowing parties. A debt is not limited to immediate relatives because all Muslims are considered brothers; therefore, there is no restriction on the loan request. “The gift exchange and the obligations to give” is not a permanent feature of Islamic society. It depends upon the economic state of the borrowers. As is mentioned before, there is no room for interest, since an Islamic economy is an interest-free economy. However, those seeking finance might approach Islamic banks, with transactions based on partnership (*musharakah* or *mudharbah*) in order to generate a return on investment by sharing risk and return. Generally, in the Islamic system, charitable transactions (*sadaqah*) involve the giver expecting a reward from Allah (s.w.t.). However, in the Islamic moral system, it is not easy to make a request for loans, also at the same time not easy for the lenders to refuse, because of the relationship among Muslims, i.e., brotherhood. As narrated by Muhammad ibn Jahsh, the Prophet (s.a.w.s.) said, “By the One in Whose hand is my soul, if a man were killed in battle for the sake of Allah, then brought back to life, then killed and brought back to life again, then killed, and he owed a debt, he would not enter Paradise until his debt was paid off” (An-Nasa’i).

Furthermore, “The Prophet (pbuh) refrained from offering the funeral prayer for someone who had died owing two dinars, until Abu Qatadah promised to pay it off for him”. When he saw him the following day he said, ‘I have paid it off.’ The Prophet said: ‘Now his skin has become cool for him’.” (Ahmad).

In the Islamic system, requesting debt is not considered good without a solid reason. Both creditor and debtor have the same status; however, there is more value for the creditor because he is getting more reward in terms of *sadaqah*. In this system, it is not a neutral or negative activity but a blessed activity. A temporal boundary is integrated between the life of this world and the life of the hereafter. The relationship between debtor and creditor is not based on economics, but rather brotherhood. In the Islamic system, there is no room for interest, and any discount on the amount owed may only be offered by the creditor on the basis of the debtor’s economic status, as first parties.

#### 4.0 Trust and Debt

Lorenz (1988) stated that “promoting trust is costly... lack of trust is more costly still” (Lorenz (1988, p.209). In fact, a lack of trust creates more market instability, and reflects a major constraint in business activities, given the associated cost of checking the trustworthiness of economic agents. It implies that trust reduces transaction costs and makes business transactions operate more smoothly in market economies (Dasgupta, 1988, p64; Williamson, 1993). Trust is also discussed in the literature of economics and finance. It emphasizes that trust positively impacts economic and financial activities, whereas distrust negatively impacts these activities (Algan and Cahuc, 2007). In Croatia, *lanac kompenzacija* is a local tradition where members of the community help one another through a scheme where everyone participates in pooling a fixed amount of money involving debt or credit rotation, i.e., A’s debt will be paid by B and B’s debt will be paid by C and so on, involving a chain that is established among parties, as needed. This phenomenon is based on the trust among the members of the business and local community. Similarly, in the Indian sub-continent, credit rotation, is also based on trust among the community members, according to their needs. These initiatives help

develop relationships and trust among communities. This is based on the traditional culture where communities help each other, and is not burdensome as members act as agents of one another.

Almost all religions, particularly Abrahamic ones, the intent is to increase human well-being. Salvation is the ultimate goal, to achieve eternal happiness in the life hereafter. Similarly, Islam emphasizes cooperation, mutual help, and sharing, which ultimately develops trust among the members of the society, especially with regard to the *qard al hassan* (Widiyanto et al, 2011). Furthermore, according to Islamic teachings, with man's position is trustee, trustworthiness and faith are highly associated with each other, as the Prophet (s.a.w.s.) said: "One who is not trustworthy has no faith", and trust is the main ingredient of *qard al-hassan*. In religious societies, debt does not create a major problem as members trust one another. Similarly, under the Islamic environment, debt is without worldly reward, and the only reward is expected in life hereafter. As such, the lender shows more kindness towards the borrower. However, there is also good news for the borrowers if they have the intention to pay back their loans, then Allah (s.w.t.) will make it easy for them, as Prophet (s.a.w.s) said: "The one who takes people's wealth intending to pay it back, Allah will pay it back for him, and the one who takes it intending to destroy it, Allah will destroy him." (Bukhari). Debt is a serious matter, thus, if it is for necessities then it is allowed to request, but it is better to try to pay off as soon as possible. In addition, a Muslim debtor places his trust on Allah (s.w.t.) and prays to Allah (s.w.t.) to make it easy for him to pay off his debt, and when the teachings of Islam are adhered to, trustworthiness is improved.

## **5.0 Household Debt and Conspicuous Consumption**

In this section, an effort is made to shed some light on the association between household debt and consumer behaviour. It is observed from the literature of consumer behavior that consumption is a decision-making process which depends upon the behavior of the household and the functioning of the financial system. Theoretically, it is assumed that household's behavior is essentially based on economic variables (income, prices, and preferences), sociological variables (status of the household), psychological variables (attitudes and



habits), and cultural variables (tastes of the household). Current literature on the relationship between debt and consumption has different forms and dimensions, a different context and impact on different social groups (Santos, Costa and Teles, 2014; Warde, 2014, 2015). There are several variables which have a significant impact on the association between debt and household consumption (Cook et al., 2011). Veblen's theory of leisure class explains how much a group has strength when having money giving a comparative edge as compared to other groups. It further explains why this class spends on conspicuous consumption; indeed, the evidence suggests that in the current financial system the personal budget is not a constraint because household can borrow from financial institutions to meet additional demand. In this case, the most important aspect is personal dignity. From this perspective, "conspicuous consumption of valuable goods is a means of reputability to the gentleman of leisure," since "the gentleman not only consumes beyond the minimum required for subsistence and physical efficiency, but his consumption also undergoes a specialization as regards the quality of the goods consumed" (Santos et al, 2014).

It has been also observed that the lower income segment also tries to "seek social affirmation" and endeavors to compete for social status, through spending on the conspicuous consumption and therefore they are spending beyond their means. Consequently, they request debt from their friends or from financial institutions. Scott (2007) termed it as conspicuous credit, which is the main cause of inequality, paying more interest, changing consumption pattern which drives consumers towards credit and ultimately over-indebtedness particularly in Western materialistic societies. Schor (1998, 1993, 2002 and 2007) discussed the new consumerism in the context of upward-vertical emulation which replaced horizontal and down-ward emulation where comfort is replaced by abundance and luxury. This behavior widens the gap between income and aspiration, increasing inequality, increasing the demand of credit, increasing the uninterrupted working hours and consumption, reducing the leisure time, increasing the women in the labor force, reducing the relationship with their extended families and neighborhood, involving aggressive market strategies for the sophisticated goods, increasing the

production of private goods and reducing the production of public goods, bridging the gap between income and expenditures, deteriorating the social environment, increasing household vulnerability, such that over-indebtedness is the hallmark of consumers of the developed economies whilst increasing the financial weakness (frailty) (Barba and Pivetti, 2009; Tridico, 2012; Froud et al., 2006; Montgomerie, 2009; Schor 1993, 1998, 2002, 2007; Montgomerie 2009). Crouch (2009) referred to the above phenomenon as “privatized Keynesianism”. Montgomerie (2009) observed that increasing income inequality due to household debt provides an opportunity to the rich people to enter the capital market, earn more income which further enhances the degree of the inequality.

As previously mentioned, debt not only has an economic rationale, but it also has anthropological and sociological foundations. However, the Islamic trajectory is different than other religions. The pattern of consumption is not based on the prices and income constraint, it also has some ethical dimensions. Thus, Islam does not appreciate conspicuous consumption, and consequently does not encourage a request for debt for this type of consumption. Indeed, moderation in consumption is required, being neither extravagant nor miserly. As Allah (s.w.t.) says “The true servants of the Merciful One are those who are neither extravagant nor niggardly in their spending but keep the golden mean between the two (*Al-Qur'an*, 25:67). Islam warns its followers for the unnecessary loans, as the Prophet (s.a.w.s.) said, “Whoever asks people for money when he has what is sufficient for him is only asking for more of the embers of Hell.” They asked him, “O Messenger of Allah, what is sufficient so that he does not have to ask for more?” He said: “Having enough to eat lunch and dinner.” (Abu Dawud), and “Whoever asks the people for money when he has what is sufficient for him will come on the Day of Judgment with scratches and lacerations on his face” (Ahmad).

Moreover, Islam does not recommend the behavior of upward vertical emulation among his followers, i.e. the lower strata endeavours to become the part of those social strata which is immediately above them, as Prophet (s.a.w.s.) said narrated by Abu Hurairah, “Look at those who are beneath you and do not look at those who are above you, for it is more suitable that you should not consider

as less the blessing of Allah” (Abu Majah, *Kitab Az-Zuhd*, no.4142). As Schor (1993, 1998, 2002) mentioned that “uninterrupted cycle of work and consumption” has a strong association with the level household debt in the developed world, particularly in the United States. This promotes the degree of greediness and reduces the degree of relationship among the family members, relatives, friends, and neighborhoods. Indeed, the Prophet (s.a.w.s.) said, “If the son of Adam had a valley full of gold, he would like to have two valleys, for nothing fills his mouth except dust. And Allah forgives him who repents to Him” (Bukhari, *Kitab Ar-Riqaq*, no.6439), and he also said, “Beware of greed, for it was only greed that destroyed those before you. It commanded them to be miserly and they did so. It commanded them to sever their family ties and they did so. It commanded them to behave wickedly, and they did so” (Abu Dawud, no.1698). Thus, a person must be blessed with patience and not spending beyond their means. Moreover, conscious consumption and voluntary simplicity is encouraged since all face accountability on the Day of Judgment.

## 6.0 Qard al-Hassan

The Islamic system has a very strict principle that lending money cannot involve earning more money. There is no worldly reward for lending the money and borrowers only return the principal amount, known as *qard al-hassan* (benevolent loan). The root and source of word *qard* is from “*qaf-ra-daad*” which means to de-unite, separate, or break something. Hence, if a creditor lends an amount to a debtor on his request, it means he separates it out from his savings. There are clear instructions about the contract of lending and borrowing, i.e., writing the debt with the testimony of two witnesses, or mortgages an asset to guarantee that the debtor will pay back this amount. In the Islamic system, lending money to others is permissible, however, it has two aspects, i.e. mandatory (for necessities and *halal* products) and forbidden (for conspicuous consumption and *haram* products). Notably, lending (with good intentions), which is an excellent form of *ibadah* (worship). The Prophet (s.a.w.s.) said that lending has a twofold reward than if someone gives the same amount in charity. Moreover, if the lender demands his money and the debtor says that I have no money and to provide me with more time, then the lender

should extend the time, as the Prophet (s.a.w.s.) said, “You have doubled the amount every day, as charity.” As mentioned earlier, Muslims believe that their worldly actions are integrated with the reward of life hereafter. Therefore, when a lender shows kindness to a debtor, he obtains a reward as Prophet (s.a.w.s.) said, “On the Day of Judgment, a man, whom Allah has given a lot of money, would be submitted in front of Allah, and Allah would ask him, “What have you done?” And the man says, “Nothing, I don’t have a lot of worship, night prayers, voluntary fasting, going for Umrah, going for Hajj, I don’t have a lot of good deeds, but I used to have transactions with others, and they used to buy things from me but on credit. And I used to tell my boys, when they used to go to collect the money, “If he is wealthy, take it easy on him, and if he is needy and unable to pay back, then postpone taking money from him indefinitely.” Allah says on that Great Day, “I, The Almighty, Am more worthy of you in forgiveness than you. So set him free and take him to paradise, "because of postponing those who had loans and debts from him.” Indeed, Allah (s.w.t.) says in the *Qur’an*, “If the debtor is in difficulty, grant him time till it is easy for him to repay. But if ye remit it by way of charity, that is best for you if ye only knew” (*Al-Qur’an*, 2:280).

Once, the neighbor of Imam Abu Hanifa borrowed an amount of money from him. Before that transaction, Abu Hanifa was sitting in the shade of his neighbor’s wall, but after that, he did not. When people asked him about it, he said maybe it is counted as interest, and also, my neighbor would see me, which would remind him that he borrowed money from me. Nonetheless, paying back a debt is a compulsory for everyone; if someone has not paid his debt, then it is the responsibility of his heirs to pay off his debt. Prophet (s.a.w.s) warned about a person who did not pay his debt as follows: “Glory be to Allah, what Allah (s.w.t.) has revealed to me about making it strict and limiting the issue of debt is, if a person were to be martyred in the cause of Allah and then brought up to life and martyred again then brought up to life and martyred for the third time, and he had debt on him he would not be permitted to paradise until his debts have been paid off.” Furthermore, there is also a warning to any person who does not have the intention to repay, as the Prophet (s.a.w.s) said, “Whoever borrows an amount of money, with ill intent, not to pay it back; he will meet Allah on the

Day of Judgment, as a thief, as a robber.” The Prophet (s.a.w.s) also said that if someone is free from debt, he will enter paradise. He also frequently invoked Allah (s.w.t.) in prayer, to seek refuge from the hardship of debt because debt is a disgrace of the daytime and many burdens and worries at night. Ibn Abd Al Barr explained that one will not enter paradise if he is not paying back his debt as follows, “this is to a person who takes up a debt; who's capable of paying it but does not pay; or he takes up a debt for something that is not a need, he takes it for extravagance or showing off and on top of that he knows it that he will not be able to pay it back due to his position.”

#### *6.1 Generous/Goodly Loan to Allah (s.w.t.)*

Another unique feature of Islam related to loan is generous and goodly loan to Allah (s.w.t.). Muslims believe that spending in the way of Allah (s.w.t.) is considered as loan to Allah (s.w.t.). Allah (s.w.t.) mentioned in the *Qur'an*, “Who is it that would loan Allah a goodly loan so He may multiply it for him many times over? And it is Allah that decreases or increases (your provisions), and unto Him” (*Al-Qur'an*, 2:245). Furthermore, Allah (s.w.t.) says, “The likeness of those who spend their wealth in the way of Allah, is as the likeness of a grain (of corn); it grows seven ears, and each ear has a hundred grains. Allah gives manifold increase to whom He wills” (*Al-Qur'an*, 2:261). Also, the Prophet (s.a.w.s) said that during the last third part of every night, Allah (s.w.t.) descends and says, “Who would give a loan to He Who is neither poor nor unjust?” Thus, Allah (s.w.t.) will return the reward many times over, thereby encouraging Muslims not to be miserly since when they are spending in the way of Allah (s.w.t.) and being rewarded accordingly. In this way they are pleasing Allah (s.w.t.) through their good deeds. However, all this is within the context of income which is being earning through lawful (*halal*) means, otherwise it is not acceptable. There is also consensus among *Shari'ah* scholars to not advertise good deeds because the only objective is to please Allah (s.w.t.).

## 7.0 Is Lending and Borrowing Synonymous with Virtue and Vice?

Debt is a very significant part of commercial contracts which is assumed as neutral in the conventional societies because this is based on money which has neutral roots. In commercial transactions their moral values are different, towards their own households which has a positive reciprocity, in contrast to strangers in the market which has negative reciprocity. Therefore, lending is a virtue to their households and a vice to strangers. In conventional societies interest is considered the soul of debt and debt is the soul of commerce, which implies that the source of commerce and economic growth is based on interest. Parry (1986) remarked a bad debt is a “one-way” gift or an ‘alienated gift”, but in secular law, the non-repayment of interest is a criminal offence, let alone the non-repayment of the principle. In the Islamic worldview, *mal* (capital) is not neutral, and as Allah (s.w.t.) says in the *Qur'an*, “Wealth and children are [but] adornment of the worldly life. But the enduring good deeds are better to your Lord for reward and better for [one's] hope” (*Al-Qur'an*, 18:46). Indeed, Islam does not recommend negative reciprocity as mentioned above, since Allah (s.w.t) says, “Serve Allah and ascribe no partner to Him. Do good to your parents, to near of kin, to orphans, and to the needy, and to the neighbor who is of kin and to the neighbor who is a stranger, and to the companion by your side, and to the wayfarer and those whom your right hands possess. Verily, Allah does not like such as are proud and boastful” (*Al-Qur'an*, 4:36). From this, it is obvious that if anyone is serving well his parents, relatives, neighbors and also neighbors, strangers and travelers, his action will be considered as virtuous, reflecting positive moral values and brotherhood. Nonetheless, it is not allowed to give a loan to that person who will not use it for productive purposes, just to become extravagant and boastful.

It is also worthwhile to note that in the system of Islam the source of growth is not interest but charity, since Allah (s.w.t.) will destroys interest and nourishes charity. It means that the nature of credit without interest is itself charity (*qard al hassan*). As Allah (s.w.t.) states, “Allah will destroy *riba* (usury) and will give increase for *sadaqah* (charity), and Allah likes not the disbelievers, sinners” (*Al-Qur'an*, 2:276). Accordingly, there can be no rate of interest in the

Islamic economic system, whether a positive or negative rate of interest, given the belief that the return will be the reward from Allah (s.w.t) in the Hereafter. Furthermore, in the Islamic philosophy of brotherhood, it requires the haves to give, in the response of a demand from the have-nots, without the expectation of worldly return, which establishes a different approach to social relations. Generally, refusing to give even a small amount of aid is considered morally bad behavior, i.e. those who "...refuse small kindnesses (*al-Ma'un*)" (*Al-Qur'an*, 107:7). Nonetheless, in this worldly life a *qard al-hassan* should reflect a necessity, and should not be encouraged for non-essential consumption, neither for unproductive speculation.

## 8.0 Conclusion

Currently financial markets are operating on the basis of fixed income securities and equities, whereas it is observed that approximately the share of fixed income securities is more than one third of the total financial assets. It is also observed in most of societies that debt is considered a vice and credit is assumed to be a virtue. However, there is no agreement on any rule which can apply in any of the conventional financial markets, and after the financial crisis of 2008 it was strongly felt that there should be some ethical and moral ethos for financial transactions. Islam emphasizes the relationship between debtor and creditor should enhance brotherhood and justice. According to the teachings of Islam, Allah (s.w.t.) provides guidance about the behavior of debtor and creditor by following His commandments the probability of unwarranted risk in the debt market is mitigated. The *Qur'an* guides Muslims how to write the contract of debt which reduces the potential risk and increases kindness between the debtor and creditor. It is also worthwhile to note that in general, a request for debt is not appreciated if it simply enhances the wealth of the debtor. In the Islamic system, the creditor is not expecting any return in this worldly life because there is no return on the debt. In an interest-free system the role of the debt market is diminished. The *qard al-hassan* is deemed an act of charity and is only allowed to meet the needs, necessities and essential goods, and not for the conspicuous consumptions. Allah (s.w.t.) blessed the debtor if he has the sincere intention to repay, and simultaneously the creditor also obtains the blessings from Allah

(s.w.t.) by relaxing the conditions of the debt and extending the time for repayment. As observed from the literature, excessive debts occur to conspicuous consumption. Furthermore, the lower segment of society pays interest and becomes poorer, and the upper segment earns interest., ensuring that the income gap increases between the haves and the have-nots. However, in the Islamic system if an entrepreneur wishes to start a business and he lacks funds, then he can request funds on the basis of *mudharabah* or *musharakah*, with both partners accepting risk and earning a lawful profit.

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