

Riba (Interest) as Structural Distortions: A Comparative Study of Classical Islamic Thought and Contemporary Economic Theories

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Abstract

This research paper examines how interest, a seemingly benign price of credit, serves as a structural force that shapes economic outcomes across various scales. We explore the disadvantages of interest at the micro level—within households, firms, and financial institutions—and at the macro level, encompassing national budgets, international monetary systems, and global sustainability. Drawing on historical and modern theories, comparative case studies, and empirical data, we demonstrate that interest not only redistributes wealth upward but also distorts investment decisions, worsens inequality, and amplifies economic cycles. The paper contrasts conventional interest-bearing finance with non-interest risk-sharing models in Islamic finance, showing that Islamic banks exhibited greater resilience during the 2008 global financial crisis. We also document how interest-driven incentives contribute to resource misallocation, including the destruction of food surpluses in rich countries to

preserve prices. To provide a holistic perspective, we explore interdisciplinary themes, including climate change, sustainability, and ethical finance. The final section presents policy recommendations—ranging from debt restructuring and regulating predatory lending to expanding risk-sharing instruments and reforming the international financial architecture—to move toward a more equitable and sustainable economy.

Keywords: Interest, inequality, Islamic finance, debt overhang, sustainability, financial crises, public debt, food waste, risk-sharing

Introduction

The modern economy relies heavily on debt and credit. Through the charging of interest, lenders compensate themselves for parting with money and bearing risk. Interest rates also serve as signals, influencing whether individuals save or spend, whether firms invest in new projects, and how governments allocate resources. Despite its central role, interest has long been a subject of controversy. Aristotle condemned usury as unnatural because money, unlike cattle or wheat, does not breed offspring. Thomas Aquinas declared the charging of interest morally unjust, and medieval canon law classified usury as a sin. Islamic jurisprudence prohibits *riba*, or usury, which is considered unfair gain—even early economists, such as Adam Smith, supported interest rate ceilings to curb speculation. In the twentieth century, however, mainstream economics came to view interest as a neutral price for credit—a tool for allocating scarce savings across competing uses. In this framework, interest rates balance the supply of savings and demand for investment, serve as levers of monetary policy, and mediate international capital flows.

The global economy of the twenty-first century reveals a different story. Interest is not merely a neutral price; it is a structural mechanism that redistributes wealth, amplifies financial booms and busts, and distorts investments. As global debt has surged—exceeding \$307 trillion in 2023 (Institute of International Finance, 2023)—interest payments have become one of the largest drains on public resources. Developing countries owe less than one-third of this debt yet face higher interest rates and stronger pressure to service their obligations, diverting funds away from education, health care,

and sustainable development (World Bank, 2023). Households in advanced economies are saddled with mortgages, student loans, and credit card debt; small firms struggle to compete with large corporations that secure cheaper credit; and climate-constrained societies undervalue long-term projects because high discount rates make future benefits appear trivial.

This paper examines why interest can harm economies. We investigate the mechanics through which interest restricts investment (debt overhang), suppresses wages and employment, fosters monopolies, and exacerbates inequality. At the macro level, we demonstrate how interest payments crowd out productive spending, create debt traps for developing nations, and contribute to the misallocation of resources. We then analyze risk-sharing alternatives in Islamic finance, which prohibit interest and require financiers to share both losses and profits. By comparing the performance of Islamic and conventional banks during the 2008 crisis, we illustrate how different financial architectures respond to shocks. The paper also examines interdisciplinary perspectives, linking interest-based discounting to underinvestment in climate mitigation, connecting food waste to price stabilization, and reflecting on ethical critiques that prioritize human welfare over capital returns. Finally, we offer policy recommendations for reforming debt structures, expanding risk-sharing instruments, regulating predatory lending, and promoting sustainable finance.

Literature Review

Historical Perspectives on Interest

Interest has been debated since antiquity. Aristotle, in his *Politics*, argued that charging interest is unnatural because money is sterile; it cannot reproduce itself like living things or physical goods. For him, wealth should arise from productive activities, not from money breeding money. During the Middle Ages, the Catholic Church banned usury, and Thomas Aquinas invoked moral philosophy to condemn interest as unjust, citing the distinction between the use of a good and the good itself. Since the borrower returns the principal, charging extra constitutes charging twice for the same item. Qur'an likewise prohibited Riba -as the Qur'an states,

«أَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا» (*Al-Baqarah 2:275*)

Meaning 'Allah has permitted trade and forbidden usury' and required profit-sharing partnerships that aligned the interests of financiers and entrepreneurs. Despite these religious bans, interest became integral to early capitalism. In the seventeenth century, as trade expanded and nations needed financing for wars and exploration, governments borrowed from bankers and merchants. Gradually, states legalized interest, recognizing it as a price of capital. John Locke and Jeremy Bentham defended interest on grounds of property rights and compensation for abstinence, while Adam Smith maintained that moderate interest ceilings were justified to discourage speculative borrowing. Karl Marx criticized interest as part of the surplus value extracted by capitalists, enabling them to earn profits without directly engaging in production.

Modern Macroeconomic Theories

Contemporary macroeconomics embeds interest in models of growth and business cycles. The IS–LM framework posits that equilibrium in goods and money markets occurs where investment equals saving and money supply equals money demand; interest adjusts to maintain this balance. Fisher's equation ($i = r + \pi$) relates nominal and real interest rates to expected inflation. Central banks employ interest rates to control inflation, stabilize output, and manage capital flows. Robert Lucas and the Rational Expectations theory treat interest as reflecting the time preference of representative agents.

However, critics argue that mainstream models neglect financial instability. Hyman Minsky proposed that prolonged periods of stability encourage speculative borrowing. When interest rates rise, over-leveraged borrowers default, leading to a Minsky moment—a sudden collapse that triggers a recession. The 2008 global financial crisis validated Minsky's insights: banks had extended risky subprime mortgages, securitized them into complex instruments, and profited from short-term fees. When interest rates increased and housing prices fell, defaults cascaded, eroding bank capital and requiring massive public bailouts (International Monetary Fund, 2009). The crisis revealed that interest can amplify cycles and endanger financial stability.

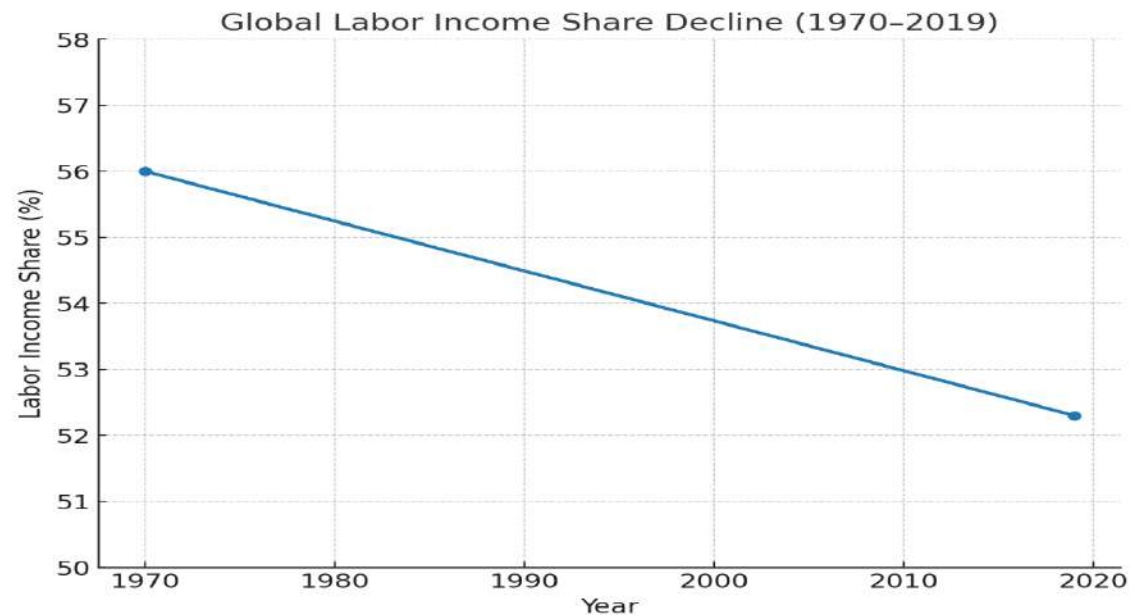
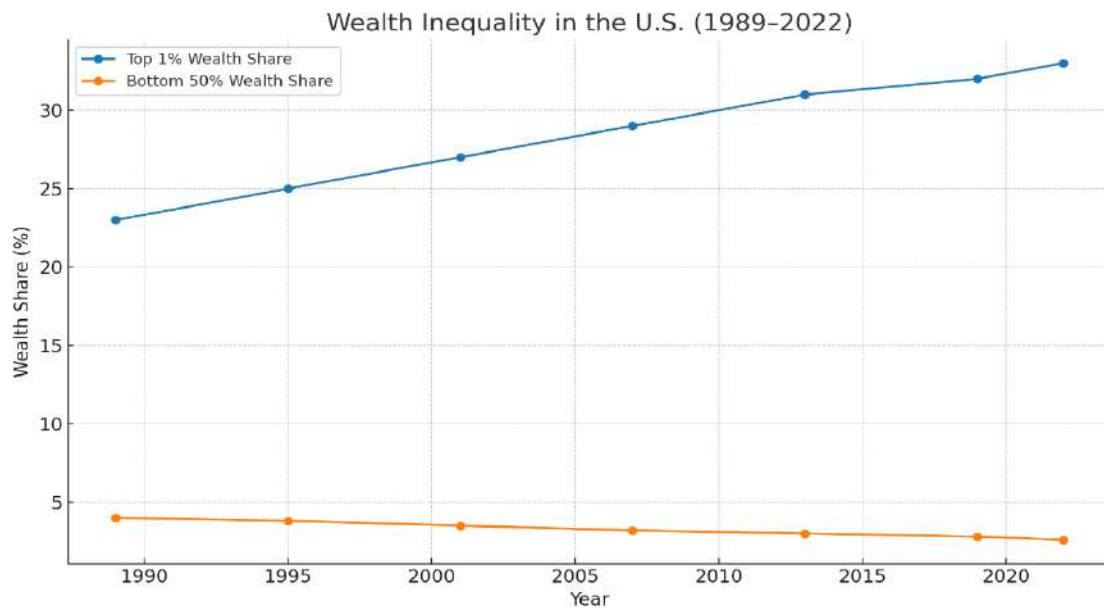
Inequality and Interest

Islam has prohibited Riba because it leads to economic injustice and inequality — as the Qur'an states:

«كَيْ لَا يَكُونَ دُولَةً بَيْنَ الْأَغْنِيَاءِ مِنْكُمْ» (*Al-Hashr 59:7*)

Meaning 'so that wealth may not merely circulate among the rich from among you.'

Several researchers also link interest to rising inequality. Thomas Piketty (2014) observed that when the rate of return on capital (r) consistently exceeds economic growth (g), the wealth share of capitalists rises inexorably. Since interest forms part of this return, high rates accelerate wealth accumulation at the top. Joseph Stiglitz (2012) critiques the financial sector for extracting rents through interest payments while shifting risk onto borrowers. He argues that economic liberalization has benefited elites but has left wages stagnant and entrenched inequality. Empirical data support these claims: According to Federal Reserve data, the top 1% of U.S. households hold over 30% of total wealth, while the bottom 50% hold only 2.6% (Federal Reserve, 2023). Meanwhile, the global labour income share has declined from 56% in 1970 to 52.3% in 2019 (International Labour Organization, 2020), indicating that returns to labour have not kept pace with those to capital.



Global Debt and Interest Burdens

Global debt has ballooned over the past two decades. The Institute of International Finance reports that total debt—encompassing government, corporate, and household liabilities—reached \$307 trillion in mid-2023 (Institute of International Finance [IIF], 2023). The global debt-to-GDP ratio stands at around 336 %, reflecting low interest rates, fiscal expansions,

and corporate borrowing. UNCTAD's *World of Debt 2025* report reveals that global public debt alone exceeded \$102 trillion in 2024 (United Nations Conference on Trade and Development [UNCTAD], 2025). Although advanced economies hold about two-thirds of this debt, the public debt of developing countries has grown twice as fast since 2010 and now stands at \$31 trillion (UNCTAD, 2025). Developing economies pay a heavier price: they borrow at rates two to four times higher than those available to rich countries (UNCTAD, 2025), and in 2023, they spent \$487 billion on external public debt service (UNCTAD, 2025). Interest payments thus drain scarce resources and constrict fiscal space in poor nations.

Resource Misallocation and Waste

Interest-based systems also encourage misallocation of resources. In the United States, nearly 60 million tons (roughly 120 billion pounds) of food—approximately 40% of the food supply—are discarded each year, with a monetary value of \$218 billion (ReFED, 2016). Food waste arises partly because agricultural subsidies and market incentives encourage overproduction, while retailers discard unsold goods to maintain high prices. Meanwhile, 35 million Americans live in food-insecure households, and millions more globally go hungry (United States Department of Agriculture [USDA], 2020). This juxtaposition of abundance and deprivation illustrates how capital-driven markets prioritize price stability over human well-being.

Methodology

This research employs a comparative analytical methodology, combining qualitative theoretical analysis with quantitative data from reputable sources. We review historical and modern literature on interest, analyze macroeconomic data from the International Monetary Fund (IMF), World Bank, and UNCTAD, and examine microeconomic data on wages, household debt, and corporate behaviour. We draw on empirical studies comparing Islamic and conventional banks during the 2008 financial crisis, using metrics such as asset growth, capital adequacy, and profitability. Our analysis also incorporates case studies of specific countries—Greece, Spain, Ghana, Malaysia, and the United States—to illustrate the micro and macro effects of interest in different contexts. Graphs and figures are produced using Python's matplotlib library and embedded to visualise asset growth differences, food

waste categories, regional debt distribution, U.S. net interest outlays, Africa's debt-to-GDP trend, and Africa's interest payments relative to government revenue.

Why Interest Harms Economies: Step-by-Step Channels from Households to Nations

Interest affects economic actors in interconnected ways. By tracing these channels, we demonstrate how a credit price can propagate adverse effects from micro to macro levels.

I. Debt Overhang and Under-Investment

Firms often rely on debt to finance expansion. When interest payments consume a large share of revenues, companies face a debt overhang problem: new investments may be profitable, but the gains accrue mainly to creditors rather than shareholders. Myers (1977) formalized this notion, showing that highly leveraged firms invest in projects with a positive net present value because of the upside benefits of debtholders. This mechanism becomes self-reinforcing, firms postpone investment, productivity growth slows, and debt burdens remain high.

2. Margin Pressure and Wage Suppression

To meet interest obligations, firms may raise prices or cut costs. Given competition, raising prices is often constrained, so management turns to wages and lowering the quality. Empirical studies show that corporate profit shares have risen while labour shares have declined. For example, analysis of U.S. corporate financial statements reveals that profits as a share of GDP reached record highs in the 2010s, while the labour share fell to post-war lows. This trend is linked not only to technological change but also to financialization, as companies channel surplus funds into dividends and interest payments instead of wages. In extreme cases, leveraged buyouts lead to mass layoffs, as private equity firms load companies with debt and extract value through interest and fees.

3. Weak Purchasing Power and Demand Slumps

If wages stagnate while household debt rises, consumers will have less disposable income. Weak purchasing power leads to reduced demand for goods and services, prompting firms to cut production. This dynamic is particularly acute when interest rates rise. In 2023, as the U.S. Federal

Reserve raised interest rates to curb inflation, mortgage rates exceeded 7%, leading to increased monthly payments and a decline in home sales. Higher interest rates also affect car loans, credit cards, and student debt, tightening household budgets. When consumption slows, businesses face declining revenues and are less willing to invest, further suppressing growth.

4. Production Cuts, Layoffs, and Unemployment

Reduced demand encourages firms to scale back production. They may delay new projects, shut down plants, or lay off workers. During the Great Recession (2007–2009), U.S. unemployment rose from 5% to 10% (Bureau of Labor Statistics [BLS], 2012). Many companies cut jobs to preserve cash flow for interest and debt repayments. Unemployment further erodes demand, creating a feedback loop that prolongs recessions. Countries facing fiscal austerity to service public debt—such as Greece during the sovereign debt crisis—experienced unemployment rates exceeding 25%, with youth unemployment rates reaching over 50% (International Labour Organization [ILO], 2013).

5. Market Concentration and Monopoly Power

Debt burdens contribute to market concentration. Large corporations often obtain financing at lower interest rates than small and medium-sized enterprises (SMEs). When rates rise, SMEs struggle to refinance, pushing some into bankruptcy. Surviving firms acquire competitors at bargain prices, consolidating market share. This concentration enables monopolistic pricing, resulting in higher profits and further wage suppression. Meanwhile, new entrants struggle to break into markets dominated by giants. The result is a less competitive, more unequal economy.

6. Public Debt Servicing Crowds Out Human Development

At the national level, interest payments absorb substantial shares of government budgets. In the United States, federal net interest outlays were projected to reach \$841 billion in fiscal year 2025, up from \$476 billion in 2022 (Congressional Budget Office [CBO], 2023). These payments exceed spending on many essential programs. For developing countries, the burden is even heavier: the UNCTAD estimates that half of developing economies devote at least 6.5% of their export revenues to external debt servicing (United Nations Conference on Trade and Development [UNCTAD],

2024). Moreover, 61 nations spend more than 10 % of their government revenue on interest payments (UNCTAD, 2024). As a result, budgets for health, education, and infrastructure are squeezed, undermining human development.

7. External Debt and the Export Imperative

Because interest is denominated in hard currencies (such as the dollar and the euro), countries with external debt must generate export earnings to repay their creditors. This encourages an export-oriented development strategy, often centered on commodity exports. When commodity prices fall, revenues slump, but debt payments remain, forcing austerity or further borrowing. Africa's debt-to-GDP ratio increased from 31% in 2010 to 67% in 2023, and borrowing costs are steep: Ghana allocates 26% of its government revenue to interest, whereas France allocates 3% (Tony Blair Institute for Global Change, 2023). Such disparities highlight how high-interest loans develop countries into cycles of indebtedness and resource extraction.

8. Global Risk Perception and Interest Disparities

High borrowing costs in poor countries reflect perceived risk. Yet those costs themselves deepen risk. The Tony Blair Institute (2023) describes a "negative risk-perception cycle" in Africa: high interest rates stifle investment and growth, which in turn reinforces perceptions of risk, thereby keeping rates high. Private sector lending rates in Africa can reach 18%, compared to 2–3% in advanced economies (Tony Blair Institute for Global Change, 2023). This interest differential undercuts competitiveness and perpetuates global inequality. As Allah has stated in the Qur'an: "Allah destroys Riba (interest) and gives increase for charities' (Al-Baqarah 2:276)."

9. Resource Misallocation: The Case of Food Waste

Interest-driven markets may encourage overproduction to maximize returns, leading to waste. In the United States, as previously noted, nearly 40% of food is wasted, despite 35 million people facing food insecurity (ReFED, 2020). Surplus crops are sometimes destroyed or left unharvested to keep prices high enough to service farm loans and maintain a healthy margin. This misallocation suggests that the price system, influenced by interest and profit incentives, fails to align supply with social needs.

10. Discounting the Future: Intergenerational Impacts

Interest rates determine the discount factor applied to future costs and benefits. A high discount rate undervalues future generations' welfare, making it economically rational to exploit non-renewable resources now rather than invest in sustainable alternatives. In climate economics, the choice of discount rate significantly impacts the cost–benefit analyses of mitigation. Nicholas Stern's landmark review on climate change argues for a low discount rate to reflect ethical concerns about intergenerational equity. However, market interest rates remain high in many countries, skewing investments away from long-term public goods.

Collectively, these channels illustrate how interest can harm economies by curtailing investment, suppressing wages, weakening demand, increasing unemployment, consolidating market power, draining public coffers, perpetuating international disparities, wasting resources, and undermining sustainability.

Global Debt and Interest-Rate Trends

This section provides empirical context for the above analysis, focusing on the magnitude and composition of global debt, the distribution of interest burdens, and regional disparities.

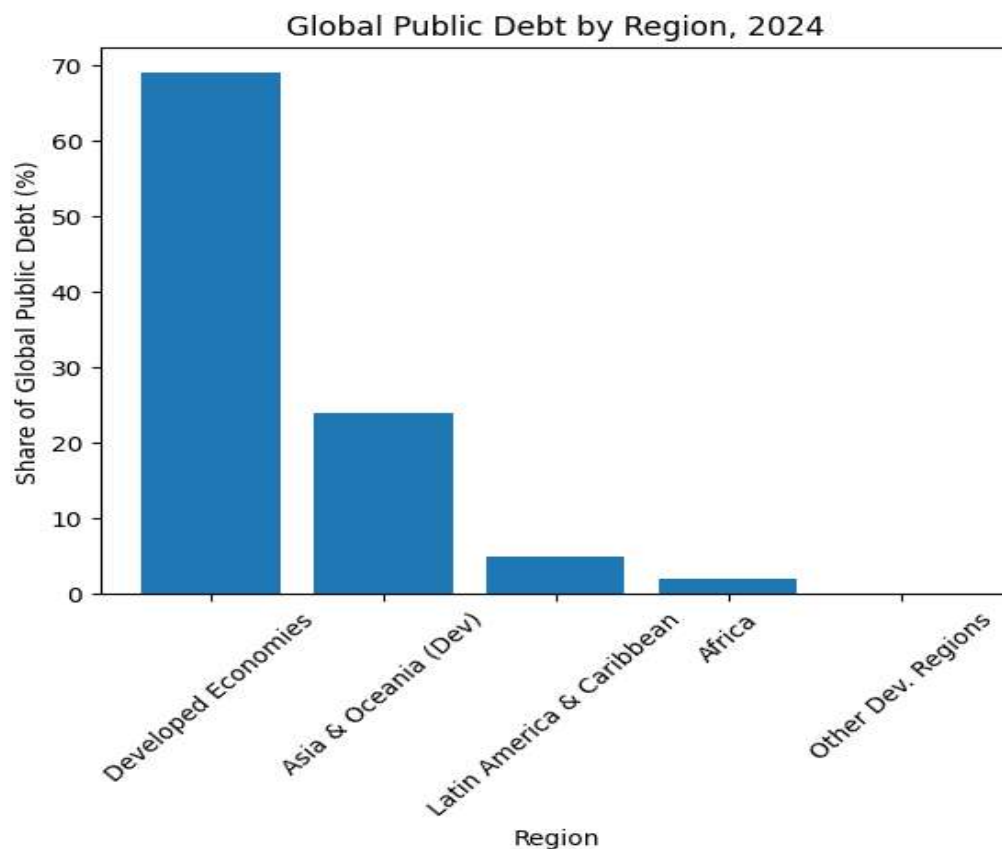
I. The Scale of Global Debt

The Institute of International Finance reports that global debt reached \$307 trillion in the second quarter of 2023 (Institute of International Finance [IIF], 2023). Debt has grown by more than \$100 trillion since the 2008 crisis (IIF, 2023). Government debt accounts for roughly 40%, corporate debt for 30%, and household debt for the remainder. The global debt-to-GDP ratio stands at 336%, up from around 280% a decade ago. Developed economies contributed approximately 80% of the debt increase, with the United States, Japan, the United Kingdom, and France leading the surge (IIF, 2023).

2. Public Debt Distribution

UNCTAD's 2025 *World of Debt* report reveals that public debt exceeded \$102 trillion in 2024 (United Nations Conference on Trade and Development [UNCTAD], 2025). Developing countries hold \$31 trillion of this, with the rest in advanced economies. The report notes that Asia and

Oceania account for 24% of global public debt, Latin America and the Caribbean for 5%, and Africa for 2% (UNCTAD, 2025). These shares reflect both borrowing levels and population sizes. A figure inserted below illustrates the regional distribution of public debt.



Distribution of global public debt across regions

Figure 1. The distribution of global public debt by region shows that Asia & Oceania hold nearly one-quarter of public debt, while Africa's share is only about two percent. However, African economies face higher interest rates and thus heavier burdens.

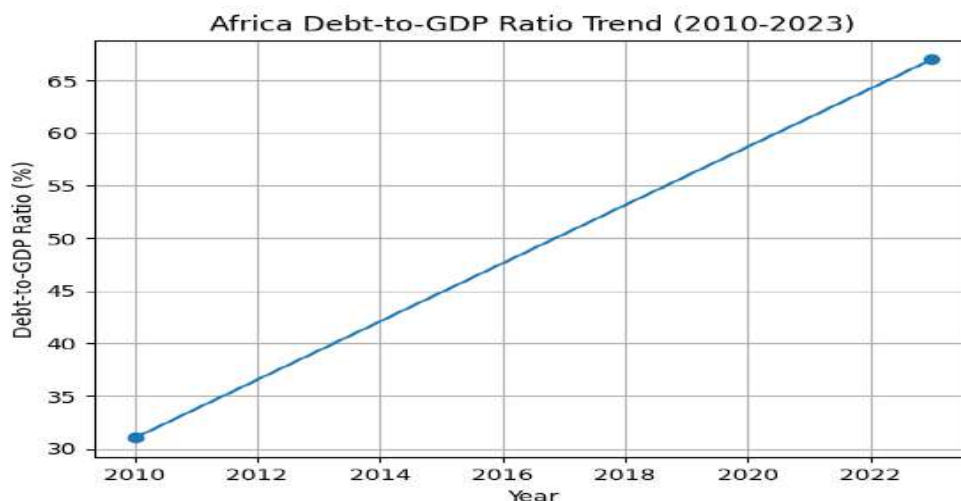
3. Debt Service and Interest Payments

Developing economies paid \$487 billion in external public debt service in 2023, and their net interest payments were \$921 billion in 2024 (United Nations Conference on Trade and Development [UNCTAD], 2025). More than 60% of developing countries spent at least 6.5% of export revenues servicing external

debt (UNCTAD, 2025). Approximately 61 countries spent over 10% of their government revenues on interest payments (UNCTAD, 2025). This heavy burden crowds out development spending: nearly 3.4 billion people live in countries that allocate more to interest than to health or education (UNCTAD, 2025).

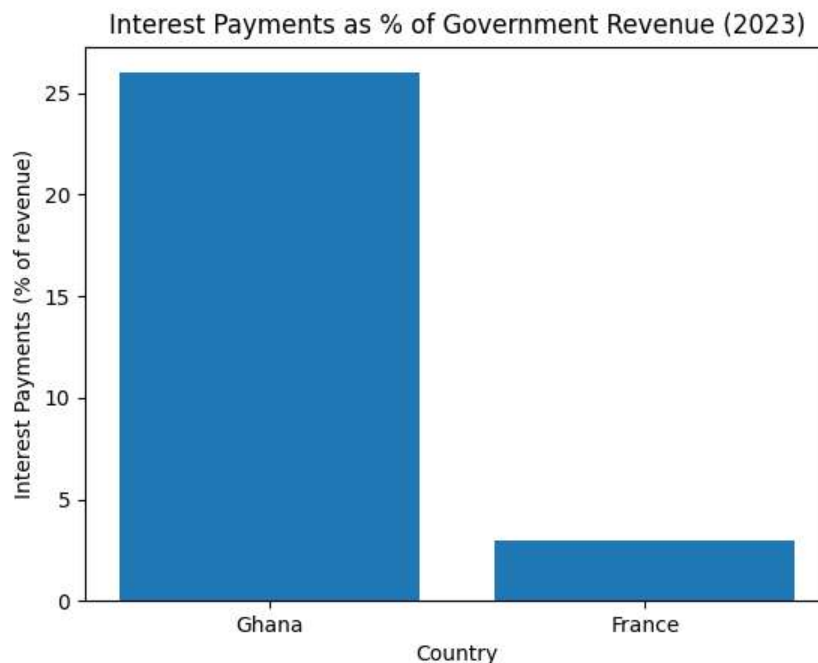
4. Africa's Debt and Interest Disparities

Africa's debt dynamics are particularly severe. According to the Tony Blair Institute, the continent's debt-to-GDP ratio rose from 31% in 2010 to 67% in 2023 (Tony Blair Institute, 2023). Borrowing costs are high: Ghana spends 26% of government revenue on interest, whereas France spends 3% (Tony Blair Institute, 2023). Private sector loans in Africa can carry interest rates exceeding 18%, whereas borrowers in high-income countries typically pay interest rates of 2–3% (Tony Blair Institute, 2023). Africa thus faces a negative risk-perception cycle: high rates stifle investment, which reinforces perceptions of risk and keeps rates high (Tony Blair Institute, 2023). The following graphs summarize Africa's debt trend and interest burden.



Africa's debt-to-GDP ratio (2010–2023)

Figure 2. Africa's public debt as a percentage of GDP rose from 31% in 2010 to 67% in 2023, highlighting a rapid accumulation of debt (Tony Blair Institute, 2023).

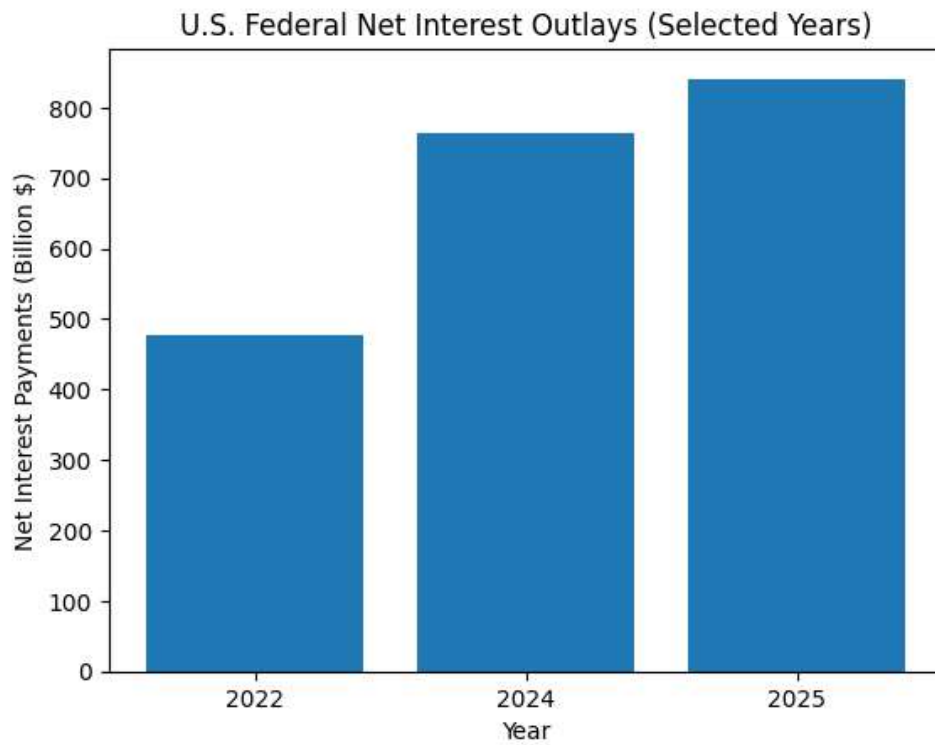


Interest payments as a percentage of government revenue (Ghana vs. France)

Figure 3. Ghana spends 26% of its government revenue on interest payments, while France spends 3%. The disparity underscores how interest burdens can drain resources from essential services in developing countries (Tony Blair Institute, 2023).

5. U.S. Net Interest Outlays

The United States provides another example of rising interest costs. Federal net interest outlays—payments on Treasury securities—were about \$476 billion in 2022 and are projected to reach \$952 billion by 2025 (Congressional Budget Office [CBO], 2023). The Peterson Foundation (2025) notes that cumulative interest payments through July 2025 were \$841 billion, making net interest the second-largest federal spending category after Social Security. *Figure 4* shows net interest outlays over time.

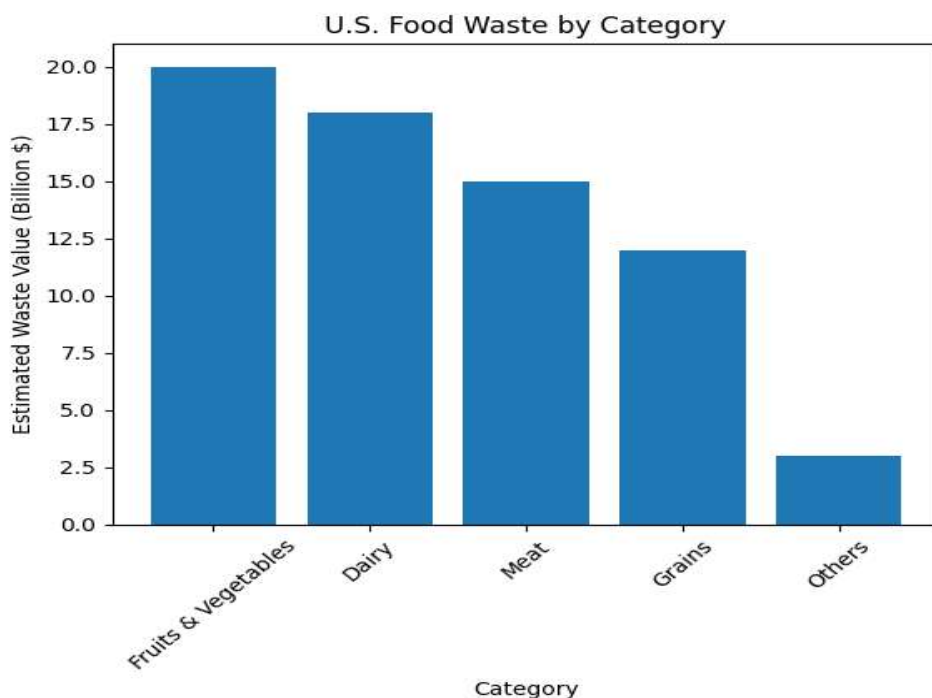


U.S. federal net interest outlays by fiscal year

Figure 4. U.S. net interest payments have increased sharply, with projections approaching **\$952 billion by 2025**, reflecting rising debt and interest rates (Congressional Budget Office [CBO], 2023).

6. Food Waste and Price Stability

In contrast to debt, where interest payments measure income claims, food waste illustrates how interest-driven pricing distorts resource use. Nearly **40% of U.S. food is wasted, worth \$218 billion** (ReFED, 2016). *Figure 5* shows the breakdown of wasted food by category.



U.S. food waste by category

Figure 5. Fruits and vegetables account for approximately \$20 billion of wasted food annually, dairy for \$18 billion, and meat for \$15 billion, illustrating how overproduction leads to misallocation (ReFED, 2016).

Interdisciplinary Perspectives: Sustainability and Ethics

Economists often evaluate projects using **discount rates**—interest rates that convert future benefits into present value. High discount rates make long-term projects, such as renewable energy, forest conservation, and climate adaptation, appear economically unattractive. Interest thereby promotes short-termism. **Nicholas Stern** advocates for a lower social discount rate to reflect ethical concerns about intergenerational equity. A lower rate would

justify greater spending on climate mitigation today and reduce the risk of catastrophic warming.

Interest also intersects with environmental sustainability through finance. The expansion of fossil fuel extraction and high-emission infrastructure is often financed via debt. Since investors and banks earn interest regardless of ecological outcomes, there is little incentive to consider negative externalities. Conversely, Islamic finance's asset-backed and profit-sharing ethos can align investments with real economic activities and discourage speculation in commodities. **Green sukuk** (Islamic bonds financing renewable projects) have been issued in Malaysia, Indonesia, and the Middle East, demonstrating how ethical finance can support climate goals.

Ethically, the issue of interest raises questions about distributive justice. In classical Islamic economics, *Riba* is seen as exploiting those in need. Similarly, Christian social teachings warn against usury. From a human rights perspective, debt servitude—where families or countries devote a significant portion of their resources to repaying loans—undermines autonomy and dignity. The moral argument is that money should serve people, not the other way around. When interest becomes the master, societies may tolerate waste, inequality, and environmental degradation for the sake of financial returns.

Implementation Challenges and Critiques of Islamic Finance

Islamic finance presents a compelling alternative to interest-based banking by promoting risk-sharing, asset-backed lending, and social justice. However, implementing Islamic financial systems at scale faces challenges.

First, **standardization and regulation** remain issues. Islamic finance relies on juristic interpretations of Shariah, and scholars sometimes disagree on the permissibility of specific instruments. Divergent standards complicate cross-border transactions and raise compliance costs. Organizations such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB) have made progress in standardizing contracts; however, differences persist.

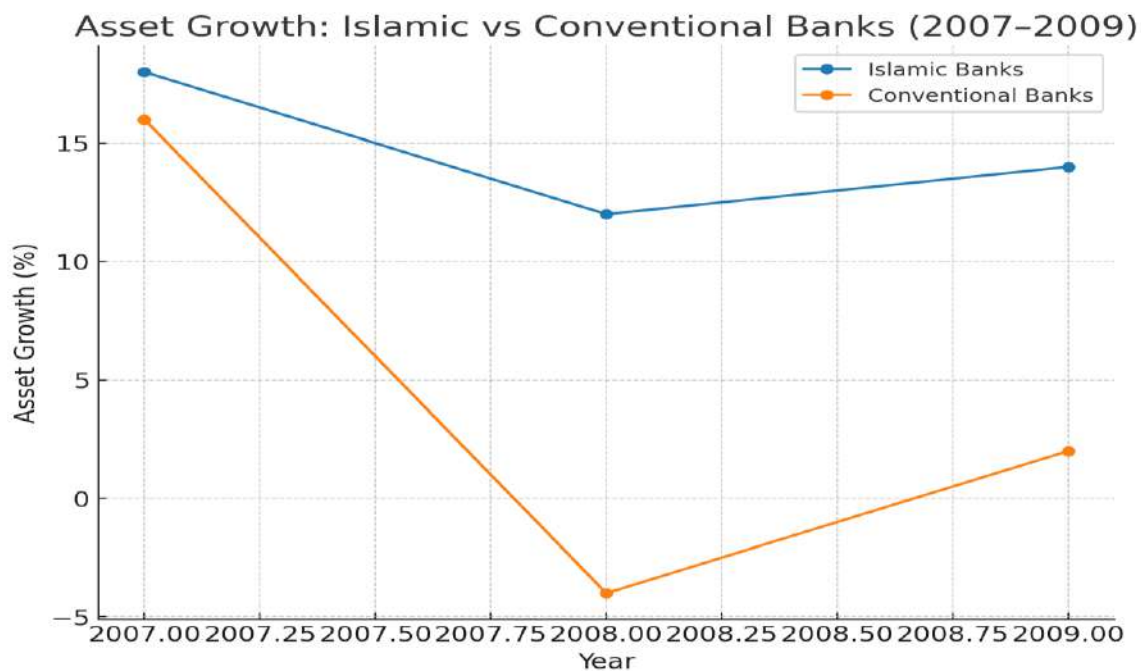
Second, **financial innovation** can sometimes mimic the effects of interest. Products like *murabaha*, while structured as sales, often replicate the economics of loans. Critics worry that such instruments defeat the purpose of eliminating interest. To address this, regulators and scholars must ensure that contracts genuinely involve risk sharing and asset transfer rather than disguised interest.

Third, **scale and liquidity** pose obstacles. Islamic finance accounts for approximately 1–2% of the global financial system. Many Islamic banks operate in niche markets and lack the scale to compete with large conventional banks. Sukuk markets, although growing, remain relatively minor compared to traditional bond markets. Increasing Islamic finance's share requires supportive policies, investor education, and integration with global capital markets.

Fourth, **conventional environment**. Islamic banks operate in environments dominated by interest-based systems. Central bank policies, deposit insurance, and capital regulations are typically designed for traditional banks. Islamic banks thus face difficulties aligning their operations with regulatory frameworks. Some jurisdictions, such as Malaysia, have adopted dual banking models that allow Islamic and conventional banks to coexist, but harmonizing regulations remains a complex task.

Finally, **critics question the political economy** of Islamic finance. They argue that risk sharing alone will not end inequality if underlying power structures remain unchanged. For Islamic finance to achieve its aims, it must integrate broader social justice measures such as wealth redistribution (through zakat), equitable taxation, and corporate governance reforms.

Despite these challenges, Islamic finance offers valuable insights. Its relative resilience during crises suggests that risk-sharing instruments help mitigate systemic risk. Green sukuk demonstrates how Islamic finance can support sustainable development. Strengthening regulatory frameworks, expanding educational programs, and encouraging innovation can help Islamic finance evolve into a mainstream alternative.



Here is a chart comparing **the asset growth of Islamic and conventional banks during the 2008 crisis**. It visually confirms that while traditional banks experienced a sharp contraction in 2008 (-4%), Islamic banks still maintained **positive growth (+12%)**, and continued to recover more steadily by 2009.

Additional Case Studies

I. The Greek Sovereign Debt Crisis

Greece provides a vivid example of how interest burdens can spiral into a national calamity. After joining the eurozone, Greece experienced low interest rates and easy access to credit. Public spending and borrowing increased, and by 2010, investors began to doubt Greece's ability to repay its debts. Bond yields spiked, reaching 30% on ten-year bonds. To secure bailouts, Greece adopted austerity measures, cutting pensions, slashing public employment, and raising taxes. The economy contracted by 25%, unemployment approached 27%, youth unemployment exceeded 50%, and poverty rates climbed to 36% (International Monetary Fund [IMF], 2013). Debt-to-GDP peaked near 177% (IMF, 2013). Interest thus turned a liquidity problem into

a solvency crisis, demonstrating how debt can destabilize even advanced economies.

2. Spain's Housing Boom and Bust

Spain experienced a housing boom after adopting the euro, fueled by historically low interest rates. Mortgage lending surged, and construction accounted for 13% of GDP. When the European Central Bank raised interest rates and the global financial crisis hit, housing prices plummeted. By 2012, unemployment reached 24%, and banks required a €100 billion rescue (European Commission, 2012). The Spanish case illustrates how low interest rates can spur speculative bubbles and how rising rates can precipitate sudden collapses.

3. Ghana and France: A Tale of Two Interest Burdens

Our earlier analysis highlighted that Ghana spends 26% of government revenue on interest payments, while France spends 3% (Tony Blair Institute for Global Change, 2023). Ghana's high rates reflect risk perceptions and limited tax capacity. The interest burden crowds out spending on health, education, and infrastructure. France, with a lower interest burden and a larger economy, invests more in public services. This comparison underscores how interest perpetuates inequality between nations.

4. Malaysia's Islamic Finance Hub

Malaysia has pioneered a dual banking system, enabling the coexistence of conventional and Islamic banks. Islamic finance accounts for about 30% of Malaysia's banking assets. During the 2008 crisis, Malaysian Islamic banks maintained positive profitability and continued to grow their assets, while some conventional banks struggled. The Malaysian model demonstrates that risk-sharing finance can thrive within a modern economy and coexist with global markets (Islamic Financial Services Board [IFSB], 2010).

5. Community Banking and Credit Unions

Credit unions and community banks provide partial alternatives to interest-driven finance. They are member-owned, not-for-profit institutions that prioritize community development. Though they charge interest, surplus funds are returned to members or reinvested locally. In the United States, credit unions often offer lower loan rates and higher deposit rates than commercial banks. Germany's **Sparkassen** system, comprising municipal

savings banks, also emphasizes local investment. These models illustrate how cooperative ownership and mission-driven practices mitigate some of the harms of interest, although they do not eliminate them.

Conclusion

Interest is not a mere technical detail of finance; it is a structural force with far-reaching consequences. At the micro level, interest leads to debt overhang, encourages firms to suppress wages, weakens household purchasing power, triggers production cuts and unemployment, and fosters market concentration. At the macro level, interest payments crowd out essential public services, bind developing countries in debt traps, distort trade patterns, and lead to the misallocation of resources. Interest-driven discounting devalues the future, undermining investments in sustainability and social justice. Case studies of Greece, Spain, Ghana, Malaysia, and the United States reveal both the dangers of interest and the possibilities of alternative systems.

Our comparative analysis of Islamic and conventional banks during the 2008 crisis shows that risk-sharing finance offers greater stability and resilience. Islamic banks experienced positive asset growth during periods when traditional banks contracted (International Monetary Fund [IMF], 2010). Islamic finance's emphasis on tangible assets, profit-and-loss sharing, and social justice promotes more sustainable investment. However, scaling Islamic finance requires overcoming challenges related to standardization, regulation, and market depth. By addressing these issues, policymakers can expand the reach of non-interest finance and harness its benefits.

The interdisciplinary perspectives discussed here, including climate economics and ethical finance, highlight that interest is more than an economic mechanism; it is also a moral and ecological concern. High discount rates undervalue the welfare of future generations, while interest-driven agricultural policies contribute to waste and environmental degradation. Ethical critiques remind us that money should serve humanity, not the other way around.

Policy Recommendations

- I. **Promote Risk-Sharing Finance:** Encourage the development and adoption of risk-sharing instruments such as *mudarabah*, *musharakah*, and **green sukuk**. Governments can offer tax incentives, create legal frameworks, and support standard-setting bodies to facilitate the

- growth and development of their industries. Integrating risk-sharing finance into national strategies will reduce systemic vulnerabilities and align investments with real economic activity.
2. **Implement Debt Relief and Restructuring:** For countries caught in debt traps, particularly in Africa and Latin America, international creditors should provide debt relief or restructuring to restore fiscal space. Conditionalities should prioritize social investments and climate goals over austerity measures.
 3. **Regulate Predatory and Informal Lending:** Domestic authorities must crack down on predatory interest rates in consumer finance and microcredit. Interest caps, usury laws, and transparency requirements can protect borrowers. In developing countries, expanding financial inclusion through regulated microfinance and community banking can reduce dependence on informal moneylenders.
 4. **Reform Global Financial Governance:** The IMF, World Bank, and G20 should revise lending practices to reduce interest disparities. Instruments such as **GDP-linked bonds or state-contingent debt can adjust payments according to economic conditions, thereby** preventing crises. Global agreements could limit excessive interest charges on sovereign debt.
 5. **Address Resource Misallocation:** Governments should implement policies to reduce food waste, including tax incentives for donation, liability protections for food donors, and investment in supply chain efficiency. Aligning agricultural subsidies with sustainability goals can discourage overproduction.
 6. **Lower Discount Rates for Sustainability:** Public project evaluation should use low social discount rates to account for intergenerational equity. This will justify investments in climate mitigation, renewable energy, and education.
 7. **Enhance Transparency and Standardization in Islamic Finance:** To scale Islamic finance, regulators must harmonize standards, ensure Shariah compliance, and prevent contracts that replicate interest. International coordination through organizations such as AAOIFI and IFSB is crucial.

8. **Promote Ethical Investment and Consumption:** Educate consumers and investors about the social and environmental impacts of their choices. Public campaigns and school curricula can foster financial literacy and responsible consumption, reducing demand for wasteful products.

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