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Classical Islamic Perspectives on Monetary Theory

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ABSTRACT. Within the wider framework of monetary theory, this study focuses on a review of classical Islamic perspectives on monetary theory. In 1792 in America, the official price of gold was USD 19.3939/oz, whilst in 2021 the average market price of gold is about USD 1,800/oz, thus one dollar in 1792 is now only worth 1 cent in 2021 (19.3939/1,800). Most of this devaluation occurred since 1971, which represents a catastrophic collapse in the store of value function of money over the past fifty years, confirming a failure in contemporary monetary theory and policy in achieving monetary and price stability under the fiat standard. The loss of purchasing power as a result of this devaluation is so profound that the associated confiscation of wealth, due to inflation, has undermined all wealth creation in real terms. Fiat currencies have now discovered their true intrinsic wealth and are essentially worthless. By conducting a survey of classical Islamic literature, this study seeks to re-examine our understanding of money to encourage monetary reform to develop future solutions, given the failure of the fiat standard in satisfying the objectives of the *sharīʿah* (*maqasid al- sharīʿah*) in terms of protection of wealth (*hifiz al-māl*) and imparting social justice.

KEYWORDS: Islamic monetary theory, Islamic economics, monetary economics, *maqasid al- sharīʿah*.

JEL CLASSIFICATION: E10, E40, E42, E52

KAUJIE CLASSIFICATION: Q11, Q12, Q21, Q27

1. Introduction

This study primarily focuses on the historical classical views on Islamic monetary theory. In fact, the theory of money in Islam, as presented by the classical Muslim scholars, is relatively straightforward, and the opinions of these scholars in this regard are generally unanimous. Regrettably, the opinions of contemporary scholars seem to be otherwise and not as consistent. This study summarizes an overall chronology of the main monetary theories, before identifying the functions of money in Islam and analyzing the views of the scholars. From a contemporary perspective, the medium of exchange migrated from bullion (as an asset of the public) to paper money backed by debt (as an asset of the banks). At the same time, there was a migration in the development of monetary theory to justify a theory of interest and a theory of banking (Abdullah, 2016). The problem is that this has only been achieved by re-defining money as a commodity that comes at a price (interest), whereas in Islam, money is "like a mirror, which has no colour, but it reflects all colours…it is an instrument to lead to all objectives…" (Al-Ghazali, 2004, pp.90-91; Ghazanfar, 2003, pp.33-34; Usmani, 2001, pp.81-83). Accordingly, in an Islamic economy, money is not a commodity, but rather it is an instrument of transfer, which carries no additional charge or price (i.e. interest), associated with its usage. In a conventional economy, interest is the price of debt, and a debt, or a loan at interest, is always greater than cash received. This explains the necessity of increasing the stock of *fiat* money, which is backed by debt, being the asset of the banking system, such that the value of goods and services must accommodate an exponential increase in the supply of money, which increases at total aggregate interest (Abdullah, Dec. 2015, 2016, 2018, 2020).

However, a usury free monetary system based on a bi-metallic commodity standard mirrors the quantity and quality of goods and services that a society produces. Money should have a counter-value (*'iwad*) that inherently reflects intrinsic value (by specie) as opposed to extrinsic value (by tale). In an Islamic economy, the real economy leads the monetary sector (and not the other way round as in capitalism) such that a high value coinage involves low prices over the long term (Abdullah, Apr. 2016; 2016).

From a classical Islamic perspective, the theory of money in Islam may be more precisely termed a theory of coinage. Central to this theory is that the stability of the value of money is an indispensable objective of the Islamic monetary system, and this is derived from the *Qur'an,* which unequivocally stresses honesty and justice in all measures of value (Chapra, 1985, p.37). For money to be eroded in value in real terms, is clearly tantamount to corrupting the world, because of the adverse effect it has on economic welfare and social justice (Chapra, 1985, p.37). If persistent inflation exists, associated with a decline in the value of money, due to an exponential supply of money in relation to its' demand, it implies that money would not be able to perform its role as a trusted medium of exchange, an honest unit of account, an equitable standard of deferred payment, nor as a reliable store of value. Our current monetary system involves debt at interest organized into currency and is not sustainable. According to the IMF, there have been 425 instances of monetary, debt and financial crises since 1970 under the fiat standard (Lietaer, 2017, p.48).

This study is organized into five sections including an introduction in section one, and a summary of literature on monetary theory in section two. Meanwhile, section three discusses the functions of money is Islam, whilst section four reviews the opinions of the classical Muslim scholars on monetary theory, and section five provides some concluding remarks.

2. Summary of Literature on Monetary Theory

Since money is the common denominator of all economic transactions, in terms of the history of money, what man has used as a medium of exchange is as old as mankind itself. Accordingly, there is a considerable amount of literature on monetary theory. As such, table 1 presents an overall chronological summary of significant *a priori* views on monetary theory, that includes both Islamic and conventional perspectives, as well as recent opinions regarding monetary reform. Over time we see a divergence away from decentralized gold and silver to centralized banking, ultimately leading to a break-down of monetary order in the 20th century and the collapse of the gold standard. However, by the 21st century we find a growing chorus of monetary reformers that question conventional monetary theories and policies, proposing either centralized or de-centralized monetary systems, including a return to gold and silver.

Table (1). A Chronology of *a priori* Views on Monetary Theory.

Cent.	School	Scholar	Comments
7^{th}-20^{th}	Islam	Al-Muqadidisi (d.1000), Al-Mawardi (d.1058), Al-Ghazali (d.1111), Al-Dimishqi (1175), Ibn Qudama (d.1223), Ibn Taymiyyah (d.1328), Ibn Qayyim (d.1350), Ibn Khaldun (1377), Al-Maqrizi (1405), \`Illish (d.1881), Usmani (1999)	Monetary theory in Islam is a theory of coinage: the Islamic currency, or Islamic monetary standard, was the legal *dinar* and *dirham*. When copper *fulus* was adopted as a medium of exchange it was not regarded as currency proper by the scholars. Until the advent of banks, the provision of private finance was conducted by Islamic partnerships and *an-nuqud* was publicly issued by the *bayt al-mal* without government intervention or manipulation (i.e. a de-centralized bi-metallic commodity standard). \`Illish rejected Ottoman paper money for the payment of *zakat*. Usmani rejected the fraudulent credit creation associated with banking.
16^{th}-18^{th}	Mercantilism	Malynes (1601), Munn (1664), Child (1668), Petty (1682), Law (1705), Steuart (1767)	The Mercantilist purchasing power theory of money holds that the prosperity of a nation is achieved through a positive balance of trade and depended on the acquisition of money: one can only consume or produce if the demand or purchasing power for consumption or production is sufficient, thereby requiring the management of consumption and the economy through monetary intervention (with low interest rates and bank credit) to increase employment; this was later re-presented by Keynes with his effective demand.
16^{th}-18^{th}	Pre-Classical	Navarrus (1556), Bodin (1568), Cantillon (1730), Say (1803)	The pre-classical schools (Salamanca, Physiocrats, French Liberal School) and the Classicists were united in their opposition to Mercantilism; Say's Law of Markets was also similar to classical opinion; another common feature was the quantity theory of the value of money. Within the context of specie and paper money, the bullionist controversy highlighted the differences between the quantity theory and the real bills doctrine. Although the latter was discredited in the 1810 Bullion Committee, it re-emerged during the currency-banking school controversy prior the 1844 Bank Act. However, Ricardo and J.S. Mill distorted their own classical theory of value by a simple quantity theory which permitted the Bank of England (BoE) to manage the purchasing power of the GBP in relation to the gold coin it represented: the discount rate was a tool to manage the level of gold reserves and the supply of liquidity (credit) required under the gold standard. Ironically, Marx also required a central bank to manage socialist monetary policy. MacLeod accurately discussed the credit theory of money and the credit creation theory of banking such that bank lending creates deposits, rather than deposits being the source of loanable funds.
18^{th}-19^{th}	Classical	Hume (1752), Smith (1776), Ricardo (1810,1816), J. Mill (1808,1821), J.S. Mill (1844,1848), Thornton (1802), Joplin (1823,1828,1832), Marx (1848), MacLeod (1883, 1894)	

Cent.	School	Scholar	Comments
19^{th}-20^{th}	Neoclassical	Jevons (1871,1883,1884), Newcomb (1885), Wicksell (1898), Marshall (1890), Pigou (1917), Fisher (1911)	The neoclassicists developed the quantity theory into the quantity theory of the demand for money (whether through the transaction approach or the Cambridge cash-balance quantity theory of money), arguing that money supply has a direct positive relationship with the price level.
19^{th}-20^{th}	Austrian	Von Mises (1912,1949), Hayek (1933,1937), Rothbard (1962,1963,1983,1994)	The Austrians were similar to the neoclassicists in that the Wicksellian cumulative process influenced the Austrian business cycle; but for the libertarian Austrians, "sound money" meant a return to the gold standard, free from any government influence.
20^{th}	Keynesian	Keynes (1923,1930,1936), Hicks (1937)	Keynes re-packaged the purchasing power theory of the Mercantilists into the effective demand for finished products and employment (1936). Keynes' theory of money evolved from the quantity theory (1923) into the purchasing power theory (1936), just as the gold standard was finally abandoned in the 1930s. Keynes' liquidity-preference theory for the demand of money was developed into the IS/LM macro-economic model by Hicks (1937). For Keynes, money was endogenous, and the emphasis was on fiscal rather than monetary policy, although his effective demand and the interest rate (set by a central bank), reflected monetary demand.
20^{th}	Chicago	Friedman (1956,1963,1969)	Freidman re-stated Fisher's quantity theory (1956) and further expounded monetarism (1969) just as the gold exchange standard was failing in 1968. As an apostle of macro-economics, Friedman differed with Keynes on methodology, but expanded Keynes' liquidity preference demand for money into the theory of asset demand for money: as with Keynes, the monetarists presumed the necessity of a central bank, and held that money supply was exogenous.
20^{th}	Rational Expectations	Lucas (1972), Sargent and Wallace (1973) Fischer (1977), Phelps and Taylor (1977)	New Classical Economics emerged as monetarism mark II (Lucas 1972, Sargent and Wallace 1973), built on micro-foundations and incorporating the theory of rational expectations whilst assuming instantaneous market clearing. It was later challenged by new models that reflected market failures (price stickiness) and imperfect competition in the form of New Keynesian Economics (Fischer 1977, Phelps and Taylor 1977), which required government fiscal and/or central bank monetary policies to improve upon macroeconomic efficiency.

Cent.	School	Scholar	Comments
19th-21st	Monetary Reformers	Berkley (1876), Fisher (1920), Graham (1937, 1944), Hayek (1943), Keynes (1923, 1942) Gesell (1958), Friedman (1963), Huber & Robertson (2000), Lietaer (2001, 2017), Davidson (2002), Stiglitz (2007), Bonpasse (2009), Greco (1990, 2001, 2007, 2009) influenced by E.C. Riegel (1944), Meera (2004), Nakamoto (2008), Brown (2010, 2013), Werner (2014, 2016), Abdullah (2015, 2016, 2017, 2018, Apr.2020, Jul.2020, Dec.2020).	Most of these authors called for monetary reform that require an alternative to the use of gold and silver as money. Instead, they suggest a new global clearing mechanism and *fiat* reference currency, that would demonetize gold and silver. Meera called for a netting system similar to Greco but based on gold. Nakamoto created a new de-centralized cryptocurrency that is highly volatile. Brown argues for a modern monetary theory (MMT), which re-packaged Keynes. Werner re-affirmed the credit theory of money and proposed a quantity theory of credit to control the direction of productive bank credit creation. Abdullah rejected debt-based netting, digital currencies with no intrinsic value and credit creation, and called for a return to a de-centralized gold/silver commodity standard, or a redeemable digital currency 100% backed by gold/silver.

3. The Functions of Money in Islam

Scholars have explored the definition of money and the functions of money in the *Qur'an*, the *Sunnah* and from early Muslim scholars. Indeed, the *Qur'an* states that the desirability of gold and silver is within our own nature. "Alluring to men is the love of things they covet, women, and sons, hoarded treasures of gold and silver, and highly bred horses, cattle and land" (*Al-Qur'an,* 3:14). The *Qur'an* explains the functions of money in terms of gold and silver. The *Qur'an* mentions the *dinar* as a unit of account and standard of deferred payment, regarding some of the *ahl al-kitab* whom cannot be trusted to repay even a *dinar* unless you stand over them: "Among the People of the Scripture there is he who, if thou trust him with a weight of treasure (*qintar*), will return it to thee. And among them there is he who, if thou trust him with a *dinar*, will not return it to thee unless thou keep standing over him. That is because they say: We have no duty to the Gentiles. They speak a lie concerning *Allah* knowingly" (*Al-Qur'an*, 3:75). A silver coin is mentioned as a medium of exchange for the occupants of the cave to purchase lawful food: "So send one of you with this silver coin (*wariq*) of yours to the town and let him find out which is the good lawful food and bring some of that to you. And let him be careful and let no man know of you." (*Al-Qur'an,* 18:19). Gold is mentioned as a store of value: "Verily, those who disbelieved, and died while they were disbelievers, the (whole) earth full of gold (*zahab*) will not be accepted from anyone of them even if they offered it as a ransom. For them is a painful torment and they will have no helpers." (*Al-Qur'an*, 3:91). The *dinar* and the *dirham* as currencies (*an-nuqud*), also occupy a very important position regarding an additional function of money as a determinant in imparting justice involving *Shari'ah* legal injunctions.

From an Islamic perspective, *Shari'ah* legal injunctions (as presented in table 2) involve *an-nuqud* in imparting justice (Ibn Rushd, 2003; Sanusi, 2001, p.1) with respect to *Zakat* (poor tax), *Jizya* (tribute tax), *Kharaj* (tax on conquered territory), *Diyat* (blood-money), the minimum amount in the case of *Sariqa* (theft), *Mahar* (dowry), and *Sarf* (currency exchange). "The *Shari'ah* has mentioned (the *dinar* and the *dirham*) in connection with many laws concerning *zakat*, marriage (*mahar*), *hudud* and other things…upon which its judgements may be based. These coins are then the ones to which the laws refer. They are different from the non-legal (coins)" (Ibn Khaldun, 1958, Vol.2, Ch.3, Sect.34, "The Mint", p.58). In other words, the scholars knew the exact purity and weight of the legal or *Shari'ah dinars* and *dirhams*, which sometimes differed in fineness and weight between other non-*Shari'ah dinars* and *dirhams*. The primary reason for including the legal *dinar* and *dirham* in *Shari'ah* legal requirements is that gold and silver retain the store of function of money and through these units of account, they can therefore consistently contribute to imparting justice.

Table (2). *Shari'ah* Injunctions as a Function of Money.

1. For *zakat*, the prophet (s.a.w.s.) said, "No *zakat* is due on property mounting to less than five *uqiyyas* (ounces of silver)…" (Bukhari 24: 487). [1 *uqiyya* = 40 *dirhams*]. The Prophet (s.a.w.s.) said: "There is no *sadaqah* on whatever is less than 20 *mithqals* of gold" (Abu Ubayd, 2003, p. 384). A letter written by Abu Bakar states, "For silver the *zakat* is one-fortieth" (Bukhari 24: 534). Ali b. Abu Talib said: "On each 20 *dinars* is one-half *dinar*, and on each 200 hundred *dirhams* are 5 *dirhams*" (Abu Dawud, from Abu Ubayd 2003, p. 383). The Prophet (s.a.w.s.) said, "Bring forth the *zakat* on gold [at the rate of] one-half *dinar* for every twenty *dinars*" (Ibn Rushd, 2003, 1, p. 297). Hence, the *zakat* rate of 2.5%: one half *dinar* in every 20, and 5 *dirhams* in every 200.
2. The *jizya* (tribute) tax was not a fixed rate but a means tested poll tax on the *dhimmis* (non-Muslims) under the protection of the Islamic state, thus levied according to their ability to pay, and would have also taken into account the market exchange rate between *dinars* and *dirhams*. Ibn Rushd notes that `Umar imposed 4 *dinars* on the rich in Egypt and Ash-Sham, 2 *dinars* on the middle class and 1 *dinar* on the poor; in Iraq he imposed 48 *dirhams*, 24 *dirhams* and 12 *dirhams*, respectively (Ibn Rushd, 2003, 1, p. 484; Abu Ubayd, 2003, p. 37).
3. Abu Ubayd said that the *kharaj* is a system of rent on conquered land (land tax), as if 'Umar (r.a.) had rented out each *jarib* for a *dirham* and a *qafiz* per year. (Abu Ubayd, 2003, p. 67). The *dirham* at the time of 'Umar was a *mithqal dirham* and post reform of the *dirham* it was 7/10th of the weight of the *mithqal dinar* (Abu Yusuf, 1969, pp. 104, 107).
4. For *diyat* (blood-money for anyone killed accidentally): Ibn Rushd (2003, 2, p. 497) relates that, the Malikis stipulated that those who deal in gold should pay 1,000 *dinars* and those who deal in silver should pay 12,000 *dirhams*. The Hanafis accept the valuation of 1,000 *dinars* but stipulate that those dealing in silver should pay 10,000 *dirhams* by analogy as per the exchange rate of 10:1 in the valuation of a *mithqal* for purposes of *zakat*. Shafi'i stipulated that the *diyyat* is based on 100 camels and that `Umar fixed the price in gold at 1,000 *dinars* and in silver at 12,000 *dirhams*, relying on the report by 'Amr ibn Shu'ayb. (Abu Dawud 39: 4527, 4530, 4547).
5. *Sariqa* (stealing): Related by Imam Malik from Nafi from Ibn `Umar "that *Rasulullah* (s.a.w.s.) ordered amputation for the theft of a shield (*mijann*) valued at three *dirhams*" (Imam Malik, 1991: 349). On the tradition of `Aisha (r.a.) that, "the hand should be cut off for stealing something that is worth a quarter of a *dinar* or more" (Bukhari 81:780). Ibn Rushd (Maliki jurist) notes that the jurists of Iraq rely on the tradition of Ibn `Umar but that "the value of the shield was 10 *dirhams*, a fact reported in some versions of the tradition" (Ibn Rushd, 2003, 2, p. 539).
6. *Mahar* (dowry): Ibn Rushd noted that al-Shafi'i, Ahmad ibn Hanbal, and the jurists of Medina amongst the *Tabi'un* agreed that there was no minimum limit for the price of the dowry since in a tradition narrated from Sahl ibn Sa'd al-Sa'idi, the Prophet (s.a.w.s.) suggested a man offer something as a dowry, "even if it is a ring made of iron", although he possessed nothing except some *Surahs*, and the Prophet (s.a.w.s.) married him with what he had memorized from the *Quran* as his dowry (Bukhari 62:24, Muslim 8: 3316). The Malikis and the Hanafis preferred to fix the dowry on the basis of analogy on the minimum scale for theft, which in the case of Imam Malik is fixed at one-fourth of a *dinar* or three *dirhams*, and in the case of Abu Hanifa ten *dirhams* (Ibn Rushd, 2003, 2, p. 21).
7. *Sarf* (currency exchange): The Prophet (s.a.w.s.) used gold and silver as the sole currency and linked them alone in their capacity as prices for all goods and labour and with currencies for exchange. The Prophet (s.a.w.s.) permitted the exchange of gold and silver at the market rate, as long as it was conducted on the spot, without any delay. Narrated Abu Bakr: *Allah's* Apostle said, "Don't sell gold for gold unless equal in weight, nor silver for silver unless equal in weight, but you could sell gold for silver or silver for gold as you like." (Bukhari 34: 383).

4. Views of the Muslim Scholars

From a classical perspective, a number of Muslim scholars[1] have differentiated between a wider medium of exchange (*wasilat al-tabadul*) and currency (*an-naqd*). Currency has been defined as: "*Nuqud* is the plural of *naqd* and is composed of gold and silver" (*Majallah*, Art. 130), and referred to by the *fuqaha* as meaning that 1 *dinar* equals 10 *dirhams* by value (as the Islamic exchange rate for zakat). Due to a shortage of *an-nuqud*, ᶜUmar ibn al-Khattab (r.a.) contemplated using leather from camels as a *wasilat al-tabadul*, but the *sahabah* advised against it since it would create a shortage of camels (Dawud, 1999, p.145 cited by Haneef, 2006, p. 28). Since camels were plentiful in Arabia it would lowered the value of money, given a sudden increase in money supply (leather), in relation to demand, that the effect would have been to increase prices. *Naqd* also means the payment of a price in *an-nuqud*, as relayed in the *hadith* of Jabir, "He paid (*naqada*) me its price" (Muslim 10: 3886). In the *Sunan* of Ibn Majah we discover an important *hadith* entitled the "prohibition of destroying *dirhams* and *dinars*" in the book of business transactions;

- "ᶜAlqama b. ᶜAbdullah (r.a.) reported on the authority of his father that *Allah's* Messenger (s.a.w.s.) forbade from destroying the coins in vogue among the Muslims without any necessity" (Ibn Majah 12: 2263, also Abu Dawud 23: 3442).

Furthermore, in Rosenthal's translation of the *Muqaddimah*, Ibn Khaldun affirms that the purpose of gold and silver was to be used as the medium of exchange:

- "God created the two mineral stones gold and silver as the measure of value for all capital accumulations. Gold and silver are what the inhabitants of this world, by preference, consider treasure and property to consist of. Even if, under certain circumstances, other things are acquired, it is only for the purpose of ultimately obtaining gold and silver. All other things are subject to market fluctuations, from which gold and silver are exempt. They are the basis of profit, property and treasure" (Ibn Khaldun, 1958, 2, p. 313).

Taqi Usmani's translation of Imam Ghazali's views on money (*dirhams* and *dinars*[2]) in *'Ihya ᶜUlum-al-Din*, are articulated before monetary theories in West materialized (and before the Scholastics). They are discussed not under 'Trade and Commerce' but under 'Patience and Gratefulness':

- "The creation of *dirhams* and *dinars* is one of the blessings of *Allah*... there must be a measure on the basis of which price can be determined, because the exchanged commodities are neither of the same type, nor of the same measure which can determine how much quantity of one commodity is a just price for another. Therefore, all these commodities need a mediator to judge their exact value. *Allah* (s.w.t.) has therefore, created *dirhams* and *dinars* as judges and mediators between all commodities so that all objects of wealth are measured through them; and their being the measure of value of all commodities is based on the fact that they are not an objective in themselves… That is why *Allah* has created them, so that they may be circulated between hands and act as a fair judge between different commodities and work as a medium to acquire other things… like a mirror, which has no colour, but it reflects all colours. The same is the case of money. It is not an objective in itself. But it is an instrument to lead to all objectives … He who does an act with *dirhams* and *dinars*, which is opposed to the above plan of *Allah*, commits a sin and is ungrateful to the gifts of *Allah*" (Usmani, 2001, p. 81-83; Ghazanfar, 2003, pp. 33-34; Al-Ghazali, 2004, pp. 90-91).

Al-Ghazali argues that to not use *dirhams* and *dinars* as money is not only an act of ingratitude, but he also highlights the problems of a barter system, with

(1) Including but not limited to Al-Muqaddasi, Ibn Qudamah, Abu 'Ubayd al-Qasim, al-Mawardi, Imam Ghazali, Ibn Taymiyyah, Ibn Qayyim, Ibn Khaldun (the father of Islamic economics) and Al-Maqrizi also wrote a book on "The Islamic Currency" (*al-Nuqud al-Islamiyyah*, 1967).

(2) In Ghazanfar's translation of the same passage he also correctly maintains "*dinar* and *dirham*" (Ghazanfar, 2003, pp. 33-34), whereas in Fazlul Karim's translation (2004, 4, pp. 90-91) they are mis-translated into "gold and silver".

a lack of a medium of exchange, the indivisibility of goods and the problem of the double coincidence of wants. In fact, Al-Ghazali underlines the importance of indirect exchange in Islam since the "barter system is not lawful as the good and bad of it are the same" (Al-Ghazali, 2004, 4, p. 92). The sole purpose of money is to serve as a medium of exchange and a measure of value of commodities – it cannot be the object of sale, neither can it be hoarded nor converted into utensils: "If instead of using *dirhams* and *dinars* someone buries them or hoards them for long, he does oppression to them and makes inoperative the object of *Allah*. *Dirhams* and *dinars* have not been created…but as a medium exchange of things… *Allah* says (in *Al-Qur'an* 9: 34), 'And there are those who bury gold and silver and spend it not in the way of *Allah*: announce unto them a most grievous penalty'. Anyone who converts them into utensils of gold and silver acts contrary to the purpose for which they were created and is unlawful to *Allah* and commits sin. His condition is worse than that of the hoarder of money, for such a person is one like one who detains a ruler in prison and forces him to perform unsuitable functions, such as weaving cloth, collecting taxes. Cups can be made of iron or copper, but they have no value of exchange, and all things cannot be purchased through their medium. For this purpose, *dirhams* and *dinars* have been created. For this reason, the Prophet said: He who drinks in cups of gold or silver, enkindles as it were the fires if Hell in his belly[(3)]" (Al-Ghazali, 2004, p. 91; Ghazanfar, 2003, pp. 34-35; Usmani, 2001, p. 83).

Furthermore, Al-Ghazali mentions that a counterfeit (*zaif*) medium of exchange is fraudulent and its circulation is deemed worse than stealing: "It is an oppression on the public to use counterfeit coins. The first man who uses such a coin will get the sins of every person who subsequently transfers it to other persons…To transfer a counterfeit *dirham* to another is worse than stealing a thousand *dirhams*, for the act of stealing is one sin: while the circulation of counterfeit coins is not limited and it continues year after year unless they are destroyed" (Al-Ghazali, 2004, 2, pp. 57-8). "By *zaif* [counterfeit money], we mean a coin which contains no silver at all; it is only polished; or *dinars* with no gold in them. If a coin contains some silver but is mixed with copper and that is the authorized coin in the country, this is acceptable whether the silver content is known or not. But, if it is not authorized, then it will be acceptable only if the silver content is known" (Ghazanfar, 2003, pp. 35-6), Indeed, "a counterfeit coin is one which has got nothing of gold and silver. The coin in which there is something of gold and silver cannot be called counterfeit" (Al-Ghazali, 2004, 2, pp. 57-8). This does not suggest a feudal theory of money involving the alteration of an alloy implied in the monopoly of a feudal ruler, but rather exposes the lack of intrinsic value in paper notes and alloy coins inherent under the fiat standard.

Indeed, in Wahba's translation of *Al-Ahkam al-Sultaniyya*, Al-Mawardi (974-1058), considered a judge *par excellence* (*aqda al-quda*), in Baghdad at the time of the ᶜAbbasids, expressed the need to retain the quality of the coinage, and stated that, "so long as gold and silver is free of debasement, it is acceptable in payment…Damaged *dirhams* and *dinars* do not have to be accepted because of the uncertainty about them which can lead to confusion; that is why they are lesser value than whole ones" (Al-Mawardi, 2000, p. 171). Al-Mawardi reported that "the Prophet (s.a.w.s.), forbade the shattering of Muslim coins, noting from Al-Waqidi that the governor of Madina, Aban ibn ᶜUthman, imposed thirty lashes and had the perpetrator paraded around town for damaging the currency resulting in loss of value through debasement "as a discretionary punishment for an act of forgery" (Al-Mawardi, 2000, p. 172). Other jurists explained that the prohibition of damaging the currency referred "to the paring of the edges to reduce the weight of the coins, which were merely counted without further scrutiny in early Islam" (Al-Mawardi, 2000, p. 172).

Al-Mawardi observed that generally "minted money is automatically trusted" (Al-Mawardi, 2000, p. 171), but Ibn Khaldun highlighted that, "later on, officials of the mint in the various dynasties deliberately disregarded the legal value of the *dinar* and *dirham*. Their value became different in the different regions. The people reverted to a theoretical knowledge of the (the legal *dinar* and *dirham*), as had been the case at the beginning of Islam" (Ibn Khaldun, 1958, 2, p. 60), and calculated the legal tariffs, such

(3) In a narration from Umm Salama (the wife of the Prophet) *Allah's* Apostle said, "He who drinks in silver utensils is only filling his abdomen with Hell Fire" (Bukhari 69:538).

as *zakat*, in their own coinage according to the relationship that they knew existed between their own coins actually in circulation and the theoretical legal values of the *dinar* and *dirham*. In Collin's translation of *Ahsan al-Taqasim fi Ma^{c}rifat al-Aqalim*, short-weighting was noticed by Al-Muqaddasi whom stated in 375H/985 that "in all provinces of this region [the *Maghrib*], the standard is the *dinar*, which is lighter than the *mithqal* by a *habbah*, that is to say a grain of barley…The *dirham* is also short in legal weight…[coins] circulate by number [rather than by weight]" (Al-Muqaddasi, 2001, pp.198-199). Hence, the importance of establishing accurate weight and fineness in coins became an exact science.

In Khanikoff's translation of "The Water Balance", originally written in the 12th century, Al-Khazini developed extensive work on the hydrostatic-balance derived from the Archimedes principal, to the extent that he had "so elaborated the balance as to make it indicate, not only the absolute and the specific gravity of bodies, but also, for bodies made up of two simple substances" (Al-Khazini, 1857, p. 104) and hence could determine alloys in coins. Interestingly, such was his expertise, Al-Khazini was prompted by the *ayat*, "Verily, those who disbelieved, and died while they were disbelievers, the (whole) earth full of gold (*zahab*) will not be accepted from anyone of them even if they offered it as a ransom. For them is a painful torment and they will have no helpers" (*Al-Qur'an*, 3:91) and proceeded to calculate the number of *mithqals* of gold capable of filling the volume of the Earth (Al-Khazini, 1857, p.79).

In Fawzan Barrage's translation of *Al-Dawhat al-Mushtabakat Fi Dawabit Dar al-Sikkah*, we learn from Al-Hakim, an actual mint-master and a well-respected *faqih*, during the reign of the Marinid (Morocco) Sultan Abi `Anan Faris (748-759H), that the practice of testing the weight and purity was a persistant concern, for example, "when decay took over the Empire of the Persians, their money also fell into decay. In principle, the currency was of pure silver and gold, but the decline of the dynasty meant that more impurities were added, until the people started testing the currency with every transaction and differentiating the pure from the debased" (Al-Hakim, 2001, p.3). In describing the history and inner working of the mint, Al-Hakim reported from Ibn Hazm al-Andalusi whom stated, "The Imam should order the people to transact between them with pure refined gold, and pure refined silver only. The Imam is to recall all struck coins, smelt them and refine them. Then he is to strike new coins from the pure metal and return these to their owners" (Al-Hakim, 2001, p. 4).

In Allouche's translation of the *Ighathah*, Al-Maqrizi thought that, "the first to mint the *dinar* and the *dirham* was Adam, who said that life is not enjoyable without these two currencies" (Al-Maqrizi, 1994, pp. 55-56). However, Al-Hakim related from al-Barqi by Wathima as corroborated by Ibn `Abbas, that, "the first currency on earth was the *dinars* and the *dirhams* of Nimrod bin Kan'an. Before that people used gold and silver nuggets for their commerce. So when the *dinars* and *dirhams* were struck, the devil snorted a big snort, grabbed the currency and kissed it saying, 'I now have control of mankind (sons of Adam)! With you both (*dinars* and *dirhams*) they will cut the wombs, shed each other's blood and oppress one another!'" (Al-Hakim, 2001, p. 2). Perhaps the *dinar* and *dirham* were first minted by Adam (a.s.) and revived under Nimrud, and *Allah* (s.w.t.) knows best, but clearly gold and silver have been used as the medium of exchange since the dawn of mankind, its correct usage became a central theme of Islam, and certainly its incorrect usage has been the cause of much conflict and injustice.

In Fawzan Barrage's translation of *Nihayat al-Rutba Fi Talab al-Hisba*, Al-Shayzari, a contemporary of Salah ad-Din (Saladin), detailed the duties of a market prefect or ombudsman (*muhstasib*) in charge of market supervisor's office (*al-hisba*) and writes that, "the profession of the moneychanger is religiously dangerous to its practitioner. As a matter of fact, religion is non-existent with the moneychanger if he is ignorant of the *Shari^{c}ah* and unfamiliar with the laws of usury. It is imperative that no one undertakes such a profession until they have learned the *Shari^{c}ah* to avoid falling into the prohibited in its codes. It is also the controller's duty to monitor the market and spy on their activities. If he finds someone charging usury or acting against the *Shari^{c}ah*, he is to be rebuked and removed from the market – he is to do that after he enlightens them in the principles of usury" (Al-Shayzari, 2000, pp. 1-2). Herein lies the classical approach towards anyone dealing in usury – the prompt removal from the market and suspension, if not termination, of business until justice is restored.

The Islamic currencies (*an-nuqud*) comprising the *dinar* and the *dirham* were clearly defined and understood in early Islam: "It should be known since the beginning of Islam and the time of the Companions (*sahabah*) and the Followers (*tabi*[c]*un*), the legal *dirham* is by general consensus the one, ten of which are equal to seven *mithqal* of gold, and an ounce of gold is forty *dirhams*. Thus, the legal *dirham* is seven-tenths of a *dinar*. A gold *mithqal* weighs seventy-two average-sized grains of barley (*habbahs*). Consequently, the *dirham*, which is seven-tenths of a *mithqal*, has a weight of fifty and two-fifths grains. All of these values are accepted by general consensus" (Ibn Khaldun, 1958, 3, p. 58)[(4)]. Originally, the Roman *dinar* was the *denarius aereus* (Eagleton, 2007:88) and replaced by Constantine I in 312 with the Byzantine *solidus*; the contemporary Byzantine standard *dinar* of Heraclius was the full *solidus*[(5)] of 4.4g (Broome, 1985, p. 11) or more precisely 4.44g as reflected in surviving coinage, for example struck at Carthage in 629-630 (Grierson, 1999, p. 6). However, the Byzantines also minted a reduced *solidus* at Carthage for trade with the East, which weighed a full *solidus* less a carat, or 4.25g (Broome, 1985, p. 14), and was the weight of a *mithqal*[(6)].

Notwithstanding differing Muslim weight standards of various cities prevailing in Damascus, Cairo, Makkah, or Baghdad that would define a *mithqal* in a differing number of *qirats*, in reality there is only one legal weight (Abdullah, Apr. 2020). Indeed, Al-Hakim corroborates the view of Ibn Khaldun that the *mithqal* was 72 *habbas* and states that,

- "The Romans (Byzantine) continued to use the *dinar* and the Persians to use the *dirham*, until Islam came…The Persians had three different weights for the *dirhams*: one was one *mithqal*, which is twenty *qirats*, another was twelve *qirats* and yet another was ten *qirats*. When Islam came, the need arose to value the *zakat*, so an average of all three standards was used. The sum of all three standards added up to forty-two *qirats* so it was agreed that the dirham would be equal to fourteen *qirats* of the *qirats* of the *mithqal*, which is in turn twenty-four *qirats*. The *qirat* was also equal to three *habbahs* and twenty-four times three is seventy-two and that makes a *mithqal* seventy-two *habahas*… It is also said that when [c]Umar Ibn al-Khattab (r.a.), saw the discrepancy in the weight of the *dirhams*, he looked at the majority of what the people use from the lightest to the heaviest. He divided it into twelve *daniqs* and took half of that (six *daniqs*) to equal the *dirham*. Thus, when you add to the *dirham* three seventh of its weight it equals a *mithqal*, and when you take away three tenths off the weight of a *mithqal*, it equals a *dirham*" (Al-Hakim, 2001, p. 2).

Al-Mawardi also corroborates the account of Al-Hakim as to how the legal *dirham*, as a coin standard, was maintained by [c]Umar (r.a.) amidst the declining state of Persian coinage (Al-Mawardi, 2000, p. 170). Similarly, Abu 'Ubayd had earlier recounted that the coin reform conducted by [c]Umar (r.a.) in reality reconfirmed the earlier *dinars* and *dirhams* standards comprising 1 *mithqal* and 6 *daniqs*, respectively (Abu 'Ubayd, 2003, p. 481).

The coin standard of [c]Umar (r.a.) was subsequently established with the minting (*sikkah*) of the first *dinar* and *dirham* to include Arabic legends, by Caliph [c]Abd al-Malik ibn Marwan, with the assistance of his Minister Al-Hajjaj bin Yousuf Al-Thaqafi, in the year 697 in Damascus; thus physically externalizing into coinage, the previously internal theoretical definitions of legal *Shari*[c]*ah* weights and values. The Muslims thus abandoned other people's coins and adopted their own distinct currency in a unique Islamic style (Abdullah, Apr. 2020). Yusuf Al-Qardawi in his *Fiqh az-Zakat*, also observes that a number of these early coins have been preserved in a number of Museums (Al-Qardawi, 1999, p. 167). The earliest *dinars* were of pure gold and weighed 4.25g and the *dirhams* of pure silver weighed 2.975g. Umayyad and [c]Abbasid *mithqal dinar* glass weights of 4.25g, have also been

(4) In Rosenthal's 1958 English translation of the *Muqaddimah*, he translates *habbahs* as 'grains of wheat' when it literally means 'grain' but refers to an average-sized, unshelled grain of barley, of which the extremities are cut, whereas the *qamhah* is the wheat grain (c.f. Al-Maqrizi, 1994, p.57).

(5) The full *solidus* was tariffed at 1/72 of a Byzantine pound (*ratl*), each weighing 24 carats (originally the weight of the carob seed). Each *solidus* would be weighed by a glass weight, *exagium*, thus the English word 'assay'. By the time of Heraclius the pound weighed about 320g (Abdullah, Apr. 2020).

(6) *Mithqal* referred to a weight and *dinars* were weighed with glass *mithqal* weights (Abdullah, Apr. 2020).

preserved, and were used to facilitate the weighing process. Occasionally, coins were officially minted with reduced fineness (the exception rather than the rule) such as the 14th century Nasrid dynasty of al-Andalusia, who minted the *dinar al-dharabi* of 22 carats, a fineness, which has more recently been reflected in coins struck by some private Malaysian mints.

Al-Maqrizi stated that, "in all corners of the earth and among every nation, the currency that has been used to determine prices of goods and costs of labour consists only of gold and silver" (Al-Maqrizi, 1994, p. 55); "the currency in circulation among the Arabs in pre-Islamic times consisted of gold and silver only" (Al-Maqrizi, 1994, p.56); and "currencies that are legally, logically and customarily acceptable are only those of gold and silver" (Al-Maqrizi, 1994, p. 80). Yet, he also acknowledged that other examples of commodities have been used as a medium of exchange (*wasilat tabadul*) such as paper, seashells, *fulus* (copper coins) gallnuts, dates, pieces of bread, chickens and bran (Al-Maqrizi, 1994, pp. 69-70). Al-Maqrizi mentioned paper money (Al-Maqrizi, 1994, p.69) in the context of Kublai Khan whom, under the Khan's authority (and not from a bank), issued paper money called *chao* valued at one ounce of silver or a tenth of an ounce in gold, in *lieu* of gold and silver coins, from the "city of the Khan" or *Khanbaliq* (Beijing or Cambaluc), as recorded from a merchant in Baghdad by Mohammad Ibn Sa'id (d.1286) and also observed by Marco Polo when he arrived there in May 1275.

Upon Kublai Khan's death in 1294, the Il-Khan (viceroy) of Persia and Iraq, Gaykhatu Khan (a Muslim convert) declared independence from the Great Khan of Mongolia and copied the practice of also issuing paper money. However, the people, suspecting fraud, looked upon the piece of paper with amazement and remarked: 'How can we accept this piece of paper instead of gold coin" (Najeebabadi, 2001, 3, p. 316). The Persian historian Rashid ud-Din speaks even of "the ruin of Basra, which ensued upon the emission of the new money" (Ashtor, 1976, p. 257).

Copper coins or *fulus*, (*fals*, sing.) is derived from the Greek '*follis*' (Broome, 1985, p. 14). The first ruler to adopt copper alongside gold and silver, as currency, was Sultan al-Kamil Ayyubi (Al-Maqrizi, 1994, p. 68), and Al-Maqrizi states, "according to what is known of the history of mankind, this [medium of exchange] has never been called a currency since time immemorial, not even for one hour of a day. It has never been given the status of currency next to gold and silver" (Al-Maqrizi, 1994, p.68). The Mamluks inherited the minting of gold, silver and copper as money from the Ayyubids; *dinars* were scarce and the prevailing currency was the *dirham*, with small amounts of *fulus* minted. However, during the reigns of al-Adil Kitbugha (1295-97) and al-Zuhar Baruq (1382-99) large amounts of *fulus* were minted as the rulers and the courtiers sought to oppress and exploit the population; the *dirhams* disappeared (Al-Maqrizi, 1994, p. 71), *fulus* increased significantly and prices rose (Al-Maqrizi, 1994, p. 74). Silver disappeared because it ceased to be minted and was used to purchase copper from Europe, as well as being worn as jewelry by the courtiers (Al-Maqrizi, 1994, p. 71).

Al-Maqrizi himself wrote the *Ighathah* as the *muhstasib* and witnessed the utter monetary collapse of his country during the hyper-inflationary depression of 1405, resulting in poverty, starvation and plague – half the population of Egypt died, including his only daughter who died from the plague, and he resolved to write the *Ighathah* as a lesson and a warning. He gave three reasons for the financial depression: (1) corruption (Al-Maqrizi, 1994, p.52), (2) high land rentals charged by landlords (Al-Maqrizi, 1994, p.53), but primarily, (3) due to the circulation of the *fulus* or copper coins (Al-Maqrizi, 1994, p.55): "…the currency that has become commonly accepted in Egypt is the *fulus*…This is an innovation (*bida'ah*) and a calamity of recent origin. It has no root among any community that believes in revealed religion, nor [does it have] any legal foundation for its implementation. Therefore, its innovator cannot claim that he is imitating the practice of any bygone people, nor can he draw upon the utterance of any human being. He can only cite the resultant disappearance of the joy of life and the vanishing of its gaiety; the ruination of wealth and the annihilation of its embellishments; the reduction of the entire population to privation and the prevalence of property and humiliation: 'That *Allah* might accomplish a matter already enacted' [*Al-Qur'an*, 8: 42]" (Al-Maqrizi, 1994, p. 77).

An often mis-interpreted reference to society being freely allowed to use whatever medium of exchange it wishes, is cited from Imam Malik in his *al-Mudawwanah*, who actually said: “It is not good at all to exchange [*fulus*] with gold or silver by deferment, even if people have taken leather to the mint (*sikka wa ayn*) [as money], I would dislike selling it with gold or silver by deferment…” (Imam Malik, 1994, 3, p. 5). This is clearly hypothetical in order to discourage different types of money used in deferred payments and does not mean that *fulus* or leather are treated on the same level as gold and silver. Furthermore, it is unlikely that the people would adopt *fulus* or camel leather, if gold and silver were freely available. Moreover, in his *Al-Muwatta*, Imam Malik stipulated that a “*qirad* (i.e. *mudharabah*) is only good in gold or silver coin (*an-nuqud*) and it is never permitted in any kind of wares or goods or articles” (Imam Malik, 1991, Bk.32 - *Qirad*).

Zaman (1985) also discussed differing types of coinage in deferred transactions and quotes Ibn Qudamah in full, explaining Ibn Qudamah’s usage of *kasid* which implies demonetization or unpopularity and *fasid* which implies debased or defective, “In case the amount of loan is in terms of *fulus* or smaller prieces of a dirham (*mukassara* – silver *dirhams* debased with a copper alloy), which the government (*Sultan*) has banned and which have become out of currency the creditor will takes its price. He will not be compelled to accept this coin…, because the defect has occurred when the coin was in the borrower’s possession… The price of the *fulus* will be fixed as was prevailing on the date of borrowing and the creditor will take it irrespective of the degree of decrease in its value. But in case the coin (*fulus*), in spite of demonetization, is still in currency and popular, the creditor shall accept same” (Ibn Qudamah, 1946, 4, p. 325).

Zaman also reasons that, as derived from the *hadith* that a loan of money or commodity must be repaid in the same type and quantity (Zaman, 1985, pp.42-43), and jurists have opined that if *dinars* and *dirhams* are lent by tale then they must be repaid by tale, and if lent by weight to be repaid by weight (Ibn Qudama, 1946, 4, p.318) – this avoids a benefit accruing to the lender if debased *dirhams* were lent but repaid with pure *dirhams*. Furthermore, no deferred payment is allowed between *dinars* and *dirhams*, or gold and silver and must be exchanged on the spot immediately (Ibn Qudama, 1946, 4, p. 48). Consequently, in credit sales, payments must be made in the currency quoted by the seller, and any payment in any other currency cannot be deferred and must be effected immediately at the prevailing exchange rate on the date of the sale (Ibn Qudama, 1946, 4, p. 48).

Another example is the claim by Haneef (2006) that, both Ibn Taymiyyah (1962, 19, pp.249-252) and his disciple Ibn Qayyim (1996, 2, p.156), “accepted *fulus* as money at a time when it was not used as the major form of money” (Haneef, 2006, p.23). However, when asked about a transaction involving *fulus*, ultimately Ibn Taymiyyah concluded “…the more authentic (opinion) is to prohibit it as the copper coins, when they have gained currency, take on the same position as the money proper and become a standard of value for people’s wealth” (Ibn Taymiyyah, 1962, 29, pp.468-9, cited by Islahi, 1988, p.15). Hence, when Ibn Taymiyyah stated, “the authority should mint the coins (other than gold and silver) according to the just value of people’s transactions” (Ibn Taymiyya, 1962, 29, p.469, cited by Islahi, 1988, p.141), it was as a result of his distress by the repeated debasement of the coinage under the Bahri Mamluk Sultan and “He asked the Sultan to check the erosion of the value of money, which caused such a disturbance in the economy. He opposed debasement in the currency and over-production of money” (Islahi, 1988, p.141), and this was 100 years before the calamity that faced Al-Maqrizi under the Burji Mamluks. For Islahi this suggests that Ibn Taymiyyah had indeed some appreciation of the quantity of money, the total volume of transactions, and the price level (Islahi, 1988, p.141), but it rather confirms his understanding of the value of money as a result of an over-issuance of money in relation to demand, and pre-empted Gresham’s Law by 350 years; “if the intrinsic value of coins are different it will become a source of profit for the wicked to collect the small (bad) coins and exchange them (for good money) and then they will take them to another country and shift the small (bad) money of that country (to this country). So (the value of) people’s goods will be damaged” (Ibn Taymiyyah, 1962, 29, p.469, cited by Islahi, 1988, p.143). Consequently, he advised the ruler, “not to start business in money by purchasing copper and minting coins and thus doing business with them; neither should he invalidate the money in people's possession and mint other kinds of coins. Rather, he should mint coins of real value without aiming at any profit by so doing, and while keeping in view the public welfare (*al-maslahah al-ummah*); he should pay the salary of workers from the public treasury (*bayt al-mal*). Without doubt, trading in money means opening a great door of injustice for the people and of devouring their wealth by false pretences" (Ibn Taymiyyah, 1962, 29, p.469, cited by Islahi, 1988, p. 141).

Given the introduction of *fulus* circulating as if it were money, would it be accurate to infer from the above comments attributed to Imam Malik, Ibn Qudamah, Ibn Qayyim and Ibn Taymiyyah that they formerly sanctioned *fulus* as currency? Rather, they tried to practically find solutions and offer advice concerning transactions involving a new medium of exchange that had been introduced by their rulers, which ultimately displaced the original currency (of gold and silver) and led to the ruin of the people that used it. As Al-Maqrizi noted (Al-Maqrizi, 1994, p.72) in the *Qur'an*, "When *Allah* desires evil for a people, there can be no turning back. Apart from Him they have no protector" (*Al-Qur'an*, 13:11). Indeed, Al-Maqrizi also stated in his *An-nuqud al-Islamiyah* that, "*Allah* (s.w.t.) never made [*fulus*] legal tender" (Al-Maqrizi,1964, p.34, cited by Meloy, 2003, p.200), and "[the people] should deal exclusively with gold and silver for pricing goods" (Al-Maqrizi, 1994, pp. 51, 71-72, 77-80).

The disdain that Muslims had for *fulus* and paper money was only altered by Western colonial persuasion. Before independent thought was confused with innovative deliberation, we learn that *fulus* was only ever regarded as small change, and it was "not allowed to make a *qirad* [*mudharabah*] with *fulus*" (Vadillo, 1996, p.76). Vadillo also translated a *fatwa* from *Al-Fath Al-`Ali Al-Maliki* by Shaykh Muhammad `Illish (1802-1881), the Maliki jurist at the University of Al-Azhar, whom was asked, "'What is your judgment in respect to the paper with the stamp of the Sultan that circulates like the *dinars* and the *dirhams*? Is it obligatory to pay *zakat* as if it were a coin of gold or silver, or merchandise, or not?' I responded exactly in the following way 'Praise be to *Allah* and blessing and peace upon our Master Muhammad, the Messenger of *Allah*. *Zakat* is not to be paid for it, because *zakat* is restricted to the flocks, certain types of grains and fruits, gold and silver, the value of rotational merchandise and the price of the goods withheld. What is referred to previously does not belong to any of these categories. You will find an explanation by comparison with copper coin or *fulus* with the stamp of the Sultan which is in circulation and for which no *zakat* is paid since it does not belong to any of the categories mentioned… unless it is used as rotational merchandise. Then it should be treated as if it were merchandise'" (Vadillo, 1996, pp. 76-77).

Beyond the treatment we should apply to paper money with respect to *zakat*, given that our currency today might be regarded as the modern equivalent of *fulus*, in fact worse, it has no precious metal content and is backed by debt (Abdullah, Dec. 2015, 2016, 2018, Jul. 2020), we might further appreciate *Rasulullah's* (s.a.w.s) attitude towards debt:

- "Narrated [c]Aisha (r.a.): "*Allah's* Apostle (s.a.w.s.) used to invoke *Allah* in the prayer saying, 'Oh *Allah*, I seek refuge with you from all sins, and from being in debt.' Someone said, 'Oh *Allah's* Apostle! (I see you) very often you seek refuge with *Allah* from being in debt.' He replied, 'If a person is in debt, he tells lies when he speaks, and breaks his promises when he promises' " (Bukhari 41:582).

Ayub (2007) acknowledges that "early Islamic economists objected to credit money, ascribing its proliferation to the vested interest of banks that…create artificial purchasing power and take advantage of the demand for it…and advocate a 100% reserve system" and instead argues that, "credit creation in the Islamic banking system is created only to the extent that genuine possibilities of creating additional wealth through productive enterprise exist" (Ayub, 2007, p.93). However, this view and the language adopted, reflects exactly the real bill doctrine inherent in banking and entirely discredited by the Bullion Committee of 1810 (Abdullah, 2016) and Islamic bank financing is exactly the same as conventional banks (Abdullah, Oct. 2016) in terms of economic substance. Furthermore, promissory notes, bank money, debt and interest rates, are unavoidable modern global phenomena, and whilst *dinars* and *dirhams* are certainly permitted, trading in usury or even with promissory notes is not:

- "Abu Hurairah (r.a.), reported from *Rasulullah* (s.a.w.s.) that, "There will come a time, he said, when you will not be able to find a single person in the world who will not be consuming *riba*. And if anyone claims that he is not consuming *riba* then surely the dust of *riba* will reach him" (Abu Dawud 22: 3325).
- "It was reported that Abu Hurairah (r.a.) asked Marwan: "Have you legalized usury?" Marwan said: "No." Then Abu Hurairah said: "You have legalized selling promissory notes (*sukukun*) whereas the Messenger of *Allah* (s.a.w.s.) forbade selling food-stuff unless received by the seller". Marwan then addressed the people and forbade selling such notes" (Imam Malik, 1991, p. 260).

Rather than define money as an instrument of transfer involving precious metals, many contemporary scholars are of the opinion that fiat money has to be a commodity itself in order to perform the functions of money. As a unit of account, money must reflect value against which goods and services can be measured. The market value of a currency does not reflect the cost of its production, but the ability to perform the required functions of money. Therefore, they argue that money does not have to be backed by a precious metal, but can be fiat money without instrinsic value, as reflected in OIC *Fiqh* Academy resolutions no.6 and no.9 (Abdullah et al, 2018), even though fiat money is debt organized into money and imposed on society without our full consent. Such a mechanism requires a monopoly over the production of money and the cost of production (brassage) of fiat money is negligible, whether in terms of central bank notes and coins, or computer data entries by commercial banks. However, when we contemplate the seignorage associated with the purchasing power generated from credit creation, then we realize the true resource cost associated with the use of fiat money is the combined central bank and commercial bank surpluses. Although fiat money is no longer backed by precious metals, it is backed by the assets of the banking system, which is debt at interest. This actually makes fiat money a very expensive medium of exchange, generated largely by a privately-owned banking system with a high barrier to entry, involving a centralized regulatory framework that permits the manufacture of credit (money) into existence from lending (Werner, 2014; Abdullah, Jul. 2020).

5. Conclusion

In the context of the development of historical views on monetary theory, in order to justify the practices of the banks, scholars insisted that money was a commodity that came at a price (interest). The purchasing power theory of the mercantilists was supplanted by the classical theory of value and the quantity theory of the value of money, and its' successor the neoclassical quantity theory of money. Later this was spurned by a re-packaged mercantilism in the form of Keynesian economics, that was itself overtaken by a re-packaged modern version of the quantity theory of the demand for money in the form of monetarism. Rational expectations has only produced variants of monetarism (new classical macroeconomics) or Keynesianism (new Keynesian economics), and the modern monetary theory (MMT), which is just a re-packaged Keynesian theory (Abdullah, Jul. 2020). Ultimately, capitalist economies have fared no better or worse than socialist command economies, in the presence of excessive credit creation and debt at interest embedded in the modern monetary and financial system. The fixation with stabilizing prices through the adjustment of the supply of money and its purchasing power with government intervention and monetary policy via the use of interest rates, has not only left macro-economics in complete dis-array, but has collapsed the value of money such that our wealth has been transferred to the issuers of paper money.

In our review of classical Muslim views on monetary theory, the classical monetary theory in Islam was unanimously held by the scholars to be a theory of coinage involving the *Shari'ah dinar* and *dirham*, free from any government intervention or financial intermediation, except to maintain the quality of pure gold and silver coinage, permitting the free adjustment of the value of money in terms of market supply and demand (Abdullah, 2016, 2018, Apr. 2020). The focus was not on stabilizing prices but on the stability of the currency that would bring about stability in prices, without any monopoly of the issuance of money, nor control the balance of trade, since the supply of money and trade would automatically adjust the flow of specie and commodities. Such a system surely provides for a genuine platform of *laissez faire* economics and even in the age of technology, a de-centralized 100% redeemable gold and silver commodity standard is possible with digital currencies backed 100% by gold and silver (Abdullah, Jul. 2020; Abdullah and Mohd Nor, Sept. 2018; Alzubaidi and Abdullah, Sept. 2017). This involves a public issuance of money, that would prevent all banks (conventional and Islamic) from creating credit (deposits) from lending, and would require not only a de-centralized monetary system, but a de-centralized finance (DeFi) in the form the separate private issuance of Islamic participatory equity finance (*mudharabah* and *musharakah*), which would convert banks (and Islamic Banks in particular) into genuine wealth management and investment intermediaries (Abdullah, Jul. 2020, Dec. 2020). Given the monetary and price instability associated with the fiat standard, perhaps we should appreciate the importance of the Islamic currency, and recognize that it was the once and is also the future of money, as the Prophet (s.a.w.s) has foretold, "A time is certainly coming over mankind in which there will be nothing (left) which will be of use save a *dinar* and *dirham*" (Imam Ahmad ibn Hanbal, *Musnad*).

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وجهات نظر عُلماء المُسلمين القُدامى حول النظرية النقدية

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أستاذ مشارك، ورئيس قسم الاقتصاد، كلية الاقتصاد والإدارة

جامعة القاسمية، الإمارات العربية المتحدة

المستخلص. تركز هذه الدراسة، ضمن الإطار العام للنظرية النقدية، على مراجعة وجهات نظر عُلماء المُسلمين القُدامى حول النظرية النقدية. ففي عام ١٧٩٢م كان السعر الرسمي للذهب يُقدر بحوالي ١٩,٣٩٣٩ دولارًا للأونصة في الولايات المتحدة الأمريكية، بينما بلغ متوسط سعر الأونصة حوالي ١٨٠٠ دولار أمريكي في عام ٢٠٢١م. ووفقًا لهذه المعطيات نجد أن القيمة الحقيقية للدولار في عام ١٧٩٢م بلغت سنتًا واحداً فقط في عام ٢٠٢١م (١٩,٣٩٣٩/١٨٠٠). لقد حدث معظم هذا الانخفاض الكبير في قيمة الدولار منذ عام ١٩٧١م؛ وهو العام الذي فُك فيه ارتباط الدولار بالذهب. ويمثل هذا الانخفاض انهيارًا كارثيًا في وظيفة النقود كأداة للاحتفاظ بالقيمة على مدار الخمسين عامًا الماضية، مما يؤكد قصور النظرية والسياسيات النقدية المعاصرة في تحقيق الاستقرار النقدي والمالي في ظل نظام النقد القائم على الورق والائتمان. إن الآثار المترتبة على فقدان القوة الشرائية للنقود نتيجة للانخفاض المستمر في قيمة العملة، قد قُوّضَت جميع عمليات تراكم الثروات والحفاظ على قيمتها الحقيقة بسبب التضخم المستمر. حيث كشفت العملات الورقية والائتمانية المتداولة عن جوهرها الحقيقي وهي أنها عديمة القيمة في المدى الطويل. تسعى الدراسة، من خلال إجراء مسح لأدبيات النقود في كتابات المسلمين الممتدة عبر قرون، إلى إعادة التحقيق في مفهوم النقود وطبيعتها، لتشجيع الإصلاح النقدي وتطوير حلول مستقبلية؛ بعد فشل النظام النقدي القائم على النقود الورقية والائتمان في تحقيق مقاصد الشريعة الإسلامية المتعلقة بحفظ المال، وتحقيق العدالة الاجتماعية.

الكلمات الدَّالة: النظرية النَّقدية الإسلامية، الاقتصاد الإسلامي، الاقتصاد النقدي، مقاصد الشريعة.

تصنيف JEL: E10, E40, E42, E52

تصنيف KAUJIE: Q11, Q12, Q21, Q27