

CHAPTER FOUR

Money, Interest and *Qirād*

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ECONOMICS is a social science that constitutes an integral part of the ideology which prevails in a certain society. It is dangerous to adopt an economic system that does not emanate from and correspond with the ideology, in fact such a trial is doomed to be a failure. Thus, there is no "Islamic Economics" *per se* unless there is an Islamic ideology prevailing and applied in a Muslim community.

Islam is based upon the principles of Oneness of God, the liberty and dignity of men, their equality as creatures and servants of God and justice among them and in their reward. These elements, *inter alia*, are reflected in the economic concept of Islam, money included.

I

MONEY

In the so-called free-economy or capitalist economy, money has acquired a privileged status over all other commodities. By the definition arbitrarily given to it, it has become superior to man himself, it implies some qualifications that are not supposed to be within its jurisdiction and which have evolved and become as if they were really genuine, despite the fact that they have no physical existence.

Most of the economists define money by its four classical functions: (a) means of exchange, (b) measure of value, (c) medium of deferred value, and (d) store of value.¹ Day and Peza explain the nature of money as follows: "The real significance of money is that it is a claim which can be used by its owner to buy things".²

A. Means of Exchange

Accepting such definitions as correct, the fact remains that such functions are not intrinsic or inherent in money. Practically speaking, exchange, which is the main function, can be undertaken and is taking

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place in many a case without the mediation of money. Samuelson, stressing this fact, adds that money “*is an artificial social convention*”.³ Originally, people intend to exchange goods against goods, and utilise money as a medium to facilitate this exchange. Yet, in barter, or direct exchange, nobody concedes his goods to another person without getting some goods in return. When money intervenes, the operation is split into two parts: selling goods against money and buying goods against the withheld money. This split enables the money-holder to sit on the withheld money for any period he opts for without risk or cost – other things being equal. The implication here is that by sitting on the proceeds of sales, the exchange operation is interrupted and the function of exchange is suspended incomplete. To keep such proceeds is actually to bar somebody in the society from selling his products, which is a violation of Samuelson’s “social contract”.

If this function of money is fully operative, i.e. whosoever exchanges his products against other products through the mediation of money without an unnecessary time gap between selling and buying, most of the economic discrepancies experienced in liberal economies could be eliminated. Hicks hinted at this, stating that:

“One of the advantages that is gotten from the use of money is that people do not have to pass it on immediately; they can choose the time of their purchases to suit their convenience. If they use this facility moderately, it is useful to them; and it does not harm other people.”⁴

Hicks does not mention those who withhold money indefinitely and live on it. Nor does he tell us what “moderately” means, and who is the judge of moderation. What Hicks did not say was expressed by Prudhon when he was asked:

“Why are we short of houses, machinery and ships? He answered: Because money is a sentinel posted at the entrance to the markets with orders to let no one pass. Money you imagine, is the key that opens the gates of the market (by which term is meant the exchange of products); that is not true – money is the bolt that bars them.”⁵

And in fact one would ask: Why is it that money supply is on the increase while recession is besetting the markets? The answer is that a great part of that supply is not used to meet the “transactional demand” in the Keynesian sense. By holding the greater part of money supply for precautionary and speculative purposes, people are checking the main function of exchange and are rather incapacitating the role of money.

We should like to emphasise from the very beginning that money *per se* cannot be considered equivalent to fully-fledged goods, mainly because all goods embody a utility which satisfies some human economic demand.

This innate natural property is artificial in money, as demand for it – as a means of exchange – is a derived one imputed to the original need for the exchange of products. If money ceases to function as such means, i.e. if no exchange of real products takes place through the mediation of money, its *raison d'être* disappears. Without real exchange through money – if it exists – money would be an illusion causing harm and a lie distorting facts.

B. Measure of Value

This qualification is derived from the previous one, because the means of exchange must determine the value of the exchanged goods as related to itself. Thus, money acts as a common denominator to all economic goods, and the value relationship of their exchange is expressed in terms of money units. This implies that money is the standard measure for all values.

However, this function is a feigned qualification, all known standards of measurement are fixed in themselves except money. The metre, the ton, the volt, etc., do not change in relation to what is measured by them. Yet money does change. “From its use as a measure of value flows the practical maxim that money ought to have a constant value, however constancy may be defined. It is a strange fact that after so many centuries of experience in so many countries man has not yet succeeded in providing for himself a money with stable value.”⁶

In my opinion, the failure is due to the malfunctioning of money as a means of exchange, and to the artificial attributes bestowed on money, allowing people to withhold it without charging them any cost for such a violation of the “social contract”. Creating money out of thin air by means of creating credit has created what Irving Fisher called “money illusion”.⁷

C. Store of Value

“When money is held, it is a store of value whose ultimate worth depends on the trend of prices.”⁸ This is a disputable statement, because holding money is only holding a title or a claim to some goods which we may opt to procure in the future. It is not storing any real goods or real values. On the contrary, holding money is keeping half the exchange transaction in abeyance. Thence, to qualify money as a “store of value” is to vitiate the main cardinal function of money as a means of exchange. If it is claimed that money gives its holder the choice of exchanging goods at present or storing the value to be acquired in future, our answer is that that exactly is the fallacy. One acquires money by liquidating (selling) an asset or selling one’s goods – which means ridding one’s self of the real value which would have incurred some cost if one had wanted to store it. Having exchanged his asset against money, such a person has procured a claim on goods which can arbitrarily be stored without charge or cost – an advantage bestowed on the person who has done harm to his society by abstaining from buying from others.

D. Standard of Deferred Payment

Consequent upon the three previous functions, future transactions are expressed in terms of money. Having explained to what extent money is not a standard of value in practical life, we need not go into any detail pointing out the risks and difficulties in deferred payments. This function is necessarily tied up with the passage of time during which the ratios among the relative values of goods change, and the ratio among these and money changes, not only on account of the change of the relative value of goods, but also because the "standard of value" in itself is not stable. Such instability of the measurement complicates all future economic transactions and gives vent to illegitimate claims, the worst of which is the payment of interest.

Is Money a Commodity?

There is a difference of opinion among economists about the nature of money as we know it at present, i.e. fiat money and bank credits. The argument is about whether such money is a part of a nation's wealth or is it a debt incurred by its issuer and which is offset by the credit counterpart of the holder.

Patinkin, Tobin, Gurley and Shaw, Pigou, Metzler and Haberler are amongst the economists who do not include the whole of fiat money and its attributes in wealth. Friedman, Martin Baily, Pesek and Thomas Saving ignore the "money as debt" argument and flatly state that money is a part of what we economically call relevant wealth and of net worth.

The issue has been blurred by the unnecessary argument about whether fiat money is a debt or not. It is common knowledge that no issuing bank in our present time would pay any tangible countervalue to any paper currency it issues when presented with it. Thus, indebtedness is fictitious and illusory. Professor James Tobin objects to considering fiat money a part of wealth in the following terms:

"The community's wealth now has two components: the real goods accumulated through past real investment and judiciary or paper 'goods' manufactured by the government from thin air. Of course, the non-human wealth of such a nation really consists only of its tangible capital. But as viewed by the inhabitants of the nation individually, wealth exceeds the tangible capital stock by the size of which we might term judiciary issue. The illusion can be maintained unimpaired as long as the society does not actually try to convert all of its paper wealth into goods."⁹

Pesek and Saving categorically admit that money – any money – is not totally identical with other goods:

". . . money is in one respect identical with and in another respect completely different from all other commodities. It is different . . . in

that it has a technical property of yielding its owner real income that depends on the price ratio between other goods and money. It is identical with all other commodities in that it is a claim of the owner on the resources of others, but it is not a debt of others to the owner.”¹⁰

Don Patinkin took up the Pesek-Saving theory and tried to prove its fallacy. He corroborated with M. Kalecki in the latter’s view that money is a component of wealth. “The stock of money relevant for the real-balance effect was not the usually defined hand-to-hand currency plus demand deposits, but the monetary base alone.”¹¹ He went on to confirm that the view became accepted without question in the literature, and received its highest degree of formalisation in the Gurley-Shaw distinction between outside money – money that is backed by foreign governments (which is part of the net wealth of the community), and inside money based on private domestic securities (the inside money includes created money and all other institutional credits – all of which are not a part of net wealth).

To sum up, money can be a quasi-commodity at best, and even if one considers it a commodity having a demand and a limited supply, there will be some undeniable differences between the usual commodities and money:

- (i) Money has a technical (or artificial) property of yielding its owner real income simply by holding it, i.e. without exchanging it against other goods.
- (ii) It has no carrying cost, no production cost (almost so) and no substitute having complete liquidity.
- (iii) Demand on money is not genuine as it is derived from demand for goods that money can buy.
- (iv) Money is exempt from the law of depreciation to which all goods are subjected.
- (v) Money is the product of social convention having a purchasing power derived mainly from the sovereignty as against the intrinsic value of other goods.

Once the meaning and nature of money has been clarified, the study of interest will be easier to follow.

II

INTEREST

What is Interest?

Economists have given different definitions of interest, each trying to fit his definition to his theory justifying the payment of interest. To me,

interest is the excess of money paid by the borrower to the lender over and above the principal for the use of the lender's liquid money over a certain period of time. In their effort to define interest, many economists treated "money capital" as equivalent to capital goods, a subtle mistake which helps them find a warrant for charging interest on borrowed money. Let us have some examples.

Samuelson states that "Interest is the *price* or *rental* of the use of money".¹² Thus he equates the price with the rental use of money considering its service exactly as the service of a medical doctor or of a tractor. His concept of money as a means of "transforming one good to another by exchange rather than by production" forces him to treat money like any other commodity that has a price or a rental. If we recall Samuelson's concept of money, immediately we recognise why he subtly tried to treat money as a fully-fledged commodity. However, we would find some difficulty in reconciling his description of money as a means of "transforming one good to another by exchange rather than by production" with his view about interest. When money is sold, one should pay a "price" according to Samuelson, and if borrowed, one should pay a rent. To *sell* money, there *must* always be some exchange of one *good* against another good – according to Samuelson. But here, you sell your money for exactly the same money. Why then the price at all if it is a "selling" transaction?

As for considering interest as rent for money, the first objection is that every rent comprises an element of depreciation (even in static conditions, i.e. everything being equal). First, money as a means of exchange is not supposed to depreciate. Second, when one uses the doctor's or the tractor's service, both of them remain almost intact. You don't rent something that perishes or disappears once you use it. But when you use money once you lose it forever. How can it then be rented? Finally, if we apply Samuelson's previous maxim of "exchanging one good for another" how can we accept the idea of rent?

Don Patinkin gives the following more confused definition: "Interest is one of the forms of *income from property*, the other forms being dividends, rent and profits. The term 'interest' sometimes has the broader connotation of *all income from property*. This is the case when we speak of the 'interest charge on capital' which denotes the alternative income that can be earned on a given quantity of money-capital."¹³

Here, Patinkin considers interest as a part of the functional share earned by capital goods as well as money-capital. It is strange that Patinkin did not give labour any share of the resulting income, while he allotted interest a share of the yield. It is clear that this is not true, because interest is paid to the lender irrespective of the yield and perhaps even before the income is realised. Here, again, Patinkin treats capital goods as synonymous to money-capital.

Y. S. Bain states that "Interest paid for invested money is thus a third

distributive share, in addition to wages and rents. It is paid for the services of invested money and it is earned by capital goods in which the funds are invested.”

Professor Bain does not mention “profits” here and equates “the loanable funds” with capital goods. If interest was a functional share of the investment process as he alleges, it would be negative if the process yields a loss – which is not the case. Besides, as long as the lender is not the investor, we cannot by any means tie up interest with the investment process.

J. M. Keynes did not define interest, but mentioned the rate of interest as “Money rate of interest is the percentage of excess of a sum of units of money contracted for forward units of time over spot or cash price of the sum thus contracted for forward delivery”.¹⁴ In the course of analysing the reasons that make money rates of interest more acceptable than commodity rates, Keynes mentioned that “. . . the power of disposal over an asset over a period may offer a potential convenience or security, which is not equal for assets of different kinds, though the assets themselves are of equal value. There is, so to speak, *nothing to show for this at the end of the period in the shape of output*, yet, it is something for *which people are ready to pay something*”.¹⁵ The words I have put in italics refute Patinkin’s and Bain’s idea of interest as a residue or function of income or investment. However, Keynes tried to find a justification relevant to his liquidity preference theory and came up with nothing in the output which is something for which people are ready to pay something. This part was critically criticised by some leading economists; Harrod wrote:

“We are told that the reason why people require interest on bonds is to compensate them for the sacrifice of liquidity, which sacrifice consists essentially in the risk that, when they want to realise their assets, the bonds may have fallen in capital value, i.e. that the rate of interest may have risen.

“Keynes thus exposed himself to the criticism of Professor J. R. Hicks that he has ‘left the rate of interest hanging by its own boot straps’. And D. H. Robertson has the following amusing passage: ‘While there are hints here and there of a broader treatment, in the main his (Keynes) plan is to set the rate of interest in the direct functional relation only with that part of the money stock which is held for what he calls “speculative reasons”, i.e. because it is expected to become other than it is; if it is not expected to become other than it is, there is nothing left to tell us why it is what it is. The organ which secretes it has been amputated, and yet it somehow still exists – a grin without a cat’. Mr. Plumtre of Toronto, in an unpublished paper, has aptly compared the position of the lenders of money under this theory with that of premium, the only risk against which it ensures

them being the risk that its premium will be raised. If we ask what ultimately governs the judgements of wealth owners as to why the rate of interest should be different in the future from what it is today, we are surely led straight back to the fundamental phenomena of productivity and thrift."

I believe Sir Roy Harrod was unique in describing interest as something untrue. He wrote: "And so why is there interest? . . . Surely there are some phenomena of the minds, the resultants of thoughts and opinions, hopes and fears, itself only a promise, finally indeed an act, but one solely originating in the will of the two parties, not a physical phenomenon at all. Surely there are mental phenomena to which the dictum may correctly be applied *that there is nothing true but thinking makes it so*".¹⁶

In short: Interest is only a fiction.

III

MUḌĀRABAH OR QIRĀḌ

What is *QirāḌ*?

Linguistically, both words, *Muḏārabah* and *QirāḌ* are used to signify the same idea: "To give somebody out of your capital a part to trade in, provided that the profit is shared between both of you, or that an apporportioned share of profit is allocated to him . . . accordingly, the active partner is called *Ḍārib*, because he is the one who travels and trades. It is also possible that both capitalist and active partner are called *Muḏārib* or *Muqāriḍ* as both share the profits with each other".¹⁷

Historically, *QirāḌ* was widely practised in the pre-Islamic era as a form of partnership. The Makkans were depending on commerce for their livelihood; and those who could not exercise commerce by themselves, travelling long distances and leaving their homes for long periods, used to give capital to those able and willing to trade against a certain percentage of net profit. The consequence of jurists' opinion is that such a practice was approved by the Prophet. There is almost a unanimity on the legitimacy of *QirāḌ*.¹⁸

QirāḌ in Islamic Jurisprudence

It is related that many companions of the Prophet practised *QirāḌ*. Even the Prophet acted as *Muqāriḍ* before Revelation.

Despite the unanimity on the legitimacy of *QirāḌ*, there is nothing ascribed directly (*Marfū'*) to the Prophet himself except what Ibn Mājah related on the authority of Suhaib who said that the Prophet (peace be upon him) said, "Three are blessed: deferred sales, *Muqāraḍah* and mixing

wheat with barley for home use and not for sale". In its lineage there are Nasr Ibn al-Qāsim on the authority of 'Abdal-Rahim Ibn Dāwūd, both of them are unknown. Ibn Hazm stated in his book *Marātib al-Ijmā'* that all chapters of *fiqh* have basis from the Holy Book and *Sunnah*, except *Qirāḍ*, for which we have found no similar basis whatsoever. Nevertheless, there is genuine solid unanimity on it, and one can categorically say that it was practised during the days of the Prophet, who was aware of it and who approved it, otherwise it would not have been legitimate.¹⁹

As there are no fast rules set by the *Sunnah* defining the terms of *Qirāḍ* other than the Prophet's approval to what was being exercised in his time, jurists have differed widely on such terms. Some of them were more inclined to restrict its meaning while others were more lenient and tolerant. Both parties supplemented their views by established Islamic rules, if not directly pertaining to *Qirāḍ*, they related to material transactions, especially those which refer to the terms of association and partnership and the laws for usurious dealings. Jurists who adopted analogy considered *Qirāḍ* as a special "Contractual Act" having its own special terms and conditions, though they have naturally differed among themselves as to the nature and terms of this contract. Those who dismissed analogy in jurisprudence were constrained to figure *Qirāḍ* in its narrowest limits. Having no texts to rely on, they resorted to some general Islamic rules to determine the act of *Qirāḍ*, some of them in our view were appropriate while others were not.

Thus, we have to treat all the forthcoming divergent views of Muslim jurists in this respect as personal opinions which do not and cannot commit Muslims in any way. If a jurist is carried by his own analogy to the conclusion that such and such a type of *Qirāḍ* is prohibited (*Ḥarām*) or even undesirable, all that we should do is to consider his logic, analogy and juristic proof to the plea, but we are not bound by his verdict.

Subject of *Qirāḍ*

According to "Zāhiriyyah", *Qirāḍ* must comprise a contribution of cash money, which is the capital. If the capitalist wants to give the active partner (*Al-Muqāriḍ*) goods instead of cash money, he must specifically ask him to first sell these goods, and utilise the proceeds of sale in his *Qirāḍ*. Ibn-Ḥazm claims that there is unanimity on this view.²⁰

As a matter of fact all Ḥanafis do agree that the participation of the capitalist must be in coins, while they disagree about the validity of the contract if this participation is in non-minted silver and gold.²¹ As for giving goods as participation, they claim that this vitiates the *Qirāḍ* and makes it void.

Ḥanbalites and Shāfi'ites are of the opinion that participation must be by means of a definite amount of minted coins, while the contract is vitiated if participation takes the shape of either non-minted gold and silver or any other goods. Mālikites are divided among themselves about

the validity of goods as capital for *Qirād*, some agree and some object. Ibn Qudāmah, an eminent exponent, states that “*Muḍārabah* is valid if the subscribed capital is determined, whether it is in coined or precious metals or goods”. He supports his view by the views of Abū-Bakr, Abū al-Khaṭṭāb, Mālik, Ibn Abī Layla, Tāwūs, Al-Awzā’i and Ibn Abī Sulaimān. Those justify their opinion on the plea that “the main objective of *Muḍārabah* which is a sort of association, is that both parties dispose of both capital and labour and participate in the profit earned by the partnership. Such profit-sharing takes place whether the capital is in money or in goods”.

The idea behind forbidding *Qirād* unless the participated capital is in coined gold or silver is that the trading capital must be unequivocally determined so that every partner can assess his share in profits in accordance with his participation in the partnership. This is quite an acceptable logic, it was adopted by those who allowed goods as capital, provided that the capitalist asks his partner to sell the goods, determines their price and uses the same as capital. Al-Shawkāni is of the opinion that *Qirād* is one form of association where all sorts of participations are allowed. Consequently, if anyone claims that the prescribed capital in *Qirād* can only be in cash money he must produce evidence to support his claim.

Al-Shawkāni²² came to the same conclusion, i.e. any goods of determined value can be subscribed as capital in *Muḍārabah*. He, however, based his judgment mainly on the “*Sāhil Ḥadīth*” quoted in Al-Bukhārī on the authority of Jābir Ibn ‘Abdullāh where “the Prophet (peace be upon him) sent an expedition of 300 soldiers under the command of Abū ‘Ubaidah Ibn al-Jarrāh in the direction of the sea-shore. I was one among them. On our way, the expedition’s supplies were exhausted. Abū ‘Ubaidah gave an order to collect all supplies with the soldiers which supplies totalled two ‘*Mizwad*’s’ of dates. He started rationing them among us till they came almost to an end and he began distributing them one by one. I asked him what one date could help, and he answered that it was something instead of nothing”.²³

Al-Shawkāni also referred implicitly to “*Ash’ariyyin Ḥadīth*” where the Prophet (peace be upon him) said “If the *Ash’ariyyin* went far for conquest or if their fortunes in Madinah dwindled, they amassed whatever they had in one bag and divided it equally among them; so they belong to me and I belong to them”.²⁴ Personally, I don’t think that the analogy is relevant because *Qirād* is different than such benevolent voluntary co-operation. Here there is no *act* of agreement between capital and labour to enter into partnership for gain, and the objective is quite different. In both *Ḥadīths* indeed, the whole idea of any gain or trading association is completely absent.

There is also a difference of opinion about whether the acts of *Muḍārabah* would be valid or not if the *Muḍārib* or the active party subscribed an

amount of money (or goods) over and above the subscription of the capitalist. Our view is that the essence of *Qirāḍ* is that the capitalist enters into association with an active partner in an enterprise whereby the first gets a share of the profits (positive or negative) earned by the capital of the first and the work of the second. There is nothing that stands against contributing capital in goods or in precious metals, as long as the value of goods is well determined at the time of concluding the act of *Qirāḍ*. Nor is it against any Islamic rule that the *Muḍārib* would subscribe a fixed amount of capital (again in money or in goods) in which case he would naturally be entitled to a higher stake in the partnership.²⁵

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There is another important point raised by the different jurists regarding the availability of capital at the time of contracting as a disposable amount. Thus, they do not legalise a *Qirāḍ* act if the capitalist concedes his debt towards the active partner and designates such debt to be his capital share in the prospected enterprise, nor do they consider the act as valid if the capitalist refers the *Muḍārib* to a third person to collect a specified amount before the money is fully collected and materially received. In fact, there is concensus of opinion on this point for the obvious reason that the partnership is an independent act which should not be related to other obligations and that such act does not exist unless its substance exists. However, Ḥanbalites validate the *Qirāḍ* if the capital has been originally deposited with the *Muqāriḍ*, which is more logical than the adverse view.

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The Nature of the Partnership

The four Sunni Imāms have gone as usual into some detail about the nature of the *Muḍārabah* act: is it an act of association or partnership, or is it a sort of proxy or is it a combination of both? Whatever their views may be, there is no doubt that such an act is permissible and valid under the following conditions:

- (i) There should be (at least) two persons who, out of their free will, enter into an agreement by which one (or more) would contribute a fixed amount of disposable money to be delivered to the other party who would trade with this subscribed capital for the benefit of the partnership (or association).
- (ii) Every party to the act must know for sure and without ambiguity his share in the expected profits and provided that this share is a percentage and not an absolute fixed amount.

In case no profit is realised, the active partner would receive nothing for his efforts. If there is a loss, it would be deducted from the principal (i.e. the contributed capital).

All expenses necessary for implementing the *Qirāḍ* act are deductible before the distribution of any profits, even if such expenses exceed the total of gross profits.

- (iii) The active partner must have the absolute freedom to trade in the money given to him and take whatever steps or decisions that he deems appropriate to realise the maximum gain. Any conditions restricting such liberty of action vitiates the validity of the act.

However, the Shāfi'ites elicit the possibility of determining the kind of undertaking which the active partner may trade in. The other Imāms do not agree to this condition, an objection which is entirely unjustifiable in my view. I have taken Al-Jaziri as reference for the views of the four *Madhhab*.²⁶

Strangely enough, Imām Shāfi'ī does not validate *Qirāḍ* if the activity lies outside the domain of strict trading, i.e. buying and selling.²⁷ Obviously, he took this attitude due to the fact that *Qirāḍ* as approved by the Prophet (peace be upon him) was only for such commercial purposes. But our great Imām allowed himself to go far in analogy and even to set up new rules when there are no precedents regarding many problems, while he denied himself this logical course in such an obvious and important matter. In my opinion, *Qirāḍ* in industrial undertakings is permissible on account of two grounds:

- a. If we apply the most rigid analogical rules we find that industry after all is a kind of trade and does not violate any other condition of *Qirāḍ*. Shāfi'ī's plea to forbid *Qirāḍ* in industrial enterprise is based on his view that the result of such an activity is generally controllable and almost predictable, while in commerce the risk is absolutely unknown. If this was the case during his time, it is definitely not so at present, and thus his judgment cannot be accepted, due to fault of reasoning.
 - b. If we apply the general rule that in origin all transactions and things are permissible unless there is explicit restriction or prohibition, we come to the same conclusion, as there is no restriction or prohibition, tacit or express regarding undertaking industrial activities. After all, if Imām Mālik has opined that the capital can be goods instead of money, then why not a machine?
- (iv) The Zahiris and the four Imams are of the opinion that the duration of *Qirāḍ* must not be pre-determined or limited. Nevertheless, I am inclined to differ with them all. To start with, they rely on the precedence approved in the Sunnah to which I do entirely agree. Yet, all of them without exception confirmed that either party of *Qirāḍh* will have the right to revoke the act and terminate the partnership on advising the other party of the same (Ibn-Hazm, op cit., p. 249).

I fail to understand the *raison d'etre* of letting such an act so loose, unless that our Imams were aiming at defending the active partner (being the

weaker) against the stronger (i.e. the owner). They might have thought that such a limitation of time may let some good opportunities slip from the hands of the *muḍarib* or may upset his plans so that he would not realise the profit he was preparing and working for.

Personally, I feel that by allowing the termination of the act by either side at any time they have actually defeated their own purpose of defending the interest of the active partner, because the owner of capital would have the right to decide at any time even though the active partner would be most unfavourably affected. Logically speaking, there is no valid reason why both parties cannot agree to fix a date for determining their partnership when they are allowed to do so at their full discretion at any time. Cannot any time be 'a determined time'?

***Qirāḍ* and Banking**

Having explained *Qirāḍh* or *Muḍarabah* as stated in Islamic jurisprudence, we come now to the question whether such a system can substitute the actual functions of modern banking in the present free capitalistic economic framework, in a sense that it fits the present banking system and serve the purpose of divesting it from interest.

***Qirāḍ* Under the Present Banking System**

Let us try to figure in which way *Qirāḍ* could be harnessed to eliminate interest in banking operations. Let us assume that this experimental trial will take place in a modern Muslim country whose money in circulation is the usual currency notes issued by its central bank, and that it has commercial and other banks functioning in the manner habitually known in a free competitive economy. Assuming that A is a businessman who realised some profit which he decided not to spend (either in consumption or investment) at the time as his plan is to use the money, say three months later, to meet a certain liability. A would then go to the bank (which would not supposedly be allowed to deal in interest either way) and ask what would the bank give him against a deposit of his dinars for three months. The answer of the bank manager would probably be, "I don't know. Why don't you come back next week and I'll try to find somebody who would be interested in getting this money to invest in his business and pay you a proportion of the profit"?

I suppose that A would not be very happy with such an answer. If A inquires why does not the bank invest it on its own risk, the answer would be: because commercial banks are not allowed to go into business other than purely monetary operations. (We are assuming the present banking system.) Now, let us suppose that the bank has found an entrepreneur (B) who is in need of 1000 dinars for three months and who is ready to pay "something" for getting the money now. The problem would immediately reveal itself in something like the following:

- (A) If *Qirād* has to be applied, would the bank be a part of the contract or not? In other words, would the bank accept the money and take the risk of *Muḍārabah*? If yes, then the bank is violating the banking law. If no, then the capitalist is supposed to negotiate directly with the entrepreneur and the role of the bank is confined to introducing both parties to each other – a non-banking function.
- (B) If the bank is selling some investment certificates (and there are many capitalistic countries who allow such activity) then it would advise A to buy certificates today at the current price on the market and liquidate them after three months at A's risk and peril. Generally speaking, these certificates represent a portfolio which – under the assumed conditions – would bear no fixed interest and would be entirely invested in shares. It is extremely rare to see companies distributing profits to shareholders every three months, and thus A would not really be entitled to any profit by buying the said certificates. . . . On the other hand, he may collect some capital gain when liquidating his position at the due date, but he may also suffer a loss on his principal.
- (C) If an arrangement – somehow – can be made through the bank by means of which A can invest his 1000 dinars in an active enterprise, there would be the difficulty of knowing the equitable share of this additional temporary *capital*. To my mind, it is almost impossible to find a satisfactory answer to this question, especially when the participation is for a short term. A is naturally interested to invest his money with a big reputable firm so as to minimise his risks and inflate his profits. But such firms cannot calculate their profits every day as the production procedures take longer periods than the time allowed by A. There is always a time lag between the date a capital good is purchased and the date the final output is sold out. Over and above, it is almost impossible that every time an investor contributes a certain sum to designate the fair share of profits that sum has added to the net profits (if ever these profits can be ascertained in the short term).

From the above, one can see that it is not practical – if ever possible – to marry *Qirād* with the present banking system. Banks are not allowed to directly engage in commercial or industrial operations or in any speculative transactions, while *Qirād* is based on engaging in all such risky operations. But what if we allow banks to do so? What if we allow banks to accept savings on condition that they would directly invest them in different enterprises? The same question arises again: Who would take the risk? If it is the bank, why should A take any profit at all? If A would take the risk, why go to the bank at all?

***Qirāḍ* in a Special Banking System**

Consequently, it becomes clear that if we want to abolish interest from banks, on borrowing and lending, the prevailing models of banking would not work. In fact, it would be only the minority of savers who would be willing to keep some deposits (without any interest or profit) with banks, and thus, banks would cease to be the main source of credit extension or money supply, or in simple words, what they are at present.

These difficulties and the like made the advocates of *Qirāḍ* suggest changing basically not only the function of banking, but also its philosophy. In my view, they are quite justified in their suggestion because the present system is based entirely on interest transactions. Mawdūdī and Qureshī tend to consider banking as a public service that should best be owned or at least controlled by the State. The main job of banks under such synthesis would be to represent the government in their policies, favouring some categories of productive projects by extending to them the maximum possible credit without interest. They would also function as the main channel of foreign trade settlements and foreign capital movements. In both functions, banks would charge commission for the respective services to cover their expenses but no interest would be required.

It is noticeable that in the case of foreign trade, it is habitual to effect payments over a period of time. For instance, on confirming the order, a certain percentage of the value or a fixed amount is required to be paid, or at least a "credit letter" is supposed to be opened to guarantee to the exporter the collection of his dues against shipment, or in many cases a few months after shipment. In actual practice, banks extend such payment facilities against collaterals furnished by their clients and they do claim interest and charges. The first is against the advance of money to be paid to the exporter and/or against the letter of credit, while the second is for other services such as negotiation of documents and banking guarantees and confirmations.

***Qirāḍ* and Interest**

I should like here to state that *Qirāḍ* can take place whether banks are charging interest or not. Another clearly important point is that *Qirāḍ* by itself does not abrogate or interfere with the actual banking system, nor is it an element that if encouraged to the extreme would by itself put an end to interest dealings. We have to bear in mind that *Qirāḍ* is nothing more than a partnership which cannot be instituted except by the free-will of the partners. Those who are advocating *Qirāḍ* propose legal intervention to prohibit dealing in interest. The question is whether such legal interdiction would really lead to the abolition of interest, even when banks are nationalised and are prohibited to charge or pay interest? I personally very much doubt that for many obvious reasons.

First, let us presume that we are going to apply the prohibition of

interest in the usual economic system prevailing at present in the free competitive countries. In other words, interest would be prohibited while "other things being equal". Money holders would most probably seek a "black market" in which they would be able to lend money for a "price" or a hidden interest built into the repayment of the principal. To do this, they would not be willing to deposit their money with banks, thus depriving them of the source of their credit facilities. Capitalists would find scores of tricks to get around the law and would bleed the needy as long as banks were not able to meet the demand for money. It is obvious that if deposits with banks were substantially curtailed, banks would not be able to create the usual credit amounting to four times the money deposits. It would not be commendable that the Government would simply print more currency notes and deposit them with banks in an effort to replace the withdrawn capital as this would conduce to serious inflation that could hit the poor rather than the rich, and would upset the economic norm.

Second, let us presume that interest is legally prohibited, that savers of money find it difficult to charge interest in defiance of the law, and that banks are provided with enough funds to meet the demand for money. In such a hypothetical case, money holders would either spend their "sterile" liquid money on consumption or investment. In either case, *Qirād* would play an insignificant role, or at the most, its role would not exceed by far what it was before introducing the new system. Actually, there are increasing numbers of people who are going to the stock exchange and buying shares as an investment instrument. A share thus obtained is a participation by capital in an enterprise where others undertake the productive work itself; it is a kind of *Muḍārabah*. Most probably these would continue their practice and stick to their stock-exchange market. Those who are accustomed to living on their fixed incomes yielded by interest would have to switch to another less-secure investment. They could go to the stock exchange directly or resort to some investment institutions to place their money for them.

Whatever the behaviour of the money-holder in an economy where interest is prohibited, banks functioning would have to change radically.

(1) Government authorities would have either to run the banking systems themselves or keep them under very vigilant control exercising very restrictive policies. Failing such state control would lead either to a credit crisis or illicit dealings in interest.

(2) A major function of commercial banks would be to study the applications of borrowers and extend credit on the basis of two criteria:

- (a) The security of collaterals.
- (b) The conformity of the enterprise to the Government's general production planning.

(3) The issue of "Investment Certificates" to be offered to those who

have available surplus funds and who wish to invest in enterprises at minimum risks.

(4) The undertaking of foreign-trade services.

The thorny problem under such terms would be the supply of money. It is quite possible that money-holders would prefer to hoard their money or to hoard gold or any other durable commodity whose "carrying cost" is relatively low. Monetary authorities in such cases would be obliged to provide banks with quantities equivalent to hoarded money plus the would-be-created money, in order to meet the demand for current transactions and new capital goods.

Another subsidiary problem would be the source of borrowing of an entrepreneur whose application was turned down by the government-controlled banks. With the rate of borrowing reduced to zero, one would expect a rush to banks for contracting loans and one can readily accept that demand on money would far exceed its supply. An addition to the total quantity on the market would lead to an inflationary situation, especially as hoarders would be ready to liquidate their stocks whenever it suited them to do so. Inflation would bring down the value of money in terms of goods, and stock-hoarders would greatly benefit from such a situation – a benefit which would be hardly justifiable especially if gold were traded.

In short, by applying *Muḍārabah* alone, and leaving the other economic elements as they are at present, while prohibiting interest, nothing much can be achieved and more harm could perhaps be done than good. In my view, other Islamic rules must simultaneously be applied to reach a reasonably practical solution. But before I submit my suggestions, I should like to give a short resumé to those solutions proposed by some eminent Western economists which are mainly based upon the Islamic theme of prohibiting interest and preserving the exchange value of money at a relatively stable standard. It is futile to prohibit interest without fixing the standard of value.

IV

THE ISLAMIC SOLUTION

I have intentionally entitled this section the Islamic "Solution" and not the Islamic "Theory". A theory would indicate a scientific hypothesis at the base and a logical synthesis which may be developed into a "theory" that can serve as the basis of a "scientific law" once it is proven beyond doubt.

We have no monetary theory in Islam. God in the Qur'ān and Muḥammad (peace be upon him) in the Tradition never analysed the meaning of money or defined its functions. They did not explain to us why

interest has been so strictly forbidden that the menace to those who “devour” it is more than any other menace directed to those Muslims who would commit other sins:

“O ye who believe! Observe your duty to Allah and give what remaineth (due to you) from usury, if you are (in truth) believers. And if you do not, then be warned of war (against you) from Allah and His Messenger. And if ye repent then ye have your principal (without interest). Wrong not, and ye shall not be wronged.” (2: 278–279)

Islam gave us some basic rules administering the means of exchange of goods and left it open to us to build on these solid foundations whatever structures we deem fit and appropriate to our ever-changing civilisations and economic conditions. We have always to bear in mind that in the Islamic framework economics is an aspect of the Muslim’s life which does not separate the material from the spiritual or the secular from the theological. It is only a means to help the individual within his society to contribute to the eternal process of human-development and welfare.

Basic Rules

Let us now examine these basic rules about our social material behaviour.

(1) *Work and reward.* Every Muslim is under the obligation to work in order to live, and nobody is entitled to any gain or reward without exerting a productive effort and shouldering the subsequent risk. In other words, any gain realised by any person earned without work is not legitimate. Any work, effort or enterprise that insures to its owner a gain without risk or that precludes any loss to him is equally illegitimate.

(2) *Hoarding and monopoly.* Human-beings in a Muslim society are under the obligation not to hoard money or goods required by other members of their society nor to try to monopolise any goods likewise needed. They are expressly required by Qur’anic injunctions to “spend” without cessation and never to keep money “cornered,” hoarded, or even idle. To spend in the “right” way is to spend in legitimate consumption or in productive investment, or in social welfare – all the three aspects are spending in the cause of God. (Qur’an: IX: 34; LVII: 7; XIV: 31; II: 3, 159 and 282; LXVI: 7; VIII: 6.)

(3) *Depreciation.* Everything in this world is subjected to the natural law of depreciation (Qur’an LV: 26) it is only God – our *Rabb* – who is Everlasting and Infinite. To ascribe this divine qualification to anything is tantamount to *shirk*, i.e., association with God. This is a denunciation to the essence of belief in God according to Islamic tenets. All monies must

depreciate by lapse of time and it is the duty of the Islamic state to impose and collect the “tax” or rate of depreciation in accordance with Islamic jurisprudence. This tax is *Zakāt* which is one of the five cornerstones of this great Religion.

(4) *Money as a means of exchange.* In as much as money is concerned it is supposed to be a means of exchange and nothing more. It is not a normal commodity which can be bought and sold, even if it is made of gold and silver. It is always recommended in Islam to exchange goods against money and then to buy what is needed for the same money. Buying and selling are two faces of the same coin: the exchange transaction. The two processes are so closely linked that the word (*Bā'a*) – sold – means bought as well. Anybody withholding money is committing a prohibited crime against himself and his community.

(5) *Interest is Ribā.* All sorts of lending money against interest (i.e., increment to be paid to the lender at the due date over and above his principal debt) is prohibited usury. Any state following the Islamic laws must legally prohibit such usurious dealings and must establish an appropriate system for borrowing without interest.

(6) *Social solidarity.* Muslims are ordained to establish solidarity and mutual help in their societies within the framework of their political structure whereby the ruler (the government) have the obligation to provide the citizens directly or indirectly with the essential amenities of life in case of their poverty, incapacity or unemployment. Against this obligation, the ruler has the right to impose more taxes and to assign work to the unemployed who must obey him in this case. Besides, there is the general moral obligation of a Muslim towards his Muslim co-religious members of society. This aspect of voluntary human fraternity which has become the centre of modern radical reformatory doctrines is an integral part of the Islamic faith.

A number of Western scholars stress the point that man's needs are not exclusively material, that the present material civilisation is alienating man, enslaving him and making him a psychopath. They suggest different remedies which fall far behind what Islam suggests in this regard. The Muslim gets the message of human fraternity, co-operation and mutual help since his early childhood through the Qur'ānic versions and the behavioural code of his Islamic society. He is *aware* that all wealth belongs to God and that he must share whatever part thereof bestowed upon and entrusted to him with his fellow men. It is a social system where giving and doing “good” is the criterion for distinction among citizens.

This is an important point though it may not look relevant to the subject of this paper. Its importance derives from the fact that anybody who wants

to apply the Islamic “Solution” must apply the whole “Islamic System” if he is serious and keen to achieve success and avoid a shocking failure:

“Then is it not only a part of the Book (Qur’ān) that ye believe in, and do you reject the rest? But what is the reward of those who behave like this but disgrace in this life?” (2: 85)

The System

(a) *Between Ribā and Zakāt*

I do not intend to explain in detail what is *Ribā* (usury) in Islam, but I believe that all sorts of interest that we meet in our present Western Economic models is usury as previously defined. It is what is technically called in *Fiqh*: “*Ribā Al-Nasi’ah*” which is categorically forbidden by the Qur’ān and the *Sunnah*. This idea has been expressed by most modern Islamic thinkers: Mawdūdī, Qureshi, Abū Zahrah, Isa Abdou and others who treated the subject. This opinion is in fact derived from the consensus of views of the four Imāms and *Zahriyah* corroborated by Shī’ah Imāms. There is also a very clear trend among old and modern jurists that the solution to the problem of interest is engrained in the system of *Zakāt* which is the only specific financial “technique” mentioned in Islamic jurisprudence. However, the meaning of *Zakāt* has never been well defined and one would feel lost in front of the great differences of opinion among jurists about this “corner” of Islam. If the key to the interest-free economic problem is *Zakāt*, then we must be very clear about the meaning and scope of this word.

(b) *What is Zakāt?*

There is unanimity that it is one of the five pillars of Islam, that in the legal sense it means “a right on wealth” or “the specified part of wealth designated by God to be given to certain beneficiaries”.²⁸ A better definition in my view is that given by Al-Shawkānī, he states:

“Linguistically, *Zakāt* means growth; one says *Zakā az-Zar’* meaning the plant grew up. It can also mean ‘purification’. In *Shari’ah* (Islamic law), it implies both meanings. The first meaning is construed as to cause growth in wealth, or as to cause more reward or as to pertain to increasing wealth, such as is the case in commerce and agriculture. This first meaning is supported by the Tradition. ‘No wealth decreases because of *Ṣadaqāt* (*Zakāt*)’; owing to the fact that its reward is multiple. There is also the Tradition: ‘God increases (the reward of *Ṣadaqāt*)’. The second meaning is construed to imply that *Zakāt* purifies the human soul from the vice of avarice as well as sins.”²⁹

I am more inclined to agree with Al-Shawkāni's interpretation though I feel that the essence of the meaning is growth of wealth not simply because God would bless such contribution, but because of a more pertinent and important reason. I have already referred to the natural law of depreciation, and the subtle meaning of associating with God an ever-increasing object. I have also referred to the fact that money must continue in circulation as this is the only way to keep production growing without check. Hence, the growth of wealth implied by *Zakāt* is in my opinion a confirmation of the general rule of the inevitability of depreciation and a practical orientation toward the necessity of not hoarding money and goods but keeping them continuously in circulation.

There is no doubt that *Zakāt* has a great role in the domain of social welfare and in exalting the Muslim's religious feelings; but these questions, though of vital importance for any sound society lie outside my present essay. What I should like the reader to consider is: what is that system that Islam prescribes to Muslims to enable them to develop their economy without touching interest which is prohibited usury? To me, the answer is *Zakāt*.

May I emphasise once again that such a system pre-supposes that it is only an integral part of a complete independent philosophy which embraces all aspects of life and that it is only a means to achieve the Islamic idea of a happy life in a welfare state.

(c) *Function of Zakāt*

(i) *Zakāt*, in my opinion, is a tax in that system in which the main economic principles mentioned above are enacted and applied in a state where private ownership and free competition are liberally practised.

(ii) *Zakāt*, being a tax on wealth itself, does not heed the person who is in possession of the taxable wealth. Whether that person is a "minor" or a "fool" or a "slave" is of no import whatsoever. Imāms have unjustifiably raised the point of who is liable to *Zakāt*, a question, which in my view, is irrelevant as it should only be: "which wealth is subject to *Zakāt*?"

(iii) All wealth having market values is subject to *Zakāt* except those goods which are specifically exempted by express injunction. It is illogical to confine *Zakāt* to the well-known eight commodities: Gold, silver, wheat, barley, dates, camels, cows and sheep (including goats) as alleged by Ibn-Ḥazm.³⁰ Nor is it logical to go with the other four Imāms subjecting some edibles and excluding others, or exacting *Zakāt* from whatever is gold and silver only, etc. The jurists in their attempt to make *Zakāt* look just and fair in their respective ages have resorted to analogy copying 'Umar Ibn al-Khattāb when he subjected horses to *Zakāt*. They were not applying any specific Qur'ānic injunction or approved *Sunnah*, but following the general rule of introducing what realises the general welfare and social justices in their communities.

I do not see why we, at our present advanced and more civilised age, should not follow their example and adopt the same analogical system to qualify *Zakāt* in a way that culminates in the realisation of our Islamic ideology. I believe that *Zakāt* should be imposed on all goods (with the exception of what was specifically exempted). To do that in the most effective way, and to arrive at the goals of *Zakāt* as mentioned above, I feel that the most practical way, the most fitting and convenient, if not the only possible one, is to tax money in circulation in a way analogous of that suggested by Silvio Gesell and adopted in the Austrian town of Wogel in the early thirties.

I have reached this conclusion, as the nature of our modern economy and the whole set-up of commerce, industry and agriculture has taken entirely new aspects and dimensions which are entirely different from those known to our great Imāms who lived hundreds of years ago. We have already seen that Imām Shāfi'ī disqualified the Act of *Qirāḍ* if the subject of partnership is an industrial activity, on the sole plea that in industry gain is predictable and determinable, while it is not the case in commerce!

(d) *Zakāt against Interest*

If the above interpretation of *Zakāt* is acceptable, and if we apply a system similar to that suggested by Gesell, i.e. impose *Zakāt* on money in the hands of those who are holding it, money in the new sense will be carrying a cost and will lose its supremacy over the genuine goods it represents.

Before elaborating on the new “purified” money, I should like to dispose of a juristic problem that would face any authority intending to apply the Islamic way of life without prejudice to the established texts of jurisprudence. There is no doubt about most of the sayings of the Prophet (peace be upon him) concerning the collection of *Zakāt* and the limits of exemption, the above-mentioned eight commodities. There is also no doubt about the other Qur'ānic verse “. . . and with (agricultural) produce of all kinds . . . eat of their fruit in their season, but render the dues that are proper on the day that harvest is gathered . . .” (6: 141)

The wide difference about what is subject to *Zakāt* among jurists makes me more inclined to interpret *Zakāt* in a way more expedient, logical and just. Nevertheless, even if one sticks to the narrowest interpretation of the word and believes that *Zakāt* is only imposed on the eight commodities, excluding commerce, minerals and all other goods, my answer to this is that there is another obligation or “right” on wealth. This extra tax or “dues” mentioned in the aforementioned verse does not specify the quantity nor the quality of the taxed goods. Bukhārī quoted the *Ḥadīth* of Mu'ādh addressing the Yemenites and his asking them to pay *Zakāt* in cloth rather than in cereals – an indication that *Zakāt* should not necessarily be collected in kind.³¹

If we follow the views of the different schools of Imāms, we may say that most of them accepted the criterion that *Zakāt* should be imposed on any commodity which has a market value, whether it is an agricultural or an industrial product. This is a valid argument if only on the basis of the accepted rule that there is another right on wealth. The Qur'ānic text is rather general covering wealth.

“Of their goods (*Amwāl*) take alms . . .” (9: 103). The word “alms” in this text may be misleading as the Arabic word *Ṣadaqāt* means *Zakāt* in this context, while alms would give the impression of voluntary charity. As well, the Arabic word *Amwāl* means money and goods.

In short, it is my conviction that *Zakāt* is a tax that should be imposed on all sorts of goods. It is not an *income tax*, but a tax on any sort of “capital”, once it is realisable. As for the amount of this tax, how to be collected and the numerous details concerning the qualifications of the “taxable capital”, such issues cannot be amply dealt with here and, indeed, should be the subject of an independent research.

For the purpose of this paper, I shall treat *Zakāt* and the right on wealth as two sources of public revenue of equal importance in meeting the requirements of the Islamic state. Besides, I take it for granted that such a state will give priority in the course of its budgeting to the poor, the needy and the rest of the eight categories of people who should receive *Zakāt* as stipulated in the Qur'ān (9: 60).

I would also not object to the idea that *Zakāt* should always be singled out and collected separately in accordance with the Qur'ānic injunctions and in fulfilment of the *Farā'id*. Other taxes should then be distinctly imposed and collected under other names. Such minor points should not detract us from the main economic issue which to my mind constitutes the backbone of the Islamic state.

The system I am suggesting is quite elastic and can fit in the most conservative Islamic schools of thought. There is nothing in our jurisprudence against “stamping” the currency notes, forcing them to circulate without being held or hoarded. The indications are that Muslims are strongly exhorted to spend and invest but not to monopolise or hoard. Anybody who is interested to save is entitled to do so provided he surrenders his savings to the banks which become a part of the government institution (or strictly controlled by it). If he does so, he would be exempt from paying the “stamp” as long as his money is in deposit. The reason for such exemption is that the bank will lend the money to those who may need it, either for their investment or consumption purposes, and thus money will be put back into circulation for the benefit of both producers and consumers.

As we have seen in “The Natural Economic Order” of Gesell, such a system would put an end to interest on all borrowings for investment. I differ from Gesell in that I suggest that even personal loans for con-

sumption should not carry any interest, while Gesell finds it necessary to impose interest on such loans to penalise the prodigal and the lazy. My view is that banks do not entertain unsecured loans, while *Zakāt* takes care of the poor and the needy in the Islamic order. So, extravagance and prodigality will find it difficult to tap lending sources.

Another major point of difference from Gesell is land exploitation. Islamic jurisprudence allows the private ownership of land, whether rural or urban. In my view, agricultural land can be exploited in an Islamic state only in either of the following manners:

- (a) When the owner of the land may cultivate it himself and for his own account, he may hire labour, but he is supposed to meet all expenses necessary for cultivation. This entitles him to the full yield of such land, which yield may turn out to be negative if the value of his crops fall too short to cover his expenses.
- (b) He may enter in a sort of *Qirāḍ* contract with a farmer who becomes a partner to till the land, while the owner supplies the other elements necessary for cultivation: seeds, manure, machinery, water, etc. In this case, labour is to be assessed in relation to the total value of the other factors contributed by the landlord, and the yield is shared between them according to this relation without including any share to the land itself. In case the farmer contributes anything other than his labour, he gets a share of the total yield in proportion to what he contributed. In no case, rent – i.e. giving the land to the farmer at a fixed amount of money or a fixed share in the output – is permissible.³²

Urban land also should not be allowed to be a source of unjustifiable unearned income. The increase of capital values of urban sites are rarely the result of the owner's efforts; it is generally speaking, a result of some social demographical agglomeration and the facilities provided by the community or its government. Any benefits stemming from such developments and facilities must be enjoyed by the community represented by its government. Thus, owners of urban sites are not allowed in the Islamic state to earn any more when selling their plots. If such an important measure is not adopted, many may be tempted to withhold land in lieu of depreciating money and to expect a certain unearned income instead of the prohibited interest.

By collecting *Zakāt* and by imposing a carrying cost on money, I believe there will be a new economic system where banks will gladly lend money without charging any interest, where borrowers will be more keen than their lenders to settle their debts, and where money will lose its divinity and sacredness. There will be enough funds for gifted borrowers to innovate and to increase production. Demand will precede supply in most cases, indicating to entrepreneurs the right direction for new investments

and cutting risks to the bone. Full employment will be the norm rather than an abstract or the exception, and labour will be the most demanded and scarce element of production.

Zakāt will be collected and thus Social Security will be ascertained for every citizen. Personal loans for the needy and the poor will not occur because such people will automatically be looked after. Entrepreneurs will not find any difficulty to get the necessary capital for their sound projects, without paying interest which used to be a charge on their profit – or, indeed, on the consumer. Competition will bring profit and incomes closer together with the lapse of time, and people will not be distinguished by their wealth and the money in their vaults. Banks will function in a way quite similar to that explained under the Gesellian pattern except that no interest at all will be charged. If the government needs money, it will either borrow from the central bank without interest if the loan is short-term, or it will increase the value of “stamps” on money in circulation, or impose a new tax. In no case should the government resort to deficit financing, and indeed there will be no necessity for such a policy. If money value is stabilised, there will be no recession nor inflation as Harrod put it clearly, and irrespective of the method such stabilisation takes place.

Notes

- 1 Harold Barger: *Money, Banking and Public Policy* (Rand, McNally and Co., Chicago, 1962), p. 8; Roy Harrod, *Money* (Macmillan, St. Martins Press, 1969), pp. 3, 4.
- 2 A. C. Day, and S. Peza: *Money and Income* (N.Y.: Oxford University Press, 1968), p. 5.
- 3 Pau Samuelson: *Economics* (4th ed. 1958). McGraw-Hill, N.Y., p. 50. Italics ours.
- 4 J. R. Hicks: *The Social Framework* (Oxford, 1971), p. 21.
- 5 Quotation from Silvio Gesell: *The Natural Economic Order*, translated by Philip Pye (Neo-Verlag, Berlin, Frohman, 1929), p. 7.
- 6 Roy Harrod: *Money* (Macmillan, St. Martins Press, 1929), p. 4.
- 7 Irving Fisher: *Money Illusion* (Vail-Ballou Press, N.Y., 3rd ed., 1929), p. 18.
- 8 P. Samuelson: op. cit., p. 57.
- 9 James Tobin: “Money and Economic Growth”, *Econometrica*, 33 (Oct., 1965), p. 676.
- 10 Pesek, Boris and Saving, Thomas: *Money, Wealth and Economic Theory* (Macmillan, New York, 1967), p. 77.
- 11 Don Patinkin: *Studies in Monetary Economics* (Harper and Row, N.Y., 1972), pp. 168 and 809.
- 12 Samuelson: op. cit., p. 50. Italics ours.
- 13 Patinkin: op. cit., p. 118. Italics ours.
- 14 J. M. Keynes: *The General Theory of Employment, Interest and Money*, London, p. 22.
- 15 J. M. Keynes: op. cit., p. 225. Italics ours.
- 16 R. Harrod: *Towards a Dynamic Economics* (Macmillan, London, 1969), pp. 65, 66, Italics ours.
- 17 Ibn Hazm: *Al-Muḥalla* (Al-Maktab Al-Tijāri li’l-Tibā’ah wa an-Nashr, Beirut), Vol. 8, p. 247.

- 18 Al-Shawkāni: *Nayl al-Awtār* (Dar al-Jeel, Beirut), Vol. 6, p. 394.
- 19 Ibn al-Qayyim al-Jawziyyah: *I'lām al-Muwaqqi'in* (Dar al-Jeel, Beirut), Vol. I, p. 250.
- 20 Ibn Hazm: op. cit., p. 247.
- 21 'Abd al-Rahmān al-Jazīri: *Al-Fiqh 'Alā al-Madhāhib-Arba'ah* (Al-maktab al-Tijāri, Beirut), Chapter *Muḍārabah*.
- 22 Al-Shawkāni: op. cit., p. 392.
- 23 Al-Bukhāri: *Sahih*, Dār, Iḥyā' al-Turāth al-'Arab, Vol. 3, p. 180.
- 24 *Ibid*, Vol. 3.
- 25 'Abd al-Rahmān al-Jazīri: op. cit., p. 137.
- 26 *Ibid*. Chapter *Muḍārabah*.
- 27 Al-Shawkāni: op. cit., p. 44.
- 28 'Abd al-Rahmān al-Jazīri: op. cit., Vol. 2, p. 435.
- 29 Al-Shawkāni: op. cit., Vol. 2, p. 169.
- 30 Ibn Hazm: op. cit., p. 209.
- 31 Al-Bukhāri: op. cit., Vol. 2, p. 144.
- 32 Mahmūd Abū Sa'ūd: *Khutut Ra'isiyyah fi al-iqtisād al-Islāmi* (Maktabah al-Manār), Kuwait. Second edition, p. 76 and seq.