

MONEY IN ISLAM

“Money is such a companion of yours that it does not benefit you, unless it leaves you.” (Al-Zahabi, Siyar A’lam-al-Nubala’ v. 4, p.576, Beirut)

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1. WHO OWNS THE MONEY AND WHAT IS ITS PURPOSE

Money ownership is relative and conditional

- Ownership of whatsoever good in Islam is *always* conditional: God is the supreme owner of everything

Allah says in the Koran [2:107]:

أَلَمْ تَعْلَمْ أَنَّ اللَّهَ لَهُ مُلْكُ السَّمَاوَاتِ وَالْأَرْضِ وَمَا لَكُمْ مِّنْ دُونِ اللَّهِ مِنْ
وَلِيِّ وَلَا نَصِيرٍ

“Knowest Thou not that to Allah belongeth the dominion of the heavens and the earth? and besides Him ye have neither patron nor helper”

He has created the heavens and the earth and all the things existing therein. He is *the only owner* of all things in existence

Allah says in the Koran [20:6]:

لَهُ مَا فِي السَّمَاوَاتِ وَمَا فِي الْأَرْضِ وَمَا بَيْنَهُمَا وَمَا تَحْتَ الثَّرَىٰ

“To Him belongs what is in the heavens and the earth, and all between them, and all beneath the soil.”

- Accordingly, money which is in people’s hands belongs in principle to God alone as well

Allah says in the Koran [24:33]:

وَأَتَوْهُمْ مِّنْ مَّالِ اللَّهِ الَّذِي آتَاكُمْ

“... and give them something out of Allah’s money which He has given to you ...”

- Man as servant and Viceregent of God is endowed with *relative and conditional ownership*. He endowed him with ownership (*milikiyyah*) rights over money (*māl*) so that he can execute his duties and obligations to himself, family, society and God in a *halal* and just way. God has created the earth and universe for the purpose of fulfilling the function of Vicegerent and to benefit from it

Allah says in the Koran [2:29]:

هُوَ الَّذِي خَلَقَ لَكُمْ مَّا فِي الْأَرْضِ جَمِيعًا

“It is He who hath created for you all things that are on earth ...”

- The ownership is conditional in the sense that man cannot do whatever he likes with the property owned; for example, one cannot bequest more than one third of one’s property or he *must* share it with the poor and needy. He has entrusted man with the use of money. Man has only the right for disposal with the things that God bestows upon him and makes him heir

Allah says in the Koran [57:7]:

آمِنُوا بِاللَّهِ وَرَسُولِهِ وَأَنْفِقُوا مِمَّا جَعَلَكُمْ مُسْتَخْلَفِينَ فِيهِ فَالَّذِينَ

آمَنُوا مِنْكُمْ وَأَنْفَقُوا لَهُمْ أَجْرٌ كَبِيرٌ

“Believe in Allah and his Messenger, and spend (in charity) out of the (sustenance) *whereof He has made you heirs*. For those of you who believe and spend (in charity) - for them is a great Reward.”

- The individual is responsible for fulfilling the duty of Viceregent on earth and achieving the happiness for himself and for the society. For this purpose, God has gifted humankind with many abilities and rights; one of them is the right to ownership

Allah says in the Koran [36:71]:

أَوَلَمْ يَرَوْا أَنَّا خَلَقْنَا لَهُمْ مِنْ مِمَّا عَمِلَتْ أَيْدِينَا أَنْعَامًا فَهُمْ لَهَا مَالِكُونَ

“See they not that it is We who have created for them among the things which Our hands have fashioned cattle, *which are under their dominion*?”

Money has a dual nature: the grace and the blessing ...

- God has bestowed money on man as a blessing and it is one of His favours which indicates His mercy upon man

Allah says in the Koran referring to His Prophet [93: 6-8]:

أَلَمْ يَجِدْكَ يَتِيمًا فَآوَىٰ وَوَجَدَكَ ضَالًّا فَهَدَىٰ وَوَجَدَكَ عَائِلًا فَأَغْنَىٰ

“Did He not find you an orphan and gave you shelter (and care)? And He found you straying, and He gave you guidance. And He found you in need, and made you independent.”

- and He has straightforwardly called money *good*:

Allah says [2:180]:

كُتِبَ عَلَيْكُمْ إِذَا حَضَرَ أَحَدَكُمُ الْمَوْتُ إِنْ تَرَكَ خَيْرًا الْوَصِيَّةَ لِلْوَالِدَيْنِ وَالْأَقْرَبِينَ بِالْمَعْرُوفِ حَقًّا عَلَى الْمُتَّقِينَ

“It is prescribed, when death approaches any one of you, if he leaves any *good* that he makes a bequest to parents and next of kin, according to reasonable usage; this is due right on the pious.”

- and this grace has been commended:

The Prophet (PBUH) said: “It is very good that a righteous man has righteous money.” [narrated by Ahmad and it is a true hadith] and said: “I like to have money whereby I can preserve my honour and draw nearer to my Lord.” [reported by some Companions]

... and the test and the trying

- As man is not the owner of money he has the right to utilize it as a kind of trial and test for

him:

Allah says in the Koran [3:186]:

لَنُبَلِّوَنَّ فِي أَمْوَالِكُمْ وَأَنْفُسِكُمْ وَلَتَسْمَعَنَّ مِنَ الَّذِينَ آوَوْا الْكِتَابَ مِنْ
قَبْلِكُمْ مِنَ الَّذِينَ أَشْرَكُوا أَدَى كَثِيرًا وَإِنْ تَصْبِرُوا وَتَتَّقُوا فَإِنَّ ذَلِكَ
مِنْ عَزْمِ الْأُمُورِ

“You shall certainly *be tried and tested* in your money and yourselves, and you shall certainly hear much that will grieve you from those who received the Book before you and from polytheists. But if you preserve patiently and guard against evil, then that will be a determining factor in all affairs”

- God will ask man about this money: how he earned it, and how he spent it:

The Prophet (PBUH) said: “The present world is delightful and verdant, and Allah has made you heirs thereof *in order to see what you do.*” [Muslim on the authority of Abu Sa’id Al-Khoudri]

Money must be preserved and neither be squandered nor wasted ...

- God has made clear that money is the essence of life and that people’s lives depend thereon. This means that one lives by it and if he loses it he will be lost. As life depends on it one should preserve it in order to fulfil his needs

Allah says in the Koran [4:5]:

وَلَا تُؤْتُوا السُّفَهَاءَ أَمْوَالَكُمُ الَّتِي جَعَلَ اللَّهُ لَكُمْ قِيَامًا وَارْزُقُوهُمْ فِيهَا
وَآكِسُوهُمْ وَقُولُوا لَهُمْ قَوْلًا مَعْرُوفًا

“And give not unto the foolish your property, which Allah has made a means of support for you, but feed and clothe them therewith, and speak to them words of kindness and justice.”

Also, in the verse of the debt (*al-dain*), God affirms the necessity of *preserving* money by notarizing debts, calling upon witnesses and taking mortgages [II; 282]

- The squandering (*tabtheer*) of money (i.e. spending it unlawfully or exposing it to damage) is prohibited and God goes to the extent of describing squanderers as brothers of Satan

Allah says in the Koran [17:26-27]:

وَعَاتِ دَا الْقُرْبَىٰ حَقَّهُ وَالْمِسْكِينَ وَابْنَ السَّبِيلِ وَلَا تُبْدِرْ تَبْدِيرًا
إِنَّ الْمُبْدِرِينَ كَانُوا إِخْوَانَ الشَّيْطَانِ وَكَانَ الشَّيْطَانُ لِرَبِّهِ
كَفُورًا

“And render to kindred their due right, as (also) to those in want, and to the wayfarer; but squander not (your wealth) in the manner of a spendthrift. Verily, *spendthrifts are brothers of the Evil One* (Satan); and the Evil One is to his Lord ever ungrateful”

- Islam prohibits wasting (*israf*) money that God has entrusted to people

The Prophet (PBUH) said: “Allah has prohibited three things: gossip, much questioning, and wasting money.”[Narrated by Al-Boukhari and Muslim and it is a true hadith]

One may not spend his money in ways of disobedience but rather in lawful ways, like food, drink, dwelling, clothes, decoration and ornaments ...etc. yet one may go beyond bounds of moderation, whether in quantity, quality, or both !

Allah says in the Koran[7:31]:

يَبْنِيْ ءَادَمَ خُدُوْا زِيْنَتَكُمْ عِنْدَ كُلِّ مَسْجِدٍ وَكُلُوْا وَاشْرَبُوْا وَلَا تُسْرِفُوْا اِنَّهٗ
لَا يُحِبُّ الْمُسْرِفِيْنَ

“O children of Adam! Wear your beautiful apparel at every time and place of prayer, eat and drink, but waste not by excess, for Allah loves not those who are wasteful.+”

- And God has linked stinginess to wastefulness which results in destitution

Allah says in the Koran [17:29]:

وَلَا تَجْعَلْ يَدَكَ مَغْلُوْلَةً اِلَىٰ اَعْنَاقِكَ وَلَا تَبْسُطْهَا كُلَّ الْبَسْطِ فَتَقْعُدَ
مَلُوْمًا مَّحْسُوْرًا

“Make not your hand tied (like a niggard’s) to your neck, nor stretch it forth to its utmost reach so that you become blameworthy and destitute.”

... but used safely

- Safety is to be found in moderation

Allah says in the Koran [25:67]:

وَالَّذِيْنَ اِذَا اَنْفَقُوْا لَمْ يُسْرِفُوْا وَلَمْ يَقْتُرُوْا وَكَانَ بَيْنَ ذٰلِكَ قَوٰمًا

“Those who, when they spend, are neither extravagant nor niggardly, but hold a just (balance) between those (extremes).”

Moderation in expenditure is one of the good traits of Allah’s righteous holy servants who, when they spend, they are not extravagant, nor are they niggardly, but they are moderate

The Prophet (PBUH) said: “Three things are deliverers, and three things are destroyers. The deliverers are: fearing Allah secretly and openly, speaking the truth in content and discontent, and moderation in riches and poverty. The destroyers are: a followed caprice, an obeyed stinginess, and self-admiration, which is the most dangerous of them all. [Narrated by Al-Baihaqi on authority of Abu Houraira]

The obligation of earning money

- Islam bids Muslims to work and exert every effort for earning livelihood, and considers seeking lawful livelihood as an obligation upon every Muslim, which comes directly after the five known religious obligations. It is hold that an amount which is necessary for man to perform obligations is an obligation in itself, because the thing without which obligations cannot be performed is an obligation. Hence:
 - earning money is an obligation for paying debts, because paying debts is an obligation
 - earning money is an obligation for spending upon one’s wife, children, and parents, because spending upon them is an obligation

No human being, even the Prophets are above the need of earning a living

Allah says in the Koran [25:20]:

وَمَا أَرْسَلْنَا قَبْلَكَ مِنْ آيَاتِنَا إِلَّا الْمُرْسَلِينَ إِنَّهُمْ لَيَأْكُلُونَ الطَّعَامَ وَيَمْشُونَ فِي الْأَسْوَاقِ
وَجَعَلْنَا بَعْضَكُمْ لِبَعْضٍ فِتْنَةً أَتَصْبِرُونَ وَكَانَ رَبُّكَ ابْصِيرًا

“And the Messengers whom We sent before you were all (men) who ate food and walked through the streets; We have made some of you as a trial for others, will you have patience? And Allah is One Who sees (all things).”

They are in need to have food, and in order to gain it, they are in need to work

The Prophet (PBUH) said: “No one has ever eaten any food better than eating from the work of his own hand; and Allah’s Prophet David ate from the work of his own hand.” [Narrated by al-Boukhari on authority of Al-Miqdam Ibn Ma’d Yakrib]

The prohibition of earning money unlawfully

- The prohibition of earning money unlawfully and eating up people’s money unrightfully refers to the brotherhood which Muslims should enjoy among themselves. This brotherhood is substantiated by the feeling that your brother’s property is yours; and that it is your duty to preserve it and safeguard it from being wasted or damaged as if it were yours, and, hence, more deservedly, to abstain from eating it up unrightfully

Allah says in the Koran [2:188]:

وَلَا تَأْكُلُوا أَمْوَالَكُمْ بَيْنَكُمْ بِالْبَاطِلِ بِهَا وَتُدْءُوا إِلَى الْحُكَّامِ لِتَأْكُلُوا
مِنْ أَمْوَالِ فَرِيقٍ مِنَ النَّاسِ بِالْإِثْمِ وَأَنْتُمْ تَعْلَمُونَ

“And do not eat up your property among yourselves for vanities, nor use it as bait for the judges, with intent that you may eat up wrongfully and knowingly a little of (other) people’s property.”

The verse also indicates that if you eat up people’s property, you weaken him, and, hence weaken your own self as well.

The Prophet (PBUH) said: “Every Muslim is sacrosanct for another Muslim: his property, his blood, and his honour.” [Narrated in “Sahih al-Boukhari” and “Sahih Muslim”]

One example of eating up people’s property in vanities is *ribà*’

Allah says in the Koran [2:275]:

وَأَحَلَّ اللَّهُ التَّيْعَ وَحَرَّمَ الرِّبَا

"Allah has permitted trade and forbidden *ribà*"

Ribà' is when money produces money, work is hindered, unemployment spreads, prices go up, money becomes monopolized by rich people, and the gap between the poor and the rich becomes wider.

The Prophet (PBUH) said: "Damned the one who eats up usury and the one who helps him eat up usury, the one who writes (contracts) of usury and the two witnesses thereof. They are all alike (in evil and punishment)." [Narrated by Muslim on the authority of Jabir]

2. MONEY IN PRACTICE

Money is but tangible (commodity money)

Money in the classical texts of *fiqh* refers to coins and nothing else. In practice, moneys are raw metals and are weighted rather than counted. In so doing Islam does not innovate but shares the conception of all pre-industrial (traditional) societies whatever their belief or faith were

According to the Sunna money must possess an imbedded value, i.e.: the value of the money, whatever that value might be - and regardless of changes in value that might naturally occur - is stored *within* the money and cannot be found *outside*. Money is thus immune to arbitrary external manipulation and devaluation. One can speak quite rightly of commodity money, i.e., money whose value comes from a commodity out of which it is made. They are objects that have *value in themselves as well as for use as money*, the standard being precious metals or commodities that are consumed regularly as food.

The history of money in Islam starts with the use of the Roman Byzantine gold *denarius* (dinar) and the Persian silver *drachma* (dirham). Both are accepted as the monetary units for Muslims, i.e. as the Shariah money (both words are found in the Koran 3:75 and 12:20). The Muslim Government strike its own dirham as early as 18H

Prominent Muslim scholars of the past (al-Ghazzali, Ibn Taymiyyah, Qudama Ibn Jaafar, Ibn Khaldun, al-Maqrizi) have asserted that Allah has created the two metals as a medium of exchange and a measure for all things. Gold plays the role of money throughout the Muslim history albeit some hiccups occur with the copper *fulus* and with fiat money towards the end era of the Ottoman caliphate

Money can be a numeraire (conventional) in case of local currencies

There is evidence of the existence of moneys traded according to their conventional value - in general where the intrinsic value was of lesser importance - since the earliest times. This was the case of *locally restricted currency* (usually copper moneys: *fulus*) used for small transactions whose value was based on the close social ties between the trading partners and trust based on personal links. It was therefore used in small networks of people where social control guaranteed the exchange value. At the time of the Prophet (PBUH) there is evidence that copper money, whose intrinsic value was below face value, was being used usually in local context

With the passing of time the use of conventional money spread. The Muslim Government struck no later than 80H Islamic coins but their precious metal content was continually reduced. The earliest written document that views gold and silver as media for exchange with a conventional value stems from the fourth century AH. In the following centuries, counting superseded weighing as a legally valid method, and money became a numeraire. It was not before 809H/1405 AD that copper money with little intrinsic value, struck by the Mamluk Government, superseded silver coins in long-distance trade

Paper money is acceptable on conditions

There is evidence that for long-distance trade the *suftaja* - the precursor of the bill of exchange - was being used. It was a letter of credit made out by a money changer which a co-operating money changer at the destination of the journey would convert into coins. It appears that the *suftaja* share some characteristics with paper money

The conditions for acceptance of paper money are:

- Paper money can be viewed as a bond on the deposit of gold or silver and this view is held by several 'ulama. Historically the connection between gold and paper money via a debt relation between the central bank and the money holders is convincing. The rules for exchange of debts apply and the full back of the currency issued by the Central bank is required
- Paper money can be viewed as a replacement for the value of silver and gold (as *suftaja*). Thereby, paper money itself attracts the characteristics of the respective precious metal. The currency is seen as if it were the metal it is based on. (Islamic Development Bank opinion). The rules for exchange of debts can be circumvented. However, equating paper money with gold and silver, respectively, can only be justified if it is completely backed by a precious metal. This can only be secured if the central bank holds a 100% reserve
- Paper money may be given the same legal position as *fulus* in classical legal thought but tis, of course, open the issue of local circulation
- Paper money can be seen as one measure of value among many However, this approach involves a strong danger of *gharar*. Since the money is not backed by real assets, only the strength of the economy serves as a guarantor for the money

3. HOW TO DEAL WITH MONEY

The non-nature of money

The modern capitalist theory does not differentiate between money and commodity in so far as commercial transactions are concerned. In the matter of exchange, money and commodity both are treated at par. Both can be traded in. Both can be sold at whatever price the parties agree upon

According to Islamic principles, money and commodity have different characteristics:

- Money has no intrinsic utility. It cannot be utilized for fulfilling human needs directly as commodities do
- The commodities can be of different qualities, while money has no quality except that it is a measure of value or the medium of exchange
- The commodities have particular specifications. Money, on the contrary, cannot be pinpointed in a transaction of exchange

In a nutshell: money's *raison d'être* is to facilitate trade and to value things. Full stop

Trading money allowed only at par

Since money has neither intrinsic utility nor a different legally recognized quality any excess on either side is without consideration, hence not allowed in Shariah. Therefore the spot exchange of a unit of money for another unit of the same denomination cannot be effected except at par value: it is lawful only if carried out at par

This principle maintains its effectiveness in deferred (= at credit) transactions where an increase (= interest or *ribà*) is based on the passing of time only. To clarify: any excess amount charged against late payment is *riba* only where the subject matter is money on both sides. But if a commodity is sold in exchange of money the seller may take into consideration different factors *including the time of payment*. Though he is keeping in view the time of its payment once the price is fixed, it relates to the commodity, and not to the time. Time may act as an ancillary factor, and not on an exclusive basis, to determine the price of the commodity, but once this factor has played its role, every part of the price is attributed to the commodity. That is why the price will remain the same and can never be increased by the seller

As a consequence of the prohibition of *ribà* the debt¹ - or receipt that represents debt only - is not a negotiable instrument because its trade is equivalent to a trade in monetary obligations and a trade in monetary obligations is allowed only at par. This applies to credit money, i.e.: any future claim against a physical or legal person that can be used for the purchase of goods and services (personal IOUs, and in general any financial instrument which is not immediately repayable specie on demand)

As stated above the prohibition of *ribà*' is triggered when both terms of a transaction are monetary as highlighted by the following hadith whereas the six named items are but examples for types of goods when carrying a monetary function

¹ . A debt is restricted to a private contract between two parts, and it should remain like that. The general use of a debt in the exchanges is in most of the cases *haram*, and it is in general disapproved. It is only limitedly allowed in a private situation. Therefore the use of a debt as a medium of exchange is *haram*.

The Prophet (PBUH) said: "Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, and salt for salt. (When a transaction is) like for like, payment being made on the spot, then if anyone gives more or asks for more, he has dealt in *ribà*, the receiver and the giver being equally guilty." [Sahīh, Muslim on the authority of Abī Sa'īd al-Khudri]

And in a different version:

"Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, salt for salt, like for like, equal for equal, hand to hand. If these types [*asnaf*] differ, then sell them as you wish, if it is hand to hand" [Al-'Asqalani, Ibn Hajar, *Bulug al-maram min adillat al-ahkam*, Cairo, 1933, 784]

The above-mentioned hadith stipulates how to deal with money. The way of handling raw gold and silver is unambiguously determined as two forms of interest are prohibited. First, exchange in *unequal* amounts (*ribà al-fadl*) is prohibited for goods of the same type. Second, the exchange with delay (forward sale=*bay' al-salam*) within a type constitutes *riba al-nasi'a*. Therefore, an unequal exchange of gold for silver for instance is permitted. In practice, is considered *ribà* any gain on a loan that is pre-determined and not based on the profits of the investment

Some other hadith pointing in the same direction:

- From 'Umar ibn al-Khattab : The last verse to be revealed was on *ribà* and the Prophet, was taken without explaining it to us; so give up not only *riba* but also *raibah* [whatever raises doubts in the mind about its rightfulness]. (Ibn Majah,)
- The Prophet, said, "Sell gold in exchange of equivalent gold, sell silver in exchange of equivalent silver, sell dates in exchange of equivalent dates, sell wheat in exchange of equivalent wheat, sell salt in exchange of equivalent salt, sell barley in exchange of equivalent barley, but if a person transacts in excess, it will be usury (*ribà*). However, sell gold for silver anyway you please on the condition it is hand-to-hand (spot) and sell barley for date anyway you please on the condition it is hand-to-hand (spot)."
- From Abu Sa'īd al-Khudri: The Prophet, said: "Do not sell gold for gold except when it is like for like, and do not increase one over the other; do not sell silver for silver except when it is like for like, and do not increase one over the other; and do not sell what is away [from among these] for what is ready." (Bukhari, Kitab al-Buyu', Bab bay'i al-fiddati bi al-fiddah; also Muslim, Tirmidhi, Nasa'i and Musnad Ahmad)
- From 'Ubada ibn al-Samit: The Prophet, said: "Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, and salt for salt - like for like, equal for equal, and hand-to-hand; if the commodities differ, then you may sell as you wish, provided that the exchange is hand-to-hand." (Muslim, Kitab al-Musaqat, Bab al-sarfi wa bay'i al-dhahabi bi al-waraqī naqdan; also in Tirmidhi)
- From Abu Sa'īd al-Khudri: The Prophet, said: "Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, and salt for salt - like for like, and hand-to-hand. Whoever pays more or takes more has indulged in *riba*. The taker and the giver are alike [in guilt]." (Muslim, *ibid*; and Musnad Ahmad)
- From Abu Sa'īd and Abu Hurayrah: A man employed by the Prophet, in Khaybar brought for him *janibs* [dates of very fine quality]. Upon the Prophet's asking him whether all the dates of Khaybar were such, the man replied that this was not the case and added that "they exchanged a *sa'* [a measure] of this kind for two or three [of the other kind]". The Prophet, replied, "Do not do so. Sell [the lower quality dates] for dirhams and then use the dirhams to buy *janibs*. [When dates are

exchanged against dates] they should be equal in weight." (Bukhari, Kitab al-Buyu', Bab idha arada bay'a tamrin bi tamrin khayrun minhu; also Muslim and Nasa'i)

- From Abu Sa'id: Bilal brought to the Prophet, some barni [good quality] dates whereupon the Prophet asked him where these were from. Bilal replied, "I had some inferior dates which I exchanged for these - two sa's for a sa'." The Prophet said, "Oh no, this is exactly riba. Do not do so, but when you wish to buy, sell the inferior dates against something [cash] and then buy the better dates with the price you receive." (Muslim, Kitab al-Musaqat, Bab al-ta'ami mithlan bi mithlin; also Musnad Ahmad)
- From Fadalah ibn 'Ubayd al-Ansari: On the day of Khaybar he bought a necklace of gold and pearls for twelve dinars. On separating the two, he found that the gold itself was equal to more than twelve dinars. So he mentioned this to the Prophet, who replied, "It [jewellery] must not be sold until the contents have been valued separately." (Muslim, Kitab al-Musaqat, Bab bay'i al-qiladah fiha khara-zun wa dhahab; also in Tirmidhi and Nasa'i)
- From Abu Umamah: The Prophet, said: "Whoever makes a recommendation for his brother and accepts a gift offered by him has entered riba through one of its large gates." (Bulugh al-Maram, Kitab al-Buyu', Bab al-riba, reported on the authority of Ahmad and Abu Dawud)
- From Anas ibn Malik: The Prophet, said: "Deceiving a mustarsal [an unknowing entrant into the market] is riba." (Suyuti, al-Jami' al-Saghir, under the word ghabn; Kanz al-'Ummal, Kitab al-Buyu', al-Bab al-thani, al-fasl al-thani, on the authority of Sunan al-Bayhaqi)
- From 'Abdallah ibn Abi Awfa: The Prophet, said: "A najish [one who serves as an agent to bid up the price in an auction] is a cursed taker of riba." (Cited by Ibn [Hajar](#) al-'Asqalani in his commentary on al-Bukhari called Fath al-Bari, Kitab al-Buyu', Bab al-najsh; also in SuyutT, al-Jami al-Saghir, under the word al-najish and Kanz al-'Ummal, op. cit., both on the authority of Tabarani's al-Kabir)

4. OWNERSHIP IN ISLAM

Ownership is the sole basis of wealth

The concept of ownership - the cornerstone of Islamic finance - is regulated at all stages: its sourcing, utilization and transfer

Though there are many definitions of ownership in Islam they can be summarized by saying that: “Ownership is a legally defined relation between a person and a thing and/or its utility that one can use only in *halal* ways and prevents others from using it unless by proxy and the owner of the thing can get compensations for it”

The object of ownership (*mâl*=money) must be ‘something of value, permissible and capable of being possessed’. It can be tangible or intangible like intellectual property. It can be private or public. It carries the right to own, to possess, to utilize, to exclude others, to secure income, to security, to dispose and obtain compensation if damaged

Ownership can be created and sourced in three ways:

Nonetheless, at the same time Islam has established limits for the creation, utilization and transfer of ownership in order to protect the interests of the individual and the society as wants of people are often divers and conflicting. From these, we can deduce that ownership has an important socio-economic role

1. ownership of things that had no previous owner by:
 - Reviving a dead land that is not owned by anyone, by working it. Agriculture is regarded by many scholars as the most *halal* means of acquiring new ownership, for in agricultural the principles of *Tawakkul* and *Ikhlas* are stronger
 - Discovering a treasure
 - Producing something: agricultural, industrial, scientific, intellectual and so on
 - Any product of an owned thing is owned by the owner of that thing
 - Own something as a result of hunting or fishing
 - Return on investment – profit from trade, product of employees, etc.

The underlying principle of the above sources of creation of ownership is *the human effort* (physical or intellectual). Thus, human effort is the principal *halal* means for creating ownership

Allah says in the Koran [62:10]:

فَإِذَا قُضِيَتِ الصَّلَاةُ فَانْتَشِرُوا فِي الْأَرْضِ وَابْتَغُوا مِنْ فَضْلِ اللَّهِ

“And when the prayer is finished, then may ye disperse through the land, and seek of the bounty of Allah ...”

Allah says in the Koran [73:20]:

وآخَرُونَ يَضْرِبُونَ فِي الْأَرْضِ يَبْتَغُونَ مِنْ فَضْلِ اللَّهِ

“... others travelling through the land, seeking of Allah’s bounty

2. ownership of things that are already in existence and been previously owned by others. Transfer is the most common means of acquiring ownership and Shariah places importance to the

willingness and consent of the owner in the transfer of ownership. There are two basic Shariah principles in the transfer of ownership. The first one says that it is not possible to force one to own something without one's agreement or prior acceptance, while the second says that it is not possible to take possession of something that belongs to another without his agreement or prior consent

Among the most important halal means of ownership through transfer are as follows: trade; compensation (salary, commission, etc.); inheritance; *zakat* and *sadaqa*; *hiba* or gift; *mahr* or dowry; *wakaf*; *dia'* for death; *khal'a*; and *ghanima* (war booty)

3. ownership by proxy

5. AN EPOCAL CHANGE

From intrinsic money to virtual money

The removal of money with *intrinsic* value from the money-system of the world and its replacement with money that had no intrinsic value (*fiat* - “let it be done” – money or, more prosaically, ‘created out of thin air’) and in particular the legal tender laws that prohibit the use of gold and silver coins as legal tender accelerated and became the norm in modern times. It started in April 1933 in the US when gold coins were demonetized; they no longer permitted as legal tender and therefore could not be used as money. In exchange for the gold coins and bullion, the Federal Reserve Bank offered paper currency. The British government soon followed suit. The process continued with the prohibition of any link between gold and paper currencies other than the US dollar in the Bretton Woods Agreement/FMI and was achieved in 1971 when USA reneged on its treaty obligation to redeem US dollars for gold

Fiat money is money declared by a government to be legal tender and its value is unrelated to any physical quantity. A fiat money is money that has no intrinsic value of its own being either paper or electronic money. The worth of paper in paper money is negligible yet it may command value by the decree of the issuing body that makes it a ‘legal tender’, i.e. it is money by virtue of law and not because people value it for its own sake. A more refined development is electronic money, money that provide purchasing power to the first users through mere electronic records²

The Prophet (PBUH) said: "A time is certainly coming over mankind in which there will be nothing (left) that will be of use (or benefit) save a dinar and a dirham." [Narrated by Abū Bakr ibn Abi Maryam]

The two debateable elements are the 'legal value', an imposition by the state on the people, and the monopoly of its production by the same state that imposes it. Without these two elements the value of the paper-money would be nothing. Nowadays paper-money has become nothing but a pure symbol with no reality attached except the imposition of the law

Question: is the creation of fiat money equivalent to taking assets of the people, rich and poor alike, forcefully without compensation?

The issue of seigniorage

Seigniorage is the benefit derived from the first use of fiat money. It is the net revenue derived from the issuing of currency. Seigniorage derived from specie arises from the difference between the face value of a coin and the cost of producing, distributing and retiring it from circulation. In notes, is the difference between interest earned on securities acquired in exchange for bank notes and the costs of producing and distributing these notes. Money created through the FRB system and the interest charges thereupon are also seigniorage

The fractional reserve banking (FRB)

² Credit card can be an example as in each transaction one account gets debited while another credited. The credit entry is, nevertheless, interpreted as a deposit, and thus, that makes possible further money creation through the fractional reserve system. The nefarious role played by the credit card system, particularly in Anglo-Saxon countries, is beyond the scope of the present notes

Fractional-reserve banking or ‘multiple deposit expansion’ is the banking practice in which banks keep only a *fraction* of their deposits in reserve (as cash and other highly liquid assets) and lend out the remainder, while maintaining the simultaneous obligation to redeem *all* these deposits upon demand. Fractional reserve banking necessarily occurs when banks lend out any fraction of the funds received from demand deposits

By its nature, the practice of fractional reserve banking expands M0 (the basic money supply consisting of currencies and coins), beyond what it would otherwise be in money supply termed as M1 (cash and demand deposits). Because of the prevalence of fractional reserve banking, the broad money supply of most countries is a multiple larger than the amount of base money created by the country's central bank (reserve money). That multiple (called the money multiplier) is determined by the statutory reserve requirement (SRR)³ or other financial ratio requirements imposed by financial regulators

Besides, interest rates given and charged by banks endlessly increase *through mere accounting* the money stock. The banking system is, in turn, forced to proportionally increase fiat money so that the reserve requirement can be met and the system kept afloat. The implication is that M (0, 1, 2, ...) continuously increases⁴. Money and debt are, therefore, balance sheet counterparts. Debt would show up in the aggregate economy in the form of private sector and public sector debt whereas bank money (loans) will be the *dominant* money supply that comprises simply accounting entries⁵

This new money creation is achieved through credit creation that is purely an accounting process that does not involve any *intrinsic value* money. When a loan is extended, the borrower is recorded with a double entry, one debit and one credit. The debit denotes him as a debtor to the bank for the loan taken, while the credit entry denotes him as a depositor, for the amount extended to him. These are simply accounting entries that do not involve the movement of any physical currency notes. When a loan is extended, it does not reduce the deposit of any of the depositors at all, because it is new money created into the economy

Unless we are mistaken, an important implication is that loans are non-repayable *in aggregate* and this makes loan defaults a systemic risk that will strike at a later date. This system dynamically sustained by a continuous increase in M, it is ultimately bound to collapse as debt has financial implications on the capital structure of the economy

The introduction of new money makes the transferring of ownership of assets possible. Now the question is: initially, neither the bank nor the borrower owned the assets. The bank did not even have the money then. But they became the owners of the assets after the bank created money out of nothing, through the FRB process. From a real (Islamic) economy perspective, every such transfer of assets, which is not a gift, inheritance or likewise, must be compensated for. If so, who then paid for the assets?

A possible answer is that there is now more money in the economic system than before. All other things being equal, this is inflationary. Those holding money would have to forego some purchasing power of their money. They can now only claim less real things in the economy. Indeed, the total of the real purchasing power lost by the economy as a whole equals the total value of assets transferred

³ SRR is defined as is the proportion of deposits which the banking sector must keep as reserves to fulfill withdrawal needs

⁴ Unless we are mistaken, in all countries the public and private sector debts have continuously grown

⁵ The world ratio between M0 and M1-2 is respectively 1/3 and 2/3

to the borrower/bank. In other words, all subjects in the economy paid for the transfer of wealth through inflation, i.e. through increased price levels

Is money creation through FRB the creation of purchasing power out of nothing which brings about unjust ownership transfers of assets from the economy to the bank/borrower effectively paid for by the whole economy through inflation? This transfer of ownership is not based on human effort by taking on legitimate risks and neither with the knowledge nor the consent of the initial owners. This violates the ownership principles in Islam. In effect, when a bank creates money through FRB and lends it out, in the real economy, it actually takes possession of assets of others by force, neither with their knowledge nor consent and lends them out to others, for a return

In most (all?) countries, Islamic banking and finance too operate under this principle though FRB has implications for the ownership structure of assets in the economy that violates the Islamic principles of ownership

The lending on interest of money not owned

It can be contended that the creation of fiat money - to be precise its seigniorage - is tantamount to *ribà* under a new shape and with unprecedented dimensions. One feature of *ribà* is where extra purchasing power is created without taking on any risk and this is exactly what creation of fiat money does by enthroning its creator with immediate purchasing power without assuming any risk

6. THE GOLD DINAR

From an interest based, fiat money, FRB system to a demurrage (*zakat*), real money, full-reserve system

The Islamic economic system is fundamentally an exchange economy, a barter system where real goods and services are exchanged value for value. It avoids the problems associated with barter by taking some of the commodities exchanged in the economy that have the right characteristics of money, as money

Gold is argued to be the best Shariah money along with silver. The gold payment system is fundamentally a barter system. Alternatively a basket of commodities can be approached.

Complementary currencies show how alternative real money systems have been used by communities around the world to foster sustainable development

The importance of real money and 100% reserve requirement in order to truly match the monetary sector with the real sector

The importance of replacing positive interest rates with negative interest rate

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