

## FUNCTIONS OF MONEY

**Money is a medium of exchange; a store of value and a standard of wealth** are its basic functions. If money were not there, we would have been required to barter our goods and services directly with other goods and services. We will be required to know and remember price of everything with respect to any other thing that would have been a very cumbersome and restrictive way of exchanging goods (*Rf.pg.58*).

Gold, silver and coins made of these were used as currency for long. These were ideally suited for this work and people selected these of their own free will. These were accepted through out the world. Paper currencies enjoy the status of medium of exchange in the country that issued them.<sup>50</sup> In other countries these are not accepted except through cumbersome procedures of exchange. In many countries holding currencies of other nations is a crime.

People want to save part of their earning for future. People are compelled to keep some stock of currency to meet their day to day requirement. Therefore, money should be convenient to store and must not depreciate with time. *Money can not discharge these functions efficiently unless it is a standard of wealth as well.* Similarly the money should be a standard measure of wealth so that the prices remain normally constant over time. Further this function is important in that money is the most convenient unit (standard) of account. Accounting process covers monetary transactions that may be spread over years or even decades and that requires that money must be a standard of wealth over time. Similarly the money must be a standard of wealth over time otherwise prices of most of the goods will vary with time. Thus to exchange anything with money we will be required to know fair price on that occasion. Clearly, it is a cumbersome process and masses fail to participate in the market mechanism of price determination that leads to massive exploitation.

### Store value function

To be accepted in exchange money should be a store of value. People exchange goods with money only because they know that they will be able to exchange it with the goods that they may need. The money should be easy to store and it must not decay or depreciate with time or else people will withhold goods to meet their future needs that will retard economic growth. Coins made of gold and silver were easy to store and they neither decayed nor depreciated. Gold based paper currencies were easier to store as they were less bulky, however, they were more susceptible to destruction by fire etc., and involved risk of total loss in some special circumstances.

Depreciating paper currencies are the worst. The quantity of wealth represented by it goes on falling with time. It depreciates, the government and the bankers gain and the person holding these notes loses. Thus the wealth of the people who hold these gets automatically transferred to the government. People receive money when they exchange something for money. Some time elapses between this exchange and the next exchange (when they buy something in lieu of that money). Thus, as the currency depreciates the wealth of the people who hold these gets reduced while the government that prints the

currency or the bankers who create these gain.<sup>51</sup> People often withhold sale of their goods until they need it for other requirements. Therefore, as medium of exchange gold and silver coins were the best. Currency based on metallic standard were nearly equally good. Depreciating paper currencies can be depreciated without limit and therefore, these are the worst. Thus the depreciating paper currency retards exchange of goods, economic activity and economic growth. Further in case of depreciation, the masses are the losers and it is the rich and the powerful who gain. Thus, the enforcement of depreciating paper currencies itself constitutes a powerful tool of exploitation of the have-nots.

### **Standard of Wealth Function**

Money should be a standard measure of wealth so that it could be used as a unit of account<sup>52</sup> and the general levels of prices do not vary with time. As discussed above money can not be a good medium of exchange unless it is a standard measure of wealth. Further, active participation of the masses in the process of determination of prices by the market is not possible unless money is a standard of wealth. Failure of the masses to actively participate in the mechanism of determination of prices by the market leads to the massive exploitation, oppression, fraud and corruption. Therefore, an essential requirement for establishment of justice is that the money should be a standard measure of wealth.

A large number of our monetary transactions are not settled on spot. We sell goods and receive payment at a later date or we buy goods and pay later. We borrow or lend money and pay or receive it back, much later. Similarly, there is large time gap between investment and winding up of the business when the profits are accounted. Correct accounting in all these cases requires a standard measure of wealth to be used and right accounting is not possible otherwise. Clearly, money will not be able to discharge the function of standard of account unless it is a standard of wealth. Most of our transactions normally involve money. If , something other than money is to be used as a standard of account each transaction will have to be converted into a transaction in terms of the standard of account, using rate of exchange between the standard of account and the money on respectively dates. Since, common person may not be aware of the actual exchange rate it can lead to fraud and manipulation. Further, many people do not understand even simple mathematical operations such as multiplication and division although most people can carry out simple additions and subtractions. Therefore, using a standard of account other than money will create problems for the common man and it may even lead to manipulation and fraud. Therefore, **money, that is not a standard of wealth is a tool of injustice, exploitation and oppression.**

### **Depreciation of currency**

Inflation is the illusion of consistent and appreciable increase in prices created by the depreciation of the paper currencies A depreciating currency does not represent any known quantity of any materials. In practice, it represents continuously falling quantity of goods that it represent. This reduction is caused by increasing money supply. It is explained below:

### **A simplified view of depreciation:**

Suppose gold is the only commodity that is traded in a country. X is its currency. Let the total quantity of gold that was traded today be 425 kg. and assume that it was traded for 100,000 X. Clearly today X represents 4.25 gm. of gold that is same as a gold-Dinar. Now suppose that after 6 years 4250 kg. of gold is traded for 2000,000X. Clearly then X will represent exactly half the quantity it is representing today. This is what the depreciation of currency means. In this case depreciation of currency has reduced the quantity of gold that X represented to exactly half within the said 6 years. The rate of depreciation of currency has been 12.25 %.<sup>53</sup> Clearly in this case depreciation of currency is equivalent to the reduction in the quantity of gold represented by it. Since, *within 6 years the quantity represented had been reduced to half, a loan of 10 X of today will be equivalent to a loan of 20 X 6 years later and a capital of 10 X of today will be equivalent to a capital of 20 X 6 years later.*

Similarly it can be explained that even in general terms depreciation of currency is the same as reduction in the quantity of goods represented by it.

### **Strengthening the standard of wealth**

Organised human effort plays a very significant role in elevating the status of a measure of wealth. Acceptance of any commodity as medium of exchange makes it the most widely traded commodity that imparts it price stability with respect to other commodities. It is the prevalence and acceptance by the people that has made the self-value-less, depreciating currency a good measure of wealth. Action of the government and centres of economic power such as the greedy capitalists can change the relative prices of goods significantly. The following example nicely illustrates the point:

Let us consider the situation arising out of a decision by the farmers to reduce the production of food grains to half. There does not exist any other competitive procedure for production of food grains or their substitutes and food grains are essential goods being essential for sustaining life. Therefore, the prices of the food grains as well as other products used as food will shoot up. Not only this prices of most other goods including the so called superior goods as well as the products of the activities based on the most modern and advanced technology will crumble down. The profitability of most other activities will fall to naught while the profitability of farming will soar high.<sup>54</sup> *Conversely it is also possible to ensure that prices of some goods specially those that constitute good standard of wealth can be made fairly stable to ensure that they discharge standard of wealth function very satisfactorily.*

Considering that standard/currency that depreciates is a tool of injustice and exploitation and a stable currency/standard of account is essential to ensure peoples welfare, to establish justice and to protect them from fraud and manipulation, measures required to maximise stability of currency/standard of account ought to be taken in public interest. Thus, currency/ standard of account can not be treated at par with other commodities. <sup>55</sup>

**The following measures will strengthen the standard of wealth:**

- (i) **Standard should be currency or linked to it.** Acceptance of any commodity as medium of exchange imparts strong stability to the price of that commodity. Similarly, anything that is used as standard of account develops powerful price stability.
- (ii) **It should be constituted of or be linked to a reliable measure of wealth.** The currency/standard of wealth should be linked to or be constituted of such commodity or commodities that constitute reliable measures of wealth (discussed earlier). For example: gold and silver constitute best standards of wealth therefore coins made of these metals or linked to these metals will perform very satisfactorily.
- (iii) **Prevent hoarding.** People tend to hold currency. Similarly they will tend to hold whatever is used as standard of account due to its increased utility and because it will be best as a store of value. This can be done by enforcement of 2.5 % poor tax ( Zakah) on the quantity withheld provided the quantity withheld exceed some minimum limit that is exempt from this special tax.<sup>56</sup> This stipulation will reduce hoarding and ensure stable supply.
- (iv) **Measures required to ensure uniform price.** Free movement and freedom to acquire, hold or dispose off, strongly help price stability. The provision that ensures that wholesale and retail prices must be same will also impart strong price stability. Speculation is an important reason of price variation. Therefore, speculation in respect of the standard of wealth ought to be curbed.<sup>57</sup>

Any one who considers these stipulations with the fact that even otherwise the prices of gold had been rising almost proportionately as the paper currencies were depreciating, will agree that under these circumstances, gold will perform the function of standard of wealth ideally. However it should be noted that commodity prices are strongly susceptible to international environment and the greedy capitalists control most of the resources of the world. Therefore it may be better to adopt a mixed standard (refer page- 102) that will be less susceptible to the mechanisation of the vested interests.

## **Standard of wealth other than currency**

*Prevailing depreciating paper currencies are depreciating consistently. These are no standard of wealth. Efforts to impart stability to their prices have consistently failed. These have become tools of injustice and exploitation. Under the divine law currency/standard of account ought to be a standard of wealth (refer page-79). Therefore despite minor problems that the masses will face when something other than money is used as standard of account, it is essential to adopt some reliable measure of wealth as standard of account.*

The paper currencies do not have any intrinsic worth and therefore these are most difficult to stabilise and easiest to manipulate. The stability of the paper currencies depends

upon the health of the economy. The righteous are marginalised and do not have capacity to ensure that the paper currencies are not depreciated. Considering that it is essential to do justice even if the economy is not in a good shape, standard of account should not vary with the health of the economy. Accordingly it is essential to adopt a standard of account other than currency as standard of account. It may be noted that under the divine law people are free to use a unit of account other than currency. Imam Ghazzali has compared currency with a judge. One who considers his analysis that is based on the Hikmah derived from the divine law will understand that it is the standard of wealth function where money functions as a judge. Considering that the paper currencies are being depreciated these can not be relied upon to act as a judge. Thus, when we consider the decisions of our Fuqaha it become clear to us that the depreciating paper currency can not be used as a standard of account. Similarly Imam Malik has held that even if leather becomes the currency all the provisions that apply to currency will apply to it. It can be seen that this is required to ensure that currency performs its standard of wealth function properly. Unfortunately we have paper currencies that have nothing to do with paper and therefore we can not apply those provisions to paper and thus it can not be elevated to the status of a standard of wealth. Thus, depreciating paper currency can not discharge the standard of wealth function not being an standard of wealth and therefore one has to agree that we ought to adopt a standard of wealth other than currency as standard of account.

## Conclusions

We may summarise the conclusions as under;

(i) Gold and silver constitute best standards of wealth and some food grains such as wheat, rice, dates and common salt are satisfactory standards of wealth, while most other goods are either poor standards of wealth or no standard of wealth.

(ii) By enforcing some simple stipulation it is possible to ensure that gold or silver will behave as ideal standard of wealth.

(iii) Use of a standard of account other than money will create problems for the common man and may lead to manipulations.

(iv) Depreciating paper currencies are no standards rather these are tools of injustice, exploitation, oppression, perpetuation of fraud and corruption and total marginalization of Haqq.

(v) Due to prevalence of depreciating paper currencies justice is not possible unless some standard of wealth is adopted at least for the purpose of accounting and adaptation and use of suitable standard of account by the righteous can protect them from major part of exploitation and oppression caused due to interest and inflation.

(vi) Depreciating paper currencies have totally substituted gold and gold based currencies despite being inferior as money on every count. It happened due to compulsive influence of the greedy capitalists and to their agents.

(vii) Stability of paper currencies depends on health of economy. Standard of wealth acts like a judge and ought to be independent of the health of the economy.

(viii) Under the present circumstances only way out for those struggling to uproot injustice, exploitation and oppression and to establish justice is to adopt suitable standard of wealth as standard of account and to follow economic procedure free from exploitation. It is discussed further in the following chapters.

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