

Inflation and Islamic economy

Inflation of money and depreciation of currency are the two faces of a fraudulent and deceptive economic procedure. The depreciating paper currency is not able to discharge any function of currency (*Rf. Prevailing.70*) as nicely as the gold based currency did and yet it has completely replaced the gold based currency. The superior gold and silver based currencies were replaced by the inferior depreciating currency because, the latter assisted the rich and powerful in exploiting the poor.

Islam stands for equity and justice. Prophet (P.B.U.H.) working under divine guidance purified all affairs of men including economic once. All that was apparently good was further purified by purging off all elements of injustice, exploitation and fraud. This, purified good was made lawful. Similarly, what was bad was prohibited.

During Period of prophet-hood (Ahd-e-Risalat) Misqal⁵⁸ was used as unit of weight⁵⁹. Now gm is the most widely used unit of weight. 4.25 gm equals ten Misqal and therefore, these two are equivalent and convertible. Similarly, liter is the most widely used unit of volume and one Shae of wheat weighs 2.176 kg and thus shae and liters are also convertible. Due to this inter convertibility of units of weight and volume with the units used during Ahd-e-Risalat, the use of the modern measures instead of the measure of Ahd-e-Risalat do not produce any complications. For example: we know that Nisab of Zakah for wheat is 5 Wasq that weighs 653 kg of wheat and ten Misqals equals 4.25 gms.

Saman (Currency) is a measure of wealth that the masses use as a medium of exchange. Use of any commodity as Saman imparts stability to its market worth with respect to the relative worth of other commodities and it becomes easier to use it as a standard of account. These characteristics may be called Samaniyat.

During Period of prophet-hood (Ahd-e-Risalat) Dirham and Dinar were used as medium of exchange. One Dinar was constituted by 10 Misqals of gold and 7 Misqals of silver constituted one Dirham. The value of the gold or silver that constituted the Saman determined its market worth. Depreciating currency is now used as a medium of exchange. These are fictitious and do not represent any fixed quantity of any material. These have gained currency due to lack of awareness among the people, as well as due to powerful control of the capitalist conspirators. Depreciating paper currency is a tool of injustice, exploitation and total marginalization of right (Haqq) and its incompatibility with Islam is obvious.

Comparison Between Saman of Ahd-e-Risalat And Modern Depreciating Currency

Only significant similarity between the two cashes and the depreciating paper currencies is use as medium of exchange, otherwise the two groups differ in all other respects. Important differences are as under :

- (1) The market worth of the two cashes was determined by their real worth. Prevailing depreciating currencies have no real worth.⁶⁰
- (2) The former were natural and best known standard units of wealth and therefore, the best and the most reliable (Moatber) units of account as well. The depreciating currency is no standard and therefore, it should not be used as standard of account.
- (3) The two cashes discharged even medium of exchange function much better than the depreciating currency.
- (4) The former best discharged the store value function of money but the latter goes on depreciating with time and cause severe harm to those who use them as a store of value to keep their savings.
- (5) Being the best standard of wealth, the two cashes were used to enforce economic justice.⁶¹ The latter being no standard assist only fraud, injustice and exploitation and are being used as a tool of total marginalization of right and justice (Haqq).
- (6) The two cashes best performed various functions of currency and were voluntarily accepted by the people world wide. Depreciating currencies are not able to discharge most of these functions and the people accepted these due to fraud, deception and powerful control of the capitalist conspirators. The public acceptance (Urf Aam) in respect of these is therefore, unreliable (Batil)

One who ponders over this complete lack of similarity and violent differences will reject the opinion that Islam permits the use of this tool of fraud, exploitation and marginalization of Haqq. Because, Islam sets its own standard to judge the affairs of man and Quran is Meezan

Unit (standard) of account

The unit or measure of wealth that is used to account for income, expenditure, saving and wealth of the people, should be a reliable standard of wealth. This is essential, as data generated by using a measure (unit) that itself changes will not be reliable. Similarly, to find out whether there is profit or loss one will be required to use a reliable (Moatber) standard of wealth as unit of account. **In any case, unit of account must be standard over time. This is well known, universally accepted and never disputed** (Rf. Pg.-75).

Accounting during Ahd-e-Risalat

During Ahd-e-Risalat the two cashes were normally used as unit (standard) of account. Prophet (P.B.U.H.) fixed 20 Dinar as well as 200 Dirham as the Nisab for merchandise. Dirham and Dinar were the best standards of wealth and therefore, it shows that the divine law preferred the best standard of wealth as a measure of wealth.⁶² Hazrat Abdullah Bin Umar (may Allah be pleased to him) said, '...He sold camels at Baquih, at times he sold in Dinars and was paid in Dirhams... .' Prophet (P.B.U.H.) replied that, 'there was no harm provided the rate of exchange on that day (the day on which amount is paid) is used.' (Sanan

Abu Dawood). It is clear that prophet (P.B.U.H.) permitted payment of dues in Dinars by Dirhams and considering the relative variation in the worth the two cashes he (P.B.U.H.) decided that the rate of exchange applicable on the day the dues are cleared, is to be used. Thus, dues in Dinar could be cleared by payments in paper currency and vice versa, provided however, that the rate of exchange applicable on the day the dues are cleared will be considered.⁶³⁾

In case of animal wealth, the number of animals nicely express their worth. Prophet (P.B.U.H.) fixed Nisab for camels as 5 camels and Nisab for goats as 40 goats. Thus according to Islamic criteria, number of animals is a reliable measure of the animal wealth. People often borrowed certain goods and the loan was cleared by paying back the same quantity of the good that was borrowed. Clearly, in these cases unit measures of the goods borrowed were used as units of account. Barter system was also prevalent and people often sold goods for goods. In many cases the dues were not cleared on spot. For example: a person selling his goat for 50 Shae of dates, receiving 30 Shae on the spot and 20 Shae of dates remaining due. In this case a Shae of date is used as a medium of exchange as well as, as a unit (standard) of account. Clearly, Divine law permits such transactions. Prophet (P.B.U.H.) fixed the Nisab for the agricultural produce at 5 Wasq.⁶⁴ Therefore, it has to be inferred that unit quantity of those commodities are the best units of measure to express their worth. The commodities unit quantities whereof were used as standard of account fall in the category of Amwal-e-Rabuviah. These included gold, silver, dates, wheat and salt. These fall in the category of best or good standards of wealth(Rf. Pg -66).

Imam Gazzali has compared currency that was used as standard of account with a judge as it is used to judge the worth of goods with respect to one other. Considering that the greedy capitalists can cause the quantity of wealth represented by currency to vary to suit them. Use of depreciating paper currency as standard of account amounts to allow the killer to nominate one of its agents to try the case of murder committed by him. Our Fuqaha have consistently held that currency is not like other commodity. The Hikmah behind this special treatment for currency is based on the fact that considering that it is used as standard of account any change in its value effects all other transactions. Impartiality is an essential condition for justice. Therefore, its value should neither go up nor down as it will effect people differently. Therefore, we ought to restrict such trade in currency that causes its value to fluctuate. True prophet (P.B.U.H.) adopted the currency that prevailed then. However, it is not proper to hold that anything can be adopted as currency. Gold and silver have intrinsic qualities as well as uses that ensure that these perform as best standard of wealth. Divine law does provide for special measures that raise the level of stability of their prices to the highest. We act imprudently when we refuse to acknowledge the Hikmah underlying use of gold and silver coins as currency during Ahd-e-Risalat.

It follows, therefore, that during Ahd-e-Risalat, only reliable measures of wealth were used as units of account. The relative variation of the market worth of the available measures of wealth was fully recognized and it was essential to account in term of the agreed standard. Further, the most reliable units of measure of wealth were used by prophet (P.B.U.H.) to describe the provisions of the divine law.

Damning Consequences of Using a Nonstandard Measure as a unit (standard) of account

Proper accounting requires a standard measure of account. Use of a nonstandard measure in the accounting process leads to total confusion as the results obtained are misleading and often disastrous. It obscures the difference between right and wrong, honesty and corruption and between good and bad. This point can be easily understood with the help of following examples.

Example I: Suppose the measure of weight of a country is called Unit-mass that consists of specified number of pieces of constant weight (called WW). Clearly if the numbers of pieces were held constant Unit-mass will be a standard measure of weight. Suppose that 10 years earlier Unit-mass consisted of 1000 Wws and presently Unit-mass consist of 500 Wws only.

IA : Suppose Amr borrowed 100 Unit-masses of wheat from Baker 10 years earlier and wants to clear the loan now. How many Unit-masses should Amr pay to Baker to clear the loan ?

Considering the fact that Amr has borrowed only 100 Unit-masses of wheat, it seems that he should return back 100 Unit-masses only. Any excess will seem to constitute interest.

Divine law requires that Amr must return back the same quantity of wheat that he has borrowed. Presently each Unit-mass weighs exactly half of its weight 10 years earlier and therefore, to clear the loan, Amr should return back 200 Unit-masses. It is to be noted that this is a clear case of Quarz-Hasan and yet according to modern uses, a clear case of interest as Amr has borrowed 100 Unit-masses and yet he has to return 200 Unit-masses.

Thus, an interest free loan according to Divine law becomes an interest bearing loan according to current usage's. Similarly an interest free loan in terms of a non standard (Ghair Moatber) unit is an interest bearing loan according to Divine law (Rf. Fn.-9)

IB: Suppose, 10 year earlier, Baker has given 1000 Unit-masses to Amr to run a business in accordance with the Mudarbah provisions of Divine law. The stock in trade has grown to 2500 Unit-mass. They had agreed to share the profits equally. If we were to use Unit-mass as standard of account the profit equals 1500 Unit-mass. Therefore, Amr gets 750 Unit-mass and Baker gets 1700 Unit-mass. Since the present Unit-mass equals just half of the quantity expressed by the Unit-mass of 10 years hence clearly, Baker got less wheat than what he gave (as capital-Rasul Mal) to Amr.⁶⁵ Provisions of Divine law clearly stipulate that first Baker will get his capital and what remain (profit) will be equally shared by the two. Accordingly Baker will get 2000 unit masses (being equal in real terms to his capital) and balance 500 unit masses is the profits that will be shared equally by the two. *Clearly, accounting as per Mudarbah provision requires correction for depreciation of the sub standard unit of measure and accounting in terms of a depreciating unit causes the capital to be accounted as profit.*

Example II: Let La be the measure of length that the government of a country has adopted. Suppose, sometimes the government orders that a part of La to be cut off and in the process La is reduced to half its original length within five years. Suppose, your piece of land measured 10 La by the 10 La earlier. Now it will measure 20 La by 20 La. Suppose you lent your land to someone who joined it with his own and now you are taking it back after the said five years. How much shall you take back 20 La by 20 La or 10 La by 10 La. One who opts the Asl (real) will opt for 20 La by 20 La and one who adopts face value will go for 10 La by 10 La. Clearly, Divine law is not open to such fraudulent manipulations and according to the provisions of Divine law, you are entitled to get back the actual piece of land you let out that now measures 20 La by 20 La. Thus, Divine law will rely on Asl only and will not rely on La as a measure of length. Clearly, Divine law requires that only standard (Moatber) measure be used as unit (standard) of account.

Example III: Suppose, both Zaid and Baker provide 100 Dinars of gold to Amr to buy and sell goats with the condition that in each case Amr will get half the profit. Half the profits will be share of the Sahib-e- Mal as per the Mudarbah provision of Divine law. Zaid and Amr agreed that the prevailing currency will be used as unit (standard) of account, i.e., to determine the profit, capital provided by Zaid will be converted into equivalent amount of currency⁶⁶ and it will be treated as capital (Rasul-Mal). Baker insisted that Dinar will be used as unit (standard) of account. Thus, in case of Baker to determine the profit the worth of proceeds of the business (at the time of accounting) will be determined in terms of Dinar. Any excess above 100 Dinar will be profit.

Amr used to buy goat once every year and sell them with an average profit of 20% after deducting the expenses amounting to 5%. The profit in terms of the prevailing currency used to be 15% every year. Suppose that average prices increase nearly 10 folds within 15 years. Prices of gold and goats may not increase exactly 10 fold but the increase will be very close to 10 fold.⁶⁷ Clearly, in each case, on average stock in trade will be equal to the worth of 100 goats or 100 Dinar or currency worth the same. Therefore, when Dinar is used as unit (standard) of account, the profit will be almost nil. However, in terms of the depreciating currency, the price of goats have increased 10 fold and the market worth of the proceeds of the trade will seem to have become 10 times and 90% of it will be considered as profit.

Suppose that after the said 15 years they want to terminate the trade. In case of Baker as per the terms agreed upon by them, Dinar will be used as the unit (standard) of account. thus, total proceeds of the business will pass to Baker. There is no profit with respect to Dinar and therefore, Amr will have no share. However, in case of Zaid, the depreciating currency will be used as the unit (standard) of account. Now that the price of just 10 goats equals the price of the 100 goats at the time Zaid advanced the credit, Zaid will get just 10 goats or the price thereof as his capital (Rasul Mal) and the remaining 90 goats will be considered to be profit that will be equally shared by them. Clearly, use of a depreciating currency as unit of account results in major part of the capital itself being considered as profit.

Comparison with the consequences of depreciation of the unit-mass shows the analogy between the two cases. Similarly, if we consider the consequences of use of depreciating currency as unit (standard) of account to account for the interest free loans, it will be seen to be exactly similar to the consequences described by example IA and II.

Similarly, we can consider accounting involving any other measure and in every case **we are lead to the following conclusions:**

- (a) *Right accounting requires use of a standard (Moatber) measure as the unit of account.*
- (b) *When a depreciating measure is wrongly used as a unit (standard) of account the results obtained are patently misleading so much so that a interest free loan seems to be interest bearing loan and a part of capital itself get accounted as profit.*
- (c) *The error arising out of use of depreciating measure as a unit (standard) of account may be corrected by applying correction to compensate for the depreciation of the measure.*

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