

## **Additional Harm That The Depreciating Currency Causes To The Muslims And Islam**

The depreciating currency causes severe harm to the practicing Muslims and Islam in addition to the extreme injustice and exploitation that it causes to the poor and weak (Rf. Pg.-41). Most severe losses are caused as Muslims use these as unit (standard) of account but the additional harm depreciating currency causes to Muslims and Islam due to its being poor value of store are also very severe. Some of the major losses are discussed below:

### **(i) Losses Due to Depreciating Currency Being a Poor Value of Store**

(i) Many of our requirements are such that in order to meet them we are required to save over time. The depreciation of currency goes on depleting our savings with time. Those who indulge in interest keep their savings in short terms deposit account and the interest they receive from these deposits often compensates and sometimes it is even more than the loss due to depreciation. However, since interest is prohibited,<sup>68</sup> Muslims can not use this exploitative facility and thus, they suffer as their savings continue to depreciate with time.

(II) To meet large requirements of cash, those who indulge in interest often contract soft term loans and once the requirements is met, the benefits more than compensate the amount paid as interest. Quarz Hasan is not available and therefore, the Muslims have to save for much longer periods to meet such large requirements of funds. Sometimes rate of loss in the worth of savings due to depreciation equals and at times it exceed the rate of savings. In such cases all the savings of the poor practicing Muslims is eaten away by these depreciating currencies. The following examples explain this point:

(A) Suppose Baker has saved 3 lakhs and 50 thousand and wants to buy a house that presently costs 4 lakhs. With best possible efforts he saves additional one lakh by the end of the year but is not able to buy the house as it now cost 4 lakhs and 65 thousands. He may not be able to buy the house the next year as well, because his total savings may be still less than the then price of the house. Notice! how all his savings are being eaten away by this tyranny called depreciation of currency.

(B) Consider the case of a good Muslim shopkeeper who used the capital he held to buy 5 tons of iron on the first of the month and sell it by the last day charging 1.5% extra (over the purchase price). He uses 1.1% to meet his house hold expenses and reserves .21% for payment of Zakah, spends .09% on charities and saves the rest (0.2%). In absence inflation his business will continue to expand although at a slow pace.

Now suppose, the government depreciates the currency at the rate of 12%. Even if he stops all expenses on charities etc., in real terms his capital will start failing at the rate of 0.80% per month and the rate of fall will accelerate as the time passes. For example; when his capital is reduced to half, he will be required to make purchase twice every month that means lower profits (due to increased expenses). Thus, within the next 5 years his working

capital is reduced to half. Not only this, his competitors may not be Muslims and they may go on increasing selling price considering the expected price of the next lot.<sup>69</sup> Thus, as a result of this tool of exploitation fraud and manipulation called depreciation of currency or inflation, slowly and slowly the Muslim businessmen will be thrown out of business.

(C) Let the money held by Muslims who do not accept interest be equivalent to 100 million Dirhams of gold. Suppose, they pay Zakah from other sources of income. With nil rate of inflation cash held by them will continue to be worth this quantity of gold but with average rate of inflation equal to 10 %, the cash held by them will be reduced to a sum equivalent to 50 million Dirhams of gold within 6 year and seven months. Because, the gold price will double. Thus, in this case *due to the depreciation of currency Muslims lost half the amount they held in cash within 6 years. Therefore, unless currency is freed from inflation Muslims must try to reduce holding cash to the minimum* Thus, planned inflationary economy is most harmful to the Muslims and tends to marginalize them.

(III) The loan given by practicing Muslims is interest free but they are often compelled to seek interest bearing loans. The loss, the Muslims suffer on that account is determined by the rate of interest that is determined by the rate of depreciation of currency and normally rate of interest increases more than the rate of inflation (*Rf. Pg.-29*). The following examples explain it:

Suppose the Muslims all over the world took loan of 1000 billion<sup>70</sup> bearing an interest (average rate 15% per annum) under compelling conditions (this amount excludes interest free loans that Muslims may get from Muslims). Thus, the Muslims have to pay 150 billion per annum as interest to others. Similarly, assume that Muslim lent an interest free loan of 1000 billion to others. Thus, the Muslims will lose a sum of 150 billion due to this transaction.

Low rate of inflation implies low rate of interest. Suppose that the rate of depreciation is nil. The rate of interest will be around 2%. The loss the Muslims will suffer as a consequence of the transaction noted above will then stand reduced to 20 billion only. Thus inflation implies heavy losses to Muslims and similar gain to non-Muslim capitalist creditors.

### **Losses Due to Use of Depreciating Currency as Unit of Account**

Use depreciating currency as unit of account leads to very severe losses to the Muslims. When a depreciating unit is used as a standard of account provisions of Divine law regarding Mudarbah and Musharikhah (long term) seem to become impractical. This compels many to deal in interest and those who resist are marginalized.

Due to severe fluctuation in economic fortunes not only the poor but also the rich need loans. Loans are required for expansion and modernization of industries. Therefore, easy availability of funds on loan is very vital for the development of industries that is essential for economic development. It is a reason due to that Islam commends Quarz Hasan in the highest terms. Inflation has reduced the availability of Quarz Hasan to almost nil. This

is only due to our failure to properly understand and interpret Divine law. As a consequence economic activities of the practicing Muslims have suffered very adversely. Necessities and needs of many Muslims remain unsatisfied. This reduces their earning capacity and often compel them to accept exploitative terms of employment that reduces their capacity to protect their Kalb and Iman. The following discussion will clarify it further.

### **Non availability of Quarz Hasan:**

Let us consider the effort of 20 practicing Muslims who want to provide for a fund to meet the requirement of interest free loans of their town. One sold 6 kg of gold, second sold 180 tons of mild steel, the third 10 two bed room flats, the fourth 20 acres of land, the fifth 4000 tons of wheat, the sixth 3000 tons of rice, seventh 1500 tons of mustard seed and so on. Thus, with each contributing 25 lakhs, a sum of 5 crore (50 million) is collected. It was enough to meet the requirement of a medium town. Assuming that the bank so established charges some service charge from those who take loan, so as to meet the expenses on salaries of the staff required to run the bank and other administrative expenses.

Assuming that there are no bad debts, the banks will have a capital of 50 million at all times. However, if the currency continues to depreciate at the rate of 15% then after a period of 20 years and 5 months the said 50 million will buy about 3 kg of gold or 180 tons of mild steel or two ten bedroom flats,... only. Clearly, the bank will not be able to meet the requirement of loan for even a tenth of the population of the town. Clearly, it is due to depreciation of currency that the bank has already lost 19/20th part (95%) of its assets (in real terms). It was not possible during Ahd-e-Risalat as well as during the period of the Khulfa-e-Rashedeen. Clearly, use of depreciating currency as unit of account makes interest free transactions impractical. Also refer to the example on page number 31.

### **Provisions of Divine law seem to become impracticable**

Example I-B (page number 5) and example III clearly illustrate that when depreciating currency is used as unit (standard) of account, Sahib-e-Mal (creditor) who offers capital to Karobari Fareeq (entrepreneur) in accordance with the Mudarbah provisions of Divine law suffers severe losses. Due to this, even practicing Muslims fail to conduct their business in accordance with the Mudarbah provisions. The following example illustrates the severity of the problems caused as also the reason why it is not possible to do justice:

Amr sold a flat to Baker for two lakhs, Baker paid one lakh in cash and 1 lakh was to be paid after 6 months. In the next five months Baker has already collected 70,000 for payment to Amr and was thus in need of 30,000 only. However, in the beginning of the sixth month the government derecognized the currency. People threw out these value less currencies as useless waste paper. Baker gave some toffees to the children who collected 30,000 for him. Baker went with 1 lakh of these to Amr. Amr refuses to accept the payment saying that rather Baker should return possession of the flat back to Amr and take back the 1 lakh he paid earlier. Amr says that he could not buy the machine that then cost 1.75 lakhs only due to the reason that Baker had not cleared the payment. Further, he had sold the flat

only to buy the machine. Injustice has been done and there is no way it can be corrected. Either Amr or Baker or both will have to suffer.

It can be said that derecognition of currency is rare phenomenon. But definitely depreciation is a normal phenomenon and devaluation of currency to 50% does also involve gross injustice, although its severity is half of the severity caused by derecognition.

The example sighted above demonstrates that use of depreciating currency as unit (standard) of account makes it difficult to do justice. (Any differed payment including loan involves exchange of something of known worth with something of unknown worth<sup>71</sup> that should be avoided. It is this violation of the divine guidance that put us in a condition where we fail to do justice. Due to these facts, it is not possible to hold that Shariah allows use of depreciating unit as unit of account.)

## Other Mechanisms

There are many other mechanisms, by that inflation harms the interest of Muslims and Islam. The following examples illustrate it:

Many Muslim countries are consumer economies that is they sell raw material and buy finished products. Therefore, the market mechanism is so manipulated that price of raw materials specially crude oil falls despite existence of inflation . When the cost of consumer goods and industrial products and services is raised by inflation, these economies are required to sell more (to buy enough to meet their requirements). Thus, they are under pressure to increase supply over demand. This increase in supply reduces cost of products exported. Thus, they suffer severe losses.

Inflation sustains and cherishes the interest based capitalist system. *It is a fraud and the worst tool of injustice, exploitation, oppression and total marginalization of Haqq. It tends to impede all that stands for justice. It is the root cause of consistent increase in fraud, corruption and moral degradation and all this is very damaging to the Muslims as well as Islam.*

Inflation is due to the prevalence of fictitious paper currencies. It represents degree of exploitation of the masses and labor by the rich and it has made Islamic institution nonviable. It has seriously harmed the interest of Muslim countries, businessmen, traders and Islam. *One who ponders over these realities, is bound to ask why did we fail and what is the way out?*

We can protect ourselves from most of these losses by adopting and using a standard of wealth as standard of account. Even if the Ulema continue to hold that depreciating currency is equivalent to the two cashes. Ummah can protect itself from these losses by using a standard measure of wealth as standard of account keeping the use of the currency to the minimum.

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