

## Depreciation of Currency and the Divine Law

We have seen that depreciating currencies do not perform any function of money as nicely as the two cashes did perform and there is no similarity between these and the two cashes. It has severely harmed the interest of the Muslims as well as Islam and it tends to impede all that stands for equity and justice. It is the root cause of consistent increase in fraud, corruption and moral degradation. Its incompatibility with Islam is obvious. However, majority of the Ulema (Islamic scholars) continue to hold that depreciating currencies are permissible and these are equivalent of the two cashes. Therefore, detailed analysis becomes necessary. In order to thoroughly analyze it, we will consider the following questions:

- (1) Whether depreciation of currency amounts to a reduction in the quantity of the commodities it represent or it amounts to fall in prices of the commodities represented by currency?
- (2) Whether under provisions of divine law it is mandatory that given nominal amount of currency be treated as Misl (equal) to same nominal amount of currency disregarding depreciation?
- (3) Whether non standard measure can be used as a unit of account?
- (4) Whether the provisions of the divine law that applied to Saman during Ahde Risalat will apply to the depreciating currency despite complete lack of similarity between the two?
- (5) Whether we are under compulsion to use the depreciating currencies as standard of account?

### Question Number One

The well known reason of general increase in prices is, 'the commodity that forms the currency become cheaper with respect to other commodities.' For example: earlier when currency consisted of gold and silver coins during failed crops gold and silver used to become cheaper with respect to the food grains and a temporary increase in prices (Ghirani) was observed. However, it does not result in consistent and appreciable increase in prices that depreciation of currency causes. The reason for inflation is '*gradual and continuous reduction in the quantity of goods that depreciating currency represent.*' Suppose, number of grams that constitute a kg is reduced to 500. Then with respect to the new kg our weights will be found to have doubled. Clearly, this doubling of our weight is an illusion as our actual weights did not change. Similarly with respect to the new kg the prices will on average fall to half their previous level. Clearly, in this case there is no real change in the prices and the resultant fall in prices is no more than an illusion. Now suppose, coin of 10 mg of gold is the currency and you borrowed two coins. Latter coin of 5mg of gold is made the currency, how many coins will you return? If you are honest you will return 4 coins, because, four coins will now weigh 20 mg (gold) that is the quantity of gold actually borrowed by you. Similarly, with respect to the new coins, prices of goods will double (on average).

Clearly, this increase in prices is as illusory as the doubling of weights and the fall of prices described earlier.

Suppose, the currency of a country consist of gold coins, each of 100 gm. Now if the government reduces the weight of its coin to 50 gm. Prices will get doubled and it will be said that the currency has depreciated to half. Similarly, if the government starts reducing the weight of its coin consistently and appreciably it will lead to gradual and appreciable increase in prices and inflation will set in. It is the illusion of consistent and appreciable increase in prices created by the depreciation of the paper currency that we know as inflation. Clearly, inflation is caused due to continuous reduction in the quantity of the commodities that depreciating currency represent.

At a given time the depreciating currency represent a definite quantity of a basket of commodities and depreciation is same as a reduction in the quantity of the commodities represented by currency (Rf. Pg.-72). It is this depreciation of currency that leads to inflation. Depreciation of currency leads to consistent and appreciable increase in prices. In case price increase is caused due to shortage of supply of some commodities, prices return back to normal when the shortage ends but increase in prices due to depreciation continues even if supply is good.

### **Strict analogy (Qiyas-e-Tam) between depreciation of currency and depreciation of weights and measures**

Suppose, a stores house is packed to capacity with wheat. This wheat is divided in as many part as the king orders. Further, suppose that the quantity of wheat that equals one part forms the measure of weight in that kingdom. Clearly, the quantity expressed by that measure of weight will depreciate as number of the parts is increased. Suppose, the number of parts is gradually raised from 500 to 1000 over a period of 5½ years. The data will show that average production has doubled within said 5½ years and weights of people and cattle have also doubled. Clearly, this is illusion. This shows how increase in the number of parts reduces the unit of weight. Similarly, the quantity of wealth represented by currency depreciates as the number of currencies (in circulation) is increased. Clearly, depreciation of currency is same as gradual reduction in measures of weight, volume, length etc., and it has nothing to do with reduction in worth of the commodities in the market (when their supply exceeds demand). For more details regarding depreciation Rf. Pg.-72..

A comparison with the examples involving use of depreciating units of mass and length (page number-) also shows the strict analogy between depreciation of currency and depreciation of units of mass and length. Thus, depreciation of currency is same as reduction in the quantity expressed by units of measure. Thus, *depreciation of currency amounts to reduction in quantity expressed by the unit used for measuring wealth and it leads to the same consequences. Depreciation of currency has nothing to do with fall in the market worth of the commodity that constituted currency with respect to some category of commodities that used to be in short supply and that used to lead to Ghirany (temporary price increase).*

## Question Number Two

To decide this question first we shall consider Misliyat and Ar-Riba

### Misliyat and Ar-Riba:

Prophet (P.B.U.H.) said, *exchange not gold with gold, silver with silver, dates with dates, barley with barley, wheat with wheat and salt with salt but a given quantity with equal quantity (Mislin Be Mislin) and the transaction be completed on spot, however, there is no wrong if you exchange any (of these) with unequal quantity of any other provided that the transaction is completed on spot*'.

Based on the authority of this Hadith our Fuqaha (authorities in jurisprudence) have held that exchange of any of the Amwal-e-Rabuviah with unequal quantity of the same Amwal-e-Rabuviah constitutes Riba (interest) and taking interest (Ar-Riba) is worst sin in Islam.

What Divine law requires is the equivalence in terms of weights (Mizan) and volumes (Miqyal). Quran-e-Hakim directs us to measure justly neither less nor more and not to lessen the dues. Ahadith confirm that equality of weight and volumes is implied. There is no difference of opinion in this regard. In many cases number represent some fixed quantity and in such cases equality of number implies equality of quantity. For example: Dinar represent 4.25 gm of gold and exchanging 2 Dinars with 2 Dinars implied that 8.5 gm of gold were being exchanged with 8.5 gm of gold. It is what led to the equality of number.

In case of exchange of animals the rule of equality of number simply do not apply and the companions of the prophet (may Allah be pleased to them) as also prophet (P.B.U.H.) himself, is reported to have exchanged an animal for more than one. For example changing one horse with three or more or less number of horses of lower worth. Thus, the rule of equality of number is no general rule. It is applicable only in such cases of Amwale-e-Rabuwiah where equality of number implies equality of quantity.

It is to be noted that when it was reported to the prophet (P.B.U.H.) that dates lost weight on being dried the prophet (P.B.U.H.) replied that dried dates should not be exchanged with the wet dates. Thus even equality of weight do have exceptions. In the case under discussion the transaction was disallowed because the acts of drying changed the material content of dates per unit weight. This is because drying removes water and lowers weight but not its food content. [It can be easily inferred that Divine law is relying on true worth although it does not rely on market worth of different qualities of a given product.]

Exchange of 2 Dinars with 2 Dinars implied that 8.5 gm of gold were exchanged with 8.5 gm of gold. That is why it was strictly prohibited to exchange given number of Dinars with any number of Dinars other than the same number of Dinars. Till 1920/ 1930 paper currency represented a known quantity of gold or silver and therefore, inequality of number of currency notes implied inequality of quantity of a gold or silver. A note of 50 (unit) represent 50 times the quantity represented by a note of one (unit). Accordingly it was essential to exchange a note of 50 (unit) with 50 notes of one (unit). There is consensus

on this point and no difference of opinion is known and it implies consensus on the point that in case of paper currencies the quantity of the commodities represented has to be relied upon.<sup>72</sup> Similarly there is consensus regarding Nisab for Zakah. It is agreed by all that the currency that is worth 20 Dinar or 200 Dirham will constitute the Nisab. In this case also the quantity of wealth represented by the currency is relied upon and the Nisab for cash rises as the purchasing power currency with respect to gold or silver falls (Rf. Fn-40)

In the initial stage Fils represented change for Dinar and Aima Arba held that fils be exchanged with equal number of fils even if their weight differ. This was because the fils then represented a change for Dinar. Thus even if their weights differed in reality they represented the same quantity of gold. It implies that **according to Aima Araba in respects things that in reality represented some known quantity of something else, Divine law requires the equality of quantity represented to be considered.**

Later it happened that the number of fils that represented Dinar was changed. Clearly due to this change, the quantity of gold represented by Fils got changed. Imam Yusuf (may Allah be pleased to him) held that to clear the dues as many Fils be paid that will clear the dues in terms of Dinar. It is to be noted that this clearly implies that the decision of Imam Yusuf (may Allah be pleased to him) ensured that the quantity of gold represented by the Fils that were borrowed earlier equalled the quantity of gold represented by the Fils that were being paid to clear the dues. Thus, our Fuqaha consistently maintained that the equality of the quantity was essential and in cases involving number of such things that in reality represented something else, Divine law requires that the equality of quantity that is represented is essential..<sup>73</sup> Clearly the equality of number is subjects to equality of the quantity represented whether expressed or implied.

Now let us consider exchange of currency with currency of a future date. Let 15% be the rate of depreciation and 5 years the interval. The quantity of commodities represented by currency will fall to less than half. Now if the quantity represented is to be relied upon, to clear any dues of today, a little more than twice that nominal amount ought to be paid 5 years later. However, majority of the Ulema still hold that in this case the quantity that is represented will not be relied upon and same nominal amount as the amount due shall be paid to clear the dues irrespective of the length of duration or the rate of depreciation. Their reason, 'considering prevalence of depreciating currency, we have accepted these to be a Saman in their own right and therefore, a given amount of currency has to be accepted to be equal (Misl) same amount of currency irrespective of what it may represent'. This leads to question number three and four.

### **Question Number Three**

We have discussed the consequences of using a non standard unit as unit (standard) of account as well as accounting during Ahde Risalat. Sunnah Mubarkah shows clear preference for the use of most reliable unit as standard of account. This preference is general. Considering the fact that Dirham and Dinar were the best standards of wealth, their preferential use as standard of wealth, do not indicate any preference for currency as standard of account, unless the currency be the best available standard of wealth as well.

Further, there is no evidence of use of any unreliable measure as unit (standard) of account, there is clear prohibition regarding use of non reliable measure as units of account.

*Our lord cherisher and sustainer commands us,*

*(Weigh justly and do not make less than the balance)*

*We can measure the things justly only if we use some standard unit to measure. Prophet (P.B.U.H.) considered it essential and declared,*

*(Weights of Mecca were Moatber (reliable standard) and volumes of Madinah were reliable standard) Further prophet (P.B.U.H.) used only the most reliable measures to describe the provisions of Divine law.*

Divine law prescribes certain mandatory rules and regulations to govern the industrial and commercial activities. For example; it strictly bans interest and in case of Mudarbah (profit sharing) Karobari Fareeq (entrepreneur) shares profit in proportion agreed upon but do not share loss. We have seen in example I-B (page number 5) that an interest free loan in terms of Dinar is equivalent to (same as) an interest bearing loan with respect to a depreciating standard of account, where rate of interest equals rate of depreciation.<sup>74</sup> When depreciating currency is (wrongly) used as a unit (standard) of account, the provisions of Divine law become unjust, exploitative and impractical. Further, our accounting will not conform to the practices of Ahd-e-Risalat unless the measure of wealth used to account for dues, profits or loss is a reliable standard. In the previous section we discussed 'Misliyat'. It is simply not possible to comply with the mandatory provisions in this regard unless some reliable standard measure of wealth is used to account for the dues. Allah (S.W.T.) commands us,

*(Do not defraud the people in respect of what is their due (neither withhold nor lessen) and do not spread mischief on earth.).*

Thus, we are commanded to clear the dues fully and immediately and not to lessen what is due to others by any means. We are warned that our failure to heed will cause mischief to spread on earth and this shows severity of the offense. We have seen that use of depreciating currency to account for the dues in respects of interest free loans or sale on credit results in severe loss to the lender/creditor and similarly, their use for computing profits in case of Mudarbah results in severe loss to creditor so much so that in case the intervening period is long enough, major part of the capital itself is lost. The severity of loss is so pronounced that even the common man feels it. It therefore, clearly involves the violation of the divine commands. Thus, *An interest free dealing in terms of depreciating currency amounts to an interest based dealing as per standard set by Quran-e-Hakim and Sunnah Mubarkah.* Coming back to example number III we see that it is a clear case of zero profit as per the procedure adopted by prophet (P.B.U.H.) and his companions (may Allah be pleased to them), as they normally used Dinar and Dirham as units of account. *Clearly use of a depreciating currency as standard of account results in major part of the capital it self being considered as profits.* Further, there is no significant difficulty in accounting in terms of Dinar. Sure Amr has no share in the capital provided by Zaid and this fraudulent accounting procedure that offer 45 goat (or the worth thereof) as his share in profits has no

validity in Divine law and it (the said share in profits) is clearly Haram for Amr. Thus, it is clear that in case of Mudarbah, depreciating currency can not be used as standard of account. **Clearly, the provisions of Divine law require that standard unit of wealth alone be used as a unit (standard) of account.**

The governments do not declare what their currencies represent and do not inform the masses regarding the extent of reduction in the quantity represented. This badly complicates the situation and the problem becomes quite serious because, it makes it difficult for the common person to follow the mandatory injunction. Thus, it is one of the worst cases of confounding truth with falsehood and it amount to open violation of provision of the divine law. Allah had ordained us,

*(Confound not truth with falsehood.)* Al Bakrah-42

Accordingly, *it is essential that Muslim majority states must desist from depreciating their currency (Rf.Fn-16) However, it is to be noted that although the depreciation is the act of the government or the result of its policy our accountability before Allah regarding His injunctions remains and it is our duty to Allah to obey Him to the best of our capacity. Accordingly we should adopt some standard of wealth and use it as unit (standard) of account in accordance with the provisions of Divine law and follow the law of Allah.*

#### **Question Number Four**

Dirham and Dinar were the Saman (currencies) of Ahde Risalat and now depreciating currencies are being used as currency. There is no similarity between the two cashes and the depreciating currencies. Prophet (P.B.U.H.) used best and most reliable units of wealth as units of account. Being the best standard of wealth the two cashes were best for determination of profit or loss as well as for accounting for the dues. Use of the two cashes as unit of account did not result in violation of any provision of the divine law. However, depreciating currency do not have the attributes, the currency should have and are being used as a tool of injustice, exploitation and total marginalization of the righteous as well as the divine law. Use of a depreciating unit as a standard of account, clearly, involves violation of mandatory provisions of the divine law. Therefore, it becomes essential to reconsider the permissibility of use of a depreciating currency. Saman is a measure of wealth and it should be used as standard of account therefore, it ought to be reliable (Moatber) —a condition that other units are also required to satisfy. Depreciating currency represent a depreciating measure of wealth and is no standard. Prophet (P.B.U.H.) has said, 'Weights of Mecca were Moatber (reliable/standard) and volumes of Madinah were standard.' Further prophet (P.B.U.H.) used only standard measures to describe the provisions of the Divine law. Analogy between these units of account shows that depreciating currency would have been prohibited by prophet (P.B.U.H.).<sup>75</sup>

The following quote describes the perception of the western economists:

*'Money serves as a standard of deferred payment or a unit (standard) of account over time....This is not an essential function of money. It is usually, though not invariably convenient to make money the unit of account and standard of deferred payment as well.'*

The quote shows that even western economists hold that unit (standard) of account has to be a standard unit. A standard of account ought to be a reliable standard of wealth and there is nothing in Quran or Sunnah to show that currency must be used as unit (standard) of account (*Rf. Pg.- 79 and Rf. Fn-67*). Since a non reliable unit can not be used as a unit (standard) of account,<sup>76</sup> *in case it is held that the currency must be used as unit of account, then, it will have to be held that use of a non reliable unit of wealth as currency is not permissible.* The Divine law can never err. It is not possible that divine law will make it essential to use a depreciating unit as a standard of account when it requires that only standard (Moatber) units alone be used as a measure and strictly bans fraud, deception and manipulation. Even if there is general acceptance (Urf Aam) it has to be held that it is invalid because it is based on ignorance. Further, as discussed, Urf in this case is based on lack of awareness, fraud, deception and compulsion due to dominance of the capitalist conspirators and therefore, strictly nonreliable. The quote above shows modern economists do not consider it essential to use currency as standard of account. Clearly, they may not object to a non standard unit of wealth being used as currency.<sup>77</sup> If under some compelling conditions Ummah is under compulsion to accept a currency that do not have the essential attributes that Saman must have, the Ummah ought to keep its use to a minimum and ought to resist application of the provisions that lead to direct violation of the divine law. The quote makes it clear that we are free not to use a depreciating currency as standard of account. *It is really unfortunate that we ourselves insist on application of the provisions that tend to eliminate all that stands for justice and strengthens the interest based economic system while making it almost impossible to practice in accordance. with the divine law.*

### **Question Number Five**

Considering near total domination of the capitalist conspirators and their agents, majority of the countries are not likely to adopt some reliable (non depreciating) measure of wealth as currency. Therefore, those refusing to use a depreciating currency will have to go back to the barter system. Since majority of the people are likely to continue using depreciating currencies, those refusing to use these may face problems that will be more acute than the problems that were associated with the barter system in olden days. Allah (S.W.T.) has revealed, 'He hath choosen you and hath not laid upon you in religion any hardship.' Prophet (P.B.U.H.) has said, "religion is a facility."

Most of the problems associated with the use of depreciating currencies are caused due to use of these currencies as a unit (standard) of account and due to these being a quickly depreciating value in store. As regards the medium of exchange function of money the problems are not very severe. Similarly, on this point, the conflict with the divine law is also not very serious. Therefore, the use of depreciating currency as a medium of exchange may be permissible under the provisions of necessity and need.

*These will be permissible only on the ground of necessity and need and therefore, the use of these currencies must be kept to minimum.* As discussed, these are no standard and there is no compulsion to use these as unit (standard) of account, therefore, considering gross violation of the divine law and the extreme severity of the problems that it creates it will not be permissible to use these as standard of account.

## Solution of the Problems Due to Depreciation

If the government could be persuaded to link currency with something real, the depreciation will no longer be possible. Similarly, even if the government could be persuaded to restrict money supply at a level that will just maintain the average prices, currency will not depreciate and inflation will not exist.<sup>78</sup> Capitalism allows the owners to maximize return on capital through fraud, manipulation and exploitation. Capitalism can not survive in the absence of depreciation and therefore, the capitalists will resist efforts to eliminate this mechanism of fraud, deception and manipulation.

The governments depreciate their currency under the compulsive influence of the capitalist conspirators. Considering the extreme severity of the problem and the fact that Divine law desires ease for us, our efforts in this direction should be two folds. We should adopt such temporary measures that reduce the severity of the problem and we should direct the resources at our command so as to ensure that the reasons that lead to depreciation of currency are eliminated.

*The output of economy cannot be maximized unless interest is abolished and Zakah enforced.* Briefly it may be stated that the natural laws governing various processes taking place naturally as also those that take place in artificially created environment (normally to increase productivity) are such that any effort to deviate (injustice) causes fall in productivity. These laws (justice) require that the right to withhold capital must be made subject to the right of the masses to live with dignity and that can be achieved only if interest is banned and Zakah is enforced. Subversion of justice severely restricts out put of the economy and it is responsible for most of its ills.

The existence of interest and non enforcement of Zakah lead to inflation that causes severe exploitation of the masses. Inflation causes severe exploitation of the lower economies by the higher once. In the short run this exploitation of the poor may be beneficial for the rich but in the long run it creates stagflation and depression and every one loses. Therefore, the solution of the problem lies in the masses including the rich being convinced about the necessity of abolishing interest and enforcing Zakah. The faithful Muslims believe in divine revelation as contained in Quran, therefore, they believe that Zakah leads economy to the course of all round progress and prosperity and the world history for the period of the Caliphs<sup>79</sup> who enforced Zakah offers an incontrovertible proof thereof. They also believe that existence of interest causes the economy to perish and the severity of the problems created by it<sup>80</sup> confirm it. However, many people have poor faith and non Muslim citizen may not be aware of it. Rational arguments normally appeal strongly (to all), specially in economic affairs masses tend to adopt what seem to benefit them.

No major religious faith of the world explicitly supports interest and all faith strongly supports Sadquat and help of the poor. Interest must be completely abolished and Zakah strictly enforced. Banning of interest should be given highest priority and we shall discuss it separately. However, banning of interest and enforcement of Zakah may take long time even in case of Muslim majority states and it may take longer in case of other states.

Accordingly we should adopt temporary measures so as to create suitable conditions for enforcement of justice and to reduce the burden of interest from the poor in general and Muslims in particular. Our immediate objective should be:

- (i) Minimize the losses the depreciation of currency cause to the masses.
- (ii) Adopt such measures that will protect the interest of the righteous, ensure success of the interest free dealing and ensure survival of the institution based on justice.
- (iii) Remove the causes that strengthen capitalist exploiters and encourage the institutions based on interest.
- (iv) Protect the national economy from the losses due to foreign trade and collaborations.
- (v) Protect the masses from the exploitation caused due to nationals acting as agents of foreign capitalist exploiters.

### **To Achieve These Objectives We Shall ;**

*(i) Strive to adopt some standard measure of wealth.*

*(ii) Organize affairs in a manner that reduces cash requirements.*

*(iii) Join small resources of the non exploiters<sup>81</sup> to run large scale economic activity based on high technology that are highly profitable and yet labor intensive and to develop a network of production, whole sale and retail controlled by the non exploiters.*

*(iv) To educate the masses to persuade and pressurize the government to keep the rate of depreciation of currency at the lowest.*

*(v) Maximize the planned exploitation of natural resources.*

*(vi) Ensure that the laws that favor the capitalist exploiters in their interest based dealings are repealed at the earliest.*

*(vii) Insist on equality of profits in respect of the foreign trade, restrict export of raw materials and strive to soften the patent laws.*

*(viii) Organize international efforts to contain the exploitation of under-developed and developing economies by the higher economies*

These measures are designed to remove the causes that lead to depreciation of currency as well as to minimize the injustice and exploitation that the resulting inflation causes. After implementing these measures, we should shift to a currency that has self-value either express or implied. Once it is done inflation will not be possible, interest rates will fall and the situation will be created for administration of justice.

## Selection of Standard Measure of Wealth

**The extreme severity of the problems, created due to use of depreciating currency that is no standard as standard of account, proclaims the essentiality of adaptation of some standard of wealth as standard of account.** Considering the vast economic power and political lineage enjoyed by the capitalist conspirators and the fact that most of the governments are under their control, it do not seem possible that the governments can be persuaded to ensure that the currency will not be depreciated. Further, even if the governments agree only few have the capacity to achieve it. Therefore, the adaptation of a Moatber (standard) unit of account will Insha Allah play a very important role in uprooting injustice and exploitation. It requires elaborate treatment and is considered in the next section. Considering various aspects of the case I have been led to conclude that for the time being the masses should be advised to adopt 2gm of gold and 100 gm of silver as the standard of account. Price of the currency with respect to this standard of account will determine the rate of exchange between the currency and the standard of account.

## Reducing the Requirement of Cash

True worth of the depreciating currency continues to fall with time and therefore, withholding currency results in severe loss that is proportional to the rate of depreciation. Masses are required to hold substantial part of their wealth in cash and therefore, depreciation causes them severe harm. To reduce the cash requirement some mechanism has to be provided that will ensure easy availability of funds to the masses to meet the exigencies. Similarly, a mechanism that will allow the masses to make up for the excess of expenditure over the earnings on weekly basis or so is also essential. Bank does provide such facilities but being based on interest these cause the exploitation to grow further.

Owning goods that appreciate faster than the rate of inflation and which can be sold off easily when cash is required can provide some help. Truly interest free banks can provide the best solution to this problem (*Rf. Pg.34-*). However, considering near nonexistence of such banks, the real solution to this problem can come only by developing mutual help. Masses should organize themselves in coherent groups in form of cooperative societies or similar other basis. They should pool up their resources maintain sufficient funds to meet exigencies and to finance their individual as well as collective investment needs. Where the members are not willing to opt for joint ownership the preference regarding grant of funds should be decided by (Qora) lottery. Normally, accounts should be maintained in terms of standard of account adopted, so that the people who get the fund at the end do not suffer any loss.<sup>82</sup> Many alternatives of varying efficacy are possible. For example: shopkeepers of a market may join together. Total sales of one day may go to one or two of them according to preference decided by lottery. In case the member shopkeepers go to marketing once a week, they should be entitled to get an amount that equals their average weekly sales. This will ensure that they will not be required to keep idle cash for more than a day. Dues if any should be cleared by the last day when everyone has got the benefit. Considering the short duration within which the account is cleared in this case, currency itself may be used as unit of account.

## **Join Small Funds to Finance Highly Profitable Operations**

Depreciation of currency allows the organized sector to raise its profitability with respect to that of unorganized sector. This is done by raising the price level of the product and services of the organized sector with respect to that of the unorganized sector. Therefore, joining small- small resources of the masses to ensure their participation in the productive activity that supply the product and services normally provided by the organized sector is likely to be very effective in controlling inflation. In any case it will significantly increase the return per unit capital employed (for the masses). However, the industries and commerce based on the resources generated as above should aim at maximization of net product instead of maximizing profits as it will be more effective in controlling inflation and exploitation. Automation should be welcome as long as it results in significant improvement of quality and reduction in cost of production but it should not be adopted for reducing employment. Other things being equal the subscribers and their relations should get preference in the matter of employment in these activities. Those who invest major part of their resources elsewhere may not be considered for employment.

## **Persuade Government to Reduce rate of Inflation**

The rate of depreciation of currency determines the degree of exploitation of masses by the interest seeking capitalist creditors. Therefore, every effort should be made to persuade the government to keep the rate of depreciation of currency at the lowest. Compelling influence of the capitalist exploiters, corruption and the dominance of the rich and the powerful in the governance often cause the governments to increase money supply and cause inflation to grow. Therefore, sustained efforts are required to persuade and to pressurize the government to reduce the rate of inflation.

Fall in the rate of inflation results in equal increase in the real rate of interest in respect of the loans taken earlier, less profitable units become sick.<sup>83</sup> It causes massive unemployment. Therefore, any effort to reduce the rate of inflation must be followed by corresponding lowering of the rate of interest in respect of the loans taken earlier. The capitalist creditors will not voluntarily agree to such a reduction, although such an action does not result in any real loss to them. Therefore, it should be enforced through legislation (*Rf.Fn.-.16*)

## **Maximize Planned Exploitation of Resources**

In the capitalist system the activity that is not significantly more profitable than the prevailing interest rate do not attract any investment from the organized sector. Normally these industries are labor intensive and investment in these activities provides the key to employment generation as also maximization of out put. Banning interest, enforcement of Zakah and preventing flight of capital will cure this problem but due to compulsive influence of the interest seeking capitalists government may not act promptly. In the meanwhile other soft options may be used. Governments tend to provide subsidies but due to dominance of fraud and corruption it ends up taxing efficiency and rewarding inefficiency. However, labor intensive units should be subsidized, if most of the units in a particular

sector of the economy are running in *loss*. This subsidy may be 5% of the wages actually paid by the unit to the low wage earners employed by it. The units that are able to *turn even*<sup>84</sup> with this subsidy should not be allowed to close unless the owners are willing to provide employment for the work force employed in some other unit that they want to set up after closing the running unit. To reduce the burden of interest on these units, the real rate of interest payable by these units on capital borrowed on loan should be reduced so that the creditors do not get more than 80% of the real profits and it should be reduced to nil in case there is loss. Further the industries that have capital to labor ratio below a fixed minimum should be provided interest free funds, exempted from payment of taxes and salary bill of the low wage earners employed by these units may be partly subsidized.

### **Repeal Laws That Favor Capitalist Exploiters**

The laws that favor the capitalist exploiters should be repealed. For example: gross profit should be charged to tax and no exemption be allowed for the interest paid. This will result in fall in the prevailing interest rates and will allow the rate of tax to be lowered. The laws that permit the creditors to move courts to claim interest should be replaced by the laws that will permit them to ensure that entrepreneurs are not able to defraud the creditors and they are able to claim agreed part of profits together with capital lent. The provisions that allow capitalist creditor to claim interest that exceeds the profit actually earned should be abolished as these are unjust and exploitative.<sup>85</sup>

### **Preventing Exploitation By Foreign Trade**

Equality of volume of trade do not prevent exploitation of under developed economies. Therefore, objective should be to ensure that the foreign trade benefits the trading countries equally. The poor countries are often under compulsion to export more and more of their raw materials at throw away prices. Restricting export of raw materials will improve their price and will prove very effective in ensuring proper growth rate in future. Patent laws are highly biased against the poor countries and these need to be amended.

### **International Effort to Contain Exploitation By the Powerful Higher Economies**

Peaceful and good neighborly relations between the developing and under developed economies is very essential for preventing their exploitation by the powerful higher economies. The powerful countries often destabilize the poor countries. Exploitation of the under developed economies by the powerful higher economies are directly or indirectly responsible for numerous human right violations. The governments of the developed economies are fully aware that the poverty is depriving large segment of the population of the under developed countries from meeting their essential necessities and needs and yet do not agree for any let up in economic plundering of these economies. Therefore, organized international effort by the under developed economies becomes essential.

## Selection and utilization of Unit (Standard) of Account

Divine law requires that currency should be a standard measure of wealth. Depreciating currency being no standard (of wealth) can not discharge standard of wealth function of money. We have discussed the extreme severity of the problems that arise when depreciating currency is used as unit of account. Divine law does not allow use of a depreciating measure as a standard (unit) of account. It is therefore, essential to adopt some standard measure of wealth as a standard of account. *Gold, Silver, Suitable combination of gold and silver, Suitable combination of Amwal-e- Rabuviyah and Purchasing power of currency are the available alternatives.*

Depreciation of currency is same as reduction in the quantity of commodities represented by it. If this were uniform, there will not be much problem. Increase in money supply do not cause equal increase in the prices of all the commodities rather price of some commodities increase much more than that of others. For example; when money supply is doubled price of electronic goods may increase 2½ times while the price of food grains may increase only 1¾ times. Accordingly, the result of accounting will depend upon the standard adopted.

Allah desireth ease for us and therefore, Divine law will permit use of any standard that satisfies the minimum requirements. Gold, silver as well as other Amwal-e-Rabuwhah were used as Moatber (standard) measures of wealth during Ahd-e-Risalat, therefore, any standard based on Amwal-e-Rabuwhah shall be permissible. We should select the best because the result depends upon the unit (standard) adopted.

Suppose, we adopt a kg of sugar as standard (unit) of account. When sugar cane crop fails, price of sugar will shoot up while the price of other commodities may not increase at all. Thus we see that while there is massive appreciation with respect to the standard adopted by us there is no appreciation with respect to other commodities. Clearly, selected standard has failed to perform satisfactorily. Fortunately with gold and silver such changes in price do not occur. These constitute best standards of wealth. Some Ulema even hold that these are created to be used as currency. Accordingly it can be held that Allah will ensure that major disequilibrium (in respect of their supply and demand) will not occur. Prophet (P.B.U.H.) used these metals as standards to enforce justice and therefore, it has to be held that Divine law allows these to be used as a unit of account.

The difference between a market determined link and a real link creates problem when a commodity that do not form currency is used as standard of account. Suppose, the government links its currency with a gm of gold and exchanges it with a gm of gold if required. Then that currency will be exchanged for a gm of gold only and gold will have same price in all its markets. However, when this link is not declared even if on average a gm sells for one (currency), there will be difference in price prevailing in different markets. Use of average whole sale prices partly eliminates the problem.

Behavior of a commodity when it forms the currency differs from its behavior when it does not. For example: if gold were the currency, holding cash will mean holding

gold and silver will meet the requirement of cash as well. Now that gold is not the currency holding gold do not satisfy the requirement of cash. Further, there are restrictions against holding gold. Goldsmiths and others having gold license increase the price of gold seasonally to suit them. Thus, if we adopt gold or silver as standard we shall use their seasonally adjusted prices.

Considering these factors a mixed standard consisting of fixed quantities of gold and silver is better than either. Capitalist conspirators control major part of the resources of the world and have the capacity to cause considerable variation in the prices of gold and silver. The gold standard was abolished under their compelling influence and they will try to ensure that the standard adopted do not perform satisfactorily. To solve this problem we will be required to give some weightage to Amwal-e-Rabuwiah other than gold and silver. Amwal-e-Rabuwiah other than gold and silver do not constitute very good standards of wealth and therefore, these should not be given very high weightage.

### **Purchasing Power of Currency**

Suppose, only three items called food, cloth and shelter are traded in a country. Further, suppose  $x$  units of food,  $y$  units of cloth and  $z$  units of shelter sell daily (on average). Suppose today the said quantity is costing  $m$ . Then today currency is representing the sum of  $x/m$  units of food,  $y/m$  units of cloth and  $z/m$  units of shelter. Further, suppose that two months earlier the same quantity cost  $n$ . Then the currency represented  $x/n$  units of food,  $y/n$  units of cloth and  $z/n$  units of shelter. Thus the quantity of the commodities that the currency represented has decreased by the ratio  $m/n$  within the said two months. Accordingly it seems that the ratio  $m/n$  best represent the degree of depreciation. However, it may not be relied upon because

(I) Many of the commodities involved are neither commonly produced nor are consumed by the masses, accordingly, their prices can not be said to have been sanctioned by Urf (acceptance by public) . Therefore, these should not be used for determination of rights.

(II) Many of the commodities involved are not included in the Amwal-e-Rabuwiah and therefore, the provision of Ar-Riba is not applicable to them. The provision of Ar-Riba apply to currency and therefore, the commodities that are not included among the Amwal-e-Rabuwiah shall not be used to determine extent of depreciation of currency.

(III) The standard of account should be based on standard measure of wealth. This procedure gives same weightage to gold and silver- the best standards as to Amwal-e-Rabuwiah that are not so good as well as to many other goods that are no standards.

Thus, use of purchasing power of currency to measure degree of its depreciation do not conform to Islamic provisions. It is true that use of price indices to correct accounts for depreciation will lead to results that will be nearer to what is right than the results obtained when depreciating currency is used as unit of account. Yet, it may not be advisable. Because, there are better ways of doing it and it will dilute difference between interest based dealings and the dealings that are free from interest.

*Consideration of relative variation of the prices of different commodities shows that:*

- (a) Depreciation results in disproportionate changes in the quantities of the commodities that the currency represents. Accordingly it is not correct to hold that just one two commodities can measure this variation correctly.
- (b) The suitability of a commodity to be adopted as an standard of measure of wealth varies widely.
- (c) The capitalist conspirators have capacity to cause the relative price of the commodities selected as standard to fluctuate, therefore, a mixed standard is preferable to standard based on one commodity.

Considering all these factors the quantities of gold, silver and a basket of Amwale-Rabuwiah<sup>86</sup> each of which is worth  $\frac{1}{3}$ rd of the currency on a suitable date<sup>87</sup> seems to constitute the best standard (unit) of account. Exchange between the unit of account and the national currency will be one for one on the date on which the unit of account is adopted. Thereafter, the rate of exchange for the unit of account with respect to the national currency will equal the market worth of the unit of account with respect to the currency. For example: when due to depreciation of the currency the standard becomes worth 2 currencies then the national currency will be accounted as half the unit of account.<sup>88</sup>

Considering the difficulty in ensuring its compliance by the masses, it may be prudent to hold that masses should use 1gm of gold plus 100 gm of silver as unit of account. This procedure should be allowed till the use of the standard adopted becomes popular.

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