

Freely Floating Fiat Money and Riba

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Abstract:

Rationally, logically and scientifically unit of measurement and unit of account must be precisely defined quantity of what is measured/accounted. Where such a unit doesn't exist it ought to be the best available. This is also essential Shariah requirement. Money especially common medium of exchange is measure of value therefore it should be most stable measure of value. Price stability and ease in use as medium of exchange is money-ness (Thamaniah). Therefore common medium of exchange will be highly stable unless manipulated or where people are forced to use it. Monetary manipulation corrupts market mechanism that determine/set just/efficient prices and it is a massive fraud impermissible in Shariah. If government fails to address this problem people must use appropriate standard of value as unit of account. In case of gold and silver coins subject to debasement it is quantity of gold and silver respectively. In case of freely floating fiat money it amounts to accounting in real terms. Riba is measurable excess of quantity. In presence of monetary manipulation, money not being acceptable unit of account appropriate unit of account for money must be used and any excess as accounted will be profit in case the matter relate to profit and Riba in case it relate to lending or payment of dues. Use of appropriate unit of account will resolve most of the related real problems and modes of finance Shariah prefers will become efficient and viable while system of interest will not be able to continue its dominance. This will stifle fraud and corruption and remove basic cause of poverty and deprivation. It will support justice and righteousness and prevent marginalization institutions based on justice.

Keywords : Money-ness, Monetary Manipulation , Riba, Appropriate Unit of Account, Freely Floating Fiat Money

Arabic Transliteration

Amwale Ribuwiah: Goods subject to provisions of Riba

Amwale Tijarat: Stock in trade

Foloos: Copper coins

Fuqaha: Jurists

Gharar: Excessive/avoidable uncertainty, hazard or Risk in

business that is not permitted in Shari'ah

Hadith-e-: Hadith regarding. Hadith is a report on saying, deed or tacit approval of prophet (may peace be on him)

Illah: Cause

Istisna: Contract to build and supply an asset in future date at agreed price.

Misl: Like/analogical

Naqdain: Two cashes namely dinar and dirham

Nisab: Threshold limit of income or wealth above that Zakah is charged.

Qarn Awwal: Period of Prophet (may peace be on him) and his righteous vicegerents

Riba: Interest prohibited in Islam

Saman: Money

Shari'ah: Code of law derived from Quran and teachings and example of Prophet Muhammad (may peace be on him)

Sood: Urdu term for interest

Subhanahu Wa Taala: The most glorified, the most high.

Salam: Sale contract to supply specific commodity to buyer at a future date for price paid in advance.

Thamaniyat: Money-ness

Introduction

Money is one of the most important innovations by the human race. It is difficult to imagine continuation of our civilization in absence of money and we all need and use money. Money is medium of exchange. Measure of value, unit of account, store of value and standard of differed payment are its important functions. Highest stability of purchasing power and ease in use as money leads to highest preference of people to accept and use it as money. Best combination of these characteristics provides best money. Also these lead to best performance of monetary functions. Efficient performance of these functions assists industries and businesses, trade and commerce and leads to just and sustainable economic growth and development (Hifzur Rab 2006, 2012, 2020, 2023).

Author holds the opinion that efficient combination of these characteristics constitutes money-ness (Thamaniyah). Price of homogenous goods is proportional to quantity and price stability means near constancy of price of given quantity. Normally market determine prices using money as yard stick of measurement of wealth/value. Unit of account must also be the most stable purchasing power. Short term stability may suffice for transactions settled in short term but transactions/businesses/enterprises having long term span long term stability is essential. Unit of account may not be money but If not money it is its appropriate measure. However if money qualifies as efficient measure of value it also performs as efficient unit of account and no other unit is better. Others may have difference of opinion, Wanniski (2001) but opinion expressed here stands on firm foundations.

From Qarn Awwal Riba has been real quantitative excess with respect to applicable Shariah standard (gold for gold, silver for silver, wheat for wheat, gold and silver for stock in trade, ...). Our Fuqaha (Jurists) defined Riba based on Hadithe Riba. All the six commodities mentioned in the Hadith are measurable (weighable or volume-able) that shows Riba applies to only what is measurable and this has been the view of our jurists. Imam Ahmad bin Hanbal (may Allah reward him) holds that there is no Riba in goods other than volume-able and weighable whether they are edibles or not. Hanafites consider measurability as essential condition for existence of Riba.

After abolition of gold standard (1913-1971) freely floating fiat money has become common medium of exchange. Fiat of government declaring these as legal tender make these equivalent to a variable quantity of national product basket and effectively these are a transferable warrant of purchasing power equivalent to the said national product basket. These are legal money officially not backed by any declared quantity of wealth but effectively backed by the said national product basket quantity whereof falls with rise in monetary supply to national product ratio.

Let us assume that nationwide 10 million tons of products are sold for 100 billion of freely floating fiat money within a week. Then it may be said that the currency is equivalent to 100 billionth part of 10 million tons of the national product. Thus, representative national product basket weighs 100gm. Now if in the next year 100billion of the currency buys 9 million tons of the said national product then the weight of the equivalent national product basket will be 90 gm.

Considering that freely floating fiat money has no reality other than what it buys, it stands fully justified to hold that it is equivalent to the national product basket described above. Its purchasing power equals purchasing power of the said national product basket. The money supply is consistently raised beyond the economy's demand and quantity of equivalent national product basket continues to fall. Price is proportional to quantity therefore price and purchasing power of currency also continues to fall in proportion. This is manifested as fall in buying power of money also known as inflation. Thus inflation is simply a smaller price buying proportionately smaller quantity of goods and it is no price rise.

Freely floating fiat money may become Shari'ah compliant if the governments control its supply so as to ensure that the quantity of national product basket that symbolizes it (due to fiat of the governments) remains almost constant and it is same as maintaining the purchasing power of money nearly constant. If it is done its purchasing power will become highly stable and there will be no objection to its use as unit of measurement and unit of account and it is likely to efficiently discharge monetary functions.

Money and Riba are both most important and very widely discussed issues. Some terms have been defined to avoid confusion. This paper discusses author's work that addresses relevant issues and offers right solution for the real problems and only prominent works relevant to this discussion will be referred.

Findings and Discussion

Measurement of wealth and unit of its measurement and accounting

Measurement is a scientific process and consist of comparison with standard quantity of what is measured. Unit of measurement/accounting must be precisely defined quantity of what is measured/accounted and any manipulation of unit grossly corrupts process of measurement/accounting. This is well known fact unambiguously established rationally, technically and scientifically. Price or purchasing power varies with quantity and therefore unit of measure and unit of account of value should be known quantity of wealth. Price of *fixed quantity* of any homogenous product may be considered as a unit of measurement of wealth. However price of goods and

services vary with supply and demand and therefore unless the product selected has reasonable purchasing power stability it leads to incorrect measurement, wrong accounting and data generated from such measurement is unreliable. It follows that only *fixed quantity* of homogenous commodity with sufficiently stable purchasing power ought to be used as measure of value.

A defined basket of commodities may also be used as measure of value but its purchasing power stability may not exceed that of stability of unit based on given quantity of gold or silver as historical evidence prove that these provide most stable single commodity based measures of value. Scientifically unit must be precisely defined quantity of what it measures. However such a precisely defined quantity of wealth doesn't exist and that leads to search of most stable measure. Clearly accounting based on different units of account will lead to different results. Considering issues involved use of appropriate unit provides best alternative that will reduce conflict and uncertainty. However, in cases that require common accounting unit for unrelated wealth forms most stable unit should be selected.

For example: in a case involving wheat only fixed quantity of wheat should be taken as unit. It reduces measurement of value of wheat to purely scientific process of weight measurement and data will have 100% reliability. If one were to measure value of wheat with respect to rice the price may vary due to variation in price of wheat or rice and therefore to avoid conflict and uncertainty it should not be done unless there is some other essential requirement that has to be satisfied. Use of appropriate unit as unit of account is best and it can resolve most issues. Thus for gold coin unit will be fixed weight of gold or if the weight of the coin is fixed coin itself is the unit. This will also apply to fiat money linked to gold standard. In case of freely floating fiat money appropriate unit will be Fixed quantity of money equivalent representative basket of national products and therefore in this case CPI and WPI may be taken as approximate inverse measures of weight of the basket and its value/purchasing power. Most of the trade and commerce and production units are involved in large number of product and services and appropriate unit for these is currency if it satisfies the minimum criterion for being equivalent to value of fixed quantity of stable store of value. Freely floating fiat money can't be accepted as a unit because it is variable quantity of representative national product basket.

Therefore in this case *it will be measured with respect to appropriate*

unit that is constant quantity of national product basket that is the reality of the money. Determination of value using appropriate standard is purely scientific process and has universal applicability it is quite precise and dependable and shall be used wherever required. People do not willingly accept as money what doesn't have sufficiently stable purchasing power. Mamluk forced foloos (copper coins) which failed to provide desired monetary stability and when the injustice caused by it became manifest Imam Yusuf (RA) decided that dues were to be paid not in terms of equality of number of Foloos or the weight of copper but according to value with respect to dinar that may be regarded as appropriate Shariah standard in the case Adel A (1994). In case of fiat money it is weight of equivalent national product basket.

Not only general populace but even authorities are not allowed to clip Coin or to debase it. Shariah deems this as corruption, exploitation and economic manipulation. Imam Malik, Imam Ahmed and most of the jurists of Madinah hold it to be prohibited, even when there is a supposed need or necessity to do so. Thus currency manipulation is not permitted in Shariah. Market uses currency to measure value and in determination of labor wage and many other entitlements. *While we may use appropriate unit of account to correct for accounting error due to monetary manipulation there is no way measurement error could be corrected.* Monetary manipulation is neither permissible rationally, legally or scientifically nor in Shariah. In absence of money manipulation currency should be used as measure of value and as unit of account however in case of money manipulation appropriate unit of account should be used. If money is manipulated and the condition of constancy of weight of what it really is, is not satisfied an appropriate unit has to be used as accounting unit¹ Author has discussed this issue from different angles in his papers and it is an updated summary thereof.

Riba and its prohibition in Islam

In Qarn Awwal Riba was quantitative (real) excess with respect to quantity of what was lent or borrowed or due. In case of gold and silver coins of fixed weight an excess of number was also a real quantitative excess. Even in case of paper money linked to gold standard an excess of number was legally a real quantitative excess. It was called interest in English and Sood in Urdu. It was not called real interest but actually it was real quantitative excess. Now that

freely floating fiat money is prevalent currency, we have two type of interest namely nominal and real interest. Considering that freely floating fiat money has no reality other than the equivalent national product basket it buys real interest in this case is quantitative excess with respect to national product basket equivalent to the money borrowed. Considering that in this case real quantitative excess that used to be equated with Riba is what is now called real interest it follows that real interest in case of freely floating fiat money is Riba. Considering that normally what is now called nominal interest or simply interest or Nami sood or simply sood is not real interest, it is not same as Riba. The nominal interest less inflation is real interest that is Riba. Most of our contemporary scholars who differ are those who either don't know/understand these truths (Hifzur Rab 2023)

Increasing money supply in excess of monetary demand of the economy that lead to inflation is Misl (like) increase in number of gold coins minted out of a given stock of gold that lead to debasement of the gold coins. Imam Taimia (RA) was confronted with similar situation as Dinar was being debased and held that lender has to be compensated for the loss. Truth of his Fatwa (edict) is confirmed by hadith quoted earlier and these confirm that our position is in full accord with Shariah.

Our Fuqaha have defined Riba and developed rules that apply to it based on Hadithe Riba. Those differentiating between Riba in Quran and Riba as per hadith for example IA Khan Suhail (1999) don't seem to comprehend how bank interest could be so bad to have been condemned with extreme severity in Shariah as he finds it to be rather quite useful. This causes a group of scholars to hold that Riba that is actually condemned is Riba in Quran. He even goes to hold that considering that verse Riba in Quran is revealed much latter than Hadithe Riba, the approach of our jurists to use the Hadithe Riba to explain Riba in Quran is not valid. All this confusion arises from the consideration that Riba is same as nominal interest that itself is wrong. His comments on Illah (cause) of Riba do show need to develop better understanding of the issue. Illah of Riba is based on acceptability as price and ease in marketing that is same as purchasing power stability and liquidity (Hifzur Rab 2023). Riba is real excess with respect to appropriate unit of account. Author has discussed massive fraud and corruption injustice and exploitation caused by Riba at length and concluded that Islam has declared war against Riba, as it can't coexist with human dignity and freedom and

justice (Hifzur Rab 2006, 2014).

Accounting in nominal terms versus in terms of appropriate unit of account

As discussed normally currency should be used as unit of account however in case currency is manipulated such as debasement in case of gold and silver coins or freely floating fiat money which cannot be used as unit of account, an appropriate unit of account has to be used. In case of gold and silver coins it is fixed quantity of gold and silver respectively. In case of freely floating fiat money it is constant quantity of representative national product basket. Thus in prevailing monetary environment it amounts to accounting in real terms. In absence of monetary manipulation there is no difference whether appropriate unit or currency is used as unit of account. Nominal accounting with freely floating fiat money leads to fraud and corruption, poverty and deprivation, dominance of system of interest, ecological imbalance and marginalization of justice and righteousness (Hifzur Rab, 2014, 2020)

Accounting in nominal terms disregarding continuing monetary manipulation has led to more than doubling of the interest earned by banks from conventional finance. Accounting in real terms will significantly deprive ability of system of interest to sustain by transferring major part of burden of interest to the masses by creating inflation and system of interest will become unsustainable. Those who regard nominal interest as Riba suffer massive losses trying to avoid interest. Accounting in real terms will remove the illusion people will see the reality and they will act to save themselves from major part of the losses they suffer. This will put a break on near continuous increase in price of product and services in organized sector with respect to unorganized sector that causes massive losses to owners and workers in the unorganized sector that has broken the spine of the middle class and the poor (Hifzur Rab 2014) .

In case of freely floating fiat money real interest rate R_{real} is nominal interest rate r_{noml} less inflation a

$$R_{\text{real}} = r_{\text{noml}} - a$$

Thus if accounting in done in terms of appropriate unit/ real terms interest will be negative for Current and saving

accounts and positive may be about 1% for fixed deposits. Little savings will flow to banks. Similarly real rate of return P_{real} equals nominal return P_{noml} less a $P_{\text{real}} = P_{\text{noml}} - a$

Thus average real profitability (p_{real}) will be around 2% and with existing interest rate nearly 40% of investments will be loss making. This will shrink interest rates. No entrepreneur will accept real interest rate above more than half of real rate of profit. Reduced values of interest rates when expressed in real terms will have strong convergence effect on various interest rates and will reduce bank spread may be to less than 1% that is less than 30% of its value in nominal accounting system. Banks interest earning will be massively reduced. That will make system of interest unsustainable.

Use of freely floating fiat money in Salam and Istisna contracts is not valid due to avoidable uncertainty (Gharar) as the future value/reality of freely floating fiat money is unknown. However, if appropriate unit of account is used it will be valid. For example if there is a Istisna contract for something to build and delivered after two years for currency of denomination 1000 and using appropriate unit of account it is found that after two years currency has become two thirds of what it was and the buyer will pay 1500 after said two years.

Use of proper accounting unit will make Quard Hasan viable as actually neither it causes loss to lender nor to buyer as said in Quran. While holding that if lender forgoes Riba s/he is entitled to receive the principal Allah Subhanahu wa Taala says "Deal not unjustly, and ye shall not be dealt with unjustly" (Al-Baqara-279). That is principal as explained in Quran is such that its payment ensure justice to both lender and buyer and it implies that permitted unit of account ensures that principal maintains its real value. Application of appropriate unit of account will ensure that financing mode preferred by Shariah will perform efficiently and Islamic banking will be freed from compulsion of following on footsteps of conventional interest based banking by inventing ways to bypass restrictions imposed by Shariah (Hifzur Rab 2004, 2006, 2020).

Conclusion

Freely floating fiat money may become Shari'ah compliant if the governments control its money supply so as to ensure that the quantity of equivalent national product basket remains almost

constant and it is same as holding the purchasing power of money nearly constant. If it is done, money will be highly stable measure of value and it will perform measure of value, unit of account as well as other monetary functions efficiently. That will free economy from most important cause of growing injustice and exploitation, fraud and corruption and lead to efficient market that will ensure that profit motive acts as an efficient allocator of resources that will lead to efficient employment of resources and balanced economic growth. It will assist Sunnah based Islamic banking and finance and curb conventional finance. It will limit freedom of governments and financial institutions to freely raise money supply but the cost is too small compared to the benefits it will produce. Not doing this means manipulating money. Then there will be major losses due to failure of market to determine just/efficient prices of various product and services and factors of production. This situation mandates that instead of money an appropriate measure must be used as unit of account.

If we compare freely floating fiat money with gold or silver based currency it is equivalent to the two cashes (Naqdain) that were debased. Debased currency performs poorly as measure of value and it is not acceptable as unit of account and therefore appropriate unit of account must be used. In case of cash/hand to hand transactions and transactions with very short time span manipulation of money is absent/insignificant and it make no/little difference whether appropriate unit of account is used or money itself is used as unit of account. Where inflation rate is maintained below 5 % and manipulation of currency within 3 months may amount to less than 1%, for transactions with such short span of time, error due to use of freely floating fiat money as unit of account may be often less than 1% and people may found it to be convenient to use currency itself as unit of account and it may be permissible. For all transactions with longer time span appropriate unit of account must be used. In case of freely floating fiat money the value is realized only through the market and therefore anyone holding these continue to suffer loss as these continue to depreciate and there is no way to protect savings from this loss, however those putting savings in fixed deposit do get interest that may be higher than the loss suffered on account of depreciation.

Rationally, logically and scientifically unit of measurement and unit of account must be precisely defined quantity of what is

measured/accounted. Where such a unit doesn't exist it ought to be the best available. This is also essential Shariah requirement. Money especially common medium of exchange is measure of value therefore it should be most stable measure of value. Price stability and ease in use as medium of exchange is money-ness (Thamaniah). Therefore common medium of exchange will be highly stable unless manipulated or where people are forced to use it. Monetary manipulation is a massive fraud impermissible in Shariah. Monetary manipulation and nominal accounting are tools of massive fraud and corruption and marginalization of justice and righteousness invented by selfish capitalists to ensure dominance of system of interest and to enslave the humanity.

Riba is measurable excess of quantity. In presence of monetary manipulation money is not acceptable as unit of account, appropriate unit of account must be used and any excess as accounted will be profit in case the matter relate to profit sharing and Riba in case it relate to lending or payment of dues. Use of appropriate unit of account will resolve most of the related real problems and modes of finance Shariah prefers will become efficient and viable and system of interest will not be able to continue its dominance. This will stifle fraud and corruption and remove basic cause of poverty and deprivation. It will support justice and righteousness and prevent marginalization of institutions based on justice

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