TUJISE Turkish Journal of Islamic Economics

Reviews

Adam Abdullah, *The Islamic Currency*, Malaysia: ICIFE, 2016, 477 pages

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Which concept is more central and much-debated in the field of economy than money? There is no doubt that monetary issues and related subjects have always been at the very heart of it, no matter what the region, time, culture and historical background was. Islamic economics has never been an exception in that sense, since one of the main objectives of Islam is serving justice among people in all spheres by providing the divine knowledge. Money related questions were tried to be answered by the scholars (mostly by *Fiqh* scholars) from the very beginning of the history of Islam, including Prophet Mohammed's companions and following generations. Defining the nature and characteristics of money, unveiling the functions of it in the economic sphere, establishing a stabilized monetary system and standardization of the currency have been the main problems in this field. However, it cannot be asserted that there was not a consensus of views in, if not all, most of the subjects even though the sources are common for all denominations and intellectuals.

Abdullah's book is dedicated to solving the major problems and questions about monetary theory. The title of the book is derived from Ibn Khaldun's student, Al-Maqrizi, who wrote the book, 'The Islamic Currency' in 1415 as an objection to fiat money formed from copper (Abdullah, 2016, p. 33). The book consists of 7 chapters and contains 477 pages of which almost 200 are appendices. There is no doubt that he employs vast historical data and presents them in form of valuable charts and figures. His main argument is that the worst monetary system in the history is the modern fiat standard. It is not preserving the public interest and is fundamentally harmful to an economy (Abdullah, 2016, p.35). Abdullah shares the same concerns as Al-Maqrizi about fiat money and exhibits his dislike for the

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DOI: 10.26414/BR195
TUJISE, 8(1), 2021, 177-182
tujise.org

main elements of the modern conventional monetary theories such as fractional reserve banking, money supply by the banks and usury loans.

To begin with, Abdullah states his main purpose and argument in his book by clarifying the nature of money in Islam and the Islamic monetary theory. What makes money Islamic and non-Islamic is a question that is hard to answer. He mentions the devaluation of fiat money and debasing of coins over the long term in the Islamic history both of which are not compatible with the objectives and commands of Islam. Another important point about his work is that he argues that conventional monetary theories are inaccurate and insufficient because they are solely based on secular reasoning. Hence, he claims that his analysis is not based on human reasoning alone, but on the Sharia as well.

In the second chapter, 'Theory of Money in Islam', Abdullah emphasizes on the monetary stability throughout the Islamic history, the functions of money in Islam and the views of the scholars on the money concept. Earlier, he mentions the nature of money from an Islamic point of view. According to him, money is solely an instrument of transfer in Islam, which carries no specific price associated with its usage. He advocates that the bimetallic form of money is best for an economic order, since the money made of gold and silver already has its own value due to being commodity-money. On the other hand, fiat money has no intrinsic value, but has a nominal specific price for being money. And that leads to relentless need of money supply because value of goods and services produced must accommodate the inflationary increase in the money stocks due to a usury dependent monetary system.

Abdullah mentions Quranic verses that do stress honesty and justice in all measures of value in the monetary stability subject. More clearly, because money is an economic tool that measures value, it needs to be stable. So, monetary stability is a must for an Islamic monetary system in order to ensure honesty and justice in a society, a divine order that cannot be served with fiat money that causes persistent inflation. He also addresses the functions of money with Prophet's traditions in terms of how it becomes a crucial part of significant religious obligations such as *zakat* (obligatory alms), *jizya* (poll tax for non-Muslims), *kharaj* (a kind of land tax), *mahr* (dowry paid directly to bride), *diyyat* (blood-money), *sariqa* (theft) and *sarf* (currency exchange). Lastly, Abdullah does mention the views on money of some Muslim scholars from both the classical and the modern period. He narrates some of the related traditions of the Prophet and his companions. Also, he indicates the views of classical period Muslim scholars like Ibn Khaldun, Imam Al-Ghazali, Ibn Al-Arabi and Al-Mawerdi about the functions and characteristics of money, whether it is a commodity like bimetallic coins, dinar and dirhams; or fiat like fels (plural; fulus). Money related issues are discussed around these views such as forming a correct contract, prohibition of usury, money supply in the market, measurement of different dinars and dirhams by a number of divergent weight units (mithqal, dirham, habbah, qirat…) and authenticity of paper/fiat money. Also, in light of the views of late Islamic and Western scholars, he touches upon the modern monetary problems such as price stability, money supply and demand, and banking practices based on usury.

In the third chapter, Abdullah explains the nature of monetary standards that Muslims used to employ in the times of the Prophet and his companions to the Umayyads Dynasty; and from Umayyads to Abbasids that is explained in the next chapter. The subject is divided into subchapters which deal with money circulating in different regions at that time and measurement standards that help to define money in concern with their weight and substance ratio. These include Byzantine dinar, Persian mithqal, Makkan mithqal, Syrian mithqal, Egyptian mithqal and Iraqi mithqal. Due to the fact that there was no specific monetary standard in those times, at least for a certain region or state, there were many coins with different shape, size and metallic content. He discusses the fineness of gold and silver money from the beginning of Islamic history to 600 after hijra and finds out that Islamic states' intent was to mint pure coins for both conserving the purchasing power of money and satisfying the Islamic legal requirements which were based on pure coinage. Additionally, the author indicates the gold and silver as being 'naturally' money. It is accepted by Muslim scholars with consensus and some of the Western economists agree with this idea too. He points out that coins made of precious metals have an intrinsic value that makes them both commodity and money. Since they cannot be produced and supplied to the market relentlessly like paper money and are scarce in the nature, they preserve their value for ages.

The author analyses the performance of monetary standards in Egypt in the fourth chapter, through the eras of Umayyads and the Abbasids, with a focus on the hyper-inflationary economic crisis of 1404-1405 and its impact on the economic growth between 1315-1597. He reviews the wheat prices and the exchange rates of gold and silver coins over time. He found out that Muslims were largely operating their trade transactions without the bimetallic standard, which means no gold or silver coins were noticeably employed in the economy. Even the fineness of dinars was preserved until 15th century, dirhams were debased and devalued constantly and copper coins over-issued because of their lower prices. Debasing the silver coins and issuing the copper coins with an extrinsic value led to a transition to a fiat monetary system. And to the author, the major outcome of this chapter is that the historical evidence indicates that fiat money caused hyper-inflation over time, unstable commodity prices and crucial decline in the value of money in Egypt.

Abdullah extends the findings of the previous chapter to the next one by analyzing the data relevant to the monetary performance in England (between 1259-2009), America (between 1792-2009), Turkey (between 1469-2009) and Malaysia (between 1970-2014). He examined the exchange rates between bimetallic coins and fiat money in these states over time, identifying the value and purchase power of money. The findings prove that real gold and real prices stay constant in the long term, while nominal prices and the purchasing power of money indicates exactly the contrary. It is also found that there is a strong correlation between the price of gold and commodity prices, or commodity prices and nominal GDP, or price of gold and nominal GDP. To him, it is exposed with these indices that the monetary standards under fiat money and related modern conventional economic theories are a failure such as central bank monetary policy, whose primary objective is ensuring the price stability.

In the sixth chapter, the author considers the re-adoption of the bimetallic monetary system. It is a well-known counter argument in economics against gold and silver-based currencies that the precious metal stocks are not sufficient, and this leads to the problem of money supply. Therefore, Abdullah suggests assessing the paper money and physical gold trades in the certain markets, and in turn the supply and demand of gold and silver and the cumulative amount of gold and silver mined to date. Secondly, he designates the unallocated gold and silver bullion accounts and fractional reserve banking system. To him, fractional reserve banking is one of the most destructive aspects of the modern monetary and financial system, due to the fact that it allows usury loans that create money out of thin air. However, investors' money in their bank accounts cannot be another person's liability. In addition to that, depositors will be faced with the shortfall, and the bubble will be popped in a state of run on the bank. Another crucial trouble in the finance system today is unallocated gold accounts as only a small percentage of the gold in the accounts are backed with physical gold bullions. Moreover, fiat monetary system creates inflationary taxation that siphons the wealth of the individuals. As a result, Abdullah touches on the topic that fiat money leads to vast range of problems with usury loans and fractional reserve banking. The solution is redeeming gold and silver money that preserves its value over time.

In the last chapter of his book, Abdullah seeks the Islamic monetary theory of value. Abdullah explains his understanding of the Islamic monetary theory of value stating that the value of money, as reflected in its rate of exchange with a fixed amount of precious metal, depreciates (or appreciates) due to an excessive increase (or decrease) in the supply of money in relation to demand, the effect of which is to increase (or decrease) the price level. He re-designs the Fischer's equation of exchange as,

$$PY = VM$$

Where P stands for the index of real commodity prices and Y reflects the current output expressed in terms of gold or silver. On the other hand, V stands for the value of money and M is for money stock. He believes that monetary policy ought not to aim stable prices, but a stable currency that provides a stable value and purchasing power for the long term. He expressed that the main discord between the Muslim scholars and the modern economists is approach to money, where Muslim scholars comprehend money as a mere tool of value exchange, yet economists defined it as a commodity that comes with a price in order to justify the interest and conventional banking practices. He reserves the final remarks in his book for the evolution of the economic thought, banking, financial system and their interrelation with fiat money. He mentions Al-Maqrizi again and expresses that he was correct about his argument that gold and silver money in the form of dinar and dirham is the most accurate currency for Muslims and it satisfies the objectives of Sharia in terms of wealth protection and serving for the public interest, unlike fiat standard.

Apart from Abdullah, many other Muslim economists present the same ideas about monetary economics that the fiat money standard and the fractional reserve banking is not compatible with the Sharia. The classical solutions for these problems are re-adoption of the bimetallic standard and employing %100 reserve banking. Some of these intellectuals are Chapra (1996), Al-Jarhi (2017, 1983), Ahmad and Ismail (2017), and Saraç and Tekdoğan (2020). As Abdullah shows that fractional reserve banks today are selling gold that does not genuinely exist but only %2.3 of it is backed by physical gold stock. Besides, the author puts a valuable effort to determine the monetary performance of bimetallic coins, dinar and dirham, and various fiat moneys, paper money or copper coins, with commodity prices as an index in order to show their performance in the long term. The data and graphics are tremendous, and cover almost half of the book, and whether you agree with the author's ideas and inferences or not, it cannot be denied that his endeavor is admirable. I believe that the book is not for the general reading purpose, but for a deeper understanding of one of the very significant and complex subjects of Islamic economics.

Consequently, Abdullah does identify bimetallic monetary system used for ages by Muslims and justifies the commodity money, dinar and dirham in particular, against fiat money. To him fiat money causes inflation over time that leads to skyrocketing prices in a market, melting the value of money, leaving individuals poor and accumulating the wealth within certain favorable groups. He also argues that a monetary system based on fiat money is convenient for finance based on usury, where the money is produced with the usury loans over and over again by fractional reserve banks. On the other hand, money standard with an intrinsic value produced out of precious metals preserves the wealth of the individuals for the long term, prevents devaluation and serves the objectives of Islam much better than value attributed pieces of paper.

About the Author

Adam Abdullah is currently an Associate Professor at Al-Qasimia University, at the College of Economics and Management in United Arab Emirates. He is the former deputy dean of International Islamic University of Malaysia (IIUM) Institute of Islamic Banking and Finance (IIiBF). He has published over 50 articles and books and presented at quite a few international conferences and seminars. His academic research interests include Islamic economics, finance and investment, monetary economics, and has lectured in various subjects in economics and finance at both the postgraduate and undergraduate level.

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