

Review Article

## Islamic Justice In A Monetary System: A Modest Proposal

by Muhammad Anwar

Dr. M. Umer Chapra. *Towards a Just Monetary System*. Leicester: The Islamic Foundation. 1985. 292p.

Extensive literature on the institutional aspects of monetary economics includes pioneering studies by Muhammad Uzair, Muhammad Nejatullah Siddiqi, Ziauddin Ahmed, Anwar Iqbal Qureshi, Afzalur Rahman, and the Council of Islamic Ideology in Pakistan among many others. Scores of research papers have elaborated the functioning of Islamic banking in theory and practice. A fresh study on Islamic banking in Iran and Pakistan by Zubair Iqbal and Abbass Mirakhor has been released by the International Monetary Fund. In the voluminous literature on issues dealing with money and banking in Islam, *Towards a Just Monetary System* is outstanding in many respects. The study is tightly knit, thoroughly documented, and the ideas are carefully analyzed. These qualities are lacking in most works on Islamic economics.

Competence in economics and command of Arabic for access to original sources in Islam is essential for a scholarly integration of shari'ah and modern economic analysis in order to address contemporary economic problems. There is no doubt that Dr. Umer Chapra, Economic Adviser to the Saudi Arabian Monetary Agency, has all the necessary background.

*Towards a Just Monetary System* introduces a perspective on the interest-bearing system before outlining various socio-economic goals and strategies in chapter one. Islamic views on the nature of *riba* are discussed in chapter two supported by a comprehensive appendix based on the Qur'an, *Ahadith*, and *Fiqh* literature on *riba*. Equity-based financing as an alternative to interest-based financing is proposed in chapter three, for which necessary reforms are outlined in chapter four. A vigorous comparison is drawn in chapter five between interest-bearing and interest-free systems in terms of allocation of resources, saving and capital formation, stability, economic growth, and fulfilment of various types of credit needs. Some necessary in-

stitutional reforms for an interest-free monetary system are detailed in chapter six, while monetary strategies are discussed in chapter seven. Chapters eight and nine evaluate and summarize transitional measure toward a just monetary system.

This is a complete and comprehensive study on a monetary system in an Islamic perspective. It discusses the micro foundations and macro consequences of an Islamic monetary package, contrasting the Islamic system with its rival Capitalist monetary system in terms of fairness to consumers, entrepreneurs, and financiers.

Consumers, businesses, farmers, and other classes of debtors are currently trapped in a very difficult situation in Capitalist societies. Similarly financiers are fearing bankruptcies. About 1500 banks are on the so-called problem list in the United States alone. This means there is a dire need for a Just Monetary System today. Since several Muslim countries are anxious to Islamize their monetary systems, the need for a Just Monetary System was never greater than now.

It is proposed in chapter three that the pooling of resources in the absence of interest be organized on the basis of two principles accepted in Islam: 1) private ownership within Islamic bounds, and 2) recognition of capital as a factor of production. Equity financing by sole proprietorships, partnerships through *mudarabah* and *musharakah*, and joint stock companies is proposed for wide dispersion of ownership. It is apprehended that "when ownership is widely dispersed, the large number of small [non-employee] share holders may have neither the ability nor the inclination to participate in the decision-making process. This tends to lead to concentration of power in the hands of a few persons in large enterprises. Hence appropriate reforms would need to be introduced to minimize the malpractices of management and to safeguard the interests of shareholders." (p.74). The proposed system, as noted by the author, is similar to the Capitalist system, which differs only in an emphasis on the commitment to "spiritual values, socio-economic justice, and human brotherhood." (p.34).

According to the author, "no economic system can sustain its health and vigour or contribute positively to the achievement of its socio-economic goals without the support of a sane and equitable money and banking system. The money and banking system should hence be reformed to eschew the excesses and imbalances that promote inequalities, conspicuous consumption, and unhealthy monetary expansion to the ultimate detriment of all. It should discourage large-scale business, except where it is absolutely necessary, and, in general, patronize small-and medium-sized businesses. Is it possible to design such a just and sane money and banking framework? The primary aim of this book is to show that it is possible to do so in the light of Islamic teachings." (p.26). This statement represents the rhetoric found throughout the book.

The author argues, "it is essential to regulate aggregate demand, restructure production, design a suitable technology, and have an appropriate mix of monetary, fiscal, and income policies [in order] to avoid both inflation and unemployment, to ensure broad-based economic well-being, [and to] satisfy the essential needs of all individuals in keeping with Islamic teachings." (p. 43-44). Nobody will disagree, but the question is can you avoid both "inflation and unemployment"?

Similarly it is agreed that the goal of high rather than balanced personal satisfaction and access to cheap credit have triggered most economic problems in Capitalist systems, but, at the same time, it is unrealistic to assume that the theoretical Islamic stress on needs as opposed to wants and the introduction of *riba*-free economic institutions will establish justice.

In the absence of absolute Islamic values, justice is very subjective and relative. What is just for Mr. A may not necessarily be just for Miss B. Disagreement on defining justice has persisted probably since some forgotten cavemen first discussed the issue. Timur Kuran, a harsh critic of Islamic economics, maintains, "it is not clear what Islamic justice requires," and he is doubtful that "an Islamic society would be free of the economic injustices allegedly rampant in the modern world." It is argued that "two members, equally well-meaning and learned, might well differ as to whether a certain market institution conformed to Islam's ... principles of justice." (1986,16).

Maxime Rodinson, on the other hand, describes Islamic justice as adhering to the behavior appreciated in the Qur'an and shunning the behavior condemned by the Qur'an. He concludes that "justice which was most sought after by those Muslims who were most anxious to remain faithful to the ideals of the Koran possessed the features mentioned above: a state directed in accordance with the principles revealed by God, treating all believers as equal before the Divine Law, practicing within the Muslim community an advanced form of mutual aid, at the expense of the better-off and to the benefit of the poorer sort. This is the ideal that the reforming and revolutionary movements so numerous in Muslim history strove, again and again, to realize." (1978,26-27). Chapra's position on justice is certainly different.

This study seems to profess justice in every economic measure it proposes. For example, justice refers to "economic well-being through satisfaction of all basic human needs, removal of all major sources of hardship and discomfort, and improvement in the quality of life, morally as well as materially" (p.35)); stability in the value of money, (p.37) which may be "relaxed provided that the damage done by such relaxing is more than offset by the realization of other indispensable national goals"(p.38); equivalent deals (pp.59-60); absence of rigging of prices (p.60); and even assurance of positive returns in the presence of risk (p.64). Probably justice has to be stated in general terms to allow some flexibility in interpretation. But too much flexibility and

especially the lack of priorities among values and goals, can only breed confusion and impair their application in policy making.

It is argued that the "development of a primary and a secondary market is essential for efficient mobilization of financial resources" (p. 45). Granted, but the question of the Islamicity of stock markets, especially secondary markets, which are loaded with speculative motivations, is still unresolved.

The author stresses that "while Islam recognizes individual freedom, it does not give any sanctity to market forces" (p. 47). How can we agree with this when the Prophet Muhammad (PBUH) reportedly declined to interfere in the market.

Material relating to *riba* in the Qur'an, *ahadith*, and *fiqh* literature has been carefully sifted to convince its readers that all form of *riba* are prohibited. It is abundantly clear to new readers after reading chapter two and appendix I that interest is *riba* and *riba* is prohibited in all possible forms. This contemporary majority view ignores the minority position, which may very well be Islamic. There are authoritative voices such as Mahmud Abu Saud who argues that all forms of interest are not *riba* and, moreover, all forms of *riba* are not *haram*. It is well known that the "Companions of the Prophet (PBUH) have differed among themselves. About *riba*, Ibn-Abbas, the most authoritative exegete, disagrees with another respected companion, Abu-Sa'eed alKhudri on *riba-al-fadhl*; the first allows it and the second prohibits it" (abu Saud, p. 9). Similarly indexation may not be un-Islamic as implied in the study. Issues are never resolved by closing one's eyes to controversies. Controversies must be recognized, discussed, and analyzed in order to draw conclusions, to accept and reconcile opposing views, and to expose and demonstrate the weaknesses of rival positions or prove them false.

It is argued, in chapter four, that the abolition of *riba* will lead to the adoption of a simple lifestyle, which will generate savings, and that savings should be consciously mobilized. It is also stressed that cost-benefit analysis for investment purposes must take into account both private as well as social costs and benefits for appropriate decisions. Five measures are outlined for the gradual transformation of current systems into an Islamic system: (1) enterprises, proprietors, and partnerships be "required" to expand their equity base, and larger firms be induced to become joint stock companies, while the central bank may monitor prices of new shares acquired by banks; (2) regularize the existing stock of "black" money; (3-4) tax laws be amended to treat interest at par with profit-shares and to eliminate tax evasion; and (5) encourage formation of equity-based financial institutions. Questions arise whether wealth or income in the form of interest and profits is the most Islamic base for taxation?; is intervention in markets Islamic?; and will "black" money be converted into equity investment?

The author suggests that banks be left in the hands of the private sector,

but, their power be reduced. Their power is ascribed to the "subsidy and seignorage" that goes to banks from society. Therefore, the author argues, the monetary system must be modified to avoid their injustice. It is natural for someone emersed in the traditional monetary system to propose organizational revisions and modifications instead of outright changes in the existing system.

Let me propose a revolutionary change to address several issues, including the problem of "subsidy and seignorage." Let us divide all the monetary institutions into dichotomic sectors: private banks and social banks. The private banks may function only like all private business ventures, that is, on the basis of *mudarabah*, *musharaka*, and other participatory schemes. Private banks may solicit only investment deposits of various maturities. These banks should be barred from receiving demand deposits and the public should not expect *qard Hasanah* from the private banks. The banks will have the same legal status as any other business enterprise and therefore they will function according to the divine command: "Allah has permitted trade and forbidden riba" (al-Baqara: 275). Under this scheme, income to the private banks will accrue in the same fashion as it accrues to other trades.

The social banks, on the other hand, should have sole authority to solicit demand deposits and manage all types of public funds including *zakah*, *sadaqah*, other revenues and expenditures. Appropriation of the "subsidy and seignorage" under the dichotomized system will accrue only to the social banks that belong to the society.

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