

The Nature and Role of Money: An Islamic Perspective

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Received: 16/03/2020	Accepted: 01/06/2020	Published: 23/06/2020

Abstract

We try through this study to expose the injudicious role of money in creating turbulences and turmoil in the economy, where the recent financial crisis presents a salient proof of that. We attempt as well to explore its role from an Islamic perspective within the teachings and guidance of *Quran and Sunnah*, and the reflections of great Muslim jurists. A qualitative research has been applied with a literature review and an analysis of the available data. The paper recommends revising the role of money and insists on reforming the banking and financial sector, and reviewing as well the financial intermediation that considers money as a tradable commodity (that may cause further crisis). It has been recommended that the banking business may need to rely on profit/loss sharing point of view rather than on trading money as a commodity.

Keywords: Money, Banking, Financial Crisis, Islamic Economic System.

JEL Classification : E51, G01, G21, P49

Introduction

The role of money is really significant in the economic world. It is one of the most important, useful, and fundamental inventions of human intellect in the history. All the economic activities, trade and financial transactions are based on the role of money. Its role as a medium of exchange and standard of value are considered primary and fundamental functions not only in the modern world but also in ancient times and medieval Islamic history. It is really interesting to note that if the functional role of money is positive and productive in economic activities then it leads to production of wealth in the real economy and ultimately causes an increase in economic development. Contrarily, the injudicious role of money also created economic fluctuations like macroeconomic imbalances and financial crisis on various occasions in the economic history. The global financial crisis of 2008 was one major macroeconomic imbalance which had far-reaching effects on global economy. The economists, professionals, financial personnel and bankers were obliged to find out the causes and factors behind this severe financial crisis that caused huge unprecedented loss to the global economy. The deficiencies and drawbacks of the prevailing financial and monetary system opened new avenues of discourse in the academia. The role of banking system and money itself was discussed vigorously and it was suggested that there was need of reform in the system. If there is no reform in the financial system and banking sector then such crisis will occur repeatedly and frequently.

Mervyn King, Governor of the Bank of England for a decade 2003-2013, also a renowned economist and distinguished professional from the financial industry, once said, "Failure to tackle the disequilibrium in the world economy makes it likely that a crisis will come sooner rather than later," Mervyn King (2016). He explicitly mentioned that the world crisis was the fault of the financial system and not individual greedy bankers. He said "the crisis was a failure of a system and the ideas that underpinned it, not of individual policymakers and bankers, incompetent and greedy though some of them undoubtedly were'. He also claimed that "only a fundamental rethink of how we, as a society, organize our system of money and banking will prevent the repetition of the crisis that we experienced in 2008" (Guardian, 28th Feb 2016). A similar view was presented by former President of the European Central Bank, Jean-Claude Trichet (2010) in a lecture delivered at Bocconi University Milano, "we have an absolute obligation to make the global financial system more solid and sustainable, and the international community is aware of this need".

The financial crisis of 2008 was one of the worst of its kind since the Great Depression of 1930s, when the global economy was shaken badly and in the wake of this crash, the Keynesian

school of thought attracted the attention of many economists and Keynesian view became popular in the discipline, and the concept of free market economy was collapsed. The crisis actually started in February 2007 and continued to gain its severity until September 2008. Consequently, its impact was witnessed on the global economy in various countries all over the world. Of course, it was another shocking incident and a huge turmoil in the economic history of the world. The financial crisis caused titanic loss of trillions of Dollars and an enormous amount of tangible properties and jobs were lost and became insecure in the western world. Within a short period of time, more than 400 banks and credit unions went into failures or entered receivership and declared bankruptcy in the USA. Giant business organizations and financial institutions lost more than 15 trillion US dollars. The economic setup was in the grip of the crisis that is estimated to have wiped out 45% of the wealth of the world (Usmani, 2010). The governments in different countries had to take steps to save the global financial system and announced bailouts in different countries. In the USA the government decided to put the liquidity of \$700 billion to bailout the banks.

The economists always endeavor to solve the new arising economic problems and discuss the issues which cause fluctuations in macroeconomic variables and lead to turmoil in the economy or financial system. For instance, when the Great Depression occurred in 1930s and caused a huge economic crisis, it prompted the economists to ponder on the failures of capitalistic 'Market Economy' and the great British economist, Lord J.M. Keynes came forward to looking for the alternatives of classical economic thought where Adam Smith (1776), suggested that invisible hand would adjust the imbalances and there must not be intervention by the state. Lord J M Keynes' 'The General Theory of Employment, Interest and Money' was first time published in 1936 to explore the factors and reasons that caused the Great Depression (Keynes, 1936). The exploration of such crisis for critical analysis is not an easy task, as he stated in the preface of the book, "Thus I cannot achieve my object of persuading economists to reexamine critically certain of their basic assumptions except by a highly abstract argument and also by much controversy" (Keynes, 1936, p. 4).

Among other factors, the role of money in the financial system and banking practices was discussed as one of the significant reasons that led to the disruption in the global economy. The global financial system and monetary rules and regulations are mainly based on the Brettons Wood system which was established in 1944. In this scenario, this article aims to discuss the nature and the role of money and other related issues from Islamic perspective to explore how Islamic teachings and tenets can help to improve these situations. The pursuit to change the prevailing role of money is not an alien concept in even the western world, as 'Positive Money'

and 'Occupy Wall Street' movements have gained the attention of the people and the proponents want to make the policymakers realize that there is a need of change in the prevailing financial and monetary system. So, the article primarily investigates the issues relate with money, like the nature and role of money as main theme of the discussion. The role and nature of money in recent days are also changing because of extensive use of internet in the modern times. The plastic money and digital money are new terms and getting popularity because of online shopping and convenient use of credit and debit cards. Bitcoins and Crypto currencies are new developments in the system and also attracted the researchers to investigate the role and nature of money. In this paper the author has attempted to discuss the role of money from conventional perspective which created macroeconomic imbalances and financial crisis and presented the role of money from Islamic perspective where it is used only as a medium of exchange and store of value.

Research Methodology

The qualitative research method and analytical and critical approach has been used in this research paper. The published authentic data and material in the form of books, articles from journals and newspapers and other literature from academic circles have been reviewed and the information utilized in the discourse of the critical subject matter, after the assurance of authenticity and reliability has been confirmed. The Internet resources have also been used and the originality of the materials has been assured from the original resources. Moreover, consultations and discussions with senior faculty members and researchers were also taken into consideration while writing this paper. The comparative analysis was carried out while discussing the role of money from Islamic perspective and capitalistic viewpoint.

Literature Review

The topic of money is one of the most significant topics in the discipline, therefore the literature has been written extensively on the subject. We focused on those books and articles which were directly related with the nature of money and its role in the banking and business sector. The Islamic teachings are based on the revealed knowledge of Quran and Sunnah. While the traditional and capitalistic point of view and the history has been discussed in other resources like Davies Glyn (2002) gave a detailed discussion of history from ancient time to the present time. Burnt Callander (2014) gave brief history of money from barter system to the latest development of digital money and particularly bit-coin. Frederic Mishkin (2007) and Geoffrey Crowther (2007) discussed the definition, functions, types and role of money. Dr Farhan Ali (2019) critically analyzed the concept of money ant its compensation from Islamic and

capitalistic viewpoints and also discussed the issues of inflation and indexation from traditional and Islamic perspectives. Mufti Mohammad Taqi Usmani (1994) in his famous book '*Fiqhi Maqala't*' discussed the nature of money and its role from fiqhi point of view and he also discussed the history of money in details. Dr Rafiq Al-Misri (1984) described various important aspects of money from Islamic perspective in the light of *Quran* and *Sunnah*, and the rulings and opinions of Islamic jurisprudents were discussed thoroughly.

Historical Background of Money

Before we discuss the money from Islamic perspective it seems to be appropriate that we describe the subject-matter from conventional viewpoint. The history of money is as old as humanity on the face of earth. Numerous things have been used as money in various eras of history and in different parts of the world. Money is an economic unit that functions as generally recognized medium of exchange for transactional purposes in an economy. In ancient times the life was very simple and self-reliance was the major source of satisfaction of essentials and basic economic needs (Glyn, Davies. 2002). With the passage of time, the division of labor and specialization in different occupations caused the surplus of production. Here arose the need of exchange of goods and services, as not everyone was producing everything whatever he required from the goods and services but rather he was specializing in his own relative specialty and occupation. Initially, there was exchange of goods and services, being the origin of money, the system called 'the barter system' and the people were exchanging the goods and services for other goods and services i.e. sheep, cattle, animal skins, vegetables and food grains (Burnt-Callander, 2014). There were problems in the barter system like double coincidence of wants, lack of measure of value, and lack of store of value and no criterion for future payments. As a result, the food grains and cheap metals started circulating as a form of money over a period of time. In the second stage the 'the commodity money' was used and various commodities came into circulation. The reason was that these goods have some desirable characteristics, which could overcome the problems of barter system, like divisibility, durability, easily recognizable and general acceptance among the people.

Later, there was trend of using relatively cheaper minerals and subsequently, expensive and valuable metals were used and also the governments intervened in making and supervising the molding of coins. The coinage started under the supervision of governments in different countries in ancient times. The use of metals was the third stage of money evolution. This money was called 'the metallic money' and metals like copper, bronze, silver and gold were used in various forms and shapes. The history of coinage on government level started some 7th century BC in Ionia (in western Turkey) and in China where the Bronze coins were made and used as

currency. The rare and valuable and relatively more expensive metal, gold was used as money in Byzantine Empire in the form of coins and was driven from Roman originals. In Damascus, Abdul Malik Bin Marwan started Islamic *dinar*, from the Latin word *denarius* in early Islamic history, in 690 AD. The temples were used for safeguarding the money as the buildings of these temples were concrete and solid and congregational gatherings were more frequent there, hence reducing the risk of stealing and loss, but the money remained idle and not used for lending or economic activities (Glyn, Davies. 2002). The gold was preferred form of money due to its value based on rarity, durability, divisibility, fungibility and ease of identification. It remained in circulation in one form or another for thousands of years in the history.

The introduction and circulation of 'the paper money' was a new development in the evolution of money. The advancement of loans and lending activities began when the goldsmiths accepted gold coins for safekeeping and started writing receipts for their owners, the depositors. These paper receipts later were recognized as banknotes and paper currency and came into circulation as the issuing bodies took full responsibility to convert the paper money into gold coins on the demand of bearers. The crucial role of goldsmiths was the beginning point of modern banking and introduction of paper money. In the beginning, the private banks issued the banknotes and these were backed by the gold and silver standard but later the governments got involved and central banks were established to issue the banknotes.

The banknotes, in Europe started in 1661, in Stockholm Sweden. Later in 1694 the private banks issued banknotes and it continued until 1850 in Scotland. These banknotes were issued by the private banks and their credibility and other issues came into consideration and under discussion therefore the issuance authority was handed over to the central banks of the countries. Because some question mark and doubts about the authenticity and credibility of these banknotes were raised as larger a number of private banks were involved in issuing these notes. Therefore, the central banks were authorized and they became the sole and only issuing authority to print the banknotes. The Bank of England was authorized in 1694 to issue the banknotes and The Federal Reserve of America got the authority in 1913 to print the banknotes (Usmani, 1994).

The paper money issued by the central banks and monetary authorities of the government also known as the 'legal tender' and the 'fiat money' and it was fully backed by the government to convert into gold when the gold standard was in practice widely in 19th and early part of the 20th century. The gold exchange standard was an arrangement and agreement of Bretton Woods's system after 2nd World War in 1944 and US Dollar was convertible to gold until 1971,

when the US President Nixon declared the end of US Dollar's convertibility into gold after the Vietnam War. (Lipsey, 1975).

Now we can define the term money as we have briefly mentioned how money has reached in its present form. Money is what money does. Money has been defined differently by different economists. Frederic Mishkin defined it as "Money is any item or verifiable record that is generally accepted as payment of goods and services and repayment of debts, such as taxes, in particular country or socio-economic context" (Mishkin, F. 2007, p.8). Geoffry Crowther says 'Money can be defined as anything that is generally accepted as a means of exchange and at the same time acts as a measure and a store of value' (Crowther, Geoffry, 2007). If we consider these definitions then what is apparent is that the functions of money are more important while discussing the role of money. As money is not any particular thing but it is anything which performs the functions of money which precisely can be stated as following:

- A Medium of Exchange
- A Standard of Value
- A Store of Value, and
- A Means of Deferred Payments.

The role and nature of money as it has been discussed previously in this section, is from capitalistic point of view. The Capitalism or sometimes called 'market economic system' is the economic system whose foundation was laid down by classical economists like Adam Smith (1776) and his followers where the system operates in the market based on the market forces called demand and supply. The money is used in economic activities among the buyers and sellers in the market with profit motive which is the main incentive for the producers and customers (Rogers, Chris, 2014).

The role of money in the capitalistic scenario began primarily as a medium of exchange, and later money itself became a tradable commodity. When the conventional banking industry developed enormously and interest-based advancement of loans created huge profits for the shareholders of the banks, the role of money was changed, rather than being a medium of exchange it became an objective. In the following section we discuss the money from Islamic perspective.

1. The Concept of Money in Islam

The word '*naqad*' means money and its plural is '*nuqu'd*' and these terms were in use in Islamic books as an alternative of money. There is also a mention of word '*darahim*' which is plural of '*dirham*' and it has been mentioned in *Sura Yousuf*, a chapter in Quran as stated below;

وَشَرُّهُ يَتَمَنَّى بَخْسٍ دَرَاهِمَ مَعْدُودَةٍ. (يوسف: 20)

And they sold him, for a reduced price, a few dirhams.

Also the word '*dina'r*' has been mentioned in *Sura Al-Imra'n* in the following verse;

وَمِنْهُمْ مَنْ إِنْ تَأَمَّنْهُ بِدِينَارٍ لَّا يُؤَدُّهُ إِلَيْكَ إِلَّا مَا دُمْتَ عَلَيْهِ قَائِمًا (آل عمران- 75)

And among them is he who, if entrust him with a single coin 'dina'r' he will not return it to you unless you are constantly stand over him (demanding it).

The words '*zahab*' and '*fidha*' meaning gold and silver have been mentioned in Quran in different chapters like (*Al-Imra'n*; 14);

زَيْنَ لِلنَّاسِ حُبُّ الشَّهَوَاتِ مِنَ النِّسَاءِ وَالْبَنِينَ وَالْقَنَاطِيرِ الْمُقَنْطَرَةِ مِنَ الذَّهَبِ وَالْفِضَّةِ وَالْخَيْلِ الْمُسَوَّمَةِ وَالْأَنْعَامِ وَالْخَرْبِ ذَلِكَ مَتَاعُ الْحَيَاةِ الدُّنْيَا وَاللَّهُ عِنْدَهُ حُسْنُ الْمَاِبِ. (آل عمران- 14)

Beautified for people is the love of which they desire- of women and sons, heaped-up sums of gold and silver, fine branded horses, and cattle and tilled land. That is the enjoyment of worldly life, but Allah has with him the best return.

Also in (*Al-Tawba*; 34):

وَالَّذِينَ يَكْتُمُونَ الذَّهَبَ وَالْفِضَّةَ وَلَا يُنْفِقُونَهَا فِي سَبِيلِ اللَّهِ فَبَشِّرْهُمْ بِعَذَابٍ أَلِيمٍ. (التوبة: 34)

And those who hoard and gold and silver and spend it not in the way of Allah-give them tidings of painful punishment.

The scholars while commenting about these words has the opinion that these words meant money, as gold and silver in the form of *dina'r* and *dirham* were in use and circulation as medium of exchange in those days when Quran was revealed. The term '*Ma'l*' also used in Quran in many chapters like (*Al-Tawba*; 103)

خُذْ مِنْ أَمْوَالِهِمْ صَدَقَةً تُطَهِّرُهُمْ وَتُزَكِّيهِمْ بِهَا وَصَلِّ عَلَيْهِمْ إِنَّ صَلَاتَكَ سَكَنٌ لَهُمْ وَاللَّهُ سَمِيعٌ عَلِيمٌ. (التوبة: 103)

Take, [O Mohammad], from their wealth a charity by which you purify them and cause them increase, and invoke [Allah's blessings] upon them. Indeed, your invocations are reassurance for them. And Allah is Hearing and Knowing.

The jurisprudents and scholars like Uthman bin Ali Al-Zailaei (d. 743 A.H.) has the opinion that term money means gold and silver, another opinion by Yahya bin Sharaf Al-Nowwawi (d. 676 A.H.) is that it means *dinar* and *dirham* and a broad opinion is that money is not only gold and silver and *dinar* and *dirham* but also includes other valuable things which can be converted into money at an ease and convenience. This opinion was mentioned by Abu Bakar bin Masood Al-Kasa'ni (d. 587 A.H.) in his famous book on *fiqh* known as *Bada'i Al-Sana'i* and has wider concept of money, including gold and silver and the coins made of gold and silver, like *dinar* and *dirham* and additionally, other commodities like dates and cattle were also included because these were convertible into liquid money and *zakah* was levied on these valuable things. The mention of term '*Ma'l*' has been more frequent in Quran in various chapters and it included other commodities as well rather than just gold and silver or the coins made of them. Ibn Rushd, (d. 595 A.H.), the renowned jurispudent from Andalusia, in his famous book *Bidayatu al-Mujtahid wa Nahayatu al-Muqtasid* also mentioned that gold and silver are money in the form of *dinar* and *dirham*. (Ali, Farhan. 2019)

In Arabic peninsula, during the time of Prophet Mohammad (pbh) *dirham* and *dinar* were in circulation as liquid money. These coins came from outside Arabia, for example, *dirham* was made of silver and its origin was Persian Empire, while *dinar* was made of gold and its origin was Roman Empire. Before the advent of Islam in Arabia, these coins were in use and the Prophet Mohammad (pbuh) did not change them but he approved these coins and also he confirmed the weight of these coins. Ali bin Abu Talib, (may Allah be pleased with him) got married with the daughter of Prophet Mohammad (pbuh) Fatima (may Allah be pleased with her) and gave her dowry 480 *dirhams*. In the 2nd of year of *Hijra*, when the obligation of *Zakah* was revealed, the newly established State of Madinah was in need of revenue. So, the Prophet Mohammad (pbuh) implementing the obligation of *Zakah* he levied on every 5 *oqiyah* five *dirhams* and half *dinar* on every 20 *dinars*. The ratio between *dirham* and *dinar* was 7/10. First time in Islamic history, the Umayyad caliph, Abdul Malik bin Marwan introduced Islamic *dinar* and its weight was 4.25 grams, it was the same weight as in the time of Prophet Mohammad (pbuh) (Al-Shehavi, 2000, also, Al-Jaber, 1994, also, Al-Misri, 2013). He insisted and decreed to complete the transactions based on Islamic *dinar* and warned the people of execution if they use any other currency. Apparently, *dirham* and *dinar* were the prevailing form of money throughout Islamic history in

various parts of Muslim world with some difference on the basis of issuance and ruling authority.

2. The Role of Money

The fundamental role of money for which it has been invented and the most significant function of money is a means of exchange and distribution. If it is considered as a tradable commodity and traded in the financial market and institutions then the whole economy will be affected in real terms. In the Great Depression of 1930, Economic Crisis Committee formed by the Southampton Chamber of Commerce declared in its report that 'In order to ensure that money performs its true function of operating as means of exchange and distribution, it is desirable that it should cease to be traded as commodity' (Southampton Chamber Report, 1930)

Once the money is being considered as a trade commodity and not used as a medium of exchange then it creates serious problems. The financial crisis of 2008 was also linked with the nature and injudicious role of money. For example, Mufti Mohammad Taqi Usmani, a renowned and distinguished scholar equally regarded as expert in the discipline of Economics and *Shariah*, states in his paper presented to the annual meeting of WEF (The World Economic Forum) in 2010 held at Vegas said "Diverting money from its basic function as a medium of exchange and make itself as an object of trade that turned the whole economy into balloon of debts and over debts". (Usmani, 2010. p.52).

The problem with current monetary system is that it takes money as a tradable commodity and not only as a medium of exchange. The Islamic economic system takes money as a means of trade transactions and not a commodity to be traded for making profit.

Ibn Taymiyya, (661-728 AH) the great Muslim theologian and jurisprudent of 14th century described the nature of money as following;

"وأما الدرهم والدينار فما يعرف له حد طبيعي ولا شرعي، بل مرجعه إلى العادة والاصطلاح، وذلك لأنه في الأصل لا يتعلق المقصود به، بل الغرض أن يكون معيارا لما يتعاملون به، والدراهم والدينار لا تقصد لنفسها، بل هي وسيلة للتعامل بها، ولهذا كانت أثمانا، بخلاف سائر الأموال، فإن المقصود (بسائر الأموال) الانتفاع بنفسها." (رفيق يونس المصري، ص42، 1981)

As far Dirham and Dinar are concerned they have no particular definition; natural or legal but they are taken into account according to the custom and norm, and because originally they are not intended for themselves, but the objective is that they are used as a means of interaction (medium of exchange) and these are the prices (athma'n, standard and measure for transactions)

being different from other valuable and useful commodities, as the objective of other valuable things is getting benefit out of them.

هما "Imam Ghazali, the great philosopher of Islam wrote in his famous book *Ihya' ul Uloom*, (أي النقدان الذهب والفضة) حجران لا منفعة في أعيانهما "لا غرض في أعيانهما"، "النقد لا غرض فيه"، وهو وسيلة إلى كل غرض" (المصري، 1981، ص 23).

These both (gold and silver) are metals and have no benefit in them as commodity, there is not any in them as commodity, the money is not an objective but it is a means to an objective.

Ibn Qayyem (d. 751 AH), another great scholar and student of Ibn Tamiyyah, also said;

"الأثمان (النقود) لا تقصد لأعيانهما، بل يقصد التوصل بها إلى السلع، فإذا صارت في أنفسها سلعا تقصد لأعيانها فسد أمر الناس." (المصري، 1981، ص. 24)

The money (gold and silver) is not intended as an objective, but it is intended as a means to get any other commodities, so when it becomes a commodity intended itself as an objective then the system is contaminated.

The role of money, according to these prominent scholars has been mentioned as a medium of exchange. In the last two centuries capitalism has gained some strength as an economic system in the capitalist economies of Western Europe and America, Canada and Australia, the banking industry has obtained a considerable socio-political and economic power in these countries. The banking business in the conventional banking system is based on interest-based mechanism. Money is treated as commodity and commercial banks are the traders of the money. They buy and sell money, they buy money from the depositors who have surplus funds and sell to the borrowers who have deficit. Some definitions of the commercial banks state that they are not only traders of money but also manufacturers of money. Because they create credit so it is a creation of money. If the money is considered as a commodity and traded like any other goods and commodities then it creates huge problems for real economy. The real economy will not gain any benefit and there will not be any increase in real wealth of the economy. It will create only concentration of wealth and cause more disparities and inequalities in the distribution of wealth. Other goods and services have usufruct that is why they are traded and moved from place to another and people use them to fulfill their needs and desires. But money itself does not have any usufruct and hence is not able to fulfill any materialistic want or need of human beings but it can satisfy only greed of humans. The Messenger of Allah (pbuh) mentioned this human greed in his saying as following;

"لو كان لابن آدم واديان من مال لابتغى واديا ثالثا، ولا يملأ جوف ابن آدم الا التراب،" (صحيح مسلم، رقم الحديث 1048)

If the son of Adam has two valleys of money then he looks for the third one and nothing will fill the belly of Adam except the dust of grave.

In Islam, there is guidance and teaching for keeping and holding money as well. The hoarding of money or what has been called *Iktinaz* in *Surah Al-Tawbah* verse 34 has already been mentioned in previous section. If the money does not circulate in the economy then it does not encourage the economic activity. It is really important that one unit of money how many times and in how many hands circulates in a particular time period. In Fisher's 'Equation of Exchange', it has been defined as the velocity of money (Fisher, Irving. 1911). The more a unit of money is used in number of hands and transaction, the more it is useful and productive for economic activity. Therefore, the Messenger of Allah (pbuh) laid down many remedial measures so the wealth does not concentrate in fewer hands. In contextual meaning the verse in *Surah Al-Hashr* is related with booty collected in the war without fighting, from the disbelievers (*Ma'l faiy*) as Allah swt mentioned;

"كَيْ لَا يَكُونَ دُولَةً بَيْنَ الْأَغْنِيَاءِ مِنْكُمْ" (الحشر- 7)

So that it will not be a perpetual distribution among the rich from among you.

Moreover, Abu Zar Ghifari narrates from the Messenger of Allah (pbuh), saying;

"ومن رفع دنائير أو دراهم أو تبرا أو فضة لا يعدها لغريم ولا ينفقها في سبيل الله فهو كنز يكوى به يوم القيامة" (أخرجه أحمد، 21557).

And if someone raises dinar and dirham or gold and silver and does not account it for the needy and also does not spend it in the cause of Allah, then it is hoarding and he will be punished with this on the Day of Judgment.

But in real terms the meaning of the verse in *Surah Al-Hashr* is not restricted only to this special kind of money or the wealth that is called '*Ma'le Fay*' but it is extended to everything valuable that someone wants to keep and accumulate as money and wealth and gets benefit out of it. Rather than hoarding of money and leading to concentration of wealth, Islam has emphasized on spending and participating in economic activities. There are numerous commandments to carry out this business so the money does not remain idle or unutilized. The obligatory charity (*zakah*) and inheritance (*irth*) and optional charities (*sadaqa't nafilah*) and recompense (*kaffara't*) are some of them. Islam has encouraged the earning of sustenance and

provision of life and mentioned in Quran that if the wealth is obtained in a *Halal* and permissible way then it is the bounty (*fadhal*) of Allah. Nevertheless, there are some restrictions on how to earn the money and the wealth and then to accumulate it. Also, it is interesting to note that the money gives you benefit only when it leaves you. As long as you are keeping money in your custody and you are not spending it then you will not gain the benefit out of it.

The concept of *Halal* and *Haram* in Islamic modes of transactions and financing has a crucial role. Apart from *Riba* and *Gharar* which are explicitly prohibited there are other rulings that someone needs to keep in mind and also observe these rulings in the transactions. Otherwise, anything which is not permissible for consumption is also not permissible for sale and its trade is also illegal and *Haram* the money earned in this way is also *Haram*. As mentioned in the *Hadith* of Prophet (pbuh):

"إن الله إذا حرم شيئا حرم ثمنه"، (سنن أبي داود، رقم الحديث 3488)

Indeed if Allah has declared something Haram then its price (selling and buying) is also Haram.

So the commercial transactions of *Haram* things and trade of such commodities will also be considered and declared *Haram* and illegal.

Money in Islamic economic system is considered as a means of transaction and medium of exchange. Imam Ghazali (450-505 AH / 1058-1111 AD) the great philosopher of Islam, has mentioned the nature and functions of money long before the western economists had defined and developed the concept of money and its functions. According to him:

"فخلق الله تعالى الدينار والدراهم وامتوسط بين سائر الأموال، حتر تقدر الأموال بهما فيقال: هذا الجمل يسوي مائة دينار" (المصري، رفيق يونس ١٩٨١، ص ٣٧)

It means that Allah created Dirham and Dinar as measure of value and medium of exchange in all the transactions, even the value of valuables is determined in terms of Dirham and Dinar. For instance, the price or the value of this camel is hundred Dinar.

Imam Ghazali also mentioned in his famous book *'Ihya' a ul Uloom'*

"من نعم الله تعالى خلق الدراهم والدينار، وبهما قوام الدنيا، وهما حجران لا منفعة في أعيانها، ولكن يضطر الخلق إليهما من حيث إن كل إنسان محتاج إلى أعيان كثيرة في مطعمه وملبسه وسائر حاجاته" (المصري، رفيق يونس، 1981، ص 36)

It is from the blessings of Allah the Almighty that he created Dirham and Dinar and the whole world depends on them in commercial transactions. They are nothing but two metals and there

is not any usufruct in both of them but all the humanity tends to them for their transactions because they have several needs in terms of food, dress and other sustenance.

Also, another great scholar and renowned historian, Abdur Rahman Ibn Khaldoon (732-808 AH) wrote:

"خلق الله الحجرين المعدنين من الذهب والفضة قيمة لكل متمول، وهما الذخيرة والقنية لأهل العالم في الغالب." (المصري، رفيق يونس، 1981، ص 53)

Allah the Almighty, created two minerals: gold and silver and they determine value of everything valuable.

Bill Clinton (2009) in the meeting of World Economic Forum rightly pointed out that 'I believe that when we get through this we'll have a 21st century finance system that will make money the old-fashioned way by investing in goods and services that are needed for the modern world. So, I think it will be quite a modern economy but I think we'll go back to a lot more traditional finance. People will still make money but it won't be like it was in this decade, I think that will be a good thing'.

The Islam teachings and the prophetic guidance is very clear that money is not ought to be used in unproductive and useless and harmful transactions. These teachings came longtime ago, when there was not any concept of financial crisis, as later these occurred in modern economic history. There are two uses of gold and silver; as commodity and as money. For both of these uses the sayings of Prophet (saws) guided the followers of Islam how to use them. If these precious metals gold and silver are used as money then it is a trade of money and Prophet (pbuh) laid a rule about this trade saying:

"لا تباعو الدرهم بالدرهمين ولا الدينار بالدينارين" (صحيح مسلم، رقم الحديث 33)

Do not sell one dirham for two dirhams and one dinar for two dinars.

Moreover, the Messenger of Allah (saws) said about the trading of the money,

"الدينار بالدينار والدرهم بالدرهم ليس بينهما فضل، ولا يباع عاجل بأجل" (مصنف ابن أبي شيبة - رقم الحديث 21883)

Dinar is exchanged for dinar and dirham for dirham, there is not extra charging and also not sold on credit.

These sayings of the Prophet (pbuh) explicitly mention that one *dirham* cannot be sold for two *dirhams* and one *dinar* cannot be sold for two *dinars*. It implicates that any monetary

transaction which is based on the surplus (getting extra) of same kind of money is not allowed. If the money involved is used through trade transaction as a medium of exchange and there is some surplus in the money then it is a *Halal* profit. For example, the Messenger of Allah (pbuh) once gave one *Dinar* to one of his companions, Urwah Al-Barqi and asked him to buy a sheep for the Messenger of Allah (pbuh). He took one *Dinar* and bought two sheep and sold one of them for one *Dinar* and came to the Messenger of Allah (pbuh) with one *Dinar* and also one Sheep (*Sahih Bukhari*-Hadith No. 3370). So, if there was not trade transaction then the increase in the *Dinar* was not permissible. But once the money has been used in the trade transaction and it is increased then it is allowed and the surplus is legitimate profit from *Shariah* perspective. The value of money is the purchasing power of money. How much amount of goods and services a unit of money can buy is called the purchasing power of money. In the research literature, the value of money is linked with inflation and some scholars have the opinion that based on indexation or rate of inflation, the compensation of money has to be paid in deferred payments or paying off debts (Ali, Farhan. 2019). But the majority of the scholars does not agree with this point of view and says that any extra amount based on any monetary transaction would be considered as *Riba*.

Contrarily, if the money is used as a commodity then the explicit ruling of the Prophet (pbuh) gives a significant and clear indication as following;

"الذهب بالذهب والفضة بالفضة والبر بالبر والشعير بالشعير والتمر بالتمر والملح بالملح مثلاً بمثل، يدا بيد فمن زاد أو استزاد فقد أربى، الأخذ والمعطي فيه سواء". (رقم الحديث صحيح مسلم ١٨٥٤)

The gold with gold, silver with silver, barley with barley, wheat with wheat, dates with dates and salt with salt with equal amount and weight and on the spot hand in hand, if anyone paid or demanded extra then involved in interest, the payer and receiver are equal.

It means that the trade of gold and silver (along with other commodities mentioned in the *Hadith*, as barley, wheat, dates, salt) has to be on the spot and no difference in the weight can be given or taken if it is homogeneous commodity. If someone demands extra then he is dealing with interest and in that case both; the one who is paying and the one is gaining both are equal.

So, Islam discouraged any monetary transaction which is purely trade of money and does not involve the real transaction of trade of goods and services. It means that Islam has closed all kind of possible doors from where somebody can make money without any effort or going through any physical fatigue or taking any risk. Also, the possession of the goods and commodities and their movement from one place to another is one of the essential conditions in trade transaction. The Messenger of Allah saws has declared very explicitly that somebody must not sell any

commodity unless he has taken the commodity in his possession and he has changed the storage of commodity from seller's storage to buyer's storage.

The *Hadith* of Zaid bin Thabit explains the importance of economic activity and the use of money in trade transaction and movements of the goods and commodities.

"ابتعت زيتا في السوق، فلما استوجبت له نفسي، لقيني رجل، فأعطاني به ريحا حسنا، فأردت أن أضرب على يده. فأخذ رجل من خلفي بذراعي، فالتفت، فإذا زيد بن ثابت، لا تبعه حيث ابتعته، حتى تحوزه إلى رحلك، فإن رسول الله صلى الله عليه وسلم نهي أن تباع السلع حيث تبتاع، حتى يحوزها التجار إلى رحالهم" (سنن أبي داود – رقم الحديث 3499)

Ibn Umar says, I bought cooking oil from the market and I wanted to keep it for myself, a man came to me on the way and offered me a good profit, I was likely to complete my transaction with him but someone caught my arm from the back, I saw he was Zayd bin Thabit, he said the Messenger of Allah (pbuh) forbade from selling the commodities where they are bought from, until the traders have moved them to their places.

In the light of this *Hadith*, I found an interesting discussion in a book known as "Tragedy and Hope" by Carroll Quigley (1966), he suggests that value of money is in the goods and the value of the goods is in the money. In trade transactions, goods are moved from low-priced areas to high-priced areas while money on contrary is moved from high-priced areas to low-priced areas. Goods are more valuable where prices are high and money is more valuable where the prices are low. The goods are wealth which you have while money is a claim on wealth which you don't have. Thus, goods are an asset and money is debt. He concludes goods are wealth while money is not wealth.

In Islam, money should be used as a medium of exchange and store of value. It is a means to attain other objectives and it is not an objective itself. It is not a tradable commodity and it does not have utility or usufruct and so, does not have any ability to fulfill any human needs like hunger, thirst etc. It cannot be used to provide heat and shelter. So, Allah (swt) created money to serve the humanity facilitating trade transactions and it was not a master of human race that humans start worshipping it.

Those who live and die for money and money is the purpose of life, then the Messenger of Allah (pbuh) said the following *hadith*,

"تعس عبد الدرهم وتعس عبد الدينار"، (صحيح البخاري – رقم الحديث 6071)

The worshiper of dirham and dinar is always unhappy and unsatisfied.

It means that one who worships Dirham and Dinar, meaning lives and dies for money and the money is the only purpose of his life, and then he is relapsed and deteriorated and never ever satisfied and achieved his goal. It has already been mentioned that there is not any end to the human greed. Only the dust of grave can fill the belly of human.

3. The Role of Money in Banking System and Financial Crisis

The prevailing banking system has a long history, approximately more than 600 years old. The banking system started very simply by the traders of gold 'the goldsmiths' who used to keep the golden and silver coins of the people for safeguarding and protection from theft and loss and write the certificates on paper indicating the amount of gold and silver coins deposited and the names of the owners. The abundance of the gold and silver coins in the custody of goldsmiths gave them the opportunity to advance loans to the traders facing deficit and charge interest on these loans. It was the beginning of paper money and modern banking system which actually started in Italy as a Mercantile Banking and it is also interesting to note that word *Bank* is an Italian word that means 'table'. (Zakariyya A H Basha, 1989).

Through various stages and evolutionary developments, the modern banking system emerged in its prevailing form in 16th and 17th century where the financial intermediation, money exchange, accepting deposits and advancing loans became the main functions of banking institutions. The banks became traders and manufacturers of money. The fractional reserve system is the base and structural foundation of modern banking system along with interest-based mechanism. Although, the central banks control monetary policy but fractional reserve system gives power to commercial banks for money creation. Based on the inflationary situation and needs of the credit creation in the economy the central bank determines the minimum reserve ratio (Required Reserve Ratio), for example, 10 % or 15% or less and more. Conceptually, the tool of minimum reserve ratio is regarded as one of the basic tools of central banking to control money supply and dealing with inflation or deflation. In all text books of Economics it is mentioned that in case of inflation the government or the central bank needs to reduce the money supply using the instruments of monetary policy and vice versa (Zubair Hasan, 2009). Among the important monetary policy instruments there are open market operations, reserve ratio and interbank interest rate.

The reserve ratio is determined by the central bank to control the money supply, but what we have witnessed in the financial crisis of 2008 the commercial banks advanced huge amount of loans for housing mortgages and it created housing bubble. The researchers found the major cause of the crisis as combination of asset price bubble, mainly in the real estate sector and a

credit bubble that lead to excessive leverage (Gros, Daniel, 2010). The immediate cause of the crisis was housing bubble. The housing bubble means the inflated prices of the houses, the price of an asset increases above the true intrinsic or fundamental value, the basic value is \$ 20.00 but it increased for certain reasons \$ 20,000. 00. In USA the prices of the houses between 1990s until February 2007 increased by 130 %. The reason for such an increase in the housing prices was low interest rates, which were lowered from 6.5 % to 1 %.

The other reason was global saving accumulation; savings flowed from China, Japan, Germany and the oil-exporting Middle Eastern countries into the US economy. The increase in the supply of funds in the US led to a decline in the interest rates. The commercial banks were lending more and more and the prices were increasing more and more. It was assumed that the prices of the houses will keep on rising, so the commercial banks were lending to sub-prime borrowers with low creditworthiness. The Fed (US Central Bank) raised the interest rates from June 2004 to June 2006 and reversed the low interest rate policy and it lead to a fall in the housing prices as mortgages interest rates were higher and people were not able afford and borrowers became defaulters and banks acquired the houses and some people refinanced. Even the banks had to suffer the loss by selling at lower prices. There was 25 % decline in the housing prices.

The Mortgage Back Securities (MBS) and Credit Default Swaps (CDS) were new financial instruments in the financial market to make money out of nothing. The banks were selling these securities and swaps to the investors and it was a fake economy or financial economy rather than real economy. The process of securitization was promoted by private corporations Fannie Mae and Freddie Mac sponsored by the US government. These both corporations owned nearly US\$ 5 trillion in mortgage obligations. The CDS is an insurance instrument, where the investors were able to insure the loss in mortgage back security. So, a simple mortgage loan was sold again and again through different financial instruments on the name of investment and securitization. When the housing bubble burst then US\$ 15 trillion were vanished from the economy. (Usmani, 2010, Maridusmita, 2020).

Since, the financial and banking institutions started operations and practices concerned with trading and dealing with money, money was traded as a commodity and sold and purchased and interest rate was regarded as price of money. The modern banks by definition are called not only traders of money which buy and sell money, but they are also called manufacturers of money or what is called credit creation in banking terminology. All this banking business is based on interest rates. The Islamic economic system has a paramount feature of prohibition of interest.

But in the conventional financial system, when the financial crisis emerged, the banking and financial institutions advanced sub-prime loans for mortgages and these loans were further sold repeatedly as mentioned earlier. These activities of the banking and financial institutions did not create solid output in the real economy. But based on securitization and insurance of mortgage securities a global financial economy was created which was called candy floss economy by the economists (Morgan, Tim. 2018).

When money has become an objective and it is being used as a tradable commodity in the financial markets then real economy and production of globally marketable output (GMO) is not obtained in the economy. The real economy will develop only when GMO is produced in the economy otherwise it is a fake economy or candy-floss as mentioned by Dr. Tim Morgan (2018). He presented a useful analysis with some important figures for the US economy that how this economy is not producing any real output. He differentiated between tow kind of economic activities; globally marketable output (GMO) and internally consumed services (ICS). In the United States, GMO like agriculture, energy, extractive industries, construction and manufacturing contributed only \$160 bn, 7 % increase in GDP \$2,340 bn between 2006-2016. Almost all 93 % of growth in the GDP of the United States over the last decade has come from services which Americans can sell only to each other. He calls them ICS activities like finance, real state and government. According to him these services are like taxi rides, meals out, cinema visits and trips to the hairdressers. He concludes that Britain and other European economies are not different in terms of real output and its share to the GDP. He suggests that in real terms the US economy and other developed European economies added nothing or very little to the GDP in this time period. The table below shows and reiterates this reality.

Table 1: Components of US growth, 2006-2016.

Components of US growth, 2006-16				
\$bn 2016	<u>2006</u>	<u>2016</u>	<u>+/-</u>	<u>share of growth</u>
Agriculture & extractive	\$472	\$438	-\$34	-1%
Manufacturing	\$2,120	\$2,183	+\$63	3%
Construction	\$820	\$793	-\$28	-1%
Net exports of services	<u>\$89</u>	<u>\$248</u>	+\$159	<u>7%</u>
Globally marketable output (GMO)	\$3,501	\$3,661	+\$160	7%
Finance & real estate	\$3,256	\$3,884	+\$628	27%
Government	\$2,127	\$2,400	+\$272	12%
Other ICS	<u>\$4,744</u>	<u>\$5,684</u>	<u>+\$940</u>	<u>40%</u>
Internally consumed services (ICS)	\$12,781	\$14,963	+\$2,182	93%
GDP	\$16,282	\$18,625	+\$2,342	100%
<u>Memo: imputations:</u>				
Imputations	\$2,653	\$2,996	+\$342	15%
ICS without imputations	\$10,127	\$11,967	+\$1,840	79%
GDP without imputations	\$13,629	\$15,629	+\$2,000	85%

Source: Candyfloss Economics by Dr Tim Morgan (2018).

The role of money in the financial crisis is quite apparent, because the banks manufactured and traded money as a tradable commodity and the financial sector emphasized more on the financial aspect of the economy and the real economy and was ignored as the money itself became an objective to be achieved rather than a means to achieve other commodities in trade transactions.

In the past, the remarkable effort to change the role of money was Chicago Plan. It was an attempt to solve the problems of monetary and financial system after the Great Crash of 1930s. A group of renowned and prominent economists from the University of Chicago proposed certain proposals in 1933 and circulated the initial draft for the opinion of other economists from the United States and created a memorandum containing the essential reforms for the correction and proper functioning of monetary, banking and financial system to avoid any financial crisis in future. First time the Chicago Plan was published in March 1933 and then in the following years it was published few more times and it gain the attention of leading and prominent economists. Even in 2012 there was a revisit of Chicago Plan and a report was published by IMF written by Jaromir Benes (2012) and Michael Kumhof (2012) on the Plan after the recent financial crisis of 2008. It means the contents of this plan and the proposals still have got a lot of significance and weight among the academia and literary circles of the discipline.

Paul Douglas and Irving Fishier and their other colleagues were the writers of this plan which was based on economic theory and historical evidence. There were a number of points that were related with the reform of monetary and banking system and its proper functioning. Irving Fisher was the major proponent of the Chicago Plan and his ideas were the driving force of this monetary reform agenda. The major purpose was to avoid unemployment, sustain stability, achieve full employment and stop the occurrence of financial crisis like it happened in Great Crash of 1930s.

The basic idea is of the revisited Chicago Plan, that banks should be required to have full coverage for money they lend; this is called 100% reserve banking, instead of currently prevalent system of fractional reserve banking. Under this proposal, banks would no longer be allowed to create new money in the form of credit in connection with their lending activities. Instead, the central bank should be solely responsible for all the creation of all forms of money, not just paper money and coins. The advantages of such a system, according to the authors, are a more balanced economy without the booms and busts of the current system, the elimination of bank runs, and a drastic reduction of both public and private debt. The authors rely on both economic

theory and historical examples, and state that inflation, according to their calculations, would be very low.

The mastermind of the original Chicago Plan, Irving Fisher, and his colleagues discussed some great advantages in state-controlled issuance of money compared with the private money creating activity of the banks through credit creation.

The most important feature of the new Chicago plan is that the banks are not allowed to create private credit based on fractional reserve system and they are supposed to follow the policy of 100 % reserve system. The government has to be responsible for creating money. (CEPR, 2012).

The Chicago Plan and other monetary reforms proposals have suggested that the banking system should be based on 100 reserve system. It means that commercial banks must not be allowed to advance loans and finance based on fractional reserve system. The saving account deposits are time-deposits but current account deposits are the demand deposits which could be withdrawn at any time. The separation of commercial and investment banking and adoption of 100 reserve systems will save the economies from many unwanted fluctuations and financial crisis. It will decrease the ability of the banks to create money out of nothing. In the report published by Bank of England (2014) it has been discovered that 97% money was created by the commercial banks and the Bank of England did not have any control on this money supply. The Bank of England report published in 2014 and the remarks of ex-governor of the Bank of England, Mervyn King (2016) suggest that the current role of money and its use as a tradable commodity created problems. The need of reformation of the monetary and financial sector through banking system is the only way forward. But as it has been mentioned in the Chicago Plan for Monetary Reform, it is not so easy. The president of the United States, Franklin D. Roosevelt tried to change the role of money and control the banking system and he expressed his wish to do it on numerous occasions but he was not able to bring the change. Carroll Quigley (1966) mentioned in his book how a 'secret mafia' is controlling the financial system of the world which constitutes a network of owners' families of international banks.

The people around the world want economic stability and jobs for everyone, equitable distribution of income and sustained economic development. But a minute minority of the those who own these international banks they can make huge money only in maintaining of this fractional reserve system in the banking and financial sector along with interest-based mechanism. There is dire need to make them realize that such system cannot sustain and work longer if the majority of the people are losing their wealth and jobs again and again.

Muslims are more optimistic and confident that Islamic financial institutions are more asset-based and resilient to the fluctuations. But, of course, if the Islamic banks are following the same course of action as followed by the interest-based banking system then in future the result will not be different. Merely the elimination of interest from banking system and application of certain rules is not sufficient. In the legal terms we can suggest that it is Islamic banking. But the assurance of the *Shari'ah* compliance in all monetary transactions and following of hundred percent reserve system is also important. The resilience of Islamic banks in the financial crisis of 2008 was linked with asset-based financing. It gave an advantage to Islamic banking and financial institutions in terms of performance. But Shariah-based operations are essentially important in IBFIs.

Dr Asad Zaman (2014), Dr Zubair Hassan (2009) and other senior Muslim economists have pointed out these issues in Islamic banks, but unfortunately the Islamic banking practices have been on the same pattern as in the conventional banking system. Merely the legal perspective of *Shariah* compliance to make the transactions Islamically acceptable will not make a difference if the foundational structure and basic rule of money has not been rectified.

The Islamic banks must be different from traditional and interest-based banks not only in practices and functioning but also in philosophy and ideology. The *Shariah* governance has great honor and significant role in Islamic financial institutions and it is the moral and religious obligation of those who are responsible for *Shariah* compliance to ensure the Islamic rulings are not invalidated or reversed.

Conclusion

The nature of the article is quite complex. It is related with the nature and role of money, the impact of money and its role on financial sector and creating fluctuations. However, based on the literature review and discussions from other studies mentioned in the paper, the author of this paper has attempted to develop the argument that there is a dire need to change and reform the current role of money, and hence, also the monetary and banking and financial systems. The role of money is a medium of exchange and it must not be used as a tradable commodity. The fractional reserve system in the banking should be reviewed and credit creation by commercial banks must be regulated by the governments. Investment and commercial banking must be separated. Banking loans must be on profit and loss sharing. The Islamic banks should be Shariah-based rather than Shariah-compliance. The compliance of *Shari'ah* is important in all commercial transactions and monetary affairs. For Corporate Social Responsibility (CSR) in the banking sector, the role of money has to be changed as a medium of exchange.

The world is in the pursuit of a new role of money and financial system, especially after these frequent occurrences of financial crisis. The revealed knowledge can play a significant role in finding out the solutions of these problems which could repeatedly cause distortion and turmoil in economic activities. Undoubtedly, the human intellect is a great blessing of Allah, but it needs the guidance from the revealed knowledge, and those who have acquainted the revelation-based knowledge it is their responsibility to disseminate it and help in finding the solutions of arising problems.

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