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From metal to paper: validating paper money from Islamic perspective

Imtiaz Mohammad Sifat and Azhar Mohamad
Department of Finance, International Islamic University Malaysia – KENMS, Kuala Lumpur, Malaysia

Abstract

Purpose – The purpose of this paper is to provide a critical, historical, and legal account and analysis of how money, an inexorable lubricant of all economies, evolved from metallic origins to acceptance in paper form in Muslim traditions.

Design/methodology/approach – This paper underlines flaws, points of objections, corollaries and counter-points, and it ends with a thematic discussion on the way forward for Muslim nations with respect to various political and regulatory implications for implementations of potential paper money alternatives

Findings – After undergoing experimentation and customary use of various objects as money (such as sea shells, gold, silver, stones, tobacco, etc.), the world has finally settled down by embracing paper money as an official medium of exchange.

Originality/value – Paper money also endured many financial crises and initial oppositions to its premise. From an Islamic standpoint, paper money poses certain flaws and limitations that can make it unacceptable from legal perspectives.

Keywords Africa, Bimetallism, Shariah, Currency, Murabitun movement, Paper money

Paper type Research paper

1. Introduction

Money is an inexorable agent of galvanizing human economic activities, that take place not merely through facilitating exchange but also through the roles of money as a unit of account and store of value. After undergoing many form-wise experimentations as sea shells, gold, silver, stones, tobacco, etc., the world finally settled for paper money as a medium of exchange, albeit not without initial oppositions and several financial crises soon after reincarnation in the early 1900s (Zahid and Shapiee, 2014). Despite staying relatively unchallenged in Muslim intelligentsia for nearly 80 years, the 1990s saw a polemical movement from several Muslim academics and clerics arguing from a conflux of economical, legal and political perspectives of the ills of paper currency. The same group trumpeted a return to gold and silver as the elixir to all economic plight of the *ummah* – and humanity by extension. Naturally, fiat money was put on trial – particularly its now ubiquitous paper form[1]. In some regions (e.g. Southeast Asia – typified by Malaysia), a coterie-surfaced, promulgating gold *dinar* as the sole *Shariah* consonant currency – with some even asserting it as a religious obligation and no other currency suffices as a creedal demand. As a result, the *dinarists*[2] gainsay all use of paper money, as it is unbacked by any gold. This led to confusion in many Muslim communities and scholarly circles –

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inviting a fresh examination of legal and socio-economic realities concerning paper money (Meera and Larbani, 2003). The resultant scholarly affray pitted gold *dinar* and paper money into gladiatorial opposites: absolutely ideal and absolutely abhorrent.

History shows that gold *dinar* and silver *dirhams* were indeed used as *de facto* Islamic currency since the time of Prophet Muhammad until the capitulation of the Ottoman Empire in early 1900s. The emergence of paper money during the twilight of the Ottoman Empire offers a challenge to Islamic jurists as they grappled with seemingly paradoxical tasks of upholding Islamic traditions of gold *dinar* and silver *dirham* while validating usage of paper money, which the whole world began to swiftly embrace. With the approbation of the late-Ottoman-era clerics, the currency discourse went on a hiatus. Among the modern revivalists, the World Murabitun Movement is an assiduous advocate of the physical use of gold and silver as the only acceptable form of currency for Muslims (Bubandt, 2009). They pronounce a blanket ban on all forms of paper money. Vadillo, another vocal advocate of *dinar*, deems all paper money systems as haram, likening it to the receipt of *dayn* (debt) (Vadillo, 2012). It is worth noting that in Islam, exchange of debt is not allowed. It must be limited to private contracts (Khan, 2000). Vadillo's prime argument stems from Malik bin Anas's al-Muwatta who chronicles the early Medinan practices during prophetic and immediate post-prophetic periods. The primary evidence cited is the tradition of Marwan ibn al-Hakim ordering guards to confiscate all receipts of debt which used to be traded openly in the market of al-Jar prior to arrival of goods. Marwan eventually returned the debt receipts to their original owners. Imran Hosein supplants this argument by invoking elements of *gharar* (ambiguity or deception) and rampant *riba* (usury) (Hosein, 1997). *Gharar* is argued to be essential for the basis of unfair profit in unequal exchange of money (Cizakca, 2010). This happens as *real money* is replaced with paper and artificial substitutes[3]. Besides, it is argued that the surplus arising out of banks' creation of money constitutes unjustifiable and excessive profit through credit multiplier mechanism. Hosein is also critical of the irredeemability aspect of paper money into something tangible and valuable (especially gold). Zuhaimy Ismail further adds that acceptance of paper money has contributed to institutionalization and cementing of usury in all aspects of Muslims' lives (Ismail, 2012). The nub of the *dinarist* call can be summarized as: "Since paper money can't exist without *riba* (categorically forbidden in Islam), it must be *haram*". A more tempered view exists among *dinarists* who advance the use of gold as a back-up for value if paper cannot be accepted as a currency.

This paper is organized in the following way. First, we present the standard econo-historical narrative of money's evolution in contradistinction with Muslim jurists' conceptualization of money's definition and role – including a brief survey of classical juristic positions. Thereafter, we delve into the meat of the paper – a chronicle of econo-legal frameworks wrought by modern scholars to validate paper money at various junctures in the past century, in response to a briskly changing economic zeitgeist. Lastly, we finish by connecting the salient arguments of pro-paper group to the objections of *dinarists* and underline the need for future research in this topic from a multi-disciplinary perspective.

2. Evolution

From time immemorial, money has been understood as the prime medium of exchange, a unit of account, store of value and a standard of payment. Commodities such as sea-shells, ivory, fishbones, tea, rice and even cigarettes gained acceptance as money throughout history. The specialization of vocations owing to division of labor, coupled with complications of barter, led to the need of a more abstract and complex kind of money. Thereby, commodities lost attraction as money, as they themselves vacillated in value – subject to supply and demand. They also suffered from physical erosion and ponderous transportation drawbacks. Among the pre-requisites needed to qualify as money, economists agree that money has to be stored and carried easily, and it should stand through the test of wear and tear, etc. It is thus hardly surprising that gold and silver grew so widespread throughout history. Because common people were not privy to their exact mass and value, standardization was necessary. Hence, governments intervened to prevent haphazard minting of coins by blacksmiths and eventually absorbed the responsibility to mint so that mass and quality can be guaranteed. States would seal precious materials in a coin format to enable people to use them freely in exchange for goods and services. Because the coins exclusively consisted of the metals originally, their values were corresponded to the proportion of the metallic content. Only then public's trust in it gained ground. Despite such advantages, some problems arose out of using gold and silver coins, which ended up impeding economic exchanges and productivity. The ultimate result was innovation of newer forms of money. Some systemic drawbacks associated with gold and silver coins included widespread government and private delinquency in purposely altering the metallic content, proliferation of alloy-making technology and theft. Besides, wherever regulated means of coinage minting was absent, the unstandardized coins would grow in the circulation of various shapes and materials, eventually triggering *Kopernik's Law*[4].

The bulk of historical artifacts and archaeological excavations inform us that currencies of medieval era were metal coins – with gold and silver being the dominant duo. In the Arabian Peninsula, which would later be the cornerstone of the Islamic world, gold *dinar* emerged as the choice currency under the Byzantine Empire, while the silver *dirham* was prominent in the Persian Empire. Less than half a century following the conquest of Roman and Persian empires, the Islamic state officially started the process of minting Islamic *dinars* and *dirhams* (Dunlop, 1957). This version of money's evolution is the default narrative in economics and history textbooks. It is also uncontested in Muslim circles, sans a few dissenters who espouse a more theological/mystical take on the origins of money. Some Islamic economics experts and theologians refer to a prophetic narration by Ka'ab al-Ahbar, which claims Prophet Adam to be the first person to mint gold as currency (Faruqi, 1979; Şengül, 2015). Its proponents buttress the conclusion upon the premise that since Adam was taught all the names of things in existence till the Day of Judgment, it stands to reason that Adam also knew what money and *dinar* was. This view remains at the fringe, as orthodox Sunni and Shi'a scholars do not ascribe to Adam the status of originator of gold and silver simply for the fact that he was taught the names.

Translating money to classical Arabic without sacrificing its modern *moneyness* characteristics is challenging. A rough early equivalent is *naqd*. Its lexical roots emerged to distinguish between two things and/or determine their realities (Wenzel, 1987). Classic Arabic dictionary *Qamoos* mentions *naqd* as the distinguisher between *dirham* and other items (Jallad, 2008). Modern economics considers money a measure of four matters: a medium, a standard, a measure and a store. Technically, it can be anything that surfaces in a society as a medium of exchange. This precludes requirements of intrinsic value, surrounding which much controversy exists. Thus, the fact that exogenous factors such as legislative decree or coercion imparts its value is immaterial – as evidenced by worldwide embrace of fiat regimes. This is congruent with Malik bin Anas's stance that societal acceptance is a firm determinant of money's form. According to Malik's *fatwa*, if the society agrees upon treating animal skins as money and it were forged into pieces resembling coins and monetary units, it would be reprehensible to be traded for gold and silver on a deferred basis (Bubandt, 2009). Centuries later, *Hanbali* jurist Ibn Taymiyyah believed no religious compulsion exists in legally defining what naturally constitutes money. He considered social habits and custom to be ultimate authority of what qualifies as money, predicated upon the principle that the money itself isn't the objective of trade; instead, they are a standard for transactions – acting as *de facto* numeraire (Islahi, 2005). In this way, he explained legitimacy of gold *dinar* and silver *dirham* as money. Similarly, Shafi'i scholar al-Ghazali also ruled that money can be anything that is consented to in a society, including even pieces of wood or stone (Islahi, 2001). This contradicts a common *dinarist* claim that gold and silver have exclusive and a religiously ordained right to be decreed as money (Hosein, 2011).

The classical discussions on the validity of money shifted course radically as paper money's introduction became widespread. As early as the nineteenth century, it was widely regarded that paper money represented gold reserves with a central regulatory authority. Nonetheless, in the twentieth century, this became less convincing, as it no longer reflected reality. The last nail in gold's coffin was delivered in the UK in 1931 and in the USA in the 1970s upon the collapse of Bretton Woods agreement. As of now, no country in the world issues a currency backed up by or based on gold and/or silver. As paper money now dominates economic transactions and forms the basic unitary block of all economic measurements, a novel approach had to be devised by Islamic jurists to patch together a legal and economic framework to tackle this novel form of money previously unused in the Muslim realm. Thus, newer concepts were to be developed by Muslim jurists, with precedents from classical *fiqh* (Islamic jurisprudence) – to preserve orthodoxy – while facilitating the obvious economic need of transacting in paper money.

An exhaustive literature review lends credence to the understanding that these conceptions are not attractive merely because they are historically or legally sound. Rather, the constrictions wielded by modern economic realities invite a necessity to solve the conundrum in such a way that makes money usage not only legally acceptable but also permits economic transactions which are indispensable for day-to-day operations in Islamic countries. At the same time, the theorists and industry practitioners are accused of relying on *hila* or legal tricks or loopholes to facilitate such transactions, which further underscore the failure of theory to provide fodder for practitioners. Examples of these include links to foreign exchange transactions, forward sales (sometimes including *salam* and its auxiliary innovations), financial engineering products, derivatives, etc. Moreover, the political realities have a bearing on the decisions rendered by the jurists. Case in point: El-Gamal delivers several scathing indictments of '*ulama*, whom he calls rent-a-jurist (El-Gamal, 2013)[5]. Bianchi also outright castigates this endemic trend and goes as far as coining a new phrase to name this trend: a class of financial '*ulama*, who serve on boards of *Shariah* compliance or compatibility of various Islamic banks, or conventional banks with Islamic banking wings, endorse products, assess the legality of practices, conduct audits, deliver religious edicts pertaining to transactions, address concerns, etc. (Bianchi, 2007). We reiterate the point made by many economists that the conceptualization and legality of modern (fiat/paper) money itself lie at the root of these problems. Hence, how modern Islamic scholars view the permissibility of paper money is of significance for advancing the discourse to practical solutions in Muslims' economic lives.

3. Islamic jurists approach to paper money

Compared to strands of conventional economics with over a millennium of history of monetary development, Islamic discourse on money is rather scant. One explanation for this could be that paper money was not known to classical jurists of Islam during the codification stage of major schools of jurisprudence as paper money had not gained circulation at the time. This holds true both for lands under Muslim control and neighboring sovereigns. Interestingly, the earliest in-depth discussion on aspects of paper money appear to arise out of scholastic efforts by Muslim jurists in the Indian subcontinent – which neighbors China, the modern practitioner of paper money (Juynboll, 1985). Islamic scholarly literature can be demarcated into three distinct eras in terms of its treatment of money:

- pre-prophetic Arabia when convention was law;
- prophetic to dynastic caliphs' era; and
- modern era (twentieth century onward).

The first two eras are of less legal consequence, as the prophet neither enjoined nor favored a particular kind of money. From the Hanafi School, al-Sarakhsi believed gold and silver to be synonymous as money and clearly outlined their property as medium of exchanges. Other Hanafis also maintained that gold and silver are not desired for themselves but rather for the values they represent. Ahmad ibn Hanbal mirrored Malik bin Anas's flexibility of form and asserted that money's most practical attribute is that it is a unit through which other goods are valued – i.e. a *numeraire* (Mohamad and Sifat, 2015). Ibn Qayyim fine-tunes this further by qualifying money to have a value which should not fluctuate much arguing that if its value is volatile like other commodities, society will suffer from the lack of a yardstick to measure value of traded objects (Islahi, 2005). Al-Ghazali added a spiritual requirement of money condemning its use beyond what its creation was intended for (Islahi, 2005). A detailed historical survey of money's conceptualization by medieval Muslim legal experts is beyond the scope of this paper. Nonetheless, to facilitate ease of understanding, a synopsis table is furnished below grouping scholars and their views regarding money.

Having outlined a brief synopsis of the position of the classical jurists regarding money – who serve as precedents for later scholars — we now segue our attention contemporary scholars' attempts at validating paper money. Consistent with the monetary approach emanating from the traditionalist slant of *fiqh*, we now divide the modern pro-paper strand into several distinct approaches. These major approaches are discussed below.

3.1 The Al-Azhar approach

Al-Azhar University of Egypt, a foremost authority in orthodox Sunni tradition, delivered religious edicts in its mosque in Cairo in the 1900s, in which paper money was understood as a bond tethered to metallic deposits of gold and silver (Oreibi, 1988). This line of reasoning is ostensibly convincing since the linearity of metallic deposits and paper money through a debt obligation between the leading institution and public is legally sound. Historically, in the Western hemisphere, this is indeed how conventional monetary innovations began. Nonetheless, this harness no longer exists. The major bases for this approach hinge on assumptions that the promise of issuer to pay back the value of money to bearer on demand, the need for backing paper money by precious metals in reserve, and recognition that when the issuer abolishes the money its value ceases to exist. Ahmad Hussaini, a major proponent of this view, rationalizes this view on several grounds. First, the promise to pay back is rendered meaningless when paper money is indeed a true currency. He points out that the modern banknote derives from French Banque Note, which the Larousse defines as a mineral currency that can be traded for cash value and has to be guaranteed in order for the public to have faith in it. This view can be rationalized with analogy to the *hiwalah* (transfer) transaction. Moreover, governments allow banks to produce debt documents through stipulation of certain conditions, under which, the general people vest their trust and consider the debt receipts with respect until economic troubles befall the banks and/or the government begin to withdraw the values associated with debt receipts. This eventually slows the payment process and banks' withdrawing the values. Thus, debt receipts are rendered worthless, upon which confidence in them diminishes.

In this approach, money is understood as a fungible commodity, for which the legal rules of *dayn* or debt apply. Hence, there are insurmountable hurdles to unyoke transactions from elements of debt-trade and by extension usury (*riba*) (Irma Naddiya, 2013). This is due to the fact that Islamic jurists are unanimous on the forbiddance of trading debts, known as *bay'ul dayn bi dayn*. Additionally, *bay'ul salam* or Islamic forward contracts are also proscribed here since *fiqh* restrictions require the value or *thaman* of *salam* to be settled on spot basis. This disqualifies paper money as a legal exchange unit in *bay'ul salam*, as it is strictly a debt, and not cash. The famous hadeeth of six acceptable goods or commodities that are eligible to trade on equality of weight, value and measures is the basis for this technical problem with paper money in this approach, as the connection between the lending institution (usually central bank or treasury) and the common public is a bond. Furthermore, central bankers require holding massive reserves of physical metals to facilitate simple trades or transactions. Opponents of this view also cite the fact that despite legal acceptability of this approach, it is simply not practiced, notwithstanding the problems of facilitating *bay'ul salam*, foreign exchange, as well as imposing unreasonable constrictions on economic transactions. Ahmad Rida al Buraylawi and Ahmad Khatib al Jawi, both alive during the earliest period of paper money's introduction, spoke out against this view, as documented by Syrian jurist Wahbah al-Zuhaili who refused paper money's *I Owe You* (IOU) analogy (Yaacob, 2014). Buraylawi specifically stated that through the banking system a piece of paper is issued to represent debt and the bank owes the sum to the depositor. However, as the depositor returns the paper to the bank, the bank settles its debts. When the receipt holder circulates the paper to other people in the society, it means the bank's debt now transfers to the new holder of the receipt. Thus, in practice, the transfer of receipt between Person 1 and Person 2 reflects the proof of debt transfer. Buraylawi went on to say;

> Even children would understand that this sort of transaction will not happen in the heart of every person who transacts with paper currency. They do not mean by this change: borrow, lend, or transfer.

Al-Jawi further furnishes arguments against paper money's analogy to debt document. Among them are: paper money does not diminish in value because of physical damage to the paper. In fact, the paper is fungible. If a damaged paper is returned to the issuer, it is substituted with another piece of paper which upholds the same rights and obligations. Besides, when a paper money's owner redeems its value at the issuer's counter, paper money is capable of withstanding resale several times while preserving the same value. Even if we consider the transaction as a debt, the debt-free paper must not be resold.

Wahbah al-Zuhaili outright refutes the *qiyas* (analogical reasoning) of paper money as a debt instrument citing that this debt is practically useless to its issuer or owner (Az-Zuhaili and Al-Kattani, 2010). In addition, religious scholars do not demand *zakah* payment on a price which still exists in form of debt, until it is settled or delivered. This is owing to possibility of loss or unpaid transactions. Per contra, paper money can result in benefit to its holder, as is the case with gold – which is deemed valuable against all goods.

Other objections to this viewpoint include striking similarities with *hawalah bil mu'atah*, which means deferment of debt to a third party – in this case the issuing central banks (Malek *et al.*, 2015). Dissensus exists among Islamic scholars regarding its validity. The Shafi'ee school of *fiqh* considers this categorically impermissible because according to the tenets of sales contracts, the offer and acceptance is neither verbal nor executed. Nonetheless, even if it is assumed that third-party transactions are permissible in Islam, it has to be with the party that is obliged to fulfill the debt. Evidence for this comes from a prophetic narration on the authority of Abu Hurairah: "Any tardiness in payment by the rich is injustice. If debt is transferred to one who will fulfill its obligation, the transfer ought to be accepted". Thus, the obligor is also subjected to solvency requirements, credit worthiness and adequate fiscal capacity to uphold the promise. Besides, delay is not tolerated, and the party must be present at the time of settlement. Drawing an analogy of such evidence to modern-day practices of state-issued currencies, it is difficult not to see that the state becomes untrustworthy in issuing paper money, as neither the promise nor the presence in settlement are warranted, in addition to the ability to defer payment (which is not practiced anyway). This renders the transfer of debt invalid. Furthermore, due to the fact that payment of *Zakah* on debt is problematic, such view of paper money negates any obligation to pay *Zakah*, as the debt has not been settled. Lastly, the sale of goods or precious metals that are held in custody for paper money can be compared to sale of *kali'* for *kali'*. *Shariah* authorizes the selling of debt by its equivalent in quantity and time of maturity by way of *hiwalah*. This form of debt trading is recognized by all schools of Islamic law provided it is paid in full and actuates no benefit to the purchaser. The reasoning for this ruling is that financial transactions involving debt should never allow deferred payment, as this would be regarded as *Riba* via *Bay' al-Kali bi al-Kali* (transacting debt for debt) which was prohibited by the Prophet.

3.2 The Suftaja approach

Suftaja refers to a debt transfer transaction popularized in 'Abbasi dynasty, whereby a debtor nominates an agent who owes him a debt, which is then repaid in a pre-determined amount to someone else, to whom first person owes a debt (Ballard, 2014). In this approach, unlike the Al-Azhar simile of bonds, paper money is considered a replacement for the values of silver and gold. Therefore, the money itself absorbs the attributes of precious metals. To make it clearer, every central bank's issued currencies are deemed to be metallic. Al-Masri (2009) attributes this point of view to the Islamic Development Bank (IDB). Historically, this approach appears convincing because paper money developed gradually into a role akin to the emergence of gold and silver in the medieval times. This is also attractive because unlike the Al-Azhar approach, it sidesteps issues of debt-trading: *bay'ul dayn bi dayn*. Nonetheless, there are several practical restrictions associated here. Arbitrarily equating paper money to gold and silver can be argued to be a contrived attempt at legalizing paper money without intrinsic bases. Besides, this equation can be supported only if the money itself is fully backed up by gold and silver. And even that is only possible when a central bank possesses 100 per cent reserve for all the fiat money. In addition, the possibilities of *riba an-nasiah* also means that no interest of any sort can be associated with the paper money, just like the famous prophetic hadeeth of six particles proscribes riba on gold and silver[6]. However, this approach is lenient on foreign exchange transactions because exchanging unequal amounts can only happen if the currencies are pegged to different metals. For example, a paper currency in Egypt that is assumed to be based on gold and silver can easily be traded for euro, which in itself is not backed by anything. Therefore, any exchange rate that is not 1:1 is perfectly alright owing to the currencies being inherently dissimilar without drawing scrutiny of usurious elements. As such, complex and synthetic financial transactions, including some derivative products can be designed. Yet, in actual practice, considerable impediments will exist in triggering cross-border transactions. Interestingly, the main proponent of this view, IDB, is more or less practically immune to this technicality because it itself holds vast amounts of foreign exchange reserves (Chung and Maurer, 2007).

3.3 The fulus simile approach

Some scholars equate paper money to *fulus* (plural for fals) which historically referred to copper coins used in Islamic dynasties in North Africa and Arabian Peninsula. It was also used extensively in cross-Mediterranean Andalusian trade (Retamero, 1996). *Fulus* do not essentially have to be made of copper, although they have been ever since the Arabs imported the idea from the Byzantine traders. The Byzantine worth and coinage of *fulus* were unsteady, but the Arabs steadied it. After Arab intervention, the copper coin weighed 0.194 g, and 48 coins equated 1 dirham in value (Balog, 1961). Proponents of this view and their arguments include the following.

No zakat is due to be paid on paper money unless it is set apart for trade, as paper money is the same as *fulus*. Similarly, no *riba* relates on paper money. People can exchange it in equal or unequal quantities, on-the-spot or on a deferred basis. According to al-Sa'di, this perspective is a restrained one between the commodity view and the view that paper money is comparable to gold and silver. It is also the most practical way to reconcile the various conflicting legal evidences (Yaacob, 2014). Thus, paper money is equivalent to gold and silver in deferred transactions, so one cannot exchange 2 units for 2 units later, but equal to *fulus* in spot transactions. Thus, one can exchange whatever amount one likes on the spot. This is the best view in the situation of need (*hajah*), for paper money is not the same as gold and silver in reality, and this view is grounded on the objectives of *Shariah* without contrasting its texts. Many Islamic jurists have permitted the spot-exchange of *fulus* with gold and silver in equal or unequal value, but not with deferred payment. This holds true even though *fulus* is nearer to gold and silver than paper money.

Other prominent proponent of this view includes Abdullah al-Bassam. He contends that paper money bears a resemblance to gold and silver in some aspects and resembles IOUs or debt receipts in other standpoints (Al-Bassam, 2005). Nevertheless, its sturdiest similarity is with *fulus* coinage such as nickel. Paper money is not fundamentally like gold and silver because it's worth wavers just like *fulus*, attributable to supply, demand, circulation and governmental diktat. Its proponents argue that gold and silver are intrinsically desirable; paper money and *fulus* or *qurush* are only desirable due to government decree. Therefore, paper money is to be treated like *fulus* or *qurush*. From Abdullah al-Bassam's Hanbali background, this is convincing as he cities the preponderant legal opinion in the *madhhab* of Ahmad bin Hanbal that *riba an-nasiah* applies to *qurush* (exchange cannot take place with deferred payment) but *riba al-fadl* does not (meaning, unequal exchange can take place, but only on-the-spot)[7].

Classically, the Islamic jurists had deliberated *fulus* and commonly categorized it into two camps, based on their view of *fulus* as: the original material from which it is made or its part as money and a measure of value. Based on these standpoints, the jurists discerned *fulus* from gold and silver, or associated it with them, separately. More, they correspondingly did not or did treat *fulus* the same legal edict as gold and silver in matters of usury (*riba*), sarf (*exchange*), *salam* (forward payment) and *zakah* (Islamic annual tithe incumbent upon the wealthy at 2.5 per cent).

To delve a little deeper into the legality of *fulus*, classically, a great deal of Islamic jurists considered *fulus* as different from gold and silver, and therefore, contended that it does not share the same rulings regarding *riba*, *sarf*, *salam* and *zakah* (Haneef and Barakat, 2006). Case in point, among the Hanbalis, al-Bahuti mentions in Sharh al-Muntaha that *riba* does not apply to *fulus* that is used by number, even if it is used for spending (*nafiqah*), as it is not restrained by volume or weight and due to the deficiency of an unambiguous legal text (*nass*) and juristic consensus (*ijma*`). Ibn al-Wardi from the Shafi'ees also echoed the view that riba does not apply to *fulus*, even if it is in circulation. Zakaria al-Shafi'ee also mentions in Sharh al-Manhaj that only *riba* is applicable to the types of cash (being gold and silver) even if they are not minted, i.e., in forms of jewelry and bullion, contrasting with trade commodities and *fulus* – even if they are being circulated by custom or legal decree (Al-Ansari, 1980). Sheikh 'Iliyyish transmits the preponderant view in the *madhab* of Imam Malik that no *zakah* is due on copper *fulus* that is minted by a ruler and in public circulation. Abu Hanifah, on the other hand, posited that that if a person accepted *fulus* for dirhams and one of the parties paid while the other postponed payment, this was allowable. Conversely, if both parties delayed payment, this was not accepted because it was a debt for a debt. If a person bought a gold or silver ring with *fulus* to be paid in future, this was permissible. This view evolved to be the standard position of the Hanafi School as recorded in Fatawa Hindiyyah (Al-Balkhi, 2013). This position evokes similarity to the World Murabitun Movement's position regarding the paying of *zakah* on paper money, except that they do not require that it should be for sale as in trading of goods. Instead, the Murabituns consider paper money like gold and silver in being subjected to *zakah* and yet treat it as *fulus* in the sense that *zakah* ought to be paid in gold and (or) silver.

The opposite view too is embraced by many classical jurists. In this approach, the *fulus* are analogous to gold and silver, and consequently, apportion the same verdicts regarding *riba*, *sarf*, *salam* and *zakah*. An alternative view exists in the Hanbali *madhab* to this effect which considers *fulus* in circulation as money (price, *athman*). This is predicated upon the transmission on the authority of Ahmad that 1 fils must not be sold for 2. Some Hanbalis do, however, point out that two opposing narrations from Ahmad exist on the issue. Latter-day Hanbali jurist al-Khattab mentions in al-Talkhis that the final matter was left undecided. One of the narrations is that unequal exchange is not permitted, and this is conveyed by a cluster of Ahmad's pupils.

Another Hanbali jurist, Ibn Taymiyyah, however, was more decisive on the matter of *fulus*. When inquired about the acceptability of *fulus* being accepted for a specified amount of cash (gold or silver) and sold for profit with delayed payment, he responded by acknowledging a recognized disagreement amongst the classical jurists. After surveying the existing positions, ibn Taymiyyah claims some jurists' interpretation of Imam Ahmad's proscription to mean a displeasure, for he said, "It resembles exchange". Ibn Taymiyyah's preferred stronger position is to prohibit this, as *fulus* in circulation is mostly observed as money (*athman*) and is made a degree of the value of general wealth. Furthermore, instituting the *ratio legis* (*'illah*) as moneyness (*thamaniyyah*) is to use an apposite *'illah*, because the ultimate rationale of money (*athman*) is to be a measure of the value of wealth, instead of being benefited by it *per se*. Consequently, if some of it is sold for other of it with deferred payment, the objective becomes trade, which controverts the objective of moneyness. The pre-requisites of spot-based transaction and delivery of payment are to achieve this objective. He also argues that Allah has thus outlawed that money (*thaman*) should be traded for money with delayed payment. Since *fulus* evolved into *de facto* money, the same decision relates to it. Among the Hanafis, the major dissensus emanates from Imam Muhammad's contrary view that opposes his teacher and colleague Abu Hanifah and Abu Yusuf, respectively. Muhammad al-Hasan considers *fulus* that is being circulated the same as money (gold and/or silver) comprising all required legal enforcements and proscriptions associated with *zakah*, *riba*, *sarf*, etc. (Pardesi, 2013). The same view was adopted by latter-day Hanafis, as documented by al-Kasani in Badai as-Sanai (Islahi, 2005).

Like its first two cousins, this view too can be argued to be historically sound because *fulus* – at the time of practice – was a locally restricted currency which was reserved for small-quantity transactions. Similarly, today, only small amounts of money over short distances are paid for on-cash basis. Bigger quantity and long-distance trades take place through cheques, credit cards, wire transfers, money orders or even electronic debiting. One slight disclaimer here, though: whether these means themselves are Islamically acceptable, and if so, to what extent, is not in the scope of this paper and thereby will not be discussed. From a legal standpoint, this approach is meritorious. Like *fulus*, paper money is also not measured in weight or volume. It is counted. It too is a standard for *thaman* (price). Moreover, paper money's value is volatile and subject to market conditions, just like fulus. Another point of similarity stems from the fact that paper money's face value overtakes its intrinsic value. Therefore, modern-day paper money is just like *fulus*. Ipso facto, there should remain no legal restrictions to treating paper money as *fulus*. There are some caveats here, however. Despite the similarities, paper money's use is not by law restricted to small network of consumers. Also, on fungibility count, the potential users of the notes are unknown to each other. Therefore, social bonds and communal control are inadequate in enforcing the guarantees of exchange value, which was the case for *fulus* in Egypt. This creates a legal hole in the otherwise seamless analogy between *fulus* and paper money. Additionally, a lot of Islamic jurists posit that the *bay'ul salam* or forward sale is proscribed or at least morally reprehensible in events of paper money taking the role of *musallam fihi* (Haneef and Barakat, 2006). Furthermore, the fact that unequal exchange in numbers is acceptable with *fulus* can be dangerous, as it opens the door for riba elements. This is why majority of Islamic jurists refuse approbation of this interpretation.

3.4 The goods approach

This view considers money simply as a good. Thus, paper which makes up paper money is a good itself, value of which is negotiated through market forces of supply and demand. Because the paper becomes money only after it is printed, the paper itself is not a source of *thaman* or prices. As such, it is perfectly acceptable to trade it for other goods which are considerably pricier than it. One of its earliest proponents Nasir as-Sa'di argues that experientially the paper form of money is analogous to a good but not gold and silver. Eliciting the practice of banknotes, he points out that the transactions are based on faith on a perception of commodity unlike that of gold, silver or other precious items such as pearls and ruby. Drawing from the broad generalization in *fiqh* traditions that all transactions are *halal* unless decisively proven otherwise, he further castigates the stance that paper money is a *dayn* (debt), leading to harm and difficulty for the Muslims. Instead, he argues *Shariah's* intent is to facilitate ease for the people as applicable to the temporal context. Owing to the fact that people worldwide use paper money alone imposes hardship on Muslims to deviate in monetary practice. Furthermore, he critics a professed stance of *dinarists* that governmental decree is a weakness of paper money. Instead, he points out that gold and silver remain exceptionally valuable commodities due to lack of authority oversight and do not derive their value from explicit localized policies, unlike paper money. Hence, according to as-Sa'di, paper money is analogous to precious metals in matters of monetary worship (e.g. *zakah* and *nisab)*, as well as in trade and commerce. He then refers to the *mu'tamad* (preponderant) opinion of his juristic school (*Hanbali)* regarding *'illah* (ratio legis) of *riba* and posits that gold and silver are subjected to *riba* sanctions based on their weightage, whereas doing so for *x* units of banknotes would be absurd.

Others, like Yahya Aman, take a different route to the same conclusion. In a 1959 treatise validating paper money, he argues that money in paper format is a valuable wealth stored by the masses out of necessity, a trait that qualifies it as *mal* (property), as human nature is predisposed toward hoarding it for times of need (similar to occidental economics concepts of precautionary, transactional and speculative motives). Hence, the owner of the paper money treasures it as he/she does with gold, silver or other financial instruments; gifts and bequeaths it; and gives alms through it. Because people's intentions and understanding of it are geared toward buying and selling other objects with it and passing it to posterity, it is a *mal* possessed with a non-malicious purpose of necessity. Ergo, paper money is a commodity and acceptable. It is interesting to note that its proponents share the view that names of the currencies are metaphorical, and the reality (that counts) is that the money is wealth. Some jurists, however, object to this view if it results in forward sale, citing that *bay'ul salam* is only acceptable for money and not goods. If paper money is a good itself, how can it be exchanged in forward sale for another good? Other non-Hanbali jurists criticize this view for its similarity to legal loopholes (*hiyal*). Using paper notes to pay for a box of apples is not sale of the paper itself because the face value of the paper notes does not stem from market value of paper. Thus, this view too has fallen out of favor by many scholars.

3.5 The representative of value approach

Paper money itself can be deemed as *thaman* or price. In this approach, various currencies like gold, silver, copper and even paper money can be constituting as different setters of price. While often derided for over-simplicity, this direct analogy is convincing when compared to the classical context of emergence of gold and silver as money. The major endorsers of this view include the clerics of Saudi Arabia. While this is legally acceptable to the theoretical tenets of Hanbali law, to which Saudi Arabia clerics generally adhere to, it poses a problem to scholars of Hanafi School, where the concept of *thaman* is not acknowledged. On a practical level, this view facilitates trading of unequal measures within the same currency because it is the prices that are being traded – and thus sidestepping riba debate. It also attracts adherents because it allows paper money as an investment tool as capital in partnership contracts. This is especially attractive to cement acceptance of paper money as a tool of preserving value, fortifying one of the classically accepted attributes of money as a store of value – a distinguishing trait the other approaches lack. Additionally, foreign exchange transactions are permissible in this approach, and so are *bay'ul salam* and forward trades (Ahmad, 2009). Nonetheless, the acceptance of this view is not ubiquitous, even in modern times. Its opponents invoke the possibility of strong ambiguity, known in Islamic legal parlance as gharar. Because the money itself is unbacked by gold, silver or any other real asset, the only strength of the currency relies on the strength of the economy – kind of a circular reasoning. In today's world, where financial contagion is very real, the economies are interdependent and integrated. Thus, no economy can survive in isolation nor pursue self-sufficiency forgoing cross-border trades. This is particularly true for oil-rich countries in the Gulf Cooperation Council (GCC) that rely immensely upon importing goods and services from worldwide economies. Therefore, the fact that paper currency's value is hinging upon world price for crude oil represents a grave possibility of *gharar* – one aspect gold and silver are *prima facie* immune form. Gold and silver are exchangeable and their values can be negotiated beyond their primary function as jewelry and ornaments. This is a major disadvantage of paper money, as it holds no other intrinsic utility. Besides, approbation of paper money in these grounds also imparts unnecessary importance on protecting the money from devaluation. In an ideal economy, the central bankers and financial planners are supposed to chalk out a plan to run the economy as efficiently and productively as possible. Yet what we see in practice is a die-hard attempt to keep the economy away from dangerous levels of inflation and protection of the currency from being too devalued. The fact that most paper and fiat currencies have been declining in value perpetually invites another serious examination on reassessment of the role, scope and definition of riba. As-Sadr (Sadar, 1982) mentions that some scholars have already approved conventional interest rates amidst changing economic dynamics surrounding paper money.

4. Critical analysis

First, we proffer our take on the Al-Azhar championed view of money being a debt issued by its minter. Revisiting this issue in the twenty-first century should keep in mind the colonial and pre-Bretton-Woods context of these pioneering *fatawa.* Though, at the time, money was indeed hinged on a promise of authority to pay (back), it no longer applies. Even so, assuming a burden is accrued to the minter to back the money up, almost no central bank does it anymore (including OIC members). Additionally, tackling the "zero intrinsic value" viewpoint, money is accepted by *homo economicus* (or otherwise, for the epistemologically divergent – a club we are a member of) as a medium of exchange regardless of intrinsic, extrinsic or a value of their combination. This is buttressed by the practice that minting of money is done at a value that exceeds its physical value; otherwise, arbitrageurs would play. This *seigniorage* difference is enforced by its issuer. To say categorically that the difference is a state debt is too bold, although we acknowledge the government's role (and responsibility) in stabilizing its value (or destabilizing should it serve the people's interests: as in the case of Chinese Yuan). Therefore, leapfrogging from the premise that paper money has no intrinsic value to the conclusion that this is a *dayn* or debt in the form of IOU is tenuous. Moreover, it is a view that is constricting upon the people, especially considering the lack of *qatei* (unambiguous/unequivocal) scriptural evidence proscribing it.

Secondly, regarding the commodity view, it is clear to us that this viewpoint is the other extreme in the available spectrum of opinions – and espousing one that could leave to abandonment of *zakah* taxation or indulgence in sanitized *riba.* Arguing legalese aside, replete materialism and consumerism are realities of the modern day and should not be encouraged. Promulgation of this (overly simplistic) view could – whether legally sound or not – could open the door to abuse of *riba* and *zakah* practices. Its proponents' conflation of note printed on paper and paper as a commodity by itself is puzzling too. The *qiyas* used to liken its exchange with that of gold and silver based on measure and value, substance, ability to weight or source, is flimsy. Besides, the outright validation based on "reality of our times" argument can be countered drawing from nuanced arguments of jurists who consider realities of *Shariah* as legal, linguistic and customary. Thus, it can be argued that paper money only qualifies as the last: *haqiqah 'urfiyyah* (norm-based reality) as a measure of value. Consequently, the *'illah* extended to gold and silver (based on moneyness) should apply.

Next, dealing with the view of *fulus*, the slippery slope of nullifying *zakah* and *riba* obligations worries us. We are also unconvinced by its unclear differentiation between *riba al-fadl* and *riba an-nasi'ah* owing to lack of scriptural references. Putting ourselves in their shoes, we can extend the argument that like *fulus*, money plays a dual role: commodity in substance, and yardstick of value by issuer's authority. This can be countered by arguing that in matters where money's legality is sandwiched between the two equally opaque issues with non-conclusive rulings, the safest approach should be preservation of the *maqasid* quintet the easiest way. Besides, some important distinctions between *fulus* and paper money are omitted by its advocates:

- Unlike *fulus* which can be traded for a purpose other than obtaining goods and services (e.g. liquidating the metal content), paper money is not worth the paper it's printed on.
- Conversion of organic paper into paper money imbues it *moneyness*, while it loses its *paperness* (people do not call paper money to be paper).
- The value disparity of paper and metals, and the ability of paper-based currency to far exceed any individual unit of dinar or dirham coins.

- The historical (reaching as late as 200 years ago) use of *fulus* for low-value transactions, whereas high-transaction values are most susceptible to *riba* (for which paper money is better equipped).

The above points are not made to vindicate paper money; rather, it is to show that the *qiyas* employed has been naïve at times.

Confessing the immense intricacies of the multiple viewpoints before us, we submit our partiality to the representative of the value approach, based on its practicality (not saying it is fully merited). Throughout history paper money had undergone through numerous junctures until it gained the confidence of the public, who no longer asked about its backing. Thus, the issuing authorities saw that they did not need 100 per cent backing – only an acceptable percentage of the paper money was backed; the rest could be regarded as promissory notes, in the sense that the issuing authority was required to guarantee their value. Furthermore, backing did not need to be with gold and silver – it could be done with property (e.g. Germany) or treasury bills. This viewpoint is based on paper money being fully-backed by gold and/or silver. The real-world reality is different, however, for the backing for paper money comes from state enforcement and public acceptance. Therefore, this viewpoint needs support from the real world.

5. Money as flow vs stock

In Islamic traditions, the principal source of answers for matters relating to – or overlapping with – religious issues have been the *ulama* (clergymen). These qualified men, often with juridical training/apprenticeship within the bounds of a legal school of thought, delivered edicts, which have been followed assiduously by the answer-seekers for centuries. As such, it is unsurprising that matters of currency, which have tangible upshots for the state/empire/caliphate's *mu'amalat* (transactional affairs), have invited rulings from the theologically trained legal elites. Their efforts sufficed for the bulk of the Muslim lands up until the advent of modern economics as an independent discipline. Then things got complicated. Dilemma surrounding choices of economic system (of which monetary regime is a subset) was further stressed by autonomy emanating from a smorgasbord of socio-political factors in post-colonial, post-gold, nation-state climate. In such heyday of neo-classical theorists, the pervasive economic axioms and policies of the colonial rulers were cut and pasted into Muslim lands without much ado or protest. As a result, money was understood and applied (in policy terms) through the lens of *exogenous* theory, assumptions and results of which are antithetical to the organic and *endogenous* roots as understood by Islamic principles[8].

Upon consideration of the prohibition of *riba*, abhorrence of speculation (exemplified by Qur'anic denunciation of *maysir*), and the higher objectives of *Shariah* (expounded by *Maqasid* theorists), exogenous money appears insoluble with the utopic vision of *Shariah*. Instead, Islamically agreeable money is more in harmony with a theory where the quantity of money equals the sum of economic output of the economy and therefore tethered to the real economic resources. This requires Islamic money to be ideally an asset-backed currency. Whereas the endemic monetary regimes, by design, rely on fiat currencies and central authorities' ability to manipulate money supply (and, by extension, economic output), endogenous money assumes a more silent role in influencing economic productivity. By serving chiefly as a medium of exchange and not a store of value, money is meant to merely facilitate trade of goods and services. The greatest allure of endogenous money theory for *Shariah* adherents is the unyoking from interest rate for pricing and benchmarking; in other words, worries of *riba* disappear, no longer requiring Islamic financial institutions to perform acrobatic contractual syntheses to intermediate. Although endogenous money as a theory in post-Keynesian era gained prominence following the works of Kaldor (Colacchio and Davanzati, 2017), in Muslim scholarship, Choudhury (1997) pioneered the notion of its applicability to Islamic Economic realm and remains its most ardent (and prolific) advocate. While the *dinarists* yearn for gold (and/or silver), Shakespeare and Challen (2002) posit that Islamic endogenous money need not necessarily be metal-backed. Challen *et al.* (2011) use examples of Malaysia and Guernsey's experimentation with interest-free loans in capital projects (the latter enjoying very low national debt) and Canadian municipalities and New Zealand's successful experimentation with infrastructural schemes as modern vindications of endogenous money, supplementing previous successes of the vaunted Gesell's free money project (Dow, 2017).

6. Final words

In this paper, we have discussed the various legal viewpoints that validate the concept of paper money for Muslims. Of the four, the last appears most convincing to the authors. That said, merely letter-perfect adherence to the legal tenets of Islam does not necessarily elevate the status of paper money as Islamically ideal. It merely advocates the acceptability of paper money according to the texts of Islam as interpreted by jurists. The context is often missing. Thus, it is hardly surprising that various strands of scholarship in Islam abhor the practice of using paper money. One such anachronistic movement is the call of *dinarists* to embrace the Islamic gold *dinar*. Some advocates liken this effort to the institution of euro by the European Union. The challenges faced by *dinarists* in achieving this, however, are mammoth.

First, the European nations enjoy ample representation of their interests through the European Union. The Islamic nations' counterpart, Organization of Islamic Countries (OIC), does not wield similar authority or power. Without large-scale empowerment of the OIC and broadening of its scope, institution of pan-OIC currency of *dinar* is a pipe-dream. Second, the embrace of euro was not obvious at first. While some countries were very enthusiastic of having a streamlined common currency that could counter the hegemony of US dollar due to possibilities of gain in trade and business, others were tepid in interest in transitioning from a national currency to the euro. To solve this problem, the European Union adopted a unique approach of formulating a fund whereby the economies adversely affected by joining the common currency would be financially compensated. This slaked fear of economic troubles by the less-interested nations. No such unity or vision has so far been operationalized by OIC members. The talks of such unification have been limited to hearsay and academic frontier discussions. Third, the cultural identity and nationalistic tendencies espoused by a divergent Muslim diaspora make the unifying transition all the more cumbersome. Although all OIC members have the religion in common, many countries in post-colonial reality have been assertive in maintaining own unique cultural identity (Santoso, 2012). As such, while some nations may be fervent to unify the currencies, others run the risk of treating it a sacrifice of cultural identity (perhaps even sovereignty) and end up derailing the motion. Although the EU had similar obstacles in the beginning, overcoming cultural and traditional aspects was not onerous because of fairly uniform traditional aspects and relative cultural homogeneity.

In the discussion in regarding Islamic monetary and lawful contemplations, practicable alternatives must be found. History alludes that the establishments for money have changed strikingly: paper money is issued without a genuine counter-value and the social foundation for exchange has changed. Because of the expanding coordination of the Middle Easterner nations into the world business sector, economies in the Middle East and the estimation of their monetary standards have ended up dictated by outside conditions. New means of utilizing money, particularly persistent inflation, call for novel, original and out-of-the-box bearings in Islamic legitimate thought. As discursive parts of this paper illustrate, Islamic legal scholars reach diverse conclusions in their endeavor to implant paper money into Islamic lawful hypotheses. To segregate among the lawfully adequate options for transforming the part of paper money in an Islamic economy, sincere researchers have joined recorded improvements with *bona fide* economic and monetary viewpoints. Political contemplations firmly impact which come about because of analogical reasoning (*qiyas*) is favored. From a monetary perspective, expansion is an important marvel if governments are to thwart outward shocks that hamper the developments of economy. In this regard, not only should the legal discourse be emphasized, but also a holistic approach in understanding what money should be is necessary. The definition of money has been versatile throughout the history. It is no exception why the definition cannot be bent now to facilitate integration of Islamic theological constraints which are uncompromising in nature. Also, the *Maqasid* theory propounded by ash-Shatibi can be consulted for figuring out what higher objectives of *Shariah* are congruent with paper money to advance the discourse further (Raysuni, 1992). These discussions bear significant implications on legal and administrative affairs of Muslim states: such as on *Zakah*, trade and money exchange. Hereforth, there is evidence that for long-distance trade, the suftaja – the precursor of the bill of exchange – was being used. It was a letter of credit made out by a money changer which a co-operating money changer at the destination of the journey would convert into coins. It appears that the suftaja share some characteristics with paper money.

Lastly, for future researchers, we suggest looking into the existing macro-policies that shape or influence the discourse. An emancipation from the *taqlid* (blind following) praxis, coupled with perseverance is required to be intellectually creative in tackling the money-related issues lying ahead. The world is revolutionarily inching towards a tech-oriented currency platform, as evidenced by resurgence of bitcoin, ethereum, zCash and others.

Additionally, the discourse will greatly benefit from ways of incorporating endogenous theory of money into mainstream Islamic economics syllabi, diverging from the Keynesian norms and rational expectations theory. For Islamic financing institutions to grow into agents of structural change, instead of perpetuating the self-serving wealth maximizer *modus operandi*, and to spur empowerment at the grassroots level, a concerted *shuratic* (consultative) effort is needed in academia and industry. The first step toward it would be to shrug off the ghouls of Keynes, Fischer and Tobin's money, and contemplate a paradigmatic shift keeping in mind *Shariah's* highest objectives. With *fintech* revolution imminent, juristic, technological and economic policy-oriented challenges in Islamic monetary economics are poised to grow more intricate compared to what has been discussed with paper money. Muslim countries need to institutionalize *ijtihad* to enable proper training and execution of *qiyas* and *maslahah* to navigate the problems ahead.

Notes

1. We abstain from distinguishing paper money from banknotes, digital accounting entries and other cashless forms in this paper but maintain that such technical distinction is merited in specialized "monetary economics" discourse.
2. A clique of academics tooting reversion to Islamic metallic currencies. Prominent among them are Ahamaed Kameel (Malaysia), Noor Deros (Singapore), Umar Vadillo (Italy) and the Murabitun Movement of Africa.

3. Real money here refers to the polemical term used by some economists who insist on intrinsic value and lack of susceptibility to inflation as requisites for soundness of money. Hence, it is also known as sound money. Example: gold, silver, platinum.
4. Bad money drives out good money. Also, known as Gresham's law.
5. Refers to clergy qualified to render religious edicts. Though the rulings, 'ulama are not technically legally binding, their edicts hold weight in shaping religious practices of Muslim communities.
6. A form of usury resulting from a sales transaction where a person unfairly benefits from one or more counterparties through excess in amount arising out of delayed delivery on his/her side of transaction.
7. Riba al-fadl is surplus gained/sacrificed from unequal exchange of commodity.
8. Theories of exogenous and endogenous money denote factors of internality and externality which effect money in an economic system. In the former, money is positively (adversely) effected by interest rates, production, and stock quantity. For instance, a hike of interest rate by the Federal Reserve will raise the demand for US dollars as investors will canter toward US dollars for superior gains from USA-based investments. Conversely, endogenous money requires the stock quantity to be free from external control as is the case with central banks who routinely engage in open market buy/sell of securities to manipulate the money supply.

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Corresponding author
Azhar Mohamad can be contacted at: dr@azharmohamad.asia