

Legal Status of Currency Note in Shariah: An Issue of Islamic Markets

Dr. Usman Ahmad: Assistant Professor, Institute of Islamic Studies,
University of the Punjab

Abstract:

The financial Markets are run by the medium of exchange namely paper currency. The Muslims are bound to abide by Shariah in all spheres of life, hence Muslim scholars took under consideration the legal status of paper currency. Difference of opinion occurred among them and there are four opinions about currency. The author of the article has extended fifth opinion with arguments. The article has been written in analytical mode and all opinions have been discussed and analyzed. The article reveals that Muslim scholars normally establish their opinions on the apparent phenomenon and don't consider the ideological background of issues that leads to declaring admissible or inadmissible on very poor basis. The article ends with some handsome suggestions regarding replacement of paper currency to some other medium of exchange. It has also been suggested that some United Muslim Currency should also be floated on basis Petrol resources or water resources rather attaching it with dollar .

Keywords: Legal status; Currency; Gold and Silver; Islamic Market; Medium of Exchange

Historically, it is claimed that currency note is the developed form of the receipts of Goldsmiths. These receipts were issued by them to the owners against their gold who put their gold with them due to multiple reasons. It is also said that Stock Home Bank of Sweeden was the first who issued paper money that were basically receipts. In 1883 AD when bank notes spread in the market and were accepted publically the government declared this paper note as a Legal Tender and prohibited the banks to issue the notes and Central Bank was announced authorized to issue the Paper notes.

Definition of Currency Note and Five Opinions about its legality in Shariah

The currency note is the document that is endorsed by the Government for financial transactions.

When we look at the juristic literature, we found following opinions upon Currency Note:

1. One school of thought is of the opinion that Currency note is the Certificate of Debt.
2. Other School of jurists claimed that Notes are like goods and properties.
3. Third group of jurists considered the currency note as substitute of Gold and Silver.
4. Fourth opinion regarding currency note is that note is customary money like pices (Coins) of ancient ages.
5. The author of this article is of the view that currency note is an Imposed money having no material value behind and has to be tolerated till economic power is captured by some Muslim country to revert money to natural money i.e. Gold Dinar and Silver Dirham (Any name can be opted. Like might Gold Ringgit and Silver Ringgit). This might be a dream at this time but must be aimed by Muslims to avoid presently spread groundless money.

In next lines each opinion will be elaborated and rationale of all will be stated.

First Opinion and its arguments

This viewpoint was floated by famous scholar of Deobandi school of thought in subcontinent Maulana Rasheed Ahamd Gangohi and later seconded by Maulana Ashraf Ali thanvi and Mufti Shafi'. They asserts that Currency note is a document, issued by government as receipt of debt of owner that is payable by government to him.¹

Arguments

1. It is always written on note that government will pay the value of this note to owner on demand. This sentence authenticates that note is a documents of owed money. Syed Ahmad Bakk Al-Husaini writes:

²"فقوله:قابلة لدفع قيمتها لدى الاطلاع لحاملها: لم يجعل شكا انها سندات ديون"

The statement: The possessor will be reimbursed on claim, makes it definite that notes are the evidences of debts.

2. All currency notes are pieces of paper. Despite being same in paper, their value is different like 100 and 10. Their different value certifies that they are supported by some legal authority to be currency.³

Impact of this opinion upon Financial Issues

Some points are referred here as outcome of accepting this opinion.

1. The Bai' Salam (Advanced Booking Transaction or Delayed delivery Business) will not be legitimate by Currency note. The basic condition for validity of a Bai' Salam is possession of Price in true manners while note is receipt of debt not real money. In this case this transaction will be "Borrowing against Borrowing" that is prohibited in Shariah.⁴
2. Zakat will not be considered paid because giving to someone "Debt document" is not paying him actual amount.⁵

Critique of Scholars on this Stance

Criticism has been made on this viewpoint that includes following:

1. This judgment about currency note leads to suspension of financial market by causing troubles in trade activities.
2. The Undertaking written on the note by the state bank is just a phrase having nothing behind it. Legal status of note cannot be decided on the basis of this statement.⁶

Second Standpoint and its Rationale

This opinion had been floated by famous scholar of sub-continent Maulana Ahmad Raza Khan Brailwi and Abd al-Rehman al-Sa'di and some others. According to this standpoint the Currency note are

like other things, belongings and possessions. Paper is a commodity so resultantly paper note must also be included to goods.⁷

Arguments

1. All the definitions of Things and Commodities are applicable to currency note. Like “Everything except gold, silver and edibles is enlisted in goods.” Or “Things named to all except animals, Food and Gold and Silver.”⁸
2. When something is purchased by paying currency notes to the seller, the transaction is considered realized and completed by giving notes to seller. The business deal is not linked to gold and silver and no one believes that actually I have been given receipt of gold. All buyers and sellers proclaims themselves wealthy if they have currency note. So the notes are things like other properties of human beings.⁹
3. This is the methodology of jurists that they parallelize two things when both are same and nearest. Notes are very close to things. The paper currency is fit exactly to the definitions of things devised by the jurists.

Implications

1. The dangerous outcome of this viewpoint is that this gives free hand to interest and usury. The currency note if deemed as Thing and commodity, it means its more and less exchange is allowed. The currency note of 1000 can be given in replacement of 100 that is clearly “Riba”. So viewpoint is suitable for interest markets. Maulna Ahmad Raza Khan writes “Yes, this admissible in Shariah to sale out a currency note against any agreed amount that might be more or less from the written value of currency note.”¹⁰ Another Scholar Shaikh Suleman Al-Hamdan also endorse this by writing that there is no usury involved in trade of

currency note. Currency notes are not included to those items that are connected to 'Riba'.¹¹

2. No Zakat can be levied on currency notes because there is no zakat on belongings.
3. No Mudarbah contract can be initiated because it is obligatory to pay real money in Mudarbah contracts. While notes according to this viewpoint are not money.¹²

Critique by religious Scholars

1. This is merely an opening of the door of interest. All struggles being made by the Muslim scholars to eliminate usury will become null and void if this viewpoint is accepted.
2. If currency note is a thing like other things then these notes becomes useless and valueless when a government cancels them? If Currency notes are things like chairs and tables then why their value never remains constant and why their value is fixed by governments?

Third Viewpoint and its Rationale

This viewpoint has been established by Maulan Abd al-Hayy Lakhnavi who is very famous scholar of sub-continent. He ascertained that currency notes are the substitute of gold and silver. This means that currency notes are not the certificates of debt, not things and also not natural money but they are only alternate of real money. Hence Maulana Lakhnavi decreed that currency notes legal status will be status of substitute of Gold and Silver. He writes that currency notes are customary money not real money.¹³ Islamic Fiqh Academy Jeddah also expressed in its declaration that paper currency is a valid money made acceptable in societies and have granted complete status of money. Hence all Shariah decisions will be applicable on it.¹⁴

Arguments

1. This is agreed among all jurists that currency note is the substitute of gold and silver in market needs and is used in replacement. When already it had taken the place of gold and silver then its legal status should also be equivalent to gold and silver. The famous principle of Islamic jurisprudence is applicable “Al-Badl lahu Hukm al-mubaddal” (The legal judgment about an original thing is extended to its replacement also.)¹⁵
2. In the Shariah rulings decision is based on objectives and consequences. The famous principle is “al-umur bi maqasidiha” (The legal judgment of matters depends upon their aims”. The Shariah verdicts are not inferred from apparent structures and words merely. When note is created and used in replacement of gold and silver, its legal status is same.¹⁶

Implications

1. Zakat will levied upon currency notes like gold and silver.
2. Sale and purchase of same currency notes with less or more price will be declared usury.

Critique

1. If the currency note is substitute of gold and silver then why it cannot be used in jewelry and ornaments in place of gold and silver?
2. If currency note is the substitute of gold and silver then which note is equivalent to gold and which note is equivalent to silver? This is a vague statement to declare Currency note substitute of two things. It is necessary to clarify which currency is replacement to gold and which is replacement to silver?
3. If the paper currency is substitute of gold and silver why its financial value can be canceled at any time?

Is there any way to cancel the value of gold and silver?

Fourth Concept of Jurists about Currency

According to this viewpoint, the paper notes are customary currency and now are real money. It means paper currency is not certificate of debt, not goods, not substitute of gold and silver but itself is a real currency. Ancient Flus (pices) are examples of currency notes so the Shariah judgment of currency notes is same of Flus.¹⁷ This view has been opted by Maulana Taqi Usmani, Shaikh Abdullah bin Sulaiman and Dr. Muhammad Suleman Ashqar. Shaikh Abdullah bin Sulaiman has called this viewpoint

- (a) Accepted and approved by majority of the contemporary Islamic Economists and jurists.
- (b) Most balanced and equitable viewpoint.
- (c) Very close to righteousness and rectitude.¹⁸

The Scholar Abdullah bin Bassam says:

“The notes are not gold and silver. These notes faces inflation and deflation, so better to link them with pices. Their legal status is of the coins.”¹⁹

Maulana Taqi Usmani writes in his book after detailed explanations that our discussion reveals that paper currency is now symbolic money. The currency is parallel to Flus. One similarity between Flus and paper currency is that both were valued more than their apparent price.²⁰

Arguments

1. Currency note is a legal tender. The governments are behind the notes supporting them as legal document. Markets are enforced to accept paper money in their financial transactions. No other document has this legal status that is attached with currency. Cheque can be denied to accept by any seller or buyer but all

- are bound to accept paper currency. The paper currency is unlimited currency.
2. The paper currency is not a debt receipt because any person can issue a debt receipt but currency notes can be issued by government only.
 3. There is no difference of opinions in Markets about calling paper currency as money. When paper currency has been accepted publically as money and government also granted the paper currency the legal status of money then why should not the currency be accepted as real money? Any one who has paper notes in his pocket believes that he has money and never considers that I have debt receipts or things.
 4. The opinion of people in market regarding paper currency is not that this substitute of gold. When no one take as substitute, no need to take it substitute.
 5. Historical evolution of notes reveals that now there is no link of currency with gold. Geoffrey Gauthier writes: "The promise to pay which appears on their face is now utterly meaningless. Not even in amounts of 1700 cannot now be converted into gold."
 6. The definition of money is completely fit for the currency. Money is defined as
"Money may be defined as means of valuation and of payments: as both the unit of account and generally accepted medium of exchange"²¹

Critique

1. If the statement of Government written on notes that "this will be paid to owner on demand" is not true then why it is written on notes? This is strange that if a government writes on a note figure of 100, this is considered true and same government writes on same note a statement, this is called fake. If a statement of government written on note is not real then how a government is trustable in financial issues?

2. The religious scholars who have opted this opinion should first clarify that how a government is authorized in Shariah to create money unlimitedly? Does Shariah bestows the unlimited rights to government to create money while creating money is harmful to people in terms of inflation.
3. If the note is a customary money and its value is decided by government written on note then why currency of a country is associated with dollar, euro or any other currency? Adjustment of a currency against Dollar makes unreal that currency note has value written on it.
4. If the price of a note written on it is 500 and its purchasing power decreases every year then figure of 500 is just typing of digits having no constant and consistent value. Then declaring it note of 500 is not true in terms of purchasing.
5. The stability of paper currencies is most of the times are held by the invisible hands. This is also attached with major incidents occurring in the country. The Pakistani Rupee got its maximum stability in the period when all economic assistance was banned due to atomic blasts. The religious scholars should also issue sentence on this issue in shariah perspective before finalizing the legal status of paper currency.
6. Declaring that paper currency is equivalent to Flus (pices) doesn't seem acceptable due to two reasons.
 - (a) In ancient days pices were issues in different cities and no legal compulsion was imposed upon people to accept them but in case of currency this is real phenomenon.
 - (b) There was inflation and deflation connected to pices while paper currency rapidly inflates and deflates.
7. The cancellation of currency notes and not accepting its own legal tender after date of cancellation is how

allowed in Shariah? Is it allowed in Shariah to make the wealth of others zero by forceful orders?

Fifth opinion

The author of the article is of the view that paper currency (Now plastic money in shape of credit and debit cards) is tool of Capitalist economy to suppress the small and non-developed countries. The paper currency is made acceptable forcefully without any freedom and other option. Paper currency provides ultimate power to states to make a person poor despite having millions of currency papers. The ruling countries like America are in such a position due to this currency system that no country can escape from their financial embargoes. To elaborate our viewpoint we would like to draw the attention of IMF and World Banks' loans granted to the developing and non-developing countries. The loans are paid in dollar that is the name of American currency. When a loan of 2 million dollars is given to a country, the real cost incurred by America is of ink and paper but burden shifted to the owing country is of 2 million. No doubt 2 Million printing new notes of Dollar have bad impact on International financial market but that impact is not born by America but begging country or others. The legal status of paper currency is deceitful money and must be stopped when complete financial powers bestowed by Allah almighty to a wise Muslim leader. The Muslim Ummah is in condition of Idtrar (coercion). The basic pitfall of our Muslim scholars is that they believe the prevailing currency system as a natural system and also believe that currency is necessary for financial life of the world. They never think about any other system of medium of exchange.

Suggestions:

1. This is not possible to avoid currency system in current situation, therefore first step is necessary to be

- taken to launch “Combined Muslim currency” like Euro.
2. All Muslims should attach their currencies with “Combined Muslim currency” or at least start using this currency in transaction with Muslim countries.
 3. The “Combine Muslim Currency” should be against the total value of Petrol in procession of Muslim countries or Water resources of Muslim countries. Like one unit of a currency might be equivalent to half litter of petrol or Half liter of river water. Currency issuing over and above that total Petrol Resources or Water Resources should never be practiced.
 4. A “Muslim Gold Bank” might be initiated in every country and Muslims should be motivated to deposit their gold ornaments in the lockers on nominal profits to support Gold based economy rather a currency based economy.

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