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Muamalaat

The Alternative to
the Riba System Exists



Muamalaat: **The Alternative to the** **Riba System Exists**

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Preamble

Allah says in the Qur'an: "Allah has permitted trade and forbidden riba". In trading there is the cure to Riba. Seen as a system trade is Muamalaat.

We contend that any attempt to eradicate Riba must focus on what is the alternative to Riba, that is to say, understanding what is halal must precede understanding what is haram. This is because we cannot eliminate what is forbidden without providing an alternative from within what is permitted.

We contend that Riba is a system, not just merely a contract. This is because Riba has developed and evolved over the centuries into a complex system that affects all aspects of the economy and therefore it is crucial to understand Riba in the context of those instruments and institutions that make Riba possible such as banks, credit/paper money, central banks, financial markets and other financial institutions and instruments.

We contend that it is impossible to eradicate Riba without considering how credit/paper money and banks has transformed Riba. This is because the introduction of credit/paper money allowed banks to lend money in excess of what they possess through the principle of fractional reserve banking. The effect of this extra creation of credit is to transfer part of the burden of Riba to a third party (other than the lender and the borrower) unaware of

its involvement. That third party is the community of paper/credit money users who are unfairly taxed with the loss of value of the paper money they possess. That loss of value is related to the increase of credit/paper money in circulation which every act of lending creates. Therefore this “transformed Riba” has now three parties:

- The lender which benefits from lending credit money in excess of what they have.
- The borrower which benefits from a reduction on the burden of repayment due to the loss of value of the money he has to repay.
- The community of users of paper/credit money which suffers the unfair burden of losing part of the value of the money they possess.

We contend that it is impossible to eradicate Riba without considering how central banks have transformed money from being a freely chosen commodity to a legally compulsive credit/paper money or fiat money.

We contend that the model of what is halal exists and it can be implemented within the frame of the Islamic Law and the Constitution of Pakistan. This model is the socio-economic model of all Islamic societies from the beginning of Islam until the fall of the Khalifate. This model is surprisingly more or less common to all pre-capitalist societies (including some non-Islamic societies) and it was perfected during the time of the Messenger of Allah, salallahu alaihi wa salam, in the city of Madina al-

Munawara. This model of Madina is known in the fiqh as the 'amal of the ahl al-Madina, and in its legal form is known as Muamalaat.

We contend that Muamalaat is the right alternative to the question of how to eradicate Riba. The proof of this is that the present petition challenges Government saving banks, negotiable instruments, cooperative societies, insurance companies, State bank of Pakistan, moneylenders and banking companies. All these institutions will not be able to operate without Riba –as they have themselves stated. Therefore the question of eradicating Riba is transformed into how to create an alternative all those institutions that live with Riba. If Riba is seen as a system the question is therefore how to transform the system of Riba with the system of Muamalaat.

Muamalaat is the system of human interactions in Islam. It encompasses all economic, political and social interactions. It has been practiced from the beginning of Islam until the fall of Caliphate. It is a system in as much that not only involves contractual matters but also institutions and instruments that support and promulgate what is halal such as Gold dinar, silver dirham, Wadi'ahs (safe keeping institutions), Suqs (open markets), Caravans (open trading institutions), Guilds (Open production institutions), Waqf (welfare institutions), Bai Salam (agricultural trading system), Bait ul maal etc.

We contend that the introduction of the gold Dinar and silver Dirham, known as Shariah currency, is fundamental to the matter of introducing Muamalaat and therefore the eradication of Riba.

We contend that introduction of gold Dinar and silver Dirham must be done gradually and progressively within a reasonable frame of time in which society as a whole can initiate a process of transformation from Riba to Muamalaat.

We contend that at the same time the Shariah currency is introduced other elements of Muamalaat should be introduced simultaneously. The most important of these other elements is the introduction of the Suqs or Public Markets. Markets or suqs in Muamalaat are public institutions and cannot be privatized, just like the mosques cannot be privatized. The public market is an institution that belongs to human history. We find it among the ancient Romans, the ancient Greeks, in old Mesopotamia, etc. The public market must be accessible to all and there cannot be taxes or fees imposed to its users; just like there are no taxes or fees to those who wish to pray in a mosque.

We contend that after the introduction of public markets into our cities the restoration of the caravans and the guilds must follow. Caravans and guilds, like the markets, are public infrastructure. They do not belong to an elite of people, but they are awqaf for the benefit of anyone who wishes to become a member.

- The caravan system is the model of export trading in Islamic societies, whereby all the logistical and warehousing means required for the trade are commonly owned by the members of the caravan, which by virtue of the caravan being a public institution means they are publically owned (awqaf, like the markets).
- The guild system is the model of production of all pre-capitalist societies and Muslim societies in particular, whereby the means of production are commonly own by the members of the guild, which by virtue of the guild being a public institution means they are publically owned (awqaf, like the markets).

We contend that the introduction of business contracts in Islam: shirkat or sharika and qirad or mudharaba will become enormously easier (than it is at present) to implement. The reason of this easing is that qirad is in the model of Muamalaat the contract of the caravans: 99% of those qirad contracts happened within the context of the caravans. It follows that if there were no caravans in Madina it would have been more difficult to implement qirad. The same is applicable to the contract of shirkat in the context of the guilds.

We contend that the idea of Islamization of capitalist institutions and instruments is a deception which instead of eradicating Riba it has made “Riba halal”. Islamic banks are deceptive, and the furthermore

the islamization of paper money is deceptive. From Islamic banks it has followed the islamization of insurance companies, central banks, state debt bonds, future contracts, credit cards, Dow Jones, etc. This is only further evidence of their deception. Islamic banks are the central piece of this deception. Their deception is deceptive on three accounts:

- It does not alter the system of Riba it only makes superficial or cosmetic changes: it maintains the model of central banks, banks and credit money. Tacitly endorses the model of credit money and the present world monetary system dominated by the US dollar.
- It ignores and implicitly denies the existence of our own socio-economic model or Muamalaat. Ardently denies the existence of a Shariah currency because banks cannot operate with non-credit commodity currency.
- It has altered the nature of business contracts in order to make them fit into alien institutions and practices, as it is the case with shirkat, qirad. And it has added alien practices forbidden in Islamic law, such as “two sales in one”, as part of their business practices all under the deception of using Arabic names: murabaha.

We contend that Islamic banks are haram. The contract of Murabaha has become one of the major

instruments of Islamic banks to disguise Riba under a facade of Islamic contracting. Murabaha is a sale contract and not a financial contract. The mark-up in Murabaha is only a way of stating the price of the goods sold and cannot be conditional to a prior agreement as in the forbidden case of “two sales in one”.

Yahya related to me from Malik that he had heard that the Messenger of Allah, may Allah bless him and grant him peace, forbade two sales in one sale.

[In at-Tirmidhi and an-Nasa’i]

Yahya related to me from Malik that he had heard that a man said to another, “Buy this camel for me immediately so that I can buy him from you on credit.” ‘Abdullah ibn ‘Umar was asked about that and he disapproved of it and forbade it.

(Al-Muwatta of Imam Malik, Chapter 31, 72-73)

Murabahah is a particular kind of sale, where the seller expressly mentions the cost he has incurred on the commodities for sale and sells it to another person by adding some profit or mark-up thereon which is known to the buyer. The mark-up in murabaha is nothing but an “honest declaration of cost” and it does not imply any prior agreement with the seller. Murabahah is one of three types of bayu-al-amanah which are tawliyah (sale at cost) and wadiyah (sale at specified loss). None of them imply any prior agreement. Making a prior agreement with the

buyer means to transform the contract into “two sales in one”.

We contend that the eradication of Riba in Pakistan is the most important political and economic world event of our times. The repercussion of the introduction of Muamalaat will have an echo into the entire Muslim Nation providing a model for eradicating Riba. In particular the introduction of the gold Dinar and silver Dirham will be the most important event for the desired unification of the Muslim Nation by the creation of a common bimetallic currency and it will trigger the final demise the of US dollar dominium.

The Problem: Riba

What is Riba? A Classical Definition from Early sources.

The reason to define Riba in this petition is to emphasize that Riba is not merely interest as it is often referred to but it is more than that. Therefore the definition of interest-free is not identical to Riba-free.

Riba literally means 'excess' in Arabic. Qadi Abu Bakr ibn al-Arabi, in his 'Ahkamul Qur'an', defines it as: 'Any excess between the value of the goods given and their counter-value (the value of the goods received).' This excess refers to two matters:

1. An extra benefit arising from unjustified increase in the weight or measure, and
2. An extra benefit arising from unjustified delay.

These two aspects have led our scholars to define two types of Riba. Ibn Rushd said: "The jurists unanimously agreed about Riba in buyu' (trade) that it is of two kinds: deferment (nasiah) and stipulated disparity (tafadul)."

That is to say, there are two types of Riba:

1. Riba al-Fadl (excess of disparity)
2. Riba al-Nasihah (excess of deferment)

Riba Al-Fadl

Riba al-fadl refers to quantities. Riba an-nasiah refers to time delay.

Riba al-fadl is very easy to understand. In a loan, Riba al-fadl is the interest that is overcharged. But in general it represents when one party demands an additional increase to the counter-value. One party gives something worth 100 in exchange for something worth 110. Riba al-fadl also refers to the forbidden case in which two sales transactions are linked by a single contract (known as 'two transactions in one'), in which one party is obliged to sell something at one price and to resell it after a time to the original seller for a decreased value. As a matter of fact, this is only a subterfuge to disguise a loan with interest under the pretence of a sale. Nobody needs this subterfuge today because you can get the loan directly from the bank. But the Islamic Banks have resorted to this old trick to deceive their customers under the misinterpreted name of 'Murabaha'.

Riba An-Nasiah

Understanding Riba an-nasiah is more subtle. It is an excess in time (delay) artificially added to the transaction. It is an unjustified delay. This refers to the possession ('ayn) and its non-possession (dayn) of the medium of payment (gold, silver and foodstuff - which was used as money). 'Ayn is tangible merchandise, often

referred to as cash. Dayn is a promise of payment or a debt, or anything whose delivery or payment is delayed. To exchange (safr) dayn for 'ayn of the same genus is Riba an-nasiah. To exchange dayn for dayn is also forbidden. In an exchange it is only allowed to exchange 'ayn for 'ayn.

This is supported by many hadith on the issue. Imam Malik related:

“Yahya related to me from Malik that he had heard that al-Qasim ibn Muhammad said, ‘Umar ibn al-Khattab said, “A dinar for a dinar, and a dirham for a dirham, and a sa’ for a sa’. Something to be collected later is not to be sold for something at hand.” “Yahya related to me from Malik that Abu’z-Zinad heard Sa’id al Musayyab say, ‘There is usury only in gold or silver or what is weighed and measured of what is eaten and drunk.’”

The Hanafi scholar Abu Bakr al-Kasani (d. 587H) wrote:

“As for Riba al-nasa’ it is the difference (excess) between the termination of delay and the period of delay and the difference (excess) between the possession ('ayn) and non-possession in things measured and weighed with different genera as well as in things measured and weighed with a uniformity of genera. This is according to ash-Shafi’i (Allah bless him), it is the difference

between the termination of the period and the delay in foodstuff and precious metals (with currency-value) specifically.”

Riba an-nasiah refers particularly to the use of dayn in the exchange (sarf) of the same genera. But the prohibition is extended to sales in general when the dayn representing money overpasses its private nature and replaces the ‘ayn as medium of payment.

Imam Malik, may Allah be merciful to him, illustrates this point in his ‘Al-Muwatta’:

“Yahya related to me from Malik that he had heard that receipts (sukukun) were given to people in the time of Marwan ibn al-Hakam for the produce of the market of al-Jar. People bought and sold the receipts among themselves before they took delivery of the goods. Zayd ibn Thabit, one of the Companions of the Messenger of Allah, may Allah bless him and grant him peace, went to Marwan ibn Hakam and said, ‘Marwan! Do you make usury Halal?’ He said, ‘I seek refuge with Allah! What is that?’ He said, ‘These receipts which people buy and sell before they take delivery of the goods.’ Marwan therefore sent guards to follow them and take them from people’s hands and return them to their owners.”

Zayd ibn Thabit specifically calls Riba those receipts (dayn) ‘which people buy and sell before taking

delivery of the goods.’ It is allowed to use the gold and silver or food to make the payment, but you cannot USE the promise of payment. In it there is an excess that is not allowed. If you have dayn, you have to take possession of the ‘ayn it represents and then you can transact. You cannot use the dayn as money.

In general the rule is that you should not sell something which is there, for something which is not. This practice is called Rama’ and it is Riba.

Imam Malik:

“Yahya related to me from Malik from ‘Abdullah ibn Dinar from ‘Abdullah ibn ‘Umar that ‘Umar ibn al-Khattab said: ‘Do not sell gold for gold except like for like. Do not increase part of it over another part. Do not sell silver for silver except for like, and do not increase part of it over another part. Do not sell some of it which is there for some of it which is not. If someone asks you to wait for payment until he has been to his house, do not leave him. I fear rama’ for you. Rama’ is usury.’”

Rama’ is today the common practice in all our markets. Dayn currency (paper money, receipts) has replaced the use of ‘ayn currency (Gold Dinar, Silver Dirham). This practice is what Umar ibn al-Khattab meant when he said “I fear rama’ for you.” Selling with deferment is not restricted to metals, it also includes food. Malik said, “The Messenger of Allah, may Allah bless him

and grant him peace, forbade selling food before getting delivery of it.”

Therefore, what is prohibited in Riba an-nasiah, is the addition of an artificial delay that does not belong to the nature of the transaction. What does ‘artificial’ and ‘the nature of the transaction’ mean? It means that every transaction has its own natural conditions of timing and price.

Deferment and Disparity According to Contracts

- **Contracts in Which Goods Are of the Same Genus.**

Riba al-fadl refers to quantities. Riba an-nasiah refers to time delay. To understand what is justified and what is not justified, one has to understand the different nature of each transaction, in particular those transactions that involve the same genus (the same goods are given and received), such as loans, exchange and rental:

A loan involves deferment but not quantity disparity. One person gives an amount of money, and after a period of time (deferment) the person returns the money without increase. The excess in time is justified and is Halal, but disparity is unjustified and is Haram. That type of unjustified excess would be Riba al-fadl.

An exchange involves no deferment and no disparity. One person gives an amount of money and

without deferment the equivalent is given. Deferment is unjustified in an exchange. If you want to delay the payment, you have to make a loan, you cannot obtain a loan disguised as a 'delayed exchange'. That type of unjustified excess would be Riba an-nasiah.

A rental involves both deferment and disparity and it is Halal. When you rent a house, you take possession of the house and you return it after a time (deferment) and in addition you must make an extra payment, the rent (disparity). These two excesses both in time and quantity are justified and they are Halal. You can only rent merchandise that can be hired. You can hire a car, a house or a horse. But you cannot hire money or food stuff (fungible goods). To pretend to hire money is to corrupt the nature of the transaction and it becomes Riba. What type of Riba is renting money? Riba al-fadl, because the renting of money is the same as adding a disparity in a loan deferment is Halal, and disparity is accounted for in a different manner.

- **Contracts in Which the Goods Are of Different Genus.**

How do you determine disparity in a sale of goods of different genus? The disparity is determined by the difference between the price offered on spot sales and delayed sales. This is called in the Fiqh the stipulation of two prices or 'two sales in one'. The spot price is considered the price; and the excess occurs when there is an increase (in relation to the spot price) in the price

offered in delayed terms. This can happen in the following cases: offering an increased price if the good are purchased on delayed terms; or offering a discount if the buyer pays on the spot; or selling only on delayed terms and denying the possibility of purchasing on the spot (thus hiding that there is an increase - as it happens in many of the 0% finance offers that we see today). A complete discussion of this topic follows later. We will simply outline two cases:

1. When the seller says "I sell at this price if you pay in cash, and at this other one (higher) if you pay in delayed terms."
2. When the seller makes a salam (a sale with delayed payment, which is Halal) and at the time when the money is due he says to the buyer (who might not be able to pay): "You can delay it further if you pay an excess (disparity);" and also when the seller says to the buyer: "If you pay before the end of the terms, I will offer you a discount (disparity)." This is the type of Riba known as Riba al-jahiliyah. What type of Riba is applicable here? Riba al-fadl - because in sales the source of unjustified excess is disparity.

Ibn Rushd wrote:

"As for usury in sales, the ulama are in agreement that it is of two types: deferred payment (nasiah)

and disparity (tafadul) – except what has been transmitted from Ibn ‘Abbas, who reported that the Prophet, may the peace and blessing of Allah be upon him, said: “There is no usury except in deferred payment.” The majority of the fuqaha, however, have concluded that usury does exist in these two types because this has been affirmed in other statements from him, may the peace and blessings of Allah be upon him.”

“The four sections to which the law of usury may be reduced are (1) things in which neither disparity nor deferment is permitted; (2) things in which disparity is permitted but deferment is not; (3) things in which both are permitted; and (4) what constitutes a single genus.”

Thus every transaction has its conditions relating to its nature. You cannot take the conditions of one type of transaction and try to apply them to the other, without corrupting the transaction. To add unjustified conditions (also excess) to a transaction is Riba.

The Prohibition to use Dayn to pay zakat

Zakat in Islam must be paid in ‘ayn, that is tangible merchandise and cannot be paid in dayn, that is, a debt, a liability or a promisory note. This important matter has been ignored for many years appealing to darurah (exceptionality), since the Dinar and Dirham were not

available. The fact that the Dinar and Dirham are available again bring this matter forward once again.

Property (mal) is owned (milkiyyah) as either 'ayn or dayn. 'Ayn is a specific existing thing, considered as unique object and not merely as a member of a category ("this horse", not "a thoroughbred mare"). Dayn is any property, not an 'ayn, that a debtor owes, either now or in the future; or it can refer to such property only when due in the future. Property owned as dayn is usually fungible, such as gold or wheat. Sometimes non-fungible manufactured goods defined by specification are treated as dayn. Although dayn, literally means "debt", in fiqh it refers not to the "obligation" per se, but rather to the property the subject of the obligation, which is considered to be already owned by the creditor. Clearly, since such property is not yet identified and may not even exist (it is not an 'ayn), referring to dayn as present property is fictive.

Dayn means wealth, the payment of which attaches as a liability to a legal person (dhimmah), as the result of a transaction ('aqd) or a loan, or as damages for property destroyed (istihlak). Dayn by extension means the class of goods called mithli (fungible); that is, goods whose price (thaman) in sale is determined on the basis of weight (wazn), or volume (kayl), or number ('adad), and among the various units of which there is no difference of value due to human art. The definition of dayn given in the Majallah in a way combines these two meanings.

According to it, a stated portion of a heap of wheat is dayn before it has been set off. 'Ayn is the opposite of dayn in the last sense, meaning that is definite and has a bodily existence. Thus, in the above example, the said portion becomes 'ayn by being set off.

It follows a text of the Great Scholar Imam Abu Bakr al-Kasani (d. 587H) wrote:

“If the property on which zakat fell due is dayn, as distinguished from 'ayn, its zakat may be settled in terms of 'ayn wealth. Thus a person having a claim of two hundred dirhams on which zakat is due, may give, in settlement of the same, five dirhams in cash, because dayn as compared with 'ayn is defective (naqis) and the 'ayn is complete (kamil), and a settlement of the defective in terms of the complete is valid. On the contrary, the settlement of the complete 'ayn in terms of the defective is not valid, and therefore, the zakat debt is not discharged if a person wants to pay the zakat of two hundred dirhams which he possesses (i.e. 'ayn) in terms of the five dirhams which a poor person owes him (i.e. dayn); namely, by absolving him from the debt intending it for his own zakat debt on the two hundred dirhams. Finally, as regards the settlement of the zakat of dayn wealth in terms of dayn wealth, if the wealth on which zakat is due of the kind of dayn which becomes 'ayn is not valid; otherwise is valid. Thus

if a person has five dirhams owed to him by a person and two hundred dirhams by another person, he cannot settle the zakat of the two hundred by making a present of five to the debtor as alms, because the two hundred dirhams will become 'ayn when collected, and the settlement of the zakat of 'ayn wealth in terms of dayn is not valid.

An example of the opposite case would be that a person who wanted to settle the zakat of two hundred dirhams owed him by another by making a present of those dirhams to the debtor and intending it for his zakat debt. However, this is allowed only in case of the debtor is a poor person, although there is also a view to the contrary. It goes without saying that the zakat of 'ayn wealth is discharged if paid in terms of 'ayn wealth; if, for instance, one pays the zakat of two hundred dirhams he possesses by paying five out of those two hundred."

[Kasani, pp. 42-3. Quoted in *Islamic Theories of Finance* by Nicolas Aghnides, New York : Columbia University, 1916; pp 334-335.]

The Usage of Dayn as Means of Payment

Since dayn is in itself a deferment, the use of dayn is restricted to private transactions and it is prohibited as a general means of payment (money). While dayn per se is Halal, it is not Halal to use it as money. Dayn is a private contract between two individuals and must remain private and between them. The transfer of dayn from one person to another can be done Islamically, but only by the elimination of the first dayn and the creation of a new one. The dayn cannot circulate independently from what it represents. The owner must take possession of the goods and liquidate the dayn. Dayn cannot be used in an exchange and it cannot be used as a means of payment.

The Solution: Muamalaat

The General Idea of Muamalaat

Muamalaat Negates the “Mission Civilicatrice”

Muslims societies had a social and economic model before colonialism and before modern capitalism or financial capitalism arrived. That model existed and was successful and was known as Muamalaat having its roots in Islamic Law. To deny this is accepting the colonialist principle of “mission civilicatrice”, that is the idea of “civilizing mission” to the backward natives. This is in line with the evolutionist principle of modernization theorists who declared that traditional customs had to be destroyed and traditional societies had to adapt or to disappear. The European colonial powers felt it was their duty to bring Western civilization to what they perceived as backwards peoples.

Muamalaat was destroyed by the colonial powers. We find ourselves in the awkward position of having to prove its validity against a legal frame that still today persists and derives from the civilizing mission of the British. Our view is to reject that we belong to the category of backwards people. Our view is that we need to restore our own social and economic model. That model is Muamalaat.

It is important to understand how our present legal and economic system originated. British education in India created an ideological hegemony through the establishment of an educated Indian elite implicitly receptive to British order by performing local administrative functions. An education in English was intended to “deposit” Western values into the “soul of the educated”, and at the same time detach from Western-educated individuals discourses of traditional scholarship, thereby alienating them from their traditional way of life. A sense of “Britishness” went along hand in hand with the empire and native administration that was in the making. This evoked a “civilising” belief that England should assist in advancing “backward peoples” towards greater refinement, just as the early Romans were believed to have brought civility to England. The mission originated with the conquest of Ireland, and the desire to become the “new Romans” of Europe, which justified the Irish conquest and the subjugation of foreign peoples from America to India.

As the local educated elite assimilated further into the Western values of liberty, democracy and nationalism, they not only sought to occupy their lower administrative posts but they tried to acquire those higher positions once exclusively reserved for Europeans. Although they wanted to acquire power they did not renounce to the values and the system under which they sought that power.

The concept of private property over common land was introduced by the British in 1793, which differed significantly from pre-colonial days, during which land was held communally and a percentage of the produce remitted to the state. The introduction of private property over large quantities of land was fundamental to secure and maintain by the Western law system, despite altering the traditional modes of land tenure, which were the heart of traditional Indian society. Accompanying these policy shifts were the socioeconomic changes that resulted in the modifications in the class structure. These policies transformed former revenue-collecting officials and prominent individuals who collaborated with the colonial regime into landowning gentry. The property laws affected profoundly India's power distribution, as whoever controlled the land could now control those who had no land. Consequently, the British could now rely on the new landed class to perform domestic administrative duties such as the collection of revenue. The new ownership was not changed and the elimination of common land was never restored after independence.

Banking was introduced in India in 1770 with the creation of the Bank of Hindustan. In 1786 the General Bank of India was created. In 1806 the Bank of Calcutta, immediately after known as Bank of Bengal which later became the State Bank of India. There were no banks in Hindustan before the 18th century, yet this model which is

repugnant to the injunctions of Islam, remained with us up until today.

Muamalaat is not Islamic Economics

The “Islamisation” of Capitalism does not result in Muamalaat.

Over the last fifty years a group of Muslims under the banner of “reform” has been engaged in what they call the “islamisation of knowledge”, the heart of which has been the “islamisation” of Economics. Under the banner, the “islamisation of knowledge”, some scholars, taking knowledge for Western human sciences, undertook the ludicrous task of “Islamise” all human sciences: sociology, psychology, politics, anthropology and most important economics.

Islamic Economics produced Islamic banks, Islamic Stock Exchange, Islamic insurance, Islamic mortgages, and Islamic credit cards. The system remains the same.

Their methodology was simple. First, a rejection of the madhhab system, seen as medieval scholarship. Second, the transformation of the Shariah from its existential jurisprudence base into a normative set of abstract moral principles and values, that could be accessed at random. For example, the principles of equality and justice, seen as Islamic values, if assigned to any institution or financial procedure can serve to Islamise them.

Islamising the banks in order to eliminate Riba is as absurd as Islamising the brothels in order to eliminate prostitution.

Islamisation has reached a point of evident absurdity, a nihilistic conclusion, that is to say, "their" Islamic values have been diluted into a hollow pragmatism. The ironic result of islamisation is a full assimilation to capitalism, a kind of "reverse secularism". How can Islamising result in the same institutions, tools and procedures as capitalism but with different words? This farce must end, because not only is it a non-sensical exercise but it prevents the real Islamic model from ever returning.

We do not want to islamise capitalism, we want to create an alternative to it: The End of Economics

Economics is not neutral, it is an ideology based on presumptions quite opposite to Allah's injunction "Allah has permitted trade and has forbidden usury". Economics reveals a different one, "Economics has forbidden trade and has permitted usury".

The aim and methodology of Economics are not acceptable. We do not need to make them acceptable either, because we have a superior way of thinking emanating from the Sunna of the Messenger (May Allah bless him and grant him peace). We need to overcome this pseudo-science and create our own understanding outside

their parameters. This is not Islamising Economics, but “ending” Economics.

Muamalaat as a Model: The Model of Madina

The Shariah is based on the “Kitab wa Sunna”. The Sunna is the complete record of what Rasulullah, salallahu alaihi wa salam said and did. This has been transmitted to us by the written texts of the Hadith and the actions of the first three communities, this is known as the ‘amal of the ahl al-Madina.

What matters to us is that the Madina was a city of people that is to say it was a “living model”. In a living model we have all the complexity of social relations and institutions in operation. If we examine the economic model we find all the elements required to understand how these relations must be articulated. When we look at Madina we are looking at the “perfect city”. We believe that human history had never reached that perfection before and will never reach it again after. Madina is the zenith of human history.

Mutual Consent in Muamalaat

Mutual Consent is the foundation of trading. Against of the modern tendency of monopolization

Sharing Infrastructure in Muamalaat

Waqf is foundational to understand Muamalaat. It is said that up to 60% of all real estate in Ottoman Istanbul were waqf. The waqf is present in mosques, markets, caravans and guilds. The waqf is not private not public property, it is the property of Allah. Only the usufruct of the assets in waqf is given to the use of its given beneficiaries.

Property is theft when we refer to mosques, because mosques are awqaf. Only Allah has property over the mosques. But so is with the physical markets, with the logistical infrastructure of caravans and the major means of production of the guilds in Muslim societies. They were all awqaf.

Sharing is the outcome of the extensive establishment of awqaf.

The Elements of Muamalaat

Shariah currency

The gold Dinar and silver Dirham are mentioned in Qur'an and they are known as the Shariah currency. The weight of the Dinar was the mithqal which is equal to 4.25gr of gold and the weight of the Dirham was 7/10 of the mithqal. This is known as the standard of Umar ibn al Khattab, radhiallahu anhu. Together with the Dinar and Dirham, people in Madina used fulus, typically made of copper. Fulus is not money but only has a limited use a

small change, and its value is dependent to the value of the dirham such as: 100 fulus equals 1 dirham.

In Madina money was a commodity and it was freely chosen without any government imposition, under the general ruling that oversees all trading relations, which is what Allah ta'ala says in the Qur'an: "trade with mutual consent". Then we say to ourselves money must be also chosen with mutual consent. We know that gold and silver have the most common media of exchange for over 5,000 years of human history at the time in which the idea of imposing a currency to the people was alien to society. We believe that if freedom is restored people will chose gold and silver. This is not backwards, but this is the way of the best society in history.

To introduce the Dinar and the Dirham among the Muslims will transform the world monetary system. Since gold and silver are the same it does not matter where we are in the world, the Dinar and Dirham have the potential to unify the Muslim nation under a bimetallic monetary system.

One chicken at the time of Rasulullah, salallahu alaihi wa salam, cost one dirham. We can buy one chicken today in Pakistan for approximately one dirham or even less. What it means it that there is no loss of value in gold or silver over long period of times. Unlike paper money commodities cannot be artificially inflated.

The Return of the Shariah currency, the Dinar and Dirham, poses a new understanding of wealth and prosperity that differs from conventional Economics: a new paradigm. This paradigm can only be understood in the context of Muamalaat. Only through Muamalaat can we realise the full potential of the return of the Shariah currency. The full implementation of Muamalaat proposes a completely replacement capitalism as the Riba system.

Shariah Currency versus Legal Tender

The Gold Dinar and Silver Dirham known as Shariah currency or Shariah coins in the Fiqh are not legal tender. The Shariah currency has no relation to present fiat currencies on many accounts and should not be legally or practically be compared or treated as the same. The Gold Dinar and Silver Dirham relates to religious matters, most important of which is the matter of payment of Zakat, rather than constitutional matters. Its introduction can only occurred on voluntary basis since freedom is a command from Allah in all commercial transactions including the acceptance of money. Its usage has been throughout history open to Muslim and non-Muslims alike.

The Gold Dinar and Silver Dirham are not legal tender. Legal tender or forced tender is an offered payment that, by law, cannot be refused in settlement of a debt, and have the debt remain in force. Personal cheques, credit cards, debit cards and similar non-cash methods of

payment are not legal tender only the notes and coins of the Central Banks are Legal Tender.

The Dinar and the Dirham are known in the fiqh as the “Shariah currency” or “Shariah coins”. The term “Shariah coins” is specific to the Dinar and Dirham and is not applicable to any other coin made in gold, silver or any other material. Any other coin is known as “non-shari’i” (ibn Khaldun).

Imam Abu Zayd Ibn Khaldun (d. 1406)

“The Revelation undertook to mention them and attached many judgments to them, for example zakat, marriage, and hudud. Therefore within the Revelation they have to have a reality and specific measure for assessment (of zakat, etc.) upon which its judgments may be based rather than on the non-shari’i (other coins).

Know that there is a consensus (ijma) since the beginning of Islam and the age of the Companions and the Followers that the dirham of the shari’ah is that of which ten weigh seven mithqals (weight of the dinar) of gold... The weight of a mithqal is seventy-two grains of barley, so that the dirham which is seven tenths of it is fifty and two fifths grains. All these measurements are firmly established by consensus.”

“Al-Muqaddimah”

Properly speaking the term “alternative currency” is not applicable to the Shariah coins or currency because the term “Shariah coins” is specific to the Dinar and Dirham and therefore is not alternative to any other coins or currency (non shari’i). It stands on its own without alternative. The use of the expression “alternative currency” can only be used if proper explanation is given in regards to the fundamental differences that exist in relation to the legal tender currencies such as the Malaysian Ringgit. The Malaysian Ringgit is an entirely different legal concept and has different functions. The Malaysian Ringgit is not based on a commodity (in Arabic ‘ayn, meaning tangible merchandise) like the Dinar and Dirham, the Malaysian Ringgit a promissory note (in Arabic dayn, meaning debt or liability) with no intrinsic value (its value as ‘ayn/tangible merchandise is the value of the paper close to zero) but with a fiat value which established by the compulsion law of the Federal Government through the Law of Legal Tender and it can change from time to time. On the other hand, the value of the Dinar and Dirham depends entirely on the market value of the commodity (gold and silver) on which it is manufactured, just like a kilo of rice depends on the value of rice. This difference is important in religious terms, for example, zakat which is a legal obligation of the Shariah has to be paid in ‘ayn but

cannot be paid in dayn. Muslims should, if having the choice (if no choice is given or no 'ayn is available then darurah, that is exceptionality, is temporarily applicable), pay with 'ayn rather than dayn.

Imam Abu Bakr al-Kasani (d.1191)

“If the property on which zakat fell due is dayn, as distinguished from 'ayn, its zakat may be settled in terms of 'ayn wealth. Thus a person having a claim of two hundred dirhams on which zakat is due, may give, in settlement of the same, five dirhams in cash, because dayn as compared with 'ayn is defective (naqis) and the 'ayn is complete (kamil), and a settlement of the defective in terms of the complete is valid. On the contrary, the settlement of the complete 'ayn in terms of the defective (dayn) is not valid, and therefore, the zakat debt is not discharged if a person wants to pay the zakat of two hundred dirhams which he possesses (i.e. 'ayn) in terms of the five dirhams which a poor person owes him (i.e. dayn); namely, by absolving him from the debt intending it for his own zakat debt on the two hundred dirhams.”

“Bada'i` al-Sana'i”

In linguistic sense, the Dinar and Dirham are not face values, but names that indicate specific weights. The Dinar is a specific weight of 4.25 grams and it is also

known as mithqal in Arabic. The Dirham is a specific weight of 2.975 grams or 7/10 of the mithqal. In a way they are legally the same as saying "1kg of rice". Therefore they are specific weights of commodity (gold and silver) which are mentioned in Qur'an and in many aspects of the Shariah regarding zakat and legal judgments; and thus they cannot be altered in their weight.

In history, the Shariah coins has never been legal tender. In the practice of the early Muslim community the Shariah coins were not only currency used as means of payment. Barley, dates or salt were also used as means of payment and therefore no exclusive right was given to the Shariah coins. The reason for this "freedom to choose the medium of exchange" is that money is considered a part of trading it is regulated under the same Qur'anic injunction that regulates trade: "tijaratun 'aan taradim minkum", the meaning of which is "trade according to mutual consent". "Mutual consent" excludes the idea of compulsion or monopoly in regards to trading. This is another reason why the Dinar and Dirham are not legal tender and have never been legal tender. Freedom to choose the medium of exchange is a fundamental right granted by Allah to Muslims and non-Muslims alike. The use of the Shariah currency is therefore inclusive of non-Muslims.

Shaykh Jalaluddin al-Mahalli & Shaykh Jalaluddin al-Suyuti

Tafsir of Qur'an (4, 29):

“O you who believe, consume not your goods between you wrongly, unlawfully according to the Law, through usury or usurpation, except it be trading (tijāran, also read tijāratun), so that the goods be from trade effected, through mutual agreement, through mutual good-will: such [goods] you may consume. And kill not yourselves, by committing what leads towards destruction on account of some affiliation, be it in this world or the Hereafter. Surely God is ever Merciful to you, when He forbids you such things.”

“Tafsir al-Jalalayn”

The term “currency” is commonly understood as legal tender or as fiat money that carries a face value. Since the “Shariah coins” are not legal tender and do not have a face value the “Shariah coins” should be better understood as a commodity rather than as “currency” in the common use of the term. Regarding current common practices, the use of the “Shariah coins” belongs to the category of barter, that is, the mutual exchange of products and services. It is arguable that in the past, before the introduction of legal tender laws, transactions made with gold and silver were consider normal transactions and the term barter was applicable to all other transactions. Therefore the use of the term “Shariah currency” should be understood with the limitations

explained above and in consideration to the historical practice of the Muslims as it is relevant in the Islamic Jurisprudence.

Until very recently in history “paper currencies” were defined as promissory notes in terms of gold and silver. In that sense they represented an ‘amanah’ (trusting wealth to someone who will keep it for you until you demand it) that is an obligation to pay on demand a certain amount of gold and silver. We know from history that this obligation was often not fulfilled and eventually the governments of the world decided gradually to eliminate the obligation to pay in specie altogether. The closest case of the default is the US dollar and its unilateral decision to break their “Bretton Woods Agreement”. This concept of ‘broken amanah’ is known in the Qur’an and carries legal implications as to the prohibition to accept amanah from non-Muslims unless they live under Muslim rule so that they can be obliged to pay their contractual obligations. This legal injunction, which in theory implies the prohibition to accept British pounds, US dollars, etc. (or any other currency backed by them), has been abrogated long ago since the colonial days by new laws that consider that this legal injunction is no longer applicable. Under the inspiration of the colonial legal systems, the constitutional Law of all Muslim countries including Pakistan grants the right to accept foreign promissory notes from non-Muslim countries (such as USD) to their own Central Bank as a reserve value for

their own fiat currency. Because of this many Muslims (and non-Muslims) still mistakenly believe that their own fiat currency is backed by gold and silver when in fact no legal tender in the world is fully backed by specie anymore. The gold dinar and silver dirham are commodities and therefore they are not an 'amanah: they are a tangible commodity ('ayn), that is, when you pay with them, you hand over a certain amount of gold and silver and therefore they do not require to be backed by any other asset or authority other than itself. This is another reason why the Shariah currency cannot be compared or considered an alternative to "paper currencies".

Qadi Abu Bakr Ibn al Arabi (d. 1148)

Allah says in the Qur'an (3:75):

"And amongst the People of the Book there are those who, if you were to entrust them with a treasure (qintar), he would return it to you. And amongst them is he who, if you were to entrust him with a dinar would not return it to you, unless you kept standing over him. "

Tafsir:

"the benefit that can be taken from this is the prohibition of entrusting (amanah) the People of the Book with goods. The question concerning entrusting property is legislated by the text of Qur'an."

“Ahkam al-Qur’an”

Legal Tender is often a misunderstood concept. Coins and banknotes do not need to be ‘legal tender’ in order to be used as money to buy and perform other transactions for which money is intended. Legal tender must be accepted to settle a money debt. For example, US federal law does not restrict private businesses, persons or organisations in what methods of payment they choose to accept or refuse. Businesses are therefore free to insist on payment by credit card, for example, or to refuse larger denomination banknotes. In Canada for example, only Canadian dollar banknotes issued by the Bank of Canada are legal tender; however, commercial transactions may legally be settled in any manner agreed by the parties involved. A significant amount of business in Canada is transacted in United States dollars, despite United States currency not being legal tender. Legal tender can be refused unless or until a person is in debt, therefore vending machines and transport staff do not have to accept the largest denomination of banknote for a single bus fare or bar of chocolate, and even shopkeepers can reject large banknotes. However, restaurants that do not collect money until after a meal is served (a debt has been created) would have to accept any legal tender. The right of a trader to refuse to do business with any person means a purchaser cannot demand to make a purchase, and so declaring a legal tender other than for debts would be redundant.

The minting of the Dinar and Dirham is a known practice of the Muslims from the early days of Islam. The first dated coins that can be assigned to the Muslims are copies of silver dirhams of the Sasanian Yezdigird III, struck during the Khalifate of Uthman, radiallahu anhu. These coins differ from the original ones in that an Arabic inscription is found in the obverse margins, normally reading "in the name of Allah". Since then the writing in Arabic of the name of Allah and parts of Qur'an on the coins became a custom in all minting made by Muslims. In the year 75 (695) the Khalif Abdalmalik ordered Al-Haddjadj to mint the first dirhams, officially establishing the standard of Umar ibn al-Khattab, radiallahu anhu: 7/10 of the mithqal. The next year he ordered the dirhams to be minted in all the regions of the Dar al-Islam. He ordered the coins to be stamped with the sentence: "Allahu Ahad, Allahu Samad". The minting of the coins is considered an obligation of the Sultan that needs to be followed.

Imam Abu Abdallah Al-Qurtubi (d. 1273)

Allah says in the Qur'an (4:59):

"O you who believe! Obey Allah and obey the Messenger and those in command among you.."

Tafsir:

"The ayat is an order to obey the Sultan in respect to seven obligations: the minting of the dinar and the dirham, fixing weights and measure, legal

judgments, Hajj, Jumu'ah, the two Eids and Jihad."

"Al-Jami' li-Ahkam al-Qur'an"

Markets

Markets in Madina were public institutions (awqaf). The Islamic cities were, above all, a market-city. The importance of the Suq in the formation and development of the Muslim city cannot be underestimated. Muslim cities were founded on the combination of a Great Market and a Great Mosque. This combination was the heart of every city. Ottoman developers called this combination the Imaret. The Imaret is the distinctive feature of every Islamic city.

Soon after his arrival in Madina al-Munawwarah, the Prophet of Islam, *salla'llahu 'alaihi wa sallam*, created two institutions, a mosque and a market. He made clear by his statements and explicit injunctions that the marketplace was to be a space freely accessible to everybody, with no divisions (such as shops) and where no taxes, levies or rents could be charged.

The Market is like a Mosque: ...

The Messenger of Allah, *salla'llahu 'alaihi wa sallam*, said: "Markets should follow the same sunnah as the mosques: whoever gets his place first has a right to it until he gets up and goes back

to his house or finishes his selling. (suq al-muslimin ka-musalla l-muslimin, man sabaqa ila shay'in fa-huwa lahu yawmahu hatta yada'ahu)." .

(Al-Hindi, Kanz al-'Ummal, V, 488, no. 2688)

it is a sadaqa, with no private ownership ...

Ibrahim ibn al-Mundhir al Hizami relates from Abdallah ibn Ja'far, that Muhammad ibn Abdallah ibn Hasan said, "The Messenger of Allah, *salla'llahu 'alaihi wa sallam*, gave the Muslims their markets as a charitable gift (tasaddaqa 'ala l-muslimina bi-aswaqihim)."

(Ibn Shabba, K. Tarikh al-Madinah al-Munawwarah, 304)

with no rent charged ...

Ibn Zabala relates that Khalid ibn Ilyas al-'Adawi said, "The letter of Umar ibn Abd al-Aziz was read out to us in Madinah, saying that the market was a sadaqa and that no rent (kira') should be charged on anyone for it."

(As-Samhudi, Wafa al-Wafa, 749)

with no taxes levied on it ...

Ibrahim ibn al-Mundhir relates from Ishaq ibn Ja'far ibn Muhammad, from Abdallah ibn Ja'far ibn al-Miswar, from Shurayh ibn Abdallah ibn

Abi Namir, that Ata' ibn Yasar said, "When the Messenger of Allah, *salla'llahu 'alaihi wa sallam*, wanted to set up a market in Madinah, he went to the market of Bani Qaynuqa' and then came to the market of Madinah, stamped his foot on the ground and said, 'This is your market. Do not let it be lessened (*la yudayyaq*), and do not let any tax (*kharaj*) be levied on it.'"

(Ibn Shabba, K. *Tarikh al-Madinah al-Munawwarah*, 304)

where no reservations or claims can be made ...

Ibn Zabala relates from Hatim ibn Isma'il that Habib said that Umar ibn al-Khattab [once] passed by the Gate of Ma'mar in the market and [saw that] a jar had been placed by the gate and he ordered that it be taken away. ... Umar forbade him to put any stones on the place or lay claim to it [in any way] (*an yuhajir 'alayha aw yahuzaha*).

(As-Samhudi, *Wafa al-Wafa*, 749)

and where no shops can be constructed.

Ibn Shabba relates from Salih ibn Kaysan ...that ...The Messenger of Allah, *salla'llahu 'alaihi wa sallam*, ...said: 'This is your market. Do not build anything with stone (*la tatahajjaru*) [on it], and do not let any tax (*kharaj*) be levied on it'"

(As-Samhudi, Wafa al-Wafa, 747-8)

Abu r-Rijal relates from Isra'il, from Ziyad ibn Fayyad, from one of the shaykhs of Madinah that Umar ibn al Khattab, radiya'llahu 'anhu, saw a shop (dukkan) which someone had newly put up in the market and he destroyed it.

(Ibn Shabba, K. Tarikh al-Madinah al-Munawwarah, 750)

Open Markets versus Supermarkets

Openness and competition can only be granted not only if the legal conditions permit them to exist, but also if the infrastructural and practical conditions support them too.

For example, we cannot speak of full and fair competition in Britain when 80% of all retailing is controlled by 4 supermarkets. These supermarkets have driven out tens of thousands of small shops and small manufacturers throughout Britain. The same phenomenon is taken place across Europe. All sectors of industry are consolidating in fewer and fewer hands. The number of players is diminishing and the SME's are suffering. The key concern behind the national protectionist measures that resist further integration in the EU single market is the effect that it will have in their small business. Carrefour is now the second largest retailer in the world, just behind Walmart.

Suqs in the Muslim City

Suqs were an integral part of every city. The number of suqs varied considerably from one city to another. Cairo had 145, Aleppo 77, Baghdad, Damascus and Algiers only around 50. Within the central zone the markets were located, broadly, in decreasing order of importance: the markets for goldsmiths and money changers (sagha), for spices ('attarin), and for the cloths (suq al-qumash) normally occupied the area closest to the center. The division of activities in Tunis around the Zaytuna, is specially significant in this regard.

The basic element of these central quarters was the shop (dukkan). In the large covered markets, the space of the dukkan was divided into two parts:

- the selling area which belonged to the suq and was free. It was the visible frontal part of the dukkan that connected to the passages of the suq;
- the storage area which belonged to the services of the suq which had to pay a rent. It was located in the back or on the top of the selling area.

An Example: The Grand Bazaar of Istanbul

The construction of the future Grand Bazaar's core started during the winter of 1455/56, shortly after the Ottoman conquest of Constantinople. The construction of the initial Bedesten ended in the winter of 1460/61, and the building was endowed to the waqf of the Aya Sofya Mosque. Over the centuries the market was made bigger and new sections were added. According to a 1890 survey, in the Bazaar were active 4,399 shops, 2 Bedesten, 2195 rooms, 1 Hamam, one mosque, 10 Medrese, 19 fountains (among them two Şadırvan and one Sebil), one Mausoleum and 24 Han.

The full extension of the market complex is 30.7 hectares, protected by 18 gates, there are 3,000 shops along 61 streets, the 2 Bedesten, 13 Han or caravanserais (plus several more outside). Bazaar's merchants were organized in guilds. In order to establish a new one, it was only necessary to have enough traders of the same good.

The ethics of trade in the Market until the Tanzimat age (half of the 19th century) was quite different from the modern one: indifference to profit, absence of envy in the successes of other traders and a single and correct price were peculiar traits of the Ottoman bazaar during its golden age.

The Solution: Muamalaat



Caravans and Guilds

Caravans

From an historical perspective there are two other institutions organically linked to the open market place: the caravans and the guilds. These last two share the same philosophy of openness with the market place. The caravans were open distribution networks (everyone could participate in export trading sharing logistic infrastructure) and the guilds were open production systems (there was no employer/employee relationship, but master/apprentice; the apprentice was being incubated to become independent within the guild).

It is important to understand the role of the caravans in the market places from a purely infrastructural level. In it impossible to explain the international commercial network created by the caravans which stretched from China to the depth of Africa without considering the commercial infrastructure with which the Muslims cities were endowed: caravanserais and suqs. Without a place to arrive at the caravans could not exist. The caravan traders were installed in funduqs or khans (caravanserais) reserved for them.

Caravans were open distribution networks. The caravans were as open as the market place. Small producers could participate in exporting activities that they could not afford or organize on their own. The caravan was an essential infrastructure of open trading,

and could only exist together with the infrastructure of the physical market place. If there was not market place to go, the caravans would cease to exist. If the market ceases to be open, then the distribution ceases to be open. And consequently production ceases to be open. The monopolization of the market infrastructure brings about monopolization trends in the distribution and the production. That is why the infrastructure has to support the idea of the open market. The effect of monopolizing the infrastructure is perfectly illustrated with the present practices of companies like Carrefour. No caravan can arrive to Carrefour, because the “market” is owned by Carrefour. Trading ceases to exist. Instead of trading there is only monopolistic distribution.

Caravanserais contained warehouses and rooms for the traders. Larger caravanserais had as many as 100 warehouses and 200 rooms. The number of caravanserais in a city provides a good indication of its role as a commercial center: Algiers had 34, 44 in Baghdad, 35 in Mosul, 57 in Damascus, around 100 in Aleppo and 360 in Cairo –eloquent testimony to the economic importance of the metropolis and its paramount position in Arab trading.

Muamalaat: The Alternative to the Riba system exists



Caravanserai of Acre, Palestine



Caravanserai of Nicosia, Cyprus

Guilds

Although craft manufacture is found in family-run workshops throughout the countryside, it is in the cities that the specialized production was located, in a highly varied set of fields that catered for the immediate needs not just of the city population but of that of the rural districts, too. As a matter of example of the importance of the guilds, it is estimated that, in the eighteenth century, craftsmen represented half of the active population of Cairo. The guilds were connected to the suqs. An example of this is to be found in Cairo and also in Aleppo and Damascus: the Suq al-Nahhasin (the coppersmith's bazaar) which were expanded to become true centers of trading activity opened to all the citizens.

The guilds not only had a local character but in some cases they acquired the character of large specialised industries dedicated to global export, such as the production of red caps, during the seventeenth century in Tunis. The guild provided self-employment to 300 masters and 15,000 craftsmen. These caps were exported to every region in the Ottoman Empire. Another example is the textile industry in Cairo which self-employed around 500 masters and 12,000 craftsmen. At the beginning of the nineteenth century in Aleppo, it is estimated that the guild of textile craftsmen consisted of about 12,000 looms that provided for export as far as Europe. Soap produced by Palestinian guilds was sold in the soap caravanserai (khan al-sabun) in Cairo.

The guilds represent the quintessence of empowerment in action. There were not “employees” in the guilds. Individual enterprising was incubated within the guild. Individual members could share some essential infrastructure to develop and acquire skills “to the maximum”. It offered a levelled playing field for manufacturers and service providers. The theme is so vast that we will develop another paper to cover this issue. At the moment is sufficient that we notice that without the market place the guilds are not possible. Without the market place the guilds degenerate, become rigid and lose their balance efficiency.

The guilds stimulate and encourage independent entrepreneurship. An Islamic society, from a purely historical perspective, is not a society of employees. In pre-capitalist societies, Muslims have lived and worked in guilds. Belonging to a guild was the norm in Muslim societies. Businesses relations thrived inside the guild (without the need of banks) enhanced by the existence of a shared productive infrastructure and welfare systems that took the West centuries to develop (and yet has never found the efficiency of the guilds). The individual requirements to establish new enterprises within the guild were all favorable and easy to fulfill.

The relationship employer/employee was replaced by master/apprentice. There was not “working class” in the days of the guilds. Guilds were historically eliminated by legal abolition and by the removing of their rights in

favor of a new set of State given privileges and monopolies; and also the accumulation of capital (credit money) in private hands produced by banking. Today free competition and free access to the market do not exist for all. Thus it is not seen as a problem. Islamic trading guarantees equal rights for all. Islamic trading will decisively contribute the re-establishment of the guilds, challenging the system of the modern corporation based on "one owner and 14,000 employees". It will encourage new models of open production processes (guilds), where production is open to thousands of free small owners associated. This is also part of the wider framework of the Islamic trading Initiative.

Concerning this matter, it is important to point out that specially since the beginning of the 1990's, quite a few corporations have understood partially the benefits of dividing their production processes into smaller units. Instead of one pyramidal structure with one source of decision, they saw the benefit of many autonomous units working in collaboration while competing among each other. Thus, Toyota now claims that there is not one Toyota but two thousand Toyotas. Asea Brown Boveri, the Swedish-Swiss engineering giant, has subdivided itself into 1,300 independent companies and 5,000 autonomous profit centres. Their prosperous success is forcing others to adapt to the same principle. The policies of decentralisation, though they seem a step in the right direction, are limited because they have all been designed

by corporate staff. Corporate staff could not suggest the ultimate step which would be to eliminate the corporation all together, or in other words to give total independence to the autonomous workshops. That could only happen if the small workshop could have an identical access to the customer as Toyota itself. To make that step we need open distribution networks and free market-places for all. These are all integral parts of Islamic trading.

Qirad and Shirkat

The application of Islamic contracts will change within Muamalaat. The contract of Qirad or Mudharabah is a contract that took place historically in the context of the caravans. The caravan was financed by qirad and qirad was the contract of trading finance of the caravan. Equally Shirkat took place within the context of a different type of production model. Most contracts of shirkat were between members of the same profession. This natural association of traders led to the establishment of the guilds. Shirkat and guilds correspond to each other in the same way that qirad corresponds to caravans.

Understanding the contracts is not divorced from understanding other social aspects of the community, thus Muamalaat. In Islamic Law all the attention is on how the exchange of goods takes place, because it is understood that if the exchange of goods is correct, the whole edifice of trading will be correct, but if the exchange of goods is incorrect it does not matter how much we try to remedy

the situation, the whole edifice of trading will remain incorrect. In Islamic Law the act of exchange of goods represents the minimal unit of trading. Thus all the regulations are guided to keep justice in every commercial and business exchange. These regulations affect the institutions that support trading and those institutions also affect the contracts. In order to highlight how Muamalaat brings new light into these contracts we will examine some basic principles of qirad and shirkat.

How to make a contract and the limitations of the different kinds of contracts is therefore very important in Islamic Law. The contract is only necessary when delayed terms are stipulated between the parties, such as a sale with delayed payment, or a rental. Also all the business transactions, such as partnerships – because they involve delayed terms – have to be written according to Islamic Law. The business contracts or those contracts where the stipulation of a business or profit is involved are two according to classic references (al-Muwatta of Imam Malik): Shirkat and Qirad. All the rest are commercial contracts. Non-commercial contracts are for example the gracious loan (ariya) or the contract of deposit (amana).

All business contracts need to be written in a form of a contract specifying the negotiable conditions. The Shirkat is an Islamic partnership, and the Qirad, also called Mudharaba, is an Islamic business loan. The Shirkat and the Qirad have certain predetermined conditions that

cannot be altered; other conditions need to be negotiated by the parties.

The importance of the correctness of the business and commercial contracts is such that the use of particular types of contracts will affect how society develops. A society where unjust contracts are allowed – i.e. Riba – will produce a kind of society different from the one in which they are not allowed. This is the reason why contractual law is so important in the body of Islamic Fiqh. Almost two thirds of all Islamic Fiqh concerns trade and business.

Islamic Law, derived from the Qur'an and the Sunna of Rasulullah, sallallahu alayhi wa sallam, defines the parameters in which contracts of commercial transactions and business should take place.

Commercial transactions are based on the exchange of the ownership of goods. If the exchange involves delayed payment, then a contract must be written. But it is not necessary if the transaction takes place 'hand to hand'.

A commercial or business transaction is correct according to Islamic Law if it has equity: the value of the goods given must be equal to the countervalue of the goods received. If these values are not equal, the exchange becomes usurious.

A business consists of two or more commercial transactions connected for the purpose of obtaining a profit. When two or more persons associate themselves to

execute a business then a contract is required between the parties involved.

A primary form of defining the equity of a business according to Islamic Law is that all the transactions that it involves are equitable. In addition, when a business contract is written, there are certain conditions that must be taken into account. We are going to examine the most important of these conditions.

The goods that make up the initial investment either belong to one person (no contract is necessary) or they belong to more than one person (a contract must be written). It may also be that the goods belong to one person but that they come from a business loan – then a contract must also be written.

Therefore there are two possible basic forms of business contract:

- a] the investors (everyone) transfer the ownership of the investment to themselves, all of them as a group; or
- b] the investor/s (everyone) transfer the ownership of the investment to another party.

The first type of business contract is called in Arabic 'Shirkat' – we will also call it a partnership – and the second type of business contract is called in Arabic 'Qirad' – we will also call it a business loan.

Shirkat (Partnership)

Partnership is in its general meaning any association of persons who share the ownership of some goods. Therefore partnership requires coownership of some goods. And if these goods are invested in a business then we have the necessity of a business contract.

Co-ownership is called in Arabic 'Shirkat Milk'. A business partnership is called in Arabic 'Shirkat Akid'.

“Shirkat, in its primitive sense, signifies the conjunction of two or more estates, in such a manner that one of them is not distinguishable from the other. In the language of the Law, it signifies the union of two or more persons in one concern. The term ‘shirkat’, however, is extended to the contracts, although there is no actual conjunction of states, because a contract is the cause of such conjunction.”

(The Hedaya , translation by Hamilton, pp 217-31)
Quotations from The Hedaya by Burhanuddin Abu Bakr Al-Marginani, written in the eighth century, translated by Charles Hamilton under the patronage of Warren Hastings, Governor of Bengal and published in 1870 in London.

Shirkat is lawful. In the time of the Prophet, sallallahu alayhi wa sallam, men were accustomed to practicing partnership. In his Muwatta, Malik said:

“The way of doing things among us is that there is no harm in partnership (ash-shirka), transferring responsibility to a deputy (at-tawliyah) and revocation (al-iqalah) when dealing with food and other things, whether or not possession was taken, when the transaction is with cash, and there is no profit, loss or deferment of its price. If profit, loss or deferment or the price form one of the two enters any of these transactions, it becomes a sale which is made Halal, and made Haram by what make sale Haram, and it is not partnership, transference of responsibility to a deputy, or revocation.”

Shirkat is of two kinds depending on how it originates:

- Shirkat Milk, or partnership by the right of property, and
- Shirkat Akid, or partnership by a business contract.

The one that we are interested in exploring is the business contract of Shirkat, which is commonly called Shirkat Akid or business partnership

The most significant conditions are:

- **The Principle of Takafu' (Proportionality)**

The share of a partnership where all the partners work and put in capital depends on the different amounts of capital invested. If there are differences in capital among the partners but they all work the same amount, then the lesser investor can be compensated for his extra work.

“I have heard from Malik that partnership is not permissible unless there exists a balance (takafu') in the capitals.”

(Sahnun, Mudawwana, 12: 41.)

- **The Necessity to Participate in the Work**

A partnership assumes the participation of all its members in the actual work. An association in which all the work is assigned to one partner, while the other provides some necessary capital or equipment, but no work, is not a valid partnership. The non-working party is not entitled to any share of the income and can claim only the return of his investment and, if it happened to be in a form other than cash, some equitable rental fee for its use.

Surplus capital cannot be used as investment in a partnership without physically participating in the work of the business. So you cannot have a capitalist investing in the production made by other people. The only formula for a silent investor is a business loan or Qirad. In a

partnership all the partners have to work, they are all equally owners and therefore equally responsible.

I said: "What is your opinion of an arrangement in which I place a person in a stall and say to him: 'I will accept the goods and you will do the work on the condition that what ever God grants us will be shared between us equally?'" He said: "According to Malik, this is not permissible."

(Sahnun, Mudawwana, 12: 41).

I said: "What is your opinion of a partnership between three people in which one provides the millstone, the other the house, and the other the work-animal, on the condition that the owner of the animal does all the work?" He said: "The entire proceeds of the work are to go to the owner of the animal who executes the work, and he is obligated to pay the rental fee for the millstones and house." I said: "Is this also the case even if he does not earn anything?" He said "Yes, even if he does not earn anything."

(Sahnun, Mudawwana, 12: 45).

Ibn Qasim rejects the validity of a partnership based in cash only which stipulates that all the work be done by only one of the partners. He explains his rejection as follows:

"The basis for this is that according to Malik, a partnership is not permissible unless they

combine in its work proportionally to their respective shares in the joint capital.”

(Sahnun, Mudawwana, 12: 60).

The results are manifold: The first one is quite obvious which is that there cannot be capitalist investors using “only” their capital to benefit from the manufacturing work of other people without occupying themselves in the work. The second one is the fact that all the owners in a coownership can exercise their ownership with identical status independent of the share that they may have in the business. Both principles show the fallacy of the Stock Exchange.

The establishment of a Stock Exchange is a result of the previous creation of a false concept of ownership. This false concept of ownership is based on what they call “majority ownership”. On this basis you can be the owner of a company by contract despite not having any executive decision over your property. Ownership is declared in a piece of paper, but the same piece of paper guarantees that you cannot decide – therefore you cannot own the property. This is the falsehood of this kind of contract. The contract of shareholding with majority ownership is according to Islamic Law not acceptable and is considered to be a form of cheating.

The Essence of Ownership

Ownership is not just a document that says you are the owner of something. Ownership means you are entitled to and also capable of deciding how to dispose of your property. Otherwise you are not the owner. Decision over a property is the essence of ownership.

Ownership exists every time something is used or consumed, although ownership is legally regulated only when scarcity appears. There were no regulations for fishing in the sea, but as the fleets increased and the fish became scarce, the regulation of ownership became necessary.

Everybody disposes freely of air to breath, but the use of the flight paths of planes became regulated. Before regulation there was also ownership, because when a plane used a flight path nobody else could use it. That was effectively ownership.

Therefore, explicitly regulated or not, ownership has an existential reality connected to the use of something. Ownership consists of the capacity to use something. To hold the capacity to decide is effectively ownership. Modern commercial legislation allows for a type of ownership disconnected from the capacity to decide. This leads to the idea of an ownership exclusively defined by the title but without decision-making powers. This is not possible in Islam since the title and decision-making powers are bound together.

When ownership is exercised individually, there is no difficulty in understanding how the decision is made. But what happens when there is collective ownership? If they are all owners they must all own.

Therefore, in Islamic law, the co-owners submit to these two principles.

1. All the co-owners have the same status of decision, regardless of their participation in the property.
2. The results of the business are shared among the co-owners in proportion to their participation in the business as established in the contract.

If the first condition is not fulfilled, then the co-owners are no longer owners, and someone is usurping the shared ownership. Islamic law demands that every time there is a commercial agreement between two or more parties, a contract must be written. This contract is what constitutes the private decision of the business. The business contract clearly defines in advance the nature of the business: who are the investors, who is the agent (if there is one), the quantity of the investment, the objective of the business, its duration, and the sharing of its results. Therefore, when you sign the contract, you know what you are participating in. When you invest, you know what you are investing in. Now, what you have in modern

investment is an agreement which is not considered a contract within Islamic law.

Rather, the investor lends the money to an unknown owner, to an unknown business, with no fixed duration, whose profits or dividends are decided by that unknown owner. This is all done under the falsehood of majority ownership.

The Deceiving Concept of Majority Ownership

This deceiving concept was brought about for the purpose of the creation of a mechanism of control and manipulation which ended up being the establishment of the Stock Exchange. It is based on the principle that whoever has a simple majority of the shares of a company owns the company. This system allows the control of great portions of the market by very few people. For example: Mr Stone who owns 51% of company A has control of the company. If he uses the capital of company A to buy 51% of company B, he will have total control of company B although he owns only approximately 1/4 of its capital. If he then uses the capital of company B to buy 51% of company C, he will have total control of C, although he owns only 1/8 of the capital.

Mr Stone can then buy a company D, E, F ... in the same way.

The false concept of majority ownership has enabled the usurping of the legal ownership of millions of

minority co-owners. Through this procedure, Mr Stone has power over an enormous amount of capital that is not his. He can decide what the results, now called dividends, are. But dividends are not the same as the results of the business. The company must be liquidated in order to know the results of the business. The system of majority ownership makes these companies exist without results, without liquidation. Because the majority owner can decide how much is going to be re-invested and how much will be paid out as dividends, you are tied to the company against your will.

In Islamic Law, you cannot force any investor to re-invest without his approval. The results, therefore, must be completely shared, by the liquidation of a company after the period stipulated in the contract as the duration of the company. If they all agree to continue they can continue, if not, the company is liquidated to start again with a new contract. Thus ownership is always protected. The majority ownership system only protects the company ownership of the majority owners, but does not protect the ownership of the rest of the co-owners.

Qirad (business loan)

Qirad is usually referred to with three different words:

- Mudharaba (originated in Iraq); this is what the people of Iraq called Qirad; according to al-Sarakhsi, this word is derived from the expression 'al-darb fi al-ard' which means 'making a journey'. This term is used because the agent-manager has the right to claim the profit by virtue of his effort and work. Indeed he is regarded as the investor's associate in matters relating to the profit and capital used on the journey and for arrangements or ancillary expenses. The investor is entitled to receive a share of the profit on account of investing with his capital.
- Qirad or Muqaradah (originated in Madinah); this is what it was called in Madinah. The word comes from the Arabic 'qard', which means the surrender of rights over capital by the owner to the user of the capital [a loan]. Agent is in Arabic 'al-'amil' and the investor in Arabic is 'sahibul-mal' or 'rabbul-mal'-
- Commenda (originated in Medieval Europe), from the contract of accomendacio of the jus commune. The investor was called commendator and the agent was called tractator. This contract

was introduced into Europe, especially Southern Europe through the Italian seaports of the late tenth and early eleventh centuries of the christian calendar.

Ibn Rushd said:

“There is a consensus of opinion among the Muslims with regard to the legality of Qirad. It was in vogue in the pre-Islamic period and Islam adopted it. There is a consensus of opinion that it consists in giving some capital by one person to another for business. The user of capital receives an agreed proportion of the profit, i.e. any proportion they may agree, one-third, one-fourth, or even one-half.”

(Ibn Rushd, *Bidayat Mujtahid wa Nihayatul-Muqtasid*, Cairo, 1329, p. 205)

The Prophet, sallallahu alayhi wa sallam, worked as an agent for Khadijah before he married her.

All the Muslim jurists agree on its legitimacy as a form of business transaction and they formed this opinion on the basis of its wide practice by the Companions of the Prophet, sallallahu alayhi wa sallam, during his lifetime and after. The Prophet, sallallahu alayhi wa sallam, knew it and approved of it.

The main conditions of Qirad are:

1. The agent of Qirad who is asked to buy credit or make an exchange and then use the funds, has the right to charge for that work with a salary, without losing his rights of a part of the profit of the loan.
2. The agent cannot be obliged to do a manufacturing work, such as sewing or embroidering. Qirad is not for manufacturing, it is only for trading.
3. Every mutually consented loan, even in the form of Qirad, in which funds are destined to pay for a merchandise that the lender knows have been already bought, is not a Qirad. It is a ordinary gracious loan.
4. The agent is free to buy and sell whatever he wants, and in the place and in the time that he wants.
5. Qirad is not for time. It is not permitted for the agent to stipulate that he use the Qirad for a certain number of years and that it not be taken back from him during that time.
6. Guarantees in Qirad are void. The stipulation of guarantee in Qirad is null and void. The investor is not permitted to stipulate conditions about his principal other than the conditions on which Qirad is based.

Implementation of Muamalaat

Gradual Transition

The transition from Riba to Muamalaat must be gradual. The gradual diminishing of the Riba activities must be replaced by an equivalent development of Muamalaat. The objective must be to maintain order in society and to preserve wealth.

A first approach in understanding the task of this transition is to understand the evolution of the real economy in relation to the financial economy in the last few decades. Financial Times defines real economy as: The part of the economy that is concerned with actually producing goods and services, as opposed to the part of the economy that is concerned with buying and selling on the financial markets.

Real Economy vs Speculative Economy

The real economy represents the economy of real people with real money and real products and services. This economy has been in decline. Instead of promoting the real economy governments around the world have attempted to replace the real economy of value produced with a financial model based on credit growth and

speculation. They have failed, and their constructs are imploding before our eyes. A slow-growth real economy has been replaced with a credit-based speculative financial economy dependent on low interest rates and systemic fraud to survive. It is now imploding on a global scale.

The chief contradiction of our present growth model is a shortage of profitable investment outlets within production—a problem endemic to the mature, monopolistic economy. Investment-seeking surplus that is unable to find sufficient profitable investment outlets translates into losses in the (real) economy as a whole and hence a slowdown of growth. Corporations and capitalists seek to hold onto and increase their money capital in these circumstances by shifting the surplus at their disposal into speculation in asset prices. The result is a dramatic expansion of FIRE (finance, insurance, and real estate) and the entire financial superstructure of the capitalist economy. The plethora of money capital entering finance creates added opportunities for speculative growth, which banks and other financial institutions accommodate through new financial innovations (today taking the form of such exotic instruments as collateralized debt obligations, credit default swaps, structured investment vehicles, etc.). Various “wealth effects” (whereby increases in asset prices translate into increased consumption and investment) partially compensate for stagnation and temporarily stimulate the real economy, without, however, materially altering the underlying conditions.

Insofar as the financial system is growing not by servicing production, but through a process of money simply begetting more money (which is in essence riba), without the intervening production of commodities, this takes the form of a financial bubble, or an unsustainable explosion of credit/debt. This means that the speculative process depends for its very continuation on the piling up of greater and greater amounts of debt, and in order to do this, it needs to have constant cash infusions from the real economy to provide additional capital that can be “leveraged up.” In the nineteenth century in France, *Crédit Mobilier*, the prototype of today’s giant banks was leveraging at a rate of 10:1 (debt to capital ratio). In the most recent financial bubble, major banks often leverage at a rate of 30:1; Japanese banks have been leveraging for the last four decades at a rate of 50:1. Financial profits in these circumstances expand rapidly. Non-financial corporations too come to rely more on debt leveraging and create their own financial subsidiaries to take advantage of the bubble. But insofar as the underlying system remains stagnant, the bubble eventually bursts—typically after a speculative mania in which the rapid rise in quantity of debt leads to a marked decline in its quality. The result is a return to the underlying crisis conditions and real world repercussions.

Right now we are being told that the system has once again found its footing—that finance and even production are recovering. But since the stagnation-

financialization trap remains operative, we have no doubt that what we are seeing right now is merely a brief pause—if that—in the developing structural crisis of global monopoly-finance capital. The problems of the system are only getting bigger.

The Forex Speculation Madness

In 1975, about 80 percent of foreign exchange transactions (where one national currency is exchanged for another) were to conduct business in the real economy. The remaining 20 percent of transactions in 1975 were speculative, which means that the sole purpose was an expected profit from buying and selling currencies themselves, based on their changing values. Today, the real economy in foreign exchange transactions is down to 1 percent and 99 percent is now speculative. The real economy has become just a small percentage of total financial currency activity.

It is estimated that close on \$5 trillion in currencies being traded each day. This is equivalent to the entire annual gross domestic product (GDP) volume of the United States being turned over via currency trading every two days. There are three cumulative causes for this explosive increase in currency speculation.

Systematic redefinition. The first important act was former President Richard Nixon's unleashing of the dollar standard in 1973. "Floating" the dollar allowed currency

values to be determined by traders in currency exchange markets. Currencies from countries with strong economies and sound monetary and fiscal policies were given more value than currencies from weak countries.

Legal deregulation. In the 1980's both Ronald Reagan and Margaret Thatcher introduced deregulation strategies. The Baker Plan, implemented by the World Bank and the International Monetary Fund (IMF), applied those changes to a dozen key Third World countries. This created a lot more leeway for movement of capital internationally, and for corporations that previously would not have participated in speculation.

Technology. The structural, deep-lying phenomenon behind the whole system, is the technological shift: the electronification of money and the computerization of market systems.

Economic textbooks say that corporations and individuals compete for markets and resources. This is not true. Corporations and individuals compete for money, by using markets and resources.

The opening of the stets which led to "floating exchanges," also created a new asset class. Traditional asset classes are real estate, bonds, stocks, and commodities. Today we also have currencies. This means that money, the medium of exchange, has itself become an asset to be played into investment portfolios. This shift has

different implications for businesses, depending on whether you're an investor or a "real" business.

From an investors viewpoint, this new asset class—currencies—has some significant advantages over the old ones.

- Extraordinarily low transaction costs. Placing a few billion dollars in foreign exchange costs very little, as much as ten or twenty times cheaper than a stock transaction.
- Twenty-four hour market environment; one can actually play around the clock.
- The foreign currency market is the largest and deepest market around by a long shot. If you have a few billion dollars to place, bringing them to the stock market is going to move the stock's value and tip-off other traders as to what you are doing. this is true in most bond markets (except for the US and some European markets because of their large size). In foreign exchange, even five or ten billion won't make a blip.

So if you have a substantial amount of money to move around, this is the place to do it. You can get in and out without affecting the market. Because of these three advantages, the act of lending money to people (to buy houses, cars, expand businesses, or whatever) is no longer

the best way to make money. The foreign currency market is the place to do it.

Banks are no longer the big players in terms of supplying credit. In the last twenty five years, banks as a source of financing in America, have dropped from 75 percent of the total supply of credit to less than 10 percent. For the major international banks, like Chase Manhattan, Citicorp, Bank of America, Barclays or Sumimoto, currency trading typically accounts for at least 20 percent of total earnings. In a good year, it will be more than 50 percent.

In considering the viewpoint of so-called real business (those that make cars, mine, produce electronics etc.), the “foreign exchange risk” has by far become the largest risk in international business today, often larger than political or market risk. For example, if a German chemical company invests in a plant in India, it makes the investment in deutschmarks. The chemical products sold locally from the plant are paid in rupees, India’s currency. If the value of the rupee then drops in terms of the deutschmark, the return on the original investment will drop as well. In short, the biggest risk of such investment is not whether Indians will buy the chemicals (market risk), but the changes in the values of the currencies involved (foreign exchange risk).

Corporations have followed two major strategies to deal with this risk:

The first strategy is the reorganization of the corporate conglomerate. Production and marketing sectors are decentralizing because the risk doesn't lie there, and because adaptation to local circumstances can best be handled on a local level. This also leads to the dispersal of production facilities to other countries. But while marketing and production are decentralizing, the corporation's financial and treasury functions are being centralized. Twenty or thirty years ago, when an American company had a big plant in Germany, the plant would handle its own finances. Not any more. Now this is all done centrally at corporate headquarters.

The second strategy that large corporations pursue is an adjustment of their executive officers. In the 1940's and 1950's, anybody who could manufacture any product could sell it. So a manager with a background in production or engineering would typically become the CEO. In the 1960s and 1970s, that shifted. Suddenly marketing was the key background necessary for people at the top. However in the 1980s and 1990s, finance specialists are in charge. They are the ones who call the shots. That shift in career paths has also changed the corporations outlook, and is a reaction to the new risk that we are talking about.

Two interesting revealing facts:

- Who is largest private financial institution in the US today? It is General Electric (GE). The largest profit sector in GE is not defence, not

light bulbs, not power stations. It's GE's treasury department, because of its many financial transactions.

- Who is taking the largest foreign exchange risk? It's everybody who holds only one currency. That is most people. Anyone who owns their own house, which sits in one currency and who has their savings and income in the same currency, is at the greatest risk. By holding only one currency, they risk all their assets being devalued in the event of their currency crashing. In a world of floating exchanges, not being diversified in currencies is like having a stock portfolio with only one stock.

The first consequence of this state of affairs is that national governments are in the process of losing power. The nation-state is the one entity that cannot manage in this new climate. It has no way to gain power against global capital and information technology.

Currency traders are effectively "policing" governments by selling off a nation's currency when they are dissatisfied with the government's policies. If enough traders act together, the value of a currency can plummet, creating a "currency crisis". These suddenly large sell-offs are viewed by governments as "attacks" on the value of their currencies.

Currency devaluation can happen in a very short time, days or even hours, because of the new global communications system. There are no negotiations, there's no talking, there's nobody sitting around a table saying "This is what we are going to do", or "How about renegotiating this part?" That's not the way it happens. You just suddenly end up with a crisis in a particular country's currency. Such was the case with the collapse of the British pound sterling in 1991, the Scandinavian currencies in 1992 and 1993, and Mexico in 1994.

Central banks can often intervene when a currency is under attack by either buying or selling to counter speculators. But the volumes of money now being traded are so vast that even central banks may not have an impact. All the reserves of all the central banks together amount to 5 trillion USD, so all their reserves could be depleted in a normal trading day.

This points directly to a second consequence: a growing interest in market instability because that is where one finds the opportunity for windfall profits. Big fluctuations in the values of currencies allow for big profits to be made by trading them. Consider the following statements by leaders at opposite ends of the spectrum.

"The biggest concern today is the growing constituency for instability" — Paul Volker, ex-governor of the Federal Reserve, in *Changing Fortunes*.

“Instability is cumulative, so the breakdown of freely floating exchanges is ensured” – George Soros, the largest currency speculator today, in *The Alchemy of Finance*.

They both agree that there are many people now who have an interest in profiting from instability; previously they had an interest in stability. If you have an unstable system, it is just a question of when will it fly off the handle. It will blow apart at the moment when the US dollar experiences a crisis. When the dollar crisis occurs, the world will have no system left.

The only precedent I know is the collapse of the Roman monetary system. In the 1920 crash, the monetary system held. We had all kinds of other problems—unemployment, stock market crashes, currency inflation in Germany—but there was a gold standard which held. Today, we have no gold standard to fall back on. So there is no precedent for a collapse of this nature. And this would be a truly global phenomenon. All currencies in the world are based on the dollar. So if you have a crisis on the dollar, you pull out the base and....boom.

The third consequence is something with which we are very familiar. As a great portion of the national currencies—about \$5 trillion per day—is being turned around in the financial cyber-economy, there is just no satisfactory medium of exchange available to people at the bottom. National currencies are not widely available to the poorer parts of the population. The age of labour as a key

component of production is gone. If you don't have a job, you don't have "money" (i.e. national currency).

Even despite the fact that structural unemployment is increasing, the economy can continue to "grow" very well. Technology will shift us still further in that direction.

What is beginning to happen in the Muslim world is a new phenomenon: the return to the Gold Dinar -the Shariah coin used in Madina and now being used by millions of individual Muslims. We haven't seen since the Fall of the Khalifate such a vigorous interest in our currency. The reason is the increasing number of people who believe that their national currencies are no longer a means of securing their wealth. Forex has become such an issue among traders that the prospect of a universal currency has now gained interest once more. As a result more and more people throughout the Muslim world are trying to purchase Dinar and Dirham and also they are minting their own. The natural evolution of this is the return to the Gold Dinar as the currency of the Muslim Nation. This is just only a matter of time which it will surely be accelerated with the imminent collapse of the US dollar.

The idea of Transition to an Islamic Real Economy

The idea of Real Economy in Islam is an economy of trading which essence of mutual consent. Trading seen as a model includes all the aspects of the economy. This model opposes both monopoly formation, by virtue of mutual consent contemplated in our regulations, and riba. When we read: “Allah has permitted trade and forbidden riba”, we read the placing of the solution before the problem. Our affair is to expand this title into a comprehensive understanding of trading as in our classical literature.

The idea of transition is based on how to gradually replace the speculative economy with the real economy, which is like saying, riba with trading.

The transition must be gradual is the result of understanding that we are dependent on the speculative economy. We are dependent on banks, insurance, paper money, stock exchange, etc.

But transition should not mean in any sense a compromise from our objective, which is the restoration of Muamalaat in its full development. The use of adjectives such as “Islamic” or “Shariah compliant” should be reserved to those instruments and institutions that they have fully subscribed to the model. By fully we mean that they do not represent a partial application of the Shariah but they are fully built from within. Any contract that is

no fully part of Muamalaat should be deemed as non-Islamic or non-complaint until it is part of Muamalaat in its entirety. We denounce the use of false justifications as “it is nearly halal” or “it is not too haram” or “it is less haram”.

Under this understanding a bank can only be called Haram Bank. And paper currency should be called Haram money. These two institutions do not have any space inside Muamalaat. They should be replaced by the appropriate institutions in Muamalaat.

Banks should be replaced by Wadi’ahs, which are safekeeping institutions which do not lend money neither do they borrow money. Wadi’ahs could provide money accounts and with adequate legal contracts they can become the basis to introduce electronic payment systems.

Paper money should be replaced by Dinar and Dirham. These coins should be minted by the authorities and be freely traded by the people without any imposition upon them. The Muslim government does not have authority to impose the medium of exchange even if the currency is the Dinar and Dirham.

Naturally banks cannot disappear overnight. Wadiahs and real money must first grow within society and gradually replace banks.

The Nationalisation of Banks

A first step towards the elimination of banking should be first their nationalization followed by the gradual consolidation into a single Haram Bank of Pakistan that will handle all Haram practices.

A Changed Discourse in the West. In September 2012, the British Trade Union Congress (TUC), at its annual meeting of delegates from the whole trade union movement, passed Resolution 27. For the first time in its history the TUC voted a resolution which called for the full public ownership of the banks and financial institutions. Motion B14 stated that “the capitalist system caused the crisis” and that “banks and finance houses are not fit for purpose and should be taken into public ownership under democratic control.”

“It’s time to take over the banks”. The TUC Congress Resolution 27 was moved by the General Secretary of the Fire Brigades Union (FBU), Matt Wrack. The FBU produced a pamphlet entitled “It’s time to take over the Banks”. The pamphlet exposed the rottenness of the banking and finance sector and justified the need for public ownership. The introduction, written by Mr Wrack, sets the tone. Working people everywhere are facing “horrific attacks on living standards” and these attacks are supported by governments, employers and international bodies such as the IMF, ECB and the World Bank. The policies of austerity have been held up as the solution to

the crisis but they have failed. We need to set a different agenda.

In 2009 the US government announced that may have to nationalise some banks on a temporary basis to fix the financial system and restore the flow of credit. In an interview the same year, Mr Greenspan, who for decades was regarded as the high priest of *laissez-faire* capitalism, said nationalisation could be the least bad option left for policymakers. "It may be necessary to temporarily nationalise some banks in order to facilitate a swift and orderly restructuring," he said. "I understand that once in a hundred years this is what you do."

Within the single decade 1935-1945 the legal position of the French banking shifted from extreme *laissez faire* to complete government ownership of the four largest commercial banks, with widespread controls over all other banks.

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During 1991 and 1992, a housing bubble in Sweden deflated, resulting in a severe credit crunch and widespread bank insolvency. In response, the government took the largest nationalization of banks in the West with the following actions:

- The government announced the state would guarantee all bank deposits and creditors of the nation's 114 banks.
- Sweden's government assumed bad bank debts, but banks had to write down losses and issue an ownership interest (common stock) to the government. Shareholders at the remaining large banks were diluted by private recapitalizations (meaning that they sold equity to new investors). Bondholders at all banks were protected.
- Nordbanken and Götabanken were granted financial support and nationalized at a cost of 64 billion kronor. The firms' bad debts were transferred to the asset-management companies Securum and Retriva which sold off the assets, mainly real estate, that the banks held as collateral for these debts.
- When distressed assets were later sold, the proceeds flowed to the state, and the government was able to recoup more money later by selling its shares in the nationalized banks in public offerings.
- Sweden formed the Bank Support Authority to supervise institutions that needed recapitalization.

Our philosophy of nationalization of the banking industry. Muslims have a command to eradicate riba. Nationalizing banks does not to eradicate riba, but it is an intermediary towards their elimination and therefore to eradicate riba. We believe that banks have benefited unfairly from fractional reserve banking. An examination of the relation between Money Supply 1 (MS1) and Money Supply 3 (MS3) shows that in most developed economies more than 95% of the currency in circulation originates not from the State bills and coins (MS1) but from bank deposits. It is not acceptable that private institution can benefit from lending money they do not have and originates from credit which draws its value from people (people pay the credit by losing part of the value of the currency they possess). Only people can benefit from money that originates from people. We belief that banks can only operate in the hands of society, regardless of the fact that usury makes them ultimately illegal. Thus our argument for nationalization.

Consolidation of all Banks into a Single State Bank

The principle behind this is to facilitate and coordinate the gradual disappearance of its lending abilities and to promote during the transition period with lending towards the establishment of social trading infrastructure in particular three areas: building public markets; establishing caravan infrastructure and constructing manufacturing facilities for guilds.

Introduction of Dinar and Dirhams

Six Steps to Introduce the coins:

1. Minting the coins under global standards at proportional value relative to their weight and the market price of gold and silver material.
2. Distribution and sale of the coins at common and publically advertised retail prices.
3. Creation of a network of shops which accepts the coins and digital payment systems linked to a global network.
4. Introduction of Wadiahs which hold accounts in Dinar and Dirham for any individual who wishes to.
5. Creation of payment systems based on physical Dinar and Dirham accounts linked to debit cards and 100% backed by the coins.
6. Establishment of other online and mobile payment systems linked to the accounts.

Payment of zakat using Dinar and Dirham

The ultimate purpose of the introduction of the Dinar and Dirham must be the payment of zakat according to the way of Madina. Zakat must be paid in 'ayn and not in dayn.

World Islamic Mint

Created in 1993, it is the institution that maintains, promotes and enhances the global standard of the Shariah coins. Since then, around a dozen projects of minting have started stretching from South Africa to Malaysia and the USA. All the coins follow the same standards and they are mutually exchanged without a fee. In 1997 the first digital payment system based on the gold Dinar was induced by WIM called e-dinar based in United Arab Emirates. Today more than 5 million people can trade with each other using gold digital currencies.

In their website. WIM defines What is the World Islamic MInt?

WIM verifies compliance with legal standards in accordance with Islamic law during the manufacture of coins and medallions. Correctly manufactured products receive a corresponding licence from the WIM.

We continually monitor the minting activity of all Islamic Mint Offices that mint the coins on a local basis. The dies of all the Islamic Mints maintain a certain

standard incorporating key characteristics that allow people to recognise the coins.

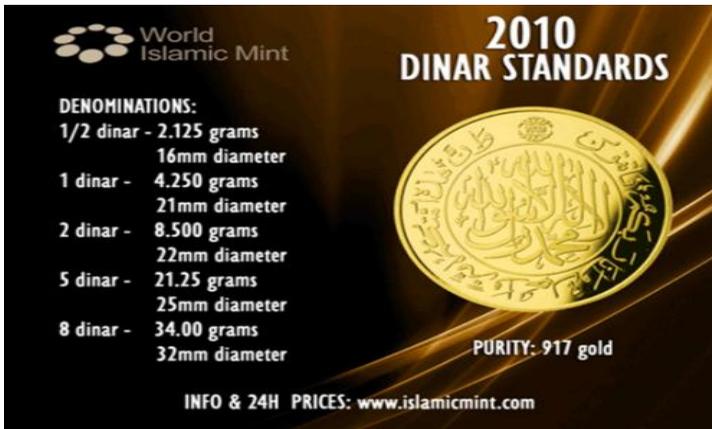
WIM supports scientific research of the monetary system in general and the manufacturing process of coins and medallions according to Islamic law.

WIM examines the legal requirements and standards for the distribution of coins in the whole world. In addition we support the activities of lawyers regarding the introduction of these products as legal tender

WIM Standards

The standards of the coins refer to the denominations accepted in the shops and their weights, alloy composition and diameter.

Here it follows the Dinar and Dirham Standards of 2010:



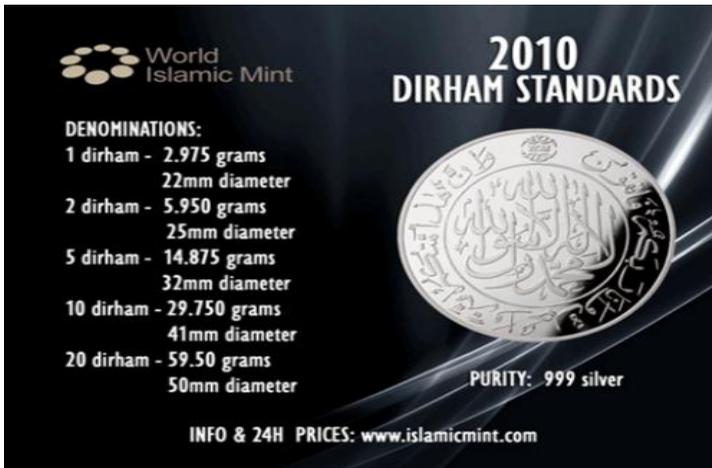
The image is a poster titled "2010 DINAR STANDARDS" from the World Islamic Mint. It features a gold coin with Arabic calligraphy and a central emblem. The poster lists the following denominations and specifications:

DENOMINATIONS:	
1/2 dinar	- 2.125 grams 16mm diameter
1 dinar	- 4.250 grams 21mm diameter
2 dinar	- 8.500 grams 22mm diameter
5 dinar	- 21.25 grams 25mm diameter
8 dinar	- 34.00 grams 32mm diameter

PURITY: 917 gold

INFO & 24H PRICES: www.islamicmint.com

Dinar Standards



Dirham Standards

WIM examines the legal requirements and standards for the distribution of coins in the whole world. In addition we support the activities of lawyers regarding the introduction of these products as legal tender

The Gold Dinar Network

The currency is created not only by the availability of coins but most important by the existence of a community of users. The development of such network is foundational to the success of the Shariah currency.

Over 20,000 shops accept dinar and dirham, predominantly in South East Asia are already in operation. The shops are trained to recognize the coins and their security features and they are rewarded with a WIM sticker that identifies the shops that accept Dinar and Dirham.

The system has been recently extended into a global directory which is now in a single data base in <http://www.dinarshops.com>.

The sticker.



WE ACCEPT DINAR AND DIRHAM

WIM launched e-dinar in 1997 as the first digital payment system based on the gold Dinar. The system allows making payments in Dinar and Dirham units. It operates in Dubai under the website: <http://www.e-dinar.com>

What is e-dinar?

e-dinar is the name of an internet based electronic payment and exchange system that facilitates online transactions 100% backed by physical gold and silver.

The physical gold and silver bullion backing e-dinar and e-dirham units are always equivalent or larger than all electronic e-dinar and e-dirham in circulation. The physical gold and silver bullion is held securely in internationally renowned bullion repositories.

Account holders always have the option to exchange their gold and silver into any major national currency or redeem them and take physical possession of an equivalent amount of gold dinar and silver dirham.

Characteristics

- Halal exchange and payment system
- 100% physical gold and silver backing of all e-dinar/e-dirham in circulation
- Universal currency - no inflation or exchange losses
- Free account creation in real-time
- Spend fee is 1% of transaction amount but max. 0.015 e-dinar (for e-dinar transactions) / max. 0.5 e-dirham (for e-dirham transactions)
- Instant payments (no delays) - occur in real-time - are private (encrypted transactions) - no bank as intermediary
- Although there are many benefits of using e-dinar, perhaps the most important benefit is that you can be rest assured your assets and transactions are as solid and secure as gold.
- e-dinar provides instant settlement. This means that in the split second it takes to complete a transaction, cleared funds are

Muamalaat: The Alternative to the Riba system exists

transferred from the payers account into the payees account.

- Because e-dinar transactions are instantaneous and can only take place with cleared funds (there is no credit anywhere in the system), the payee can make immediate use of these funds.
- e-dinar is the most flexible and secure way to make and receive payments for goods or services over the internet.
- e-dinar transactions are executed directly between the two parties involved without requiring third-party intermediaries.

The Gold Dinar in Malaysia

The Asian monetary crisis of 1997 marked another phase in the gold dinar movement in Malaysia. It opened the opportunity to the then gold dinar activist to reach out to more people on their understanding of the banking and finance system and the ills of Western capitalism and also to raise again the issue of usury for public debate.

Since the third quarter of 1997 until the year 2001, many writings on the gold dinar and critique on Western capitalism were published mainly by the two major national language newspapers, Utusan Malaysia and Berita Harian. There were also writings on it published by magazines like Al-Islam and Massa.

During those years Shaykh Umar Vadillo provided documentation to the then Prime Minister of Malaysia, Dato' Seri Dr. Mahathir Mohamad through books, papers and gold dinar coins, given to him as gifts. One important document was the White Paper on the Gold Economy prepared by Shaykh Umar Vadillo.

After a visit to Dr. Mahathir by Shaykh Umar Vadillo, the Prime Minister proposed that the gold dinar be the alternative currency for international trade and national reserve, especially with Muslim countries and those countries of where Malaysia had already Bilateral Payment Arrangements (BPA), many were caught by surprise but for the dinar activist, it was exciting times.

The proposal by Dr. Mahathir marked the recognition of the gold dinar being an alternative currency but there was yet acceptance by the banking and finance fraternity and the public at large.

Of the two Malay Muslim political parties, members of the Islamic Party of Malaysia (Pas) had showed more interest in the gold dinar and silver dirham and had given it much support in comparison to members of UMNO even though the ruling party's president was the Prime Minister at that time.

Lead by its youth wing, during its annual general meeting, held in Kuala Krai, Kelantan on Mei 3, 1998, the wing publicly supported the gold dinar and at the AGM made a sale of RM8,000.00 worth of gold dinars. It also

introduced the gold dinar to the Kelantan people at a mass gathering later that day.²⁶

This commitment was cemented on the 20th of September 2006 when the Kelantan Chief Minister, Nik Aziz Nik Mat launched Dinar Emas Kelantan (DEK), the state's own gold dinar. Although the gold coin had its own designs but its weight, measure and purity were according to the Standard of Umar al-Khattab.

DEK is now being marketed by Permodalan Kelantan Berhad (PKB) through the Ar-Rahnu chain of pawn shops to enable the public to buy and sell the gold coin which is being promoted presently as savings, as dowry (mahar or mas kahwin), as a gift and also as a medium to pay zakat.

In 2007, PKB and Marslio International jointly organised an international seminar on the gold dinar and at this particular event, one of the speakers, Dr. Aziuddin Ahmad introduced and made popular the term dinarist to describe the many dinar activists present.

The Dinar in Kelantan



In 2008 the Government of Kelantan in Malaysia decided to introduce the Dinar and Dirham as a means of payment in the whole State and offer all State workers to pay up to 25% of their salaries using Dinar and Dirham. To this effect the

company Kelantan Golden Trade was created and Shaykh Umar Vadillo became the CEO of the company. The ultimate objective was to pay zakat according to the Sunna in 'ayn. This objective was achieved and 2009 the first payment of zakat using Dinar and Dirham was officiated in the capital Kota Bharu by the Chief Minister of Kelantan. In 2012 the company started to sell coins in Thailand, Philippines and Indonesia, thus starting their international sales.



The Core Mechanism and the Islamic Trade Bloc

The idea of a core mechanism is to identify the minimum infrastructure that would allow a full sustainability of the model and trigger further development of all the other elements of Muamalaat.

There are three elements that we consider obligatory in order for the model to sustain itself: Money, Markets and Qirad.

Once these three elements are in place an Islamic Trade Bloc can be called for. A single bimetallic currency with Open Market places connected by caravans and financed by qirad will become the foundation of an Islamic Trade Bloc: the first real step towards the return of the Khalifate.