An analytical study of al-Ghazali's thought on money and interest

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2001

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ABSTRACT

The present paper concentrates to study an important aspect of al-Ghazali economic thought, money and interest, and with rigorous analysis it attempts to explore its relevance and application in the modern period. Al-Ghazali recognizes money as one of the most important inventions in conduct of the economic affairs. He offers a rather sophisticated discourse as to the evolution of money and its various functions. He explains how money overcomes the problems of barter system such as lack of a common denominator, indivisibility of good and the problem of double coincidence of wants. These ideas of al-Ghazali are almost identical to those found in contemporary texts. He condemns those who hoard money or convert them into other objects. He discusses the harmful effect of counterfeiting and currency debasement. However, he allows for the possibility of representative or token money. Al-Ghazali condemns hoarding of money and payment of usury, for both such actions cause money (gold & silver coins) to deviate from the key function of money for which, according to al-Ghazali and some other scholars, God almighty created money i.e. to serve as a measure of value and to facilitate exchange of goods and things. By relating the prohibition of *riba'l-fadl* and *riba'l-nasi'ah,* arising out of the exchange of gold for gold and silver for silver, to the function of money al-Ghazali provides a rather convincing reason of such a prohibition.

Introduction

Abu Hamid Muhammad bin Muhammad al-Ghazali[1] (450 – 505 AH / 1058 – 1111 CE) was a versatile genius. His Scholarship extends to many diverse fields of learning. His is a holistic approach to life and an integrative approach to learning. He mixes philosophy and mysticism, religion and ethics, sociology and economics in his writings. Thus, there is no surprise if the students of Islamic thought have often differed regarding his greatest achievements. This merely attests to the richness of his thought. Al-Ghazali's economic thought includes his discussion of economic philosophy of Islam, aims and objectives of economic activities, hierarchy of economic and non-economic needs, treatment of wealth and poverty, exchange and evolution of market, prices and profit, business ethics, hierarchy of production activities, division of labour and co-operation, socio-economic responsibilities of the state, sources of public revenue, public borrowing, imposition of additional taxes, public expenditure, difficulties of barter system, nature and functions of money, prohibition of interest, etc. The present paper has a limited scope. Out of numerous economic ideas of al-Ghazali, it concentrates on a major economic theme - his views on money and interest which represents an important part of contemporary

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* Presented to the International Conference on al-Ghazali's Legacy: Its Contemporary Relevance, Organized by International Institute of Islamic Thought and Civilization, Kuala Lumpur, Malaysia. During 24th – 27th October 2001.
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economic discussion.[2] With rigorous analysis, the paper attempts to explore relevance and application of al-Ghazali's ideas in the modern period.

Money - one of the greatest bounties of Allah

Al-Ghazali considers invention of money as one of the greatest bounties of Allah, which obligates people to owe enormous thanks to Him.[3] He says: "Creation of *dirhams* (silver coins) and *dinars* (gold coins) is one of the bounties of Almighty Allah. The entire world (of economic activities) is based on transaction with these two kinds of money. They are two metals with no benefits in themselves. However, people need them in order to exchange them for different things food, clothing and other goods."[4]

Difficulties of barter exchange

To visualize the vital role of money in our life and how it facilitates our transactions, al-Ghazali discusses the difficulties of barter system which the human kind experienced in the pre-monetary period. "Sometimes a person needs what he does not own and he owns what he does not need. For example, a person has saffron but needs a camel for transportation and one who owns a camel does not presently need that camel but he wants saffron. Thus, there is the necessity for a transaction in exchange. However, there must be a measure of the two objects in exchange, for the camel-owner cannot give the whole camel for a quantity of saffron. There is no similarity between saffron and camel so that equal amount of that weight and form can be given. Likewise is the case of one who desires a house but owns some cloth or desires a slave but owns socks, or desires flour but possesses a donkey. These goods have no direct proportionality so one cannot know, how much saffron will be equal a camel's worth. Such barter exchange will be very difficult."[5]

It is clear from the above quote that since people do not produce and possess everything they desire, to al-Ghazali, voluntary exchange is a natural phenomenon. However, this requires that the value of goods being exchanged must somehow be clearly known and understood. Although some goods may be directly exchanged for others, many are so peculiar in their use and characteristics that value of one cannot be easily expressed in terms of another. Al-Ghazali mentions several examples, such as exchange of a house with cloth, flour with a donkey or camel with a saffron, in each case, the indivisibility problem arises because one item is very large while the other is very small and the large goods could not be divided into small pieces for exchange with the small quantities of the other. 'A camel owner cannot exchange his whole camel for a quantity of saffron'

For completion of barter exchange, it is necessary that the two transacting parties must be in need of the good of each other. But this is also not always possible. "There can be problem if the cloth owner needs food, the food-owner does not want cloth, he wants cattle"[6] Thus, al-Ghazali clearly understood and pointed out the three major difficulties of barter system:

1). Lack of a measure of value in terms of which goods and services may be expressed
2). Indivisibility of most goods required for exchange
3). The problem of ensuring double coincidence of wants.

Money comes into being.

Money evolved as a convention only – no society could exist without the exchange of goods, no exchange could effectively take place without equivalence, and no equivalence could be determined without a common measure. Read the following passage of al-Ghazali:

"Various forms and types of good such as these need a medium which could rule justly and determine their value or worth according to their place in exchange. When their place and grades are ascertained, it is then possible to distinguish which one is equal to which other and which is not. Thus, Almighty Allah created *dinars* and *dirhams* as two rulers and medium of exchange for all goods and the value of goods is measured through them, so it is said a camel is, say, equal to 100 *dinars* and this much quantity of saffron is worth 100 *dinars*. Since each of them is equal to a given amount, the two quantities are equal to each other. This equality of worth or value becomes conveniently possible through these two types of money only because they are not needed for themselves…. Allah created *dirhams* and *dinars* to change hands (to circulate) and to establish rules between exchanging of goods with justice (and buying goods which have usefulness). A thing (such as money) can be exactly linked to other things if it has no particular form or feature of its own, for example, a mirror which has no colour but can reflect all colours. Same is the case with money - it has no purpose of its own but it serves as medium for the purpose of exchanging goods"[7]

Functions of money

Thus, money came to resolve the complications of barter system. Al-Ghazali fully emphasized the functions of money as medium of exchange and as a measure of value. Money is used in payment of all goods and debts. As far its function as a store of value is concerned, he says, "When one owns money, one owns about everything, not like the one who owns cloth, as he owns cloth and nothing else."[8]

In the opinion of modern economists, function of money, as a medium of exchange is the most important of all. Geoffrey Crowther says, "Money must serve as a measure of value, as a medium of exchange and as a store of wealth. Of these three functions the second is most essential. Money must be something that performs all three functions and pre-eminently the function of being a medium of exchange"[9] Money is said to be standard for deferred payment. Money also helps to transfer value from one person to another and from one place to another. These secondary functions have not been mentioned by Al-Ghazali but it seems that he had their perception as after discussing the primary functions he say that 'in these two types of money (*dinar* and *dirham*) there are some other functions whose description will be a lengthy task.'[10]

Al-Ghazali repeatedly says that money is not desired for its own sake. It is desired because of the functions it performs.[11] How close that formulation is to the one that appeared more than eight hundred years later in '*An Outline of Money*': "The essential characteristics of money, which sets it apart from all other substances, is that it is not desired for itself. It is in the fullest sense, a medium or means, or mechanism of exchange"[12]

The greatest danger to money that prevents it from performing its functions properly is to desire money for its own sake, that is, making money as goal and not a means, or using it for purposes other than for which it is created. For al-Ghazali, the purpose to be served by gold and silver is almost exclusively as money, *dinars* and *dirhams*; these metals are synonymous with money. He cites an *ayah* from the Quran that condemns those who hoard these metals and do not spend in the way of Allah.[13] He interprets this verse also to refer to those who hoard money as well as convert *dirhams* and *dinars* into things such as utensils, etc. The following quotes from al-Ghazali succinctly elaborate these points:
"Any one who uses money contrary to its objectives or functions is ungrateful to the bounty of Allah. If sameone hoards *dirhams* and *dinars*, he is a transgressor. He would be like a person who imprisons a ruler, thus depriving the society of the benefits of his benevolence. *Dirhams* and *dinars* are not created for any particular persons, they are useless by themselves; they are just like stones. They are created to circulate from hand to hand to govern and to facilitate transactions. They are symbols to know the value and grades of the goods. Anyone who converts them into utensils of gold and silver is ungrateful to his Creator and worse than the hoarder of money, for such a person is like one who forces the ruler to perform unsuitable functions as weaving cloth, gathering taxes, etc. Hoarding of coins may be preferable to such conversion of coins into utensils. Why? Because there are other metals and materials, copper, bronze, iron, clay - which can be used to make utensils, instead of gold and silver, for the storage and drinking of liquids, etc. But, clay and iron cannot be used for the function performed by *dirhams* and *dinars,* they are not meant for that purpose. If anyone does not appreciate this fact, he should try to convince himself of remembering the saying of the Prophet (be peace upon him), "One who drinks in gold and silver utensils, he is like one who takes the fire of hell in his stomach."[14]

Counterfeiting and debasement of money

Another danger to functions of money is the over expansion of the quantity of money, causing an inflationary condition leading to erosion of the value of money. Gold and silver have been the most important metals used as commodity money. When gold and silver served as commodity money, individual citizens could produce money by simply taking their mined gold or silver to the government's mint. Under a system such as this, the commodity or metal content of a unit of money used to be equivalent in value to the coin's value as money. Further in such a system, if more of a metal, say gold, is discovered, there is then more money in circulation, prices are likely to be bid up, and one unit of money - gold - thus buys fewer goods; and the opposite will also tend to hold if due to an increase in non-money uses of the metals (say, as jewelry), there will be less money in circulation, leading to deflation, general prices will go down and one unit of money will buy more goods. While al-Ghazali does not seem to be aware of such linkages between the amount of gold and silver in circulation and the general price level, he recognised an inherent problem associated with commodity money. This is the problem of counterfeiting and currency debasement, by way of mixing inferior metals with gold or silver coins, or mutilation of the metallic content, simply 'shaving', or 'shedding' of some of the metals. According to al-Ghazali, "it is great injustice to place counterfeited money in circulation. All those who have to accept such money in transaction are harmed."[15] Further, "circulation of one bad *dirham* is worse than stealing a thousand *dirhams*, for the act of stealing is one sin and it finished once committed, but circulating bad many is an 'innovation' which affects many who use it in transactions."[16]

Al-Ghazali's statement shows that he is critical of counterfeited money in term of its sinfulness at the individual level, But if we extend it to government, we have an embryonic concept of inflation because where coin is the only monetary unit, debasement of it is the main reason for inflation. However, he seems to be differentiating between individual act of counterfeiting and government policy of debased currency. While defining the counterfeited currency he says that it is the unit of money which contains no silver at all; it is only polished; or *dinars* with no gold in them. If a coin contains some silver but it is mixed with copper and that is the existing coin in the country, al-Ghazali's view is that this currency is acceptable whether the silver content is known or not. But if it is not the currency, then it will be acceptable only if the silver content in known.[17] Al-Ghazali seems to imply here that if currency debasement is a fraudulent action by private citizens, then it is to be condemned, however if state policy requires a change or mixing of metal contents of coins and it is known to all users, then it is acceptable. Thus, al-Ghazali allows for the possibility of representative or token money, as we know it in contemporary discussion under state monopoly.

Interest (*riba*) deflects money from its function.

In the opinion of al-Ghazali charging of *riba* (interest on money) also deflects it from its primary functions as a medium of exchange and as a measure of value.[18] Islamic teachings about interest are very clear. There is an absolute, categorical prohibition of interest in the Quran.[19] Thus, for al-Ghazali, like any other Muslim scholar, it is irrelevant to discuss why interest is to be paid and how its rates are determined.

Besides the prohibition of the conventional form of interest, Islam also forbids two types of barter exchanges and terms them interest, viz. *Riba al-fadl* and *riba al-nasi'ah*. If time of delivery, irrespective of quantity, is not same it is called *riba'l-nasiah* (interest due to late payment or delivery). If quantity exchanged is not equal, even though the exchange takes place simultaneously, then the excess given in exchange is called *riba'l-fadl* (interest due to extra payment). This is stressed by a group of traditions that report the Prophet saying that 'gold for dold, silver for silver, wheat for wheat, barley for barley, date for date and salt for salt be exchanged, the same thing for the same thing, in equal quantity and hand to hand; one who demanded extra or paid extra, he indulged in interest.'[20]

The tradition further reports, 'When these kinds differ, then sell them as you like (with the difference of quantity) provided that it is hand to hand' (i.e. the transfer of ownership takes place at once).[21]

Reason for prohibition of *riba'l-fadl* and *riba'l-nasi'ah*

This kind of *riba* which arises in certain cases of barter that involve exchanges unequal by way of quantity or time of delivery has always perplexed the Islamic thinkers so much so that a group of jurists *(zahirites)* consider it dogmatic and overrule any causation, confining this restriction to those six commodities only, while many others had tried to find the reasoning and extended the ruling to other commodities also governed by the same reason. By relating this prohibition (in case of gold and silver and for that matter

dinars and *dirhams*) to preservation of the functions of money, al-Ghazali gives a somewhat convincing interpretation of this *hadith*. He says:
"One who practices interest on *dirhams* and *dinars* is denying the bounty of Allah and is a transgressor, for these coins are created for other purposes and are not needed for themselves. When someone is trading in *dirhams* and *dinars* themselves, he is making them as his goal, which is contrary to their objectives. Money is not created to earn money, and doing so is transgression…..The two kinds of money are means to acquire other things; they are not meant for themselves. In relation to other goods, *dirhams* and *dinars* are like prepositions in a sentence, as the grammarians define them, 'a preposition is that which is used to give proper meaning to words,' or their position is like a mirror reflecting colours (for other things but no colour of its own). If a person is permitted to sell (or exchange) money with money, then such transactions will become his goal, and as a result money will be imprisoned and hoarded like anything. Imprisonment of ruler or a postman is a transgression, for they are then prevented from performing their functions; same is the case with money. It is a transgression."[22]

In the above statement, al-Ghazali explains the reason for prohibition of *riba'l-fadl* and *riba'l-nasiah*. As far the reason why exchange of *dirhams* and *dinars* is permitted with unequal quantity provided it is hand to hand or permission of the exchange of a precious metal or *dirhams* or *dinars* with the same without inequality by way of quantity or time of delivery is concerned, he justifies in the following statement:
'If it is asked why one of the two kinds of money is permitted to be exchanged for the other and why exchanging *dirham* is permitted with the same amount of it? Then, you should know that the two kinds of money are different from each other in being means of obtaining something else. Sometimes one of them is more useful in being because it is in larger quantity, like *dirham*, which is disbursed on different needs in smaller units. If this exchange is forbidden, then their special purpose, i.e. their use as means of getting other things is destroyed. As far selling *dirhams* with the same amount of *dirhams* is concerned, it is allowed but no rational person or trader will do so, for, they are both the same. It is just like doing something in vain -- putting a *dirham* on the ground and then picking it up again. There is no need to prohibit such exchange. Again, this exchange may be done if one *dirham* is better quality than another. But this is also not likely because one who has better quality will not (knowingly) accept equal but inferior quality of the other. So the transaction could not happen. The intention from the exchange may be to obtain a greater amount of the inferior one. Of course, this is what we oppose and affirm that good and bad quality *dirhams* are both equal, for bad and good should be seen only about those things which are needed for themselves. And it is not quite proper to examine the minute differences in quality of anything such as *dirhams* and *dinars*, which are not needed for themselves. And it is transgressor who mints coins with differences in quality (i.e. counterfeits) and thus makes them desirable for their own sake; that must not happen"[23]

Thus in this way al-Ghazali analysed and justified the prohibition of exchanging *dinars* for *dinars* or *dirhams* for *dirhams* with the differences in quantity and time of delivery. In his opinion, in this way money will become an end and not a means, and people will start hoarding money. According to him, there is no need to prohibit an exchange of *dinars* for *dinars* or *dirhams* for *dirhams* when quantity is same and payment is simultaneous because it will be exercised in vain and no one will do it. He gives reason why exchange of *dinars* for *dirhams* with differences of quantity but simultaneous payment is allowed - small coins of silver can be used for small buying whereas gold money cannot be used.

Al-Ghazali also gives reason why 'selling' a *dirham* with equal amount of it with late payment is not allowed. According to him, "this (giving now and taking back later) is done only by a generous person who aims at benevolence in lending. This is an act of generosity, which has lot of flexibility, and the lender receives thanks here and rewards (in the hereafter). But in exchange, there is no question of thanks or reward. Thus, it is also a wrong because it is spoiling the qualities of generosity and putting it into compensatory exchange"[24]

As the above quotation makes clear, for al-Ghazali lending is an act of charity. So commercialization of this essentially humane relationship, by transferring this act into a trade is prohibited by Islam.[25]

It is interesting to note here that al-Ghazali uses the same logic in analysing the other part of the *hadith,* i.e. exchange of various commodities meant for diet. Foodstuffs are meant for nutrition. A barter exchange of the same commodity will hinder its use for nutrition and result in hoarding. This requires that such exchange should be prohibited so that a person must sell it with money and it may reach to one who actually needs it. This exchange is allowed with unequal quantity, provided the payment is simultaneous if the commodities are different, as the two commodities will have different purposes. In all these exchanges no consideration of qualities is made to curb the luxury seeking mentality of man. He says:
"Similar is the position of foodstuffs. They are created to be used as nutrition so they should not be misused. If exchange within them is freely allowed, it will result into their longer stay in hands and delay their use as nutrition for which they are created. Foodstuffs are created by Allah to be eaten, which is a dire need. This requires that they should go from the hands of that who does not need them to one who needs them. Only that person will do a transaction on food that does not need it. Because if a person has food, why does he not eat it if he is in need of that? Why is he using it as a trade commodity? If he wants to make it a trade commodity, he should sell it to that who needs it with something other than the same food. If someone is buying with exactly the same food, he is also not in need of it, this is the reason that Shariah cursed the hoarder. Of course, a seller of barley with dates is having excuse because one of them cannot work for the other. A seller of one *sa'* (a measure) of wheat with the same is not having any excuse but he is doing something in vain, so he does not need prohibition. Such a thing will be done only if one of the amount is a better quality but in this case, the owner of better quality will not be ready to do it .One unit of a food can be exchanged with the two inferior of that, but since the foodstuffs are necessities and good and inferior both fulfil the necessity while they differ only in being luxuries, the Shariah has rejected the consideration of luxury in that which is basic and necessary thing"[26]

In this way al-Ghazali presents convincing justification of the prohibition of *riba'l-fadl* and *riba'l-nasi'ah* which shows his great analytical insights in economic and shariah matters.

A comparison with Ibn Taimiyah's views on money and interest

Before we conclude it seems to be interesting to compare al-Ghazali's ideas on money and interest with those of Ibn Taimiyah (1263–1328) who came 200 years after him and not only based his ideas on al-Ghazali, but improved upon them also. This will help in proper evaluation of al-Ghazali's thought on money and interest and understand his influence on one of the best minds in Islamic intellectual history.

The evolution of money passed through a number of stages before it reached to the present form of paper money and checking account. Its evolution is still in process. The humankind used various commodities as money before it discovered the metallic money as it has been proved by the economic history of different nations. Much earlier than the Prophet's period, humankind had learned to use gold and silver as coins. During the Prophet's days and many decades after him, Muslims had no official currency of their own. They used gold or silver coins of neighboring countries or those minted on their pattern. It was Caliph Abd al-Malik bin Marwan (685–705 C.E.) who first established the government mint house and issued *dirhams* and *dinars* of the Islamic government in the year 74 AH.[27] It was currency of gold and silver. Because gold and silver had been the dominant currency in the known history of money, many people, in the past as well as at present, thought that the precious metals are natural money and they have been created to serve as money. However, Muslim leaders never ignored the possibility of using other substances for currency. Once Umar Faruq, the companions of the Prophet and his second Caliph, expressed his intention to issue currency of the camel's skin but he refrained when apprehension was expressed that this would result into extinction of camels.[28] Imam Malik also foresaw possibility of using material other than gold and silver as money when he said "If people allowed skins to be used as currency and money (*sikkah wa ain*), I would disapprove their exchange with gold and silver with deferred payment."[29]

On the basis of these piecemeal opinions no theoretical discussion could proceed. Islamic scholars focused their attention on the weight and purity of gold and silver coins. It is no exaggeration to say that in Islamic history it was al-Ghazali who laid the foundation of theory of money as we have seen above. From among the scholars who followed al-Ghazali, Ibn Taimiyah's name is most prominent regarding the exposition of the nature and function of money. He says, "There is no natural or shariah definition of *dirham* and *dinners*. They rest on custom and social convention."[30] Two important functions of money - measure of value and medium of exchange are especially mentioned by Ibn Taimiyah. He says, '*Athman* (sing. *thaman,* that is price or that which is paid as price, money, etc) are meant to be a measurement of object of value (*mi'yar al-amwal*), through which qualities of the objects of value (*maqadir al-amwal*) are known and they are never meant to be consumed.[31] By this he too means that the essential function of money is to measure the value of goods and to be paid in exchange for different quantities of goods. Like al-Ghazali, Ibn Taimiyah opposed debasement in the currency and thus over production of money. He suggested that 'the authority should mint the coins according to the just value of people's transactions, without any injustice to them.'[32] He was more clear than al-Ghazali on the relation between quantity of money, the total volume of transactions and price level. He said that the quantity of *fulus* (coins) should be in such a proportion to the volume of transaction, that 'just price' (*al-qimat al-`adilah*) was ensured.

While presenting his arguments against counter feiting, debasement of money and condemning both, al-Ghazali provides an early version of what later became known as the 'Gresham's Law' which simply states that 'bad money drives out good money.[33] It is fair to say that Ibn Taimiyah gave a more clear description of the law which is as follows: 'If the intrinsic value of coins are different it will become a source of profit for the wicked to collect the small (bad) coins and exchange them (for good money) and then they will take them to another country and shift the small (bad) money of that country (to this country) . So value of people's goods will be damaged."[34]

As far prohibition of *riba'l-fadl* and *riba'l-nasiah* is concerned, on this issue too, Ibn Taimiyah seems to adopt the same reasoning as adopted by al-Ghazali. Inspite of belonging to Hanbalite school of jurisprudence, which consider the causation in prohibition of *riba'l-fadl* and *riba'l-nasi'ah* as being two commodities of same genre and 'exchangeable by weight or measure, Ibn Taimiyah says that "the reason for prohibition in the case of the two precious metals is *'thamaniyah'* (that is, their capacity for use as standard of value and medium of exchange."[35]

Examining the views of other experts, Ibn Taimiyah says that to consider '*thamaniyah'* as a reason of *riba* is sensible and justifiable because *athman* (sing. *thaman* = money) are meant to be standard of value for other goods and through them the values of goods are measured and they are never meant to be used for themselves. So if some of them are exchanged or sold for others of the same, it constitutes trade in money which violates the whole rationale of money. Their exchange must be simultaneous and in physical terms so that their power to exercise command over other goods is preserved.[36] However, it must be accepted that Ibn Taimiyah was not a mere imitator; he always tried to take things to their natural conclusion. In this case too he establishes a difference between conventional interest and *riba'l-fadl*. According to him, 'the Prophet has forbidden many things that might be a source of evil though the evil is not immediately discernible in them: an example of this is *riba'l-fadl* in which the reason for prohibition is sometimes unclear.[37] In fact, *riba'l-fadl* and *riba'l-nasi'ah* are prohibited as a precautionary measure. The clear practice of interest and that, which might lead to interest, should not, and cannot, be treated alike. It is for this reason that the latter is allowed when necessity demands it and when there is no fear of indulging in interest proper. Ibn Taimiyah gives the example of the permitted exchange of fresh dates for dry ones in small quantities by estimation without actually weighing them.[38] The point of the argument is that, strictly according to the ruling against *riba'l-fadl*, exchange of dates should be in exactly equal quantity. But exchanging them by approximation (*khurs*), which is more likely to involve inequality, has been permitted.[39] Similarly sale of golden or silver ornaments with gold or silver (bullion) is permitted despite inequality in weight. The extra weight of bullion will be against the manufacturing cost.[40]

Relevance and Importance of al-Ghazali's thought on money and interest

To conclude, we must admit that writing on problem of barter exchange and nature and functions of money several centuries before the well-known European classical economists, al-Ghazali made a very significant prime contribution to economic thought. As we have seen above, he provides a very clear and succinct discussion of the functioning and problems of a barter economy, as well as the evolution of money and monetary exchange. One can almost assert that no other scholar anywhere upto that time had provided as lucid an exposition of this topic in economics as did al-Ghazali, certainly in terms of its broad content and analysis, it is about similar to what one finds in a typical contemporary textbook.

Al-Ghazali recognizes the problem of indivisibility and double coincidence of wants under barter, and how the emergence and invention of money solve these exchange problems. He clearly identifies and elaborates the various functions of money, almost in the manner of most current texts on the subject. While the problems of barter are not as lucidly discussed by Ibn Taimiyah, Ibn al-Qayyim (d. 1351) and Ibn Khaldun (d. 1406), these scholars did indeed discuss some of the functions of money in more or less the same fashion as did al-Ghazali.

Al-Ghazali also discussed the problem of counterfeiting and debasement of money. He condemns both. While presenting his arguments he provides an early version of what later become known as the 'Gresham's law'. Further it may be noted that al- Ghazali provided the basis of contemporary 'token money ' when he argued that money should be accepted in transactions whatever the metallic content, as determined by the ruler, i.e. if money is declared as money, regardless of its intrinsic value, it should be freely accepted to circulate and to facilitate exchange.

In the true Islamic spirit, as with other Islamic scholars of the time and most Islamic scholars of the present, al-Ghazali condemns hoarding of money and payment of interest, for both such actions cause money (gold and silver coins) to deviate from key functions of money for which, according to al-Ghazali and others, Allah Almighty created money i.e. to serve as a measure of value and to facilitate exchange of goods and services. Practice of interest is the major factor behind money becoming the market, rather than being a means for the market. Money was meant to be the neutral agent of commerce. But the practice of interest has made it neurotic master. The recent experience of South East Asia has proved beyond doubt that the greatest danger to stability is lending money on interest. A participatory investment has built-in stability, as it will not allow the capital provider to withdraw it at any time without bearing the consequential loss. This is so because participatory or equity based system involves profit and loss sharing and the rate of return is not stipulated in advance. It may be either positive or negative depending on the ultimate outcome of the business.

The prohibition of *riba'l-fadl* and *riba'l-nasi'ah* which baffled many as regard to its reason and wisdom was skillfully solved by al-Ghazali. By relating their prohibition to preservation of precious metal's function as money, he provides rather a convincing reason for such a prohibition and its practical importance. It remain to be explored how the prohibition of *riba'l-fadl* and *riba'l-nasi'ah* provides a device to check the vicious role that interest may play in 'spot' and 'forward' sale and purchase of currencies. It is beyond the scope of this paper, but hopefully al-Ghazali's explanation would be a guidance in this regard too. In brief his views on money and interest may prove a solid basis for further development and analysis of many theoretical and practical issues related to the subject. But this needs to treat it as an integral part of the whole Islamic economic order, with its overall ethos, goals and values, as al Ghazali always advocated in his holistic approach.

Notes and references:

1. There are a few concise studies, available at present in English, dealing with these economic ideas of al-Ghazali such as:

- Ghazanfar S.M. and Islahi, Abdul Azim, "Economic Thought of an Arab Scholastic: Abu Hamid al-Ghazali" *History of Political Economy,* Durham (U.S.A.), vol. 22, No. 2, pp.381-403.
- By the same authors. *Economic Thought of al-Ghazali*, Jeddah, Scientific Publishing Centre, KAU.1998, 80 pp.
- Orman, Sabri, *Economic Thought of Abu Hamid al-Ghazali:* A Methodological Approach, New Jersey, 1985, 13 pp.

However, these studies leave much scope for dealing with al-Ghazali's various economic ideas taken separately with rigorous analysis and intensive investigation. So we have chosen an important aspect of his economic thought, money and interest.

2. Modern economist would also agree that invention of money was the most significant incident in the economic history of man. It laid the foundation for economic development; it facilitated division of labour, establishment of industries, marketing of goods and services, etc. Geoffrey Crowther says of it: 'Money is one of the most fundamental of all man's inventions. Every branch of knowledge has its fundamental discovery…… In economics, in the whole commercial side if man's social existence, money is the essential invention on which all the rest is based'. Crowther, G. *An Outline of Money*, London, Thomas Nelson Ltd. 1958, p. 4. W.A. Lewis states: 'The invention of money is one of the greater achievements of the human race, like the invention of alphabet, or the discovery of how to make fire at will.' Lewis, W.A. *The Theory of Economic Growth*, London, George Allen & Unwin Ltd.1963, p.75.

3. Hence he noted this important economic discussion in a chapter dealing with thanks giving to Allah (*fi'l-shukr*). Al-Ghazali, Abu Hamid, *Ihya Ulum al-Din*, Beirut, Dar al-Nadwah al-Jadidah, undated, vol.4, pp80 – 141.

4. Ibid. p.91

5. Ibid. p.91

6. Ibid. p.91

7. Ibid. p.91

8. Ibid. p.91

9. Crowther, G. *An Outline of Money.* op.cit. P. 20.

10. al-Ghazali, *Ihya Ulum al-Din*, op. cit. Vol. 4,p. 91. His Arabic words are '*wa fihima aidan hikam yatul dhikruha*". '*Hikam* means wisdom and secret. But we have giving its contextual meaning.

11. Ibid. Vol. 3, pp169, 279; vol. 4, pp. 91, 92.

12. Crowther, G., *An Outline of Money,* op.cit. p. 83.

13. al-Ghazali, *Ihya*, op. cit. Vol. 4, p. 92. For the verse in Qur'an see 11: 12.

14. al-Ghazali, *Ihya,* vol. 4, pp. 91–92

15. Ibid, vol. 2, p.73

16. Ibid, pp. 73–74

17. Ibid, 74

18. Ibid , vol. 4, p. 92

19. Cf. the Qur'an 2: 275 – 81; 3: 130–32.

20. Muslim, *Sahih,* 'Bab al-Sarf' (the chapter on exchange). Cairo. M. Ali Sabih, n.d. vol.5 p. 44

21. Ibid. p. 44

22. al-Ghazali, *Ihya,* vol. 4, p. 92

23. Ibid. p. 92

24. Ibid. p. 92

25. Ibn Taimiyah has another interpretation for this prohibition. According to him, exchanging *dinar* for *dinar* with deferred payment by one of them is unfair because one of them will get purchasing power or command over goods instantly, while the other will not. (Ibn Taimiyah, *Majmu Fatawa Shaikh al-Islam*, Riyadh, Matabi` al-Riyad, 1963, vol.29, pp. 471-72.

26. al-Ghazali, *Ihya,* pp. 92 – 93.We find echo of this with the 18th century great scholar Shah Wali-Allah Dehlawi (1703 – 1762) as he says that the reason for prohibition of this kind of *riba* is to check people's habit of extreme luxury seeking and deep material thinking, because

exchange of something for the same thing may not be except for desire of having very refined quality of the same food. (*Hujjat-Allah al-Balighah*, Beirut, Dar al-Fikr n.d. Part2, p107).

27. Ibn khaldun, *Muqaddimah*, Beirut, Dar al-Fikr, n.d. P. 206.

28. al-Baladhuri, Abu'l-Hasan. *Futuh al-Buldan*, Ridwan M. Ridwan (ed.), Cairo, al-Maktaba al-Tijariyah al-Kubra, 1959, P. 456.

29. al-Asbahi, Malik b. Anas*, al-Mudawwanah al-Kubra,* "*Bab al-Sarf",* n.p. al-Khairiyah press, 1324 AH.Vol.3, pp.90-91.

30. Ibn Taimiyah, *Majmu Fatawa Shaikh al-Islam*, op. cit. vol. 19, pp. 250-51, 248-49.

31. Ibid. vol. 29, p. 469

32. Ibid. p. 469

33. The law is attributed to Sir Thomas Gresham (1519-79) master of the mint in Queen Elizabeth First's reign who explained the Queen the reason for the disappearance from circulation of the superior coins of the Queen issued by the mint whereas the old debased coins continued in circulation.

34. Ibn Taimiyah, *Majmu Fatawa Shaikh al-Islam*, op. cit. Vol. 29, p. 469, parenthesis added.

35. Ibid. p. 471.

36. Ibid. pp. 471–72.

37. Ibid. p. 24.

38. cf. Ibid. pp. 25-26

39. cf. Ibid. pp. 428, 454.

40. Ibn Taimiyah, *al-Ikhtiyarat al-Fiqhiyah*, al-Dimashqi, `Ala al-Din (editor), Beirut, Dar al-Ma`rifah, n.d. p.127. It may be noted that Ibn Taimiyah's student Ibn al Qayyim, a great thinker in his own right, is more explicit on these points and his views reflect, in all probability, the views of his teacher Ibn Taimiyah. For details, one may refer to Islahi, Abdul Azim, *Economic Thought of Ibn al-Qayyim, Jeddah*, ICRIE, 1984, pp.-14 – 18.