Economic Crises:
Their reality and solutions from the viewpoint of Islam

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Sheikh Abu Yasin Ata ibn Khalil Abu Rashta is an Islamic jurist, ‘*alim* and writer and the *Ameer* of Hizb ut-Tahrir – the largest Islamic global political party under a single leadership.

He was born in 1943 in the small village of *Ra'na* in the Hebron area of the Palestinian territories. He observed first-hand the Israeli destruction of *Ra'na* in 1948 and thereafter moved with his family to a refugee camp near Hebron. He was educated in Hebron, Jerusalem and Cairo, and is a qualified civil engineer.

Sheikh Ata joined Hizb ut-Tahrir in the mid-1950s and subsequently carried out party activism throughout the Arab world. He worked closely with Sheikh Taqiuddin an-Nabhani (May Allah give him *Rahma*), the founder of Hizb ut-Tahrir and Sheikh Abdul Qadeem Zallum (May Allah give him *Rahma*) who became the leader of Hizb ut-Tahrir following Sheikh Nabhani's death in 1977. In the 1980s he was a leading member of Hizb ut-Tahrir in Jordan and was appointed as Hizb ut-Tahrir's official spokesperson.

He became the global leader of Hizb ut-Tahrir on 13th April 2003 following the death of Sheikh Abdul Qadeem Zallum (May Allah give him *Rahma*).

Since assuming the leadership of Hizb ut-Tahrir, has addressed conferences across the world including Indonesia, Pakistan, Yemen and Sudan.

His other written works include *Tayseer fi usool at-tafseer Surah al-Baqarah* (2007), and *Tayseer al Wusool min al-Usool.*

بسم الله الرحمن الرحيم
Bismillah Ar-Rahman Ar-Rahim

The term ‘crisis’ (in Arabic) means ‘hardship’, linguistically speaking. It means in this subject the hardship which is difficult to solve except through exhausting the effort. The term ‘economy’ linguistically comes from the purpose, i.e. the straight path. It also means saving, which is the opposite of extravagance. The word ‘economy’ is originally derived from an old Greek term, which means looking after the affairs of the home, where its capable members associate in producing food and performing the services, while all of its members associate in utilising what they earn. However, the people developed the meaning of ‘home’ here to mean the community that is governed by a State.

Therefore, the meaning of the word, economy here is not its linguistic one; it is rather its traditional (*istilahi*) one, which is running the affairs of funds, whether by increasing them and securing their creation, where this is discussed in economic science. Or by the manner of its distribution, which is dealt with in the economic system.

Thus, the economic crisis means severe turbulence in the management of the financial affairs of the State, which requires spending of the utmost in effort to remove that turbulence and bring the situation back to normality and balance. Economic crisis does not mean a mild imbalance in the financial affairs, which can be treated by the ordinary means. For this imbalance is usually expected to happen in all of life's affairs, and can be treated and tolerated within accepted limits.

For an ideological State that follows a proper viewpoint of life it is not possible to ignore a mild imbalance without amending it in time, otherwise it would multiply and become a complicated imbalance that develops into a crisis. Therefore, the ideological State treats it from its start, so that the solution is easy and feasible.

Since we know that an economic crisis is the severe turbulence in the management of the financial affairs of the State, it is incumbent upon us to know in the first instance the manner by which the State – any State – manages its financial affairs. Then, we have to explain the chances of the occurrence of crises in these matters, and then explain their treatment. To understand this, it is necessary to study two factors that have a great effect on the economic situation of any State. They are:

- The unit used for financial exchange, i.e. the currency.
- The balance of payments.

Firstly: Currency

Money exchange in the past centuries used to be based on the metallic standard, where a currency meant a piece of a valuable metal, minted and endorsed by an authority, and used in all exchange transactions.

The valuable metals that were famous in those ages were gold and silver. Dependence on silver retreated towards the end of the nineteenth century, where its characteristic as a currency was almost removed from it, thus gold remained as the main currency. Currency dealings continued with the gold standard. Even, when paper currency started to appear towards the end of the nineteenth century and the beginning of the twentieth century, which represented gold equal to the full value written on them, it meant that anyone holding such papers was able to exchange the papers into gold whenever they wished.

Dealing continued on the basis of the gold standard until just prior to the First World War, when the warring States were forced to suspend it, and because of war conditions they issued banknotes without obliging the central banks to convert them into gold as with the gold standard.

After the war ended, the States summoned each other to the Genoa

Conference in 1922. They decided to return to the gold standard but with some modifications. They linked the currency with gold, but did not make the conversion of the securities (representative banknotes) into gold accessible to individuals except over a certain minimum value of gold (by weight). So, any individual that wanted to obtain gold from the Central Bank had to present a minimum weight of gold. The banks kept gold reserves in the form of bullion of a particular weight as a minimum. The minimum weight in France for example was 12 kg, and their price was 215 thousand Francs; and this was a significant amount. So, most individuals became no longer able to obtain gold, which was then mostly limited to foreign trade or to those of great wealth.

However, the attempt to return to the gold standard did not last due to the outbreak of the major global crisis of 1929, when the stock markets collapsed, and the dealers rushed to dispose of the shares. Thus, a high demand for banknotes developed, and this in turn put pressure on the conversion of banknotes to gold. So, all the world States suspended convertibility of banknotes for gold. And they approved to the mandatory dealings without convertibility. The first State that carried out this policy was Britain in 1931, followed by the United States in 1933, France in 1936, and then other States. Monetary dealings continued to be volatile until the end of World War II. After the war ended on July 22nd, 1944 a number of States summoned each other to the Bretton Woods Conference held in the US, and they decided to re-link their currency with gold, but again with some differences from the past. Its most prominent decisions were:

1 - Member States were required to re-link their currency with gold, i.e. each State would determine a certain weight of gold for its currency unit, but without freedom of conversion to gold, by individuals or any organisation, that requests gold in return for the banknotes issued by the Central Banks. However, the dollar alone replaced gold as the main global foreign reserve, and this was for two reasons:

Firstly: America emerged after World War II with most of the world's gold reserves, which were estimated at the time at 38 billion dollars, of which America held 25 billion, i.e. about two-thirds of the world's gold.

Second: The desire of the United States for political and economic hegemony over the world, because the States of the world were no longer obliged to retain their full cash balances in gold, but rather in banknotes issued by the United States of America – i.e. dollars. A system where the US was committed to redeem their dollars for gold on demand led to these States keeping US dollars banknotes instead of gold as their central bank reserves. Furthermore it has obliged them to maintain certain political and economic relations with the US so as to ensure the stability of the conversion of the American banknotes into gold. America set the official dollar/gold exchange rate at $US35 per ounce.

The Bretton Woods system was a form of gold standard, because it recognised the States' retention of cash balances in banknotes liable for exchange to gold, specifically the dollar that was exchangeable to gold at a specific rate determined by the US, on demand. British Sterling was considered to some extent, convertible to gold, but this system did not last long.

2 - It was stipulated that the Member States must fix the exchange rate of their currencies through certain policies they laid down, besides a cover of gold and dollars convertible into gold. The conference allowed vagaries of that rate within 1% otherwise the States would intervene to restore it.

3 - The Conference also established two international organisations:

Firstly the International Monetary Fund, whose main objective was to work for achieving international monetary stability, as well as exchange rate stability, and make the Funds resources available to members based on the ratio of their shares within it, thereby helping them shorten the duration of any imbalances in their balance of payments.

The method of its formulation was in a way that ensured US hegemony over its decisions. They made the vote of each Member State in accordance with its share in the Fund. Since the US share was the greatest (at 27.2% of the capital) it dominated decision making.

Secondly was the organisation of the World Bank for Reconstruction and Development; the right to membership was restricted to the members of the Fund. Its main objective was to restore that which was destroyed by the war, and help the economically underdeveloped countries, including the provision of loans and guarantees. They made voting rights the same as that of the Fund; thus US dominance over it was also achieved.

These were the most visible decisions of the Bretton Woods Conference that adopted the gold-exchange system. Its main provisions lasted until it was effectively abolished by America's infamous decision on the 15th of August 1971, to abolish the convertibility of the dollar into gold.

After that decision currency took a nominal form; its definition became: any article (note, currency, etc.), regardless of its form and type, which would by law become the public means for financial exchange. Consequently, mandatory fiat banknotes came into use, which derived their legitimacy from the laws of each State. The value of each currency would rise or drop according to the economics of the respective State, its policies, and the procedures it uses in such policies, such as the management of its trade balance, the balance of its payments and other associated issues.

Secondly: Balance of Payments

It is a comprehensive account of the total payments made during a certain period, between a State and the other countries of the world, regardless of the nature of businesses.

The balance consists of two aspects:

The first aspect (the creditor) - revenues - which consist (according to the current economic systems) of:

1 - The visible exports (of all goods exported to the outside world).

2 - The invisible exports (goods exported and services provided to foreign residents or tourists, purchases of foreign diplomatic corps in the country, the travel expenses or cargo costs of foreigners due to companies posted in the State, revenues of films, telecommunications, management and technical rewards, insurance premiums for foreign citizens employed by local companies, and compensation for citizens from foreign companies, and expenditures of foreign students in the country and the like).

3 - Foreign loans, i.e. that which is provided by other countries to the State in terms of loans.

4- The foreign interests and dividends, i.e. that which is paid by other countries to the State in terms of benefits and profits.

5- Grants and donations received by the State or its nationals from other countries and their citizens.

The second aspect (the indebted) - the payments - and its main components are:

1 - Visible imports (all goods imported from external sources).

2 - Invisible imports (goods sold and services provided to the State's citizens residing temporarily abroad or travelling as tourists, travel expenses of passengers and expenses of transporting goods due to the State's citizens by foreign carriers, expenses of students studying abroad, purchase of goods or services from foreigners by Diplomatic bodies of the State, revenues of cinema movies, telecommunications, rewards, insurance premiums of foreign companies, compensation of foreigners by national companies and the like).

3 - Loans due abroad.

4 - Interest and dividends due abroad.

5 - Grants and aid due abroad.

The balance of payments shows the real movement of money from the State to other States, but it does not show, in any way, the total value of what the State owns or what it owes towards the outside world.

The balance of visible exports and visible imports for a year is called the balance of trade. However, the visible and invisible exports, and the visible and invisible imports are called the operational transactions in the balance of payments.

In spite of this, the trade balance - the items of exports and imports - is the most important item, and it represents in many cases, about two-thirds of the total balance. However, the balance of payments does not reflect the balance of trade, because it contains other elements. For example, the balance of payments of Germany in 1925 was neutral, because Germany received dozens of loans that amounted to 900 million marks, and not because its exports were greater than or equal to its imports. The balance of payments of America in 1929 was also in deficit, and the reason was that the United States was investing abroad a great deal of its revenues of foreign currency, and not because there was a real deficit in its trade balance. Therefore, the deficit or equilibrium in balance of payments needs thorough study of all the relevant elements before deciding expansion in exports or in borrowing or in investment is required to restore its equilibrium.

Now that the reality of currency and the balance of payments is distinct, it is clear that the likelihood of an economic crisis is possible to occur as a result of the reality of currency and the balance of payments, could happen as follows:

1 - Economic crises as a result of the reality of currency:

When the world followed the gold standard in its monetary dealings it was living in a period of economic prosperity and monetary stability. But when this system vanished and was replaced by the system of paper currencies exchangeable to gold, monetary disorder appeared to the extent that stable periods became the exception. Later, the system of paper/gold exchange was cancelled, and dealings became solely through the compulsory abstract banknotes (fiat). So, the situation deteriorated, and the incidence of crises accelerated, one after the other.

The gold standard system was used to guarantee a fixed exchange rate, as the monetary unit of each country was gold or papers that represented full value in gold, and was liable for conversion at any time. Consequently, the exchange rate between the countries was constant because it was related to an acknowledged gold unit. For example, a dinar in Islam is defined as (4.25) a gram of gold, and the British pound was defined by law as (2.0) grams of pure gold and the French franc was equivalent of one gram and so on. Therefore, the exchange rate was fixed.

This system stabilized the value of the monetary unit both internally within the country and externally. The evidence for this was that the standard prices of gold in 1910 were almost at the same level they were in 1890.

However, after the abolition of this system the occurrence of these crises has become considerable:

First: The crises in the gold exchange system.

In this system the dollar was used as reserves by the central banks in addition to gold, and it was defined with a guaranteed price of $35US per ounce of gold according to the Bretton Woods Conference agreement.

Under this system, the other countries were at the mercy of America, where it could address the imbalance in its balance of payments merely by printing more banknotes (dollars) without the full cover of gold for these banknotes. The more that dollars were printed the less the likelihood that they could be exchanged to gold. And this is what actually happened after World War II and after the Marshall Plan. So, America abolished the right of exchange for all of the dollars in circulation to gold. Instead, it only committed to exchange the dollars circulating abroad without the right of exchange for those circulating within the United States. It resolved the crisis in this manner, because her assets of gold were sufficient to cover the dollars circulating abroad. Later these assets began to decline until another crisis occurred in 1961, which worsened in 1965 when America's gold assets were insufficient to meet the demand for the exchange of dollars circulating abroad in accordance with the official exchange rate set at Bretton Woods. Thus, the dollar reserves of the countries became in reality far less than their nominal value, which led to economic turmoil.

America lost between January 1958 and December 1960 four billion dollars of its gold reserves due to the increase in the number of her dollars abroad. Accordingly, confidence in the dollar declined, and demand for gold and its hoarding increased. Besides, the demand of banks to exchange their dollars into gold increased, and countries started to settle their balance of payments in dollars without gold. The following table shows the deterioration of the golden cover for the dollar between 1946 1965, (the figures are in billions of dollars):

Year:	1946	1949	1957	1960	1965
Gold reserves in the U.S.	20.6	24.5	22.8	18.8	14
Dollars reserves abroad (official and private)	1.6	6.4	14.6	18.7	25.2

As a result of the deterioration in the golden cover of the dollar, America requested aid from the key countries of the world; it was agreed to establish a gold complex. Its job was that in case the price of gold rose for market reasons, the banks would immediately intervene in putting extra gold up for sale so as to restore the price to its target level. In opposite circumstance, if the price dropped, they would rush to purchase the surplus quantities of gold so that the price would rise to the expected level. The complex continued for a few years, and it gradually started to intervene in the market through submitting gold, especially between 1965 until its demise on the 17th March 1968, which threatened to seriously deplete the gold reserves of the member States. So, France withdrew from it in June 1967, and then the crises precipitated the Sterling crisis in the autumn of 1967, and then the gold crisis in 1968. These two crises resulted in the loss of 2.5 billion golden dollars by the member countries of the Gold Complex within six months. Thus, a meeting was held in Washington on 17 March 1968, which decided to abolish the Gold Complex, and the gold price was left free to be determined by the forces of supply and demand.

The above mentioned gold crisis resulted in the reduction of US gold reserves from 14.0 billion in 1965 to 10.48 billion in March 1968 when the Gold Complex was abolished. This golden reserve of the United States at the time was the minimum amount required by law as a domestic golden cover to the dollar (25%). Then America abolished the transfer of US dollars owned abroad by the private sector to gold, and kept only the replacement of official external reserves to gold. This meant that the golden dollar at home (25%) had been abolished. However, America was not able to even fulfil the replacement of the official external reserves that result from private sector imports and exports, as well as the public sector transactions in its international community dealings. Therefore, the United States decided to abolish entirely the system of dollar convertibility to gold, in 1971.

It thus appears the depth of these crises that result from the gold-exchange system. Moreover, this system means that the State that controls the dominant reserve currency (i.e., by which reserves are evaluated) can disrupt the world economy by printing extra dollars to cover her own interests at the expense of other States, resulting in burdens over their treasury to restore the balance. This means that other States become obliged to bear any deficit in the balance of payments of that State. This is in addition to being exposed to the decision of that State to cancel the convertibility of their currency to gold, partially or completely. As a result of this the dollar reserves of the other countries fell to low levels, which affected their economic plans. De Gaulle had realized that, so he mentioned in his famous speech on Feb. 14, 1965 that the dollar was previously covered with gold, but it is now covered by a weak percentage, which is only 20%. Had the States wanted to exchange their dollar reserves for gold at the official exchange rate America would not have been able to do that. Therefore, the current system must be replaced by the system of the gold standard.

Therefore, the occurrence of monetary crises in the gold exchange system is to be expected, because the States of the worlds are obliged to maintain the dollar price (in gold) by the intervention of their central banks through their own reserves of gold. The serious crisis happens when the State that owns the currency of reserve decides to dissociate herself from the gold. This would make the reserves of the other States of such banknotes lose their value, resulting in the decline in the value of their currency equal to the decline of the reserve currency if not even more.

Secondly: The crisis in the system of mandatory (fiat) banknotes.

The crises accelerates under this system, because competition among countries politically and economically, besides speculation in the private market, and the need of States to import or export the goods to other countries, and their need for loans and the like, all of this severely affects the value of their currency, both up and down. Thus, stability of prices and economic dealings becomes elusive, if not absent, as is happening now in domestic and international economic dealings.

In this system States become interested in focusing on their reserves of the currency of the States that are most influential, economically and politically, because of their need for such currency. Any political or economic change in those countries can be reflected in the form of a currency crisis of such countries and consequently on their economy. Therefore, the States that link their economy with the dollar, for example, become interested in maintaining the stability of the dollar to maintain their reserves. So, if the demand of the people on the local currency increased this would lead to a rise in the price of its own currency in relation to the dollar. Thus, this State discharges amounts of its currency into the market, and withdraws dollars instead, i.e. it sells its currency in return for the dollar. If however the opposite happened and the people gave up its currency, as happens in times of speculation - i.e. the offer increased - this State withdraws such extra amounts, where it buys its currency from the market with dollars. In other words, it discharges dollars in the market, and takes back its currency to its treasury. Therefore, each State that links its currency with the dollar would be obliged to defend its currency, as well as the dollar. Such State bears this burden alone, greater and harder than the State that owns the adopted foreign currency. The State undertakes this effort and shoulders this burden in order to preserve its stockpile of the foreign currency, because its decline hurts the value of its assets.

An example of this:

1 - The loss the Central Bank of Kuwait suffered in the years 1971/72, and 1972/73 was estimated at about (79.6) million Kuwaiti dinars, due to the devaluation of the dollar in both periods, which was 18%.

2 - The value of the liquid financial investments alone of the OPEC States fell to 61% of their nominal value, which was in the early seventies approximately 78 billion dollars, and thus became 47 billion dollars during the period 1974 - 1978.

3 - The oil revenues of Arab countries during the years 1979-80 was equal to (176) billion dollars annually; and this indicates the size of the potential loss as a result of fluctuations in the dollar exchange rate.

4 - The Arab monetary reserve was estimated as $35.44 billion in 1976; and about 88% of this monetary reserve was employed in

foreign currencies, and therefore subject to the vagaries of the fluctuating value of these foreign currencies.

In addition to the direct impact of foreign currency on the currency of any State that stockpiles that currency in its reserves, the currency of mandatory banknotes is of immediate impact upon the economic situation, domestically and internationally. Thus, this system is more vulnerable than other previous systems to inflation.

The gold standard system achieves stability in the value of the currency because of its complete dependence on gold. Whereas, the gold exchange system, in which the currency of a State depends on gold and on other paper currencies convertible into gold, has only partial stability of the value of the currency unless the golden reserve of the reserve currency (ie the dollar) weakened. In other words, when the reserve currency becomes inconvertible into gold in whole or in part, then its value is depreciated, as well as the value of other currencies.

However, the system of compulsory paper banknotes is subject to inflation periodically, because the country's economic policy domestically and abroad gives it its value. Since this policy is influenced by several factors, it is difficult to achieve stable exchange rates. Therefore, the devaluation of the currency, i.e. the weakness of its purchasing power, is possible far more than in the former two systems.

The best evidence to prove this is the fact that the value of the currencies of all the States without exception has been subject to fluctuations, including the economically developed countries, where the dollar, the mark, the yen, the franc and the pound sterling have been devaluated.

It is known that inflation leads to high prices due to low purchasing power. The effect of that on the economic life is very dangerous, especially if continued at frequent intervals. As the currency is not related to a recognized fixed unit, then the mandatory monetary system becomes a route to conflict and speculation among countries.

One State may devalue its currency to increase its exports, whereupon another increases the interest rate on its currency for the advantage of the people's deposits in that currency. This is done for the sake of hoarding the savings of its citizens and attracting capital from abroad.

Currency fluctuations have also meddled with business. For example if interest rates on a certain currency were raised, or the economic situation of a State improved, the people turn away from stock market investments to investment in the currency that has higher interest rates, as happened when financial markets collapsed on Wall Street on Monday the 19th of October 1987. On that day, share prices collapsed by more than 20%. Economic analysis differed over the causes for the crash, but the most likely reason was the leaking of the intention of the US to aggressively raise the interest rate on the dollar. US press reports leaked news of differences between the US Treasury Secretary and his German opposite when the American Secretary threatened to raise the interest rate on the dollar in response to the action of the German minister in raising the interest rate on the mark. That led to shareholders rushing to dispose of shares to achieve higher returns through interest related investments (bonds, deposits, etc) before circumstances changed. This was announced by the French Finance Minister as the cause of the crisis.

After that crisis a proposal was developed by the finance ministers of some Western countries to link the exchange rate of major currencies to a basket of commodities including gold. This was considered as a “fair” return to the Bretton Woods system.

Despite all of these crises, the world still deals with the mandatory paper banknotes. The reason is the position taken by some of the States that benefit from this system at the expense of most of the affected countries, so as to keep their political and economic influence over others. This is possible because their currencies exist in the central banks of other countries, thus making their political and economic circumstances affected by the influence of these States.

These beneficiary States stand in the way of changing this system because they do not have an appropriate golden cover. If, the system of the gold standard was restored, the current States that own the so-called hard currency would become like any other country, and without advantage over the others. As a result of the continuity of this mandatory paper-based monetary system, the world will suffer from these recurrent crises, unless given the proper treatment.

2 - Economic crises resulting from the balance of payments:

The balance of payments consists of two elements (creditor and debtor); and a stable situation results when the two sides of the balance are equal. However, in many cases this does not happen, and this is almost regularly the case of the economic condition of all States.

Deficits arise when the revenues are insufficient to meet the value of the payments, this deficit occurs for many reasons including:

1 - Expansion in capital imports (like the import of construction machinery and goods), and without using them properly in production projects.

2 - Intensive importing of basic consumer goods as a result of the weakness of the production system and its limitations in the production of such goods. Such countries are forced to import them, and they additionally import unnecessary goods as well.

3 - Due to the expansion in the export of capital, i.e. investment abroad or lending abroad.

4 - Deficits as a result of operations by one side (such as war reparations and fines).

5 - Adopting investment policies and manufacturing sectors that serve forms of luxury consumption.

6 - Capital flight abroad due to a lack of political and economic stability.

7 - Administrative corruption, whether in the State or public institutions, besides what the atmosphere of corruption creates in the society of concern and lack of confidence that make some local people place their money in overseas accounts in order to protect their savings.

8 - The fluctuation of the exchange rate of the dollar and other foreign currencies, and the depreciation of the reserve currency, thus reducing the real value of the State's reserves. Consequently, the commodities that can be imported with a particular amount would need additional funds.

If the deficit at the start did not become aggravated it can be overcome if the State sets out for a sound economic policy. However, the deficit becomes a crisis if the monetary reserves of the State are insufficient for its temporary treatment until the State restores the stimulus of its exports, reduces its imports, and draws up policies and procedures for improving the balance of payments.

The monetary reserves mean the State's assets ready to be used for meeting the shortfall. These represent State reserves of gold and foreign currency as well as its share paid in gold (the golden slice) from the International Monetary Fund (IMF), where every member State of the IMF is obliged to hold one fourth of its share in gold or 10% of its official possessions of gold and dollars. This is what is called the golden slice.

We have thus elaborated how crises occur with non convertible currencies and the balance of payments.

There is a third crisis caused by poor distribution of wealth among the people. There might be no cash crisis, and not even a balance of payments crisis, in the sense that revenues cover payments, but the revenues go to cover imports and expenditures for the needs of a group of people to the exclusion of other groups. So, if we say, for example, that a country exports petroleum equal to one million dinars, and imports wheat enough for the people's needs, then the balance of trade would be sound, and thus the balance of payments is sound as well. But if the wheat was purchased by a number of people by using their financial ability, while others were unable to purchase it, then a new crisis arises due to the failure of the distribution of wealth to all the people to enable them to meet their basic needs, thus causing poverty in the nation.

Thus, anticipated economic crises that require treatment are limited to three important areas: a crisis resulting from the monetary system, and a crisis resulting from the balance of payments, and a third crisis resulting from the improper distribution of wealth among people, i.e. resulting from the poor distribution of wealth.

Treatment of Economic Crises:

Having explained the reality of the economic crises, we begin to explain the correct solutions to these crises.

Firstly: Addressing the crisis caused by the current monetary system.

We have stated previously that the monetary crisis could occur in the gold-exchange system as well as in the system of compulsory paper money. In order to eliminate the crises we have mentioned, reference has to be made to the gold standard system, whether through dealing in gold directly, or by banknotes representing gold that are convertible into gold unconditionally. Many economists have realised this. Had not the relevant States, especially America opposed the return to the gold standard, fearing for their loss of political and economic hegemony, the world would have returned to it. That is because this is the system that preserves stability and leads to prosperity in economic activity without the domination of one State over another. In this system, currency is defined by a standard unit recognized and respected by the whole. In this system, the States cannot also increase the money supply unconditionally, because they are bound by the requirement for gold reserves. This is in contrast to the mandatory paper banknotes, where the States could, when needed, issue the quantity they want to serve their own interests, a matter that leads directly to monetary inflation and weakens the confidence in the monetary unit.

However, the following conditions have to be observed in this system:

1 - Freedom of export and import of gold by all countries without restriction or condition. This is because freedom of entry and exit of gold guarantees the stability of the exchange rate.

2 - Absolute freedom in exchanging the paper money that represents gold into gold at any time, by their full value written on them.

3 - Freedom of smelting and coinage of the yellow metal (gold). So, whoever possesses golden money, he could melt them and coin them into gold bullion without restriction. Likewise, whoever had gold alloys could go to the Department of Minting Money and mint golden money (after paying the expenses of the minting process), in order to prevent any possible disruption between the official and commercial price of gold.

This is from the angle of abstract economic research. But from the viewpoint of Islam, it is invalid to have money other than gold and silver, due the relevant shar'i evidences:

1 - Agreement of the Messenger (sallalahu alaihi wasallam) of adopting gold and silver as money of the Islamic State. He also acknowledged the weights of dinars and dirhams used by Quraish. It is narrated from Tawoos from Ibn Umar, he said:

"قال رسول الله ﷺ الوزن وزن أهل مكّة."

"The Messenger of Allah (saw) said the weight is the weight of people of Makkah."

The weight of ten dirhams used to be equal to seven mithqal. According to our weights today, the golden dinar is equal to 4.25

grams, and the silver dirham is equal to 2.975 grams.

2 - Islam linked some shar'i rules with gold and silver:
It prohibited their hoarding.

[والّذين يكنزون الذّهب والفضّة ولا ينفقونها في سبيل الله فبشّرهم بعذاب أليم].
(التوبة:34)

"And those who hoard gold and silver and do not spend them in the way of Allah pass to them news of a painful torment". [Translated meaning of the Quran 9:34]

b. It imposed zakat in them, considering them as money and prices of sales and wages for efforts, which is equivalent to (half of a dinar in each 20 dinars, and five dirhams in each 200 dirhams).

c. It imposed the blood money (diyyah) valued by them in case paid by money. The Prophet (saw) made it equivalent to one thousand golden dinars, or twelve thousand silver dirhams.

d. Islam made the (minimum value stolen) in robbery, when its conditions are verified, valued by them, where it decided to not cut off the hand of the thief unless it is one fourth of a dinar or more.

(إن رسول الله ﷺ قطع سارقاً في مجن قيمته ثلاثة دراهم).

The Messenger of Allah (saw) cut the hand of a thief for stealing a shield valued at three dirhams.

e. When Islam decided rules of exchange in transactions, it made them in gold and silver.

(نهى رسول الله ﷺ عن الفضة بالفضة والذهب بالذهب إلا سواءً بسواء وأمرنا أن نشتري الفضة بالذهب كيف شئنا ونشتري الذهب بالفضة كيف شئنا)، وفي حديث آخر (يداً بيد).

The Messenger of Allah (saw) forbade the exchange of silver for

silver, and gold for gold unless they are equal. He also ordered us to exchange silver with gold as we wished, and exchange gold with silver as we wished. In another hadith (hand to hand, i.e. immediate settlement).

Because of all of the above, the currency of the Islamic State is gold and silver.

Therefore, in order to address the currency crises, we must return back to the gold standard, whether it was in gold alone or in gold and silver. However, this solution is not without problems, due to: the global monopolies, the presence of tariff barriers, and the presence of most of the gold and silver being held in the coffers of the super powers and the treasuries of the States that have high production capacity and high competitiveness in international trade, or for genius (advancement) via their scientists, technicians and engineers. This is besides the current adoption of the mandatory paper money system instead of the system of gold and silver.

To overcome this situation the State that wants to return to the gold standard should follow a policy of self-sufficiency by reducing its imports, and ensuring the exchange of its imported goods with goods it actually possesses. It has also to work on selling the goods it possesses for goods it needs, or for gold and silver, or currency it needs to import its needed goods and services.

This is the case regarding any State. As for the Caliphate (Khilafah) State, which is expected soon, God Willing, the matter is much easier. The gold in the Islamic countries, which is accumulated in the banks and the coffers, is fully adequate to enable the Khilafah State to return to the gold standard. This is besides the fact that the quantities of silver in Islamic countries are abundant; and it is known that silver will be the basic unit, together with the golden unit, as the currency of the Khilafah State. This is because the Khilafah State is based on the rule of gold and silver, as a bi-metallic standard. This will enable the Khilafah State to return to the rule of gold and silver.

Moreover, the Islamic countries have all the raw materials required by the nation. This makes them in little or no need of the goods of the other countries, whether these goods are basic or of necessity. Thus, the Khilafah State would be satisfied with its local goods instead of importing foreign goods. This will spare the exit of gold abroad and keep it within the State.

The Islamic lands also have important commodities such as oil, which all the nations of the world need. So, the Khilafah State can sell it for gold, for commodities she needs, or for money required to import necessary goods and services. She can also prevent the sale of such important commodities unless paid for in gold, thus ensuring the gold reserves of the State will rise.

Returning back to the system of gold restores stability, and leads to the disappearance of crises and monetary hegemony of one State over another. This is the adequate and effective solution.

<u>Secondly</u>: Addressing the crisis resulting from the balance of payments.

We stated the crisis begins to appear when deficits in the balance of payments occur, i.e. when the revenues are insufficient to cover the payments. In this case the States adopt temporary solutions to meet the deficit in their currency reserves, and they initiate policies and measures to revitalise their economic situations and to improve their balance of payments.

These are some of the actions that States currently take:

1 - Raising the market interest rate as a means to attract capital from abroad.

2 - Imposing taxes on imports, i.e. raising customs duties and anything related to reducing imports.

3 - Devaluation of the country's currency to encourage foreigners to import goods produced in the State (their price becomes lower for

them). This means that exports will increase. But this is conditional that the goods produced in the State are ready for export in large quantities, so as to increase revenues as a result of their export.

However, if the State does not produce sufficient goods for export, then the devaluation of its currency would cause loss, besides the effect of devaluation on the rise of prices. Devaluation leads to an increase of exports, bringing increasing revenues if the State has sufficient exporting capacity and on condition that other countries that produce the same commodity do not devaluate their currency.

4 - Serious work in exploiting natural resources for improving the revenues resulting from the revitalisation of the economy and from increasing exports of these resources. This must be in parallel with the State's attention to producing the basic commodities within the country, so as not to be obliged to import them from abroad, thus leading to a reduction of its revenues.

5 - It should be pointed out here that some or all of the major countries resort to financing some of their expenses, ie the deficit in their balance of payments, by issuing new currency that has no support. They do this so as not to resort to borrowing, or to taking austerity measures that create public unrest, or to devaluation of their currency, which hurts their dignity. However, the State's expansion in the issuance of currency in this way would create inflation, i.e. a rise in prices caused by the imbalance between money and goods. Tackling inflation is usually done by restoring the balance between money and the sum of all goods and services. This is performed by either increasing the goods and services, i.e. by revitalizing the economy, especially its production side, or by withdrawal of the excess money from circulation. The process of withdrawal of money is through raising the interest rate, which encourages people to save their money in banks. Or it can be by demand from trading banks to raise the proportion of their reserves deposited in the Central Bank, thus freezing them in the Central Bank, and withdrawing them from circulation. However, these measures cause bad side effects, for they reduce investment and drive to economic stagnation.

6- One of these measures will also be borrowing to restore the equilibrium to the balance of payments. Here a new phase of the crisis starts, which is entering into the debt trap, particularly for countries that are not adept in using the loans for production projects that accrue income to the country. This is what has happened to most developing (or third world) countries. These countries have found that borrowing is the easiest way to address the balance of payments problem, because many of them do not produce even their basic needs. Besides, they have few, if any, goods which are viable for export. Thus, they find that addressing the deficit via loans is the only possible means for them. This is because pressure to minimize imports would lead to a scarcity of goods, and thus higher prices, which in turn would lead to a disruption of the production capacity increasing unemployment and halting growth. Tackling the deficit by using their cash reserves is not possible due to the small level of the reserves of these countries of gold and foreign currency. Besides, the depletion of reserves and using them for bridging the deficit would expose the level of these reserves to risk and would cause the price of the local currency to deteriorate. If we add to this the lack of attention of many of these countries to the serious exploitation of their natural resources, the result has been a dependence on borrowing. That which compounds the crisis is linking the borrowing with three dangerous factors:

1 - Directing these loans to non-productive projects, to luxury and leisure projects, or even fake (propaganda) items, which are economically infeasible. Thus, these projects add a new deficit to the previous deficit.

2 - Direct looting of a large percentage of the loans and foreign aid by senior officials through commissions and bribes. These officials are keen to secure their loot, and take precautions against the risk of coups and rotation of power, so they smuggle the stolen money abroad, and thus deprive the country twice: once by usurping a large part of the public money that should have been allocated for development efforts and stimulating the local economy, and once again by smuggling it abroad and depriving the country of its investment locally. On this issue, Morgan Trustee Bank in the United

States recently issued a study in which it estimated that between 40% and 60% of the total loans obtained by Third World countries have found their way back to the countries of the First World in the form of secret accounts for senior officials or in the names of their relatives. So, out of (1,500) billion dollars, which are the debts of the Third World from the mid-eighties, the study estimated that the equivalent of (1,000) billion dollars exists in the banks of the First World, in special accounts, in the names of current or former officials of the Third World countries.

3- The Super Powers or the influential countries use these loans as a way to control the indebted States. They always work to draw up policies that encourage these countries to borrow to serve the goals of the creditor States, whether they were economic or political. This is reflected in the following evidences:

In the report of the Committee of General Clay in the last week of March 1963 on U.S. aid it was stated that the aim of giving such aid and the criteria by which it is given is the security of United States and safety and security of the free world. Accordingly, the loans are not to help the underdeveloped countries, but to control them. Accordingly, America exercised pressure over Indonesia and created disturbances there in the early sixties until she obliged her to take loans. Grants and loans were and are still used as weapons by major powers for gaining political hegemony. As a result and despite the fact that the balance of payments of the United States suffers an almost permanent deficit, she allocates aid and grants each year.

Member States of OPEC achieved significant surpluses in their balance of payments in 1974 and 1979. So, their surpluses flowed to the international financial markets. Thus, the international commercial banks - encouraged by their governments - adopted what is known as the recycling of oil surpluses, ie lending these reserves to developing countries that experience deficits in their balance of payments, for relatively low interest rates and with easy terms. This tempted a large number of developing countries to increase their borrowings to finance their balance of payments. But in order that the commercial banks protect themselves from the risks of lending to developing countries, they resorted to the so-called floating or variable interest rates that change at intervals depending on the overall direction of the interest rates market in London and New York, in addition to a further percentage representing a risk premium. The risk of this floating interest rate can be realized if we know that the interest rates on dollar loans rose from 7.8% during the period 1974-1978, to 17.5% during the period 1979-1981. In other words, these banks encouraged developing countries to borrow, and once they were inside the trap, they pressured them by increasing the floating interest rates.

Due to all of these factors, once the States took the first step on the path of borrowing, they enter into the debt trap that makes their disengagement from it elusive. What complicates the matter is that the road drawn by the colonial powers to help countries get out of debt is through the International Monetary Fund (IMF) and the World Bank (WB). Once these countries resort to these two Banks they implicate them into a circuit full of problems.

The worsening of the debt crisis makes indebted nations unable to service the debt (i.e., paying the premiums and interest), thus their main concern becomes trying to reschedule their debts and taking on new loans to stimulate their economy. In order to achieve that, the creditor nations group, called the Paris Club, as well as the commercial creditor banks group, called the London Club, call them to bring pronouncements of credibility from the International Monetary Fund (IMF) which is similar to a certificate of good conduct. This certificate means that an indebted State adopts a sound economic attitude. However, to obtain such a certificate it is obliged to implement a reform program usually formed of the devaluation of its currency, the elimination of subsidies on basic and necessary goods, freezing wages and salaries, reducing government employment, increasing energy prices and prices for public services and commodities in general, and increasing interest rates to increase savings and attract capital - besides liberalisation or reducing foreign trade restrictions.

Addressing the debt problem through the IMF compounds the problem, because the IMF's program includes the solution on an abstract arithmetic basis. The IMF considers the subject a mathematical equation, and works to find a balance between its two sides. So, it tries to increase the lower side or reduce the higher side without giving regard to the relationship of this solution with man and without linking it with man himself, who will suffer economically from the proposed solution. For example, to increase revenues, the IMF requires increasing taxes, though it knows that the taxes in the indebted nations have usually already reached its maximum affordable limit, if not more. It also knows the price levels in the indebted nations are high, and might be beyond the reach of most of the people. Despite that, it demands the removal of subsidies on the essential goods like bread, milk, rice, wheat, sugar, fuel and the like. It knows as well that the capacity of the indebted nations for the production of goods viable for export is weak; however, it asks devaluation of the currency, thus pushing prices even higher and increasing unemployment. It demands freezing of wages and salaries at the same time that the prices of goods and services increase. It sometimes will demand not only the freezing of wages and salaries, but even decreasing them so as to reduce costs, for example it demanded from the Brazilian government to cut salaries of the order of 20% so as to supply it with the loans it needs. The IMF previously demanded from Nigeria in December 1985 to devaluate its currency by 60% and to remove the subsidies on petroleum products. In early 1986, it demanded from Sudan the removal of subsidies, devaluation of its currency and liberalising prices. It also asked Egypt in the mid-seventies, Morocco and Tunisia in early 1984, the Dominican Republic in April 1984 and February 1985, and Jordan in April 1989, to reduce subsidies and increase prices, which led to a public uprising in those countries as a protest against increasing their burdens by the IMF solutions.

However, all of these harsh and severe measures demanded by the IMF are not for abolishing or reducing the debt, but rather for its rescheduling only. In other words, it is to delay its repayment to another period so as to accumulate yet more debt and more loans.

And the role of the World Bank is usually integral in the IMF's role in giving loans. The IMF cannot give new loans to countries that have reached their limit of withdrawal according to the IMF regulations. Typically, these loans are taken for projects designed to impede the development of these indebted countries and make their economies depend mainly on foreign aid.

However, the IMF's and WB's policy have not achieved the expected success. Rather, the economic recovery has not been seen in the indebted countries. Instead their indebtedness has increased and become larger than the capacity of these countries to solve it in accordance with IMF recommendations.

To realize the scale of the economic catastrophe in these States as a result of the false solutions offered by the current global economic system through the IMF and WB and the economic systems that disagree with the innate nature of man (fitrah) and reason, I mention here some examples of the size of this indebtedness caused by these supposed solutions:

First: The debt of the developing countries.

It has risen from 91 billion dollars in 1972 to more than one thousand billion dollars at the end of 1986. The share of the Islamic countries of this debt is 22.4%, while the share of the Arab countries of it is 15%, which is approximately equal to 200 billion dollars.

Secondly: The debt service of the developing countries.

This service (i.e., the annual premium + interest on loans) rose from 7.3 billion dollars in 1972 to 95.8 billion dollars at the end of 1986. The service of Islamic country's debt rose from 1.56 billion dollars in 1972 to 23.5 billion dollars at the end of 1986.

Thirdly: At the forefront of the indebted Arab countries is Egypt.

Its debts until 1986 amounted to (40) billion dollars. This amount represents loans that were concluded in the period of 1970-1985. The value of the premiums, interest rates and the arrears that were supposed to be paid during the period from January 1987 until June 1988 exceeded ten billion dollars.

Fourthly: Jordan.

The volume of contracted loans made wide leaps during the second half of the seventies and early eighties, where these loans have doubled more than a hundred times between 1972 and 1988, so the total loans contracted at the end of 1988 was close to (12) billion dollars. The existing balance of these loans after excluding past payments is close to 5.8 billion dollars. At the end of 1989, the balance was approximately 8 billion dollars, while the accrued interest approached (3) billions of dollars. As a result of that, the government was obliged, on 15 October 1988, to float the exchange rate of the dinar and stop providing the commercial banks with their need of foreign currency owing to the depletion of the kingdom's reserves and its low level. Thus, the reserve did not exceed 14% of the issued money in 1988, to the point that it was no longer sufficient to cover imports, with the exception of two weeks' worth. So, the government was forced at the end of 1988 to halt payments on its foreign debts.

Fifthly: The ratio of the debts of the developing countries compared to their gross domestic product rose from 28% in 1980 to about 48% in 1986. The ratio of all of the debts of Islamic countries compared to their gross domestic production reached 58% in 1986. It is particularly high in Egypt where the ratio ranged between 89% in 1982, and 74% in 1986; while in Jordan, due to its weak domestic production, that ratio was more than in all the indebted nations, reaching nearly 300% at the end of 1988.

These are just some examples of data which confirm that the indebtedness is increasing rapidly since it exploded in 1982 when Mexico ceased to service its debts until now. This was due to the poor treatment of the current global economic system and the inappropriate policies of the IMF and World Bank.

<u>The proper handling of the debt crisis in the States of the Muslim countries today is as follows:</u>

1 - Non-payment of interest accrued on the debts because it is usury.

[وإن تبتم فلكم رؤوس أموالكم لا تظلمون ولا تُظلمون]. (البقرة:279)

"…but if you repent, you shall have your capital sums. Deal not unjustly (by asking more than your capital sums), and you shall not be dealt with unjustly (by receiving less than your capital sums)"
[TMQ 2:279]

2 - Payment of the debt without paying the usury interest.

The right way for solving the debts is to carry its responsibility to all of those who participated in the governance and all of those that had government posts during the period of indebtedness. This is because they became wealthy during that period. So, the debt has to be repaid from their money that exceeds their normal needs, and in proportion of their surplus funds. Thus, if the surplus funds of the first person are one million, and the second one are a half of a million, and the third are a quarter of a million. This means they bear responsibility for debt repayment by the ratio of 4:2:1.

As for why the rulers bear the responsibility for the debt, this is due to the following reasons:

A - The responsibility of ruling in Islam is to look after the affairs of the nation in all aspects of life including the economy.

"الإمام راع وهو مسؤول عن رعيّته". (حديث)

"The Imam is a caretaker, and he is responsible for his citizens" (Hadith)

B - The one that holds a ruling post is not allowed to be engaged in any commercial financial work. He is entitled only to his imbursement, ie his monthly financial allowance. So, if he became wealthy during his time in office, he has to be accounted for that; and it is common that all current rulers become wealthy by possessing funds from the loans the government adopts. When Omar (ra) suspected wrongdoing by a governor, he used to take from him the money which was surplus to his estimated provisions, or divided his money between him and them. He used to count the funds of the governors before and after they held office; and if he found they had extra money, or he suspected them, he would confiscate their wealth or divide it between him and them, and put the confiscated share into the State treasury. This was not considered an infringement on their private property, because they did not earn it legally. For if a man was appointed as a ruler and became remarkably wealthy during his term of office, then this is considered as sufficient evidence for confiscating some of his wealth, because he had earned it illegally, i.e. from other than his salary. As regards government staff other than the rulers, nothing of their wealth would be confiscated unless it is proved by legal evidence that they have stolen, or taken illicit money. What is taken from the governors and government staff as outlined above would be put in the State treasury, and the debts would be repaid from that.

C - Taking loans and involving people with debts brings harm to the nation. The Messenger (saw) said:

"لا ضرر ولا ضرار"

"Harm (is not allowed to bring upon oneself) and nor upon others"

Damage must be removed, and the responsibility for its removal is born by those who caused it.

3 - New loans should not be adopted because the method of taking foreign loans for financing is the most dangerous to the country. In the past it was a means to the direct colonisation of the country, and today it is a key method for extending influence and conspiracy against countries. Loans are not usually given except after sending

experts to understand thoroughly the country's economic secrets, and then identify the projects selected for the loans. The creditor countries determine the best way of muddling and impoverishing a country through imposing specific projects and certain conditions, so that the loans lead to the impoverishment of the country and to extending influence over it; and they do not bring wealth. The evidence is that Egypt, for example, has taken thousands of millions, and its economic situation remains firmly in decline. The taking of loans does not lead to the development of wealth; it rather subjugates the indebted country to the creditor countries.

Loans are dangerous in all cases, even if spent on production projects. This is because the loan is either short-term, which leads to a hit on the local currency to create disorder with it, as repayments are not accepted via the country's currency, but rather via foreign currency. The country might be unable to pay in foreign currencies because of its shortage of them, so it is forced to buy at high exchange rates, thus further reducing the value of its own currency in the market. So, it resorts to the International Monetary Fund, which will then control its economy further in accordance with US policy for dominating the market. Sometimes, the State is forced to offer its goods abroad cheaply, to raise cash for repayments, and thus losing economically.

However, if the loans are long-term, then the intention is to accumulate them to such a large size that will upset the balance of trade and disable the ability of the country to repay them in cash, gold, or in movable properties. In this case, the country will be forced to repay them as immovable property, such as real estates, lands and possibly factories.

Therefore, the risks resulting from the loans are certain; besides they are with interest. Thus, they are illegal in any event.

A question might arise here. If we assume that the debt was repaid, how then can we stimulate the economy again without having new money and without new loans?

Islam has solved this problem in two ways:

<u>First</u>: Planning sound economic policies in agriculture, trade, and industry.

<u>Second</u>: Islam obliges the State treasury (bait ul-mal) to establish the necessary projects.

As regarding the first matter we can summarize it as follows:

<u>A - Agriculture:</u>

1 - Increasing foodstuff production.
2 - Increasing production of clothing materials such as cotton, wool, hemp, and silk.
3 - Increasing production of materials demanded by foreign markets, whether of food like grains, or clothing materials like cotton, silk, or others such as citrus, fruits and dates.

<u>B - Trade:</u>

Customs tax is not taken from Muslims and Ahl-e-Dhimmah (non-Muslim citizens); they rather trade without the need of having a license for importing or exporting except in two situations: trading is prevented with the actual belligerent States, and importing or exporting any commodity that harms the nation is prevented. However, trading with covenanted States will be in accordance with the treaties terms concluded with them. As regards trading with the legally belligerent States, such as Sweden, their citizens need an import license for allowing their goods into our lands.

<u>C - Industry</u>:

1 - Hard work has to be undertaken for the exploitation of the natural resources in the country, manufacturing them, for use both domestically and for export abroad.

2 - Focus will be put on creating a heavy machinery industry so as to

use our manufactured machinery to build other various plants. This is because the failure of creating a machinery industry puts us at the mercy of the industrialised countries. So, if a machine was broken or a spare part was needed the plant comes to a standstill until that machine or part is imported. This would waste effort, time, and goods.

The second task is in creating the necessary plants, and Islam has laid down the solution as follows:

1 - Implementation of all the projects obliged on the treasury (bait ul-mal) such as looking after the affairs of the people that are of interest to them is subject to the existing funds in the treasury. If such funds exist they are spent, otherwise not. For example upgrading a road where we already have one, or building/upgrading a school or a hospital when there already exists one that meets the need.

2 - Projects that are obliged upon Muslims such as building a road which is required but does not currently exist, or building a required hospital, clinic, school and the like. All of these projects, whose absence harms the nation, are obliged upon the State treasury and Muslims. If funds exist in the treasury it will be spent upon them, otherwise taxes are imposed on the wealthy Muslims, and are taken from whatever exceeds their basic needs and luxuries, i.e. from that which exceeds their normal livelihood. Tax is taken from that, proportional to it, and equal to the funds necessary for the project. These funds are collected based on the texts of the Quran and the Sunnah. This is because Islam does not allow the State to levy taxes in any way she likes. For taking the properties of the people without evidence is prohibited and a great sin, an example of which is the imposing of customs taxes on Muslim and Ahl-e-Dhimmah traders. The Messenger of Allah (saw) said:

"لا يدخل الجنّة صاحب مكس".

“The collector of custom taxes would not enter Paradise”.

It means the one that levies custom taxes. The Messenger (saw) also said:

"لا يحل مال امرئ مسلم إلا بطيب نفسه".

"The Property of a Muslim is not allowed (to be taken) unless willingly."

However, regarding a project obliged upon the treasury and Muslims, as mentioned above, imposing a tax equal to it, if there are funds in the treasury is permissible and not prohibited. This is because the *Shar'a* approved it, so it is duty upon Muslims. Thus, raising funds from them for performing this duty on their behalf is obligatory, because **"that, which a duty cannot be performed without, is itself a duty".** This applies to all construction projects as we have stated previously, as well as similar production projects due upon the nation. These are like machinery factories, which are indispensable to the nation, and which would result in damage from their absence, for it would force Muslims to rely on the non Muslim States in industry and armament. This is considered harm, and "harm (is not allowed to bring upon oneself) and nor upon others". Damage must be removed, so creating a heavy machinery industry becomes obligatory on Muslims. Therefore, the State must establish such a machinery industry, whether there were funds in the treasury or not.

It is worth noting that the tax levied on the wealthy Muslims for establishing the projects due on the treasury and on Muslims must not be more than the actual cost of such projects; rather it must only be equal to the requirement. If the purchase price of the project was in cash, its full price is levied. If the purchase was however based on credit, the levied tax has to be equal to the instalments due at their stated payment dates. This is like credit facilities, where the import of machinery and tools necessary for projects is paid by a deferred price, where Islam allows having two prices for a commodity; one is in cash if paid immediately, and one is deferred if paid in the future, ie in credit for a certain time. This comes under the subject of bargaining, which allows negotiating over one of two prices of sale.

فإن الرسول ﷺ ساوم كما روى أنس (رضي الله عنه). وقد قال علي (رضي الله عنه): "من ساوم بثمنين أحدهما عاجل والآخر نَظِرَة فليسمِّ أحدهما قبل الصفقة".

The Prophet (saw) had bargained as Anas (ra) narrated. Ali (ra) said: **"Whoever bargained over two prices, one in cash and the other deferred, let him mention (his choice of them) before concluding the deal".** So, in order for such a deal to be valid, one of the two prices must be specified from the start, and a sale is concluded over one of them (with all payments fixed). However, it is invalid to buy machinery in cash, and then its price and interest are written as a debt on the purchaser as happens nowadays. For this is considered usury (riba) and is not a deferred sale in instalments.

Here we must pause to clarify the issue of taxation in some detail:

The people's properties are protected in Islam to the extent that the Messenger of Allah (saw) considered the one that is killed in defence of his property a martyr, to indicate the magnitude of his reward in defending his property. Besides, it is not allowed to forcefully take a property off a Muslim without his consent. Therefore, no one, whether he is a ruler or an ordinary citizen, is allowed to take the property of a person as long as he owned it legally.

Accordingly, it is not allowed for the State to impose taxes on the properties of the people in any way it wishes. Imposing income tax is haram (forbidden), and the imposition of customs tax on Muslim traders and Ahl-e-Dhimmah traders who live with Muslims, is also haram. Decreeing fees on the caretaking of people's affairs is haram, such as the imposition of security fees on shops, and the like. All of such taxes and fees are haram and not allowed by any means. This is because the legitimate means of possession give the owner the right of using his property, and the right of protecting it against manipulation and corrupt aggressors. No one other than the Lawgiver Himself has the right to withhold His permission of ownership. Therefore, properties are not taken from people (as a tax) except by a *Shar'i* text. This text is available in one case, which is included within the well known rule **"that which a duty cannot be**

performed without, is itself a duty". If a project proved to be obliged upon Muslims, and the funds available in the State treasury are insufficient to complete this project, in this case the State, and on behalf of the nation, undertakes the implementation of this duty from the people's properties. So, it imposes an estimated tax which is enough for that project only. Such tax is levied on the wealthy Muslims, because Islam has shown by the proper texts that the obligatory financial maintenance is taken out of wealth (i.e., from dispensable funds). Thus, taxes in Islam are also taken out of wealth, i.e. from dispensable funds, which are the surplus after the usual subsistence.

Therefore, imposing a tax in Islam needs to meet two conditions to allow its imposition for the implementation of projects, and only to the necessary extent:

1 - The project should be obliged on the treasury house, i.e. on the State and Muslims, and its obligation must be established by a *Shar'i* text. This is like a necessary road, where there is no alternative, or a hospital, when there is no alternative in an area, or heavy machinery plants or their likes whose absence causes harm to the nation, due to the hadith of the Messenger (saw):

"لا ضرر ولا ضرار".

"Harm (is not allowed to bring upon oneself) and nor upon others".

2 - There should be insufficient funds in the Treasury House (bait ul-mal). If both conditions are not met, it is not allowed to impose a tax. If the project was obliged upon the State only as a form of undertaking the normal affairs of the people, such as the establishment of a non critical road, or building a second hospital where one already exists; in this situation funds are spent on them from the bait ul-mal if found. Likewise, if the project was obliged upon Muslims, but there are sufficient funds in the bait ul-mal, then the project is undertaken from such funds without imposing a tax.

In such a manner, indebtedness would find an appropriate solution, as well as stimulation of the economy and implementation of the construction and production projects obliged upon the nation, without recourse to loans or involvement in debts.

Third: Economic problem resulting from wealth distribution.

As we have said above, tackling the financial economic crises and the balance of payments is not enough to solve the economic problem, because the solution is not one of an abstract mathematical balance. Revenues and payments might be equal, but wealth might be ill-distributed. In other words, production might be broad and prosperous, but most of the goods and services go to a capable segment of the nation, to the exclusion of others. Moreover, crises usually create unemployment and poverty, in addition to indebtedness. So, the solution of the problem of indebtedness does not necessarily resolve the problem of unemployment and poverty. However, Islam has created a satisfactory and adequate solution to this problem as follows:

1 - Creation of jobs as a result of the economic policy that we have mentioned, in the fields of agriculture, trade and industry, as well as the establishment of the projects due upon the nation, by spending upon them from the bait ul-mal (Treasury), or from levying taxes on wealthy Muslims if funds were insufficient. This obliges the presence of projects in all cases.

2 - Islam secured the satisfaction of the basic needs of each individual in the State; and these needs are food, clothing and housing adequate for the like of such individual in the like of his country, in accordance with the reported *Shar'i* texts. Islam has secured these needs in the following manner:

A - It made work obligatory upon the capable male person if he lacks any of the basic needs.

B - It obliged financial maintenance for the female unrestrictedly, whether she was able or unable to earn her maintenance. It also obliged it for the incapable male person if he was poor, whether he was really incapable to earn livelihood, by being unable to work, or he was legally incapable to earn livelihood, by being able to work but he does not find a job. Here is the detail of that:

Financial maintenance is imposed on the husband to his wife, to the children on their father, to the two parents on their sons, and on the heir to his relative. All of this is established through explicit *Shar'i* texts.

The State collects such mentioned maintenance compulsorily from those it is obliged upon, and it takes priority over all types of debts. The Court verdict of maintenance is collected first, without accepting an insolvency proceeding, while in case of the verdict of debt, an insolvency proceeding is accepted. Thus, Islam secured the mentioned basic needs to all of the State's citizens through financial maintenance, except in two cases:

1 - If a person has no heir.
2 - If the person obliged of maintenance was unable to give it.

In this case the maintenance is obliged upon the bait ul-mal of the State, as the Prophet (saw) said:

"من ترك كلاً فإلينا ومن ترك مالاً فلورثته".

"Whoever left behind kallan he will be in our responsibility, and whoever left wealth it will be for his heirs" (The kall is the weak person that has neither a son and nor a father).

This financial maintenance is due upon the bait ul-mal whether there were funds in it or not. This is because it is obliged upon the bait ul-mal and Muslims. Its obligation upon the bait ul-mal is evident. As regarding its obligation upon Muslims, this is due to the saying of the Messenger (saw):

"أيما أهل عرصة أصبح فيهم امرؤ جائع فقد برئت منهم ذمة الله تبارك وتعالى".

“Any community of people among whom a person became hungry, the custody of Allah-tabaraka wa taala- will be removed from them”.

So, taxes are imposed if there are insufficient funds in the bait ul-mal. In case hardship is expected, funds are borrowed immediately, and then repaid from the levied taxes. Therefore, needs of the poor are paid in all cases, from the financial maintenance, from the *Zakat*, and then from the bait ul-mal, where it is taken from its other revenues, and then from the taxes levied from wealthy Muslims.

Financial maintenance and taxes are taken out of richness (wealth), i.e. from dispensable funds exceeding the basic needs and luxuries of the legally capable person, i.e. it is taken from that which exceeds his normal livelihood. In this way, the basic needs of citizens are secured, and thus the problem of unemployment and poverty is addressed.

The State in Islam also secures the basic needs of all its citizens, which are: security, health care and education, in accordance with the relevant *Shar'i* texts, and according to the former manner.

It should be noted that the revenues of the bait ul-mal are mostly sufficient to meet these needs without imposing taxes on the wealthy Muslims for their sake. The *Shar'a* has laid down these rules to address each problem that occurs at any time and any place. If however the constant revenues of the bait ul-mal were insufficient for such needs, taxes are levied from the wealthy Muslims to meet that required.

To clarify the picture, I outline below the constant revenues of the bait ul-mal in the Khilafah State in Islam:

<u>The constant revenues of the bait ul-mal</u>

All of war booties, head tax (*jizya*), land tax (*ushr*, *kharaj*), a fifth of the buried treasure (*rikaz*), State properties, as well as customs tax taken from the covenanters and belligerents, funds resulting from the public property, inheritance funds of those that have no heir, illicit funds taken from governors and State officials, illegally earned funds, funds of fines, funds of apostates, and taxes.

It thus is apparent how Islam addresses the economic crises properly, such that it secures for the people their happiness and a decent life in their worldly life, as well as in their hereafter life.

Conclusion

Economic crisis means severe turmoil in the management of the financial matters of State, which requires effort to remove it.

The crisis resulting from currency occurs in the gold-exchange system due to the political and economic domination of the State that owns the reserve currency over other States. It also occurs in the mandatory paper (fiat) moneys because they are subject to price fluctuations and speculation among nations, and to financial conspiracies that lead to political and economic unrest and economic collapse in financial markets. The treatment is to revert to the system of the gold standard, which preserves exchange rate stability, and economic prosperity.

The crisis resulting from the balance of payments due to deficits leads to indebtedness if the economy was not self stimulated and the loans are misused, particularly as the loans are fraught with the danger of extending influence, and also dangerous because of usury which is prohibited in Islam.

Recourse to the IMF complicates the problem because it treats it as an abstract mathematical equation, and demands increases to taxes, devaluation of currency, freezing or reducing wages and salaries, and removal of subsidies, besides increasing prices. It also designs its aid to develop projects, which instead of developing the wealth of the State makes it unable to dissociate itself from aid and loans. Thus, the country would enter into the indebtedness trap, from which it cannot escape. The maximum that the country which follows the IMF program can achieve then is the rescheduling of its debts rather than abolishing them. Besides, it facilitates the taking up of new loans, thus accumulating debts, such that it can not find a way out of them as is happening with all countries currently dealing with these programs.

Regarding the resolution of the crisis of unemployment and poverty resulting from the ill-distribution of wealth or from its insufficiency, this is achieved by job creation to the capable through projects established by the State, as well as the imposition of financial maintenance for the incapacitated males and to the females due upon their *mahram*. If such maintenance is not available, the State is responsible for such people by giving them what is adequate to meet their basic needs, from the bait ul-mal. Otherwise, it is given from the taxes levied upon wealthy Muslims, and taken from the surplus of their funds.

The State secures the basic needs of the whole nation as it secures this for each and every individual. The basic needs of the individual are defined as: food, clothing, and accommodation, all according to prevailing standards. The basic needs of the whole nation are: education, health care and security. These needs, in both cases, are fulfilled from the funds of the Bait ul-mal if available, otherwise from additional taxes.

The constant revenues of the Bait ul-mal, besides their supplements are: war booties, spoils, land *zakat*, head tax, all of the Public properties and State properties of lands, buildings, utilities, customs taxes, illicit funds of rulers and State officials, illegally earned funds, fines, a fifth of the buried treasure (rikaz), minerals, property of those who have no heir, funds of apostates, charity funds-*zakat*, and then the taxes (where essential). These revenues are usually sufficient for the State's needs, particularly through running the economic activities properly.

The Khilafah State, that will be soon be established, by the Will of Allah, owns the proper solution to all the problems, whether economic or otherwise, because it is a State in which sovereignty (*siyadah*) belongs to the *Shar'a*, and authority (*sultan*) belongs to the

Ummah. It has one Khaleefah who adopts the *Shar'i* rules and is given *Bai'ah* (pledge of allegiance) on the Book of Allah and the Sunnah of His Messenger. Thus, he and the Ummah are fearful of Allah (swt) in all of their actions. So, life would be organized according to the orders of Allah, and will prosper in all of its affairs.

[ولينصرنّ الله من ينصره إنّ الله لقويّ عزيز] (الحج:40)

"Indeed Allah will help whoever helps him, and indeed Allah is Powerful and Almighty" *[Translated meaning of the Quran 22:40]*