Money in Islamic Economics (1989)

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Based on the belief that banks perform functions of money, it is the purpose of this paper to claim that there exists a correlation between the quality of our understanding of money and that of banking system. This constitutes a fact long neglected in Muslim economists' writings.

One of the most, if not the most, important contributions of Keynes' seminal book was his speculative demand for money. This truly was the basis of his successful attack on classical economics. Since he correctly believed that speculation was the effect and interest the cause of money market. Some economists later rationalized the revival of the third function of money based (partly) on the above clear statement of cause-effect relation. The author believes that this was not a mere coincidence but rather, he argues, there is a one-to-one correspondence between functions of money, from one hand, and the different demands for money, on the other.

Given the causality between interest and speculation, the paper logically comes to the conclusion that with the abolishment of interest (in a purely economic state) and hence, disappearance of money speculation, money can no longer play the function of store of value. Several evidences from reference books support this conclusion; not surprisingly, they go even further and use store of value synonymous with hoarding, holding idle-cash balances, and speculations. Furthermore, in the light of above argument and with its immense externality (the most important of which being potential capital), the paper finds that money proves to possess almost all properties of a public good(impure, of course), but very few properties of a private good; a novel idea with its own implications as to the Islamic state's management of money responsibility.

A legal consideration is hereby proposed to relate actual to potential capital (money); that is, as soon as potential capital is legally combined with a factor of production its legal character changes to actual capital whose return is profit. There is no return, however, to potential capital. This idea gives legal dimension to both money and capital in addition to their physical appearances.