

Iktināz and Islamic Monetary Policy

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Abstract: This paper draws attention to the important but neglected monetary role of the prohibition of *iktināz* (hoarding). It defines *iktināz* in economic terms and explains that the prohibition of *ribā*, though necessary, is not by itself a sufficient condition for conducting a proper Islamic monetary policy. If the prohibition of *iktināz* is not fully integrated in the system, it will continue to disturb the demand for money, monetary policy, and overall economic performance, regardless of the prohibition of *ribā* and the imposition of *zakāt*. The paper argues that the prohibition of *iktināz* is not intended to be merely acknowledged, rather it is intended that Muslims sincerely adhere to it. Increasing public awareness about the meaning of the strict prohibition of *iktināz* and the existence of appropriate financial tools to absorb savings efficiently are among the necessary conditions for a successful Islamic monetary policy.

I. Introduction

Whenever regulation and supervision of the money market, *i.e.* monetary policy, is under consideration, two components are of equal importance: supply of money as well as the demand for it. Yet it appears that most, if not all, Muslim economists have focused on only the supply side of the money market. The main focus seems to have been on developing measures and workable tools that comply with the overall Islamic teachings. That focus is justified by the emergence of Islamic banking and the urgency of the need for such measures and tools. Nevertheless, the demand for money should have been given the attention it merits as it is not only a critical component to the formulation of any monetary policy, it is also an essential ingredient

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of economic policies generally. Indeed, in interest-based economies, the demand for money is a major concern for its sensitivity to interest is known to be important in determining the effectiveness of alternative economic policies. Indeed, the problematic of the demand for money balances *vis-à-vis* money market equilibrium, hence monetary policy, was foreseen in Islamic teachings, long before the economic theory did.

In Islamic and non-Islamic economies, the players in the money market (the monetary authority, commercial banks, and consumers) are all responsible for the supply of money; however, only consumers are responsible for the demand for money. Since the role of the monetary authority and commercial banks is more influential and their measures can be controlled, the supply of money can in practice be controlled. Yet, historically there has not been any workable way of effectively controlling individuals' behaviour in respect of the demand for money balances.

It is well known that Islamic teachings draw considerable attention equally to the supply of money and the demand for it. Moreover, while conventional economic theory provides no successful mechanism for running a sound and proper monetary policy, Islam prescribes its own via the prohibition of both *ribā* (interest) and *ikhtināz* (hoarding).

Although the Qur'ān and Sunnah strongly and unequivocally prohibit *ikhtināz*, this has been largely neglected, in the discussion of monetary issues. While the prohibition of *ribā* has been extensively discussed and analyzed, the prohibition of *ikhtināz*, apart from acknowledgment, has so far, to my knowledge, not been given the attention it deserves.

This paper will argue that while the prohibition of *ribā* is a necessary condition for an Islamic monetary policy, it is not itself an effective and sufficient condition for that. Further, the paper offers an economic meaning of *ikhtināz*, and draws attention to the important role that the prohibition of *ikhtināz* has in an Islamic monetary system as an integral part of it. If this prohibition is not taken into consideration, all efforts to realize Islamic socio-economic goals will be hindered.

II. The Prohibition of *Ribā*, *Ikhtināz*, and their Relationship

2.1. The prohibition of *ribā*

Although this subject has been extensively discussed in the past and recently, a brief reminder will be useful.

There is no doubt whatever that Islam prohibits the giving as well as the taking of *ribā*. This is clearly seen from the relevant Qur'ānic verses and

Prophet Traditions.¹ It should be noted that *ribā* refers, technically, to any amount, pecuniary or not, that is to be paid to the lender above the principal as a condition for the loan, or as a condition for extending the loan period. Therefore, *ribā* is no different, in any practical sense, from interest. That is why the general stand taken by all Muslim jurists (*fuqahā'*) affirms without doubt that *ribā* is a term equivalent to interest (Chapra 1995). Consequently, *ribā* or interest has no role whatever to play in Islamic economics.

2.2. The prohibition of *iktināz*

The holy Qur'ān unambiguously condemns *iktināz* and declares its prohibition as seen in the following verses (9: 34-35)

“... and (as for) those who hoard up gold and silver and do not spend it in Allah's way, announce to them a painful chastisement. On the day when it shall be heated in the fire of hell, then their foreheads and their sides and their backs shall be branded with it: This is what you hoarded up for yourselves, therefore taste what you hoarded.”

The question that arises here is what *iktināz* means. Literally, *iktināz* derives from the root *k-n-z* which has several meanings, the relevant one here is the one that refers to collecting and saving *amwāl* (wealth). It is worth saying that gold and silver, whether taken to mean wealth in the broad sense or in the narrow monetary sense, do not constrain the current discussion as the monetary sense is part of both. Gold and silver can be used as money—historically speaking that was the form of money at the time of revelation (Sabhani, 1998). Traditionally, the general discussions on the subject refer to *iktināz* by using different terms of equivalent meaning such as holding or hoarding money, keeping money idle, or keeping money out of circulation and production.

The most clear understanding of *iktināz* in economic terms is the one offered by Imam al-Ghazālī (d. 1111). He cites three cases of unjust use of money: *iktināz*, *ribā*, and counterfeiting. As far as *iktināz* is concerned, al-Ghazālī, stressing the economic importance of the role of money as a medium of exchange, strongly condemns hoarding as nullifying the very purpose of the creation of money and the wisdom behind it. In other words, he sees hoarding as a grave misdeed equivalent to a sort of *kufṛ* (ingratitude or unbelief) since it denies Allah's bounties by short-circuiting the role of money as a medium of exchange that is very important to economic activity (Qaradawi, 1980; Horani, 2003).

Beyond that, it was not possible to find a more precise definition that includes for instance, the minimum amount of money that it is unacceptable to hold, or the time period after which the holding of money is proscribed. This concept will be discussed in more detail below.

The prohibition of *iktināz* should not be understood to imply a prohibition of ownership as such – private property is deeply respected and protected in Islam. The reason for the prohibition of *iktināz* is the socio-economic ills that result from it (Khalil, n.d.). Indeed, the very fact that *ribā* and *iktināz* are prohibited carries the implication that, unless prohibited, these practices will lead to socio-economic ills. That in turn implies that Muslim societies, indeed all human societies, will always face such ills unless they adhere to the proscription of *ribā* and *iktināz*. The prohibition of *iktināz* is not intended merely to call Muslims' attention to undesirable socio-economic human behaviour; rather, it is a command that Muslims must obey and put into practice.

2.3. The complementary relationship between *ribā* and *iktināz*

The prohibition of *iktināz* in the Qur'ān and the Sunnah is as important for monetary policy as the prohibition of *ribā*. However, one gets the impression that Muslim economists regard the latter as the only determinant factor for an Islamic monetary policy, with the prohibition of *iktināz* has left vaguely aside. Without doubt, the prohibition of *ribā* is pivotal to Islamic monetary policy, but the prohibition of *iktināz* is also of decisive importance. Muslim economists have been successful on designing an alternative to *ribā* in the form of the profit-loss-sharing (PLS) principle, yet this, however important, is not sufficient by itself to eliminate *iktināz*.

It is quite important to note that the relevant Qur'ānic verses on the prohibition of both *ribā* and *iktināz* set out the Islamic way of dealing with monetary issues, and unequivocally set out the punishments that 'fit the crime' as well. Together they contribute the main directive and guidance for conducting an Islamic monetary policy, with the prohibition of *ribā* working on the supply side and the prohibition of *iktināz* working on the demand side. The latter should be seen as one of the *Shari'ah*'s controls complementary to the prohibition of *ribā* (Khalil, n.d.). An appropriate monetary policy for an Islamic economy cannot be achieved if that complementary relationship is not acknowledged and then sincerely implemented.

III. *Iktināz* and *Zakāt*

A key first question is when, in the perspective of Islamic jurisprudence, is money considered as *iktināz*?

There seem to be two main positions in this regard: one party asserts that hoarded wealth, regardless of the amount, becomes not-hoarded if the *zakāt* due on it is paid, while the other party rejects this assertion and affirms that hoarded wealth remains in *iktināz* status even if the *zakāt* due on it is paid.

It should be generally noted that determining whether wealth is hoarded or not is an issue subject to reasoning (*ijtihād*). For, first, the prohibition of *iktināz* in the Qur'ān comes in general terms, and second, it is not explicitly related to *zakāt* in either the Qur'ān or the Sunnah. Both of the opinions are held on the basis of their understanding and interpretation of certain ḥadīths, and their relationship with and bearing on the Qur'ānic verses. We must state emphatically that none of the ḥadīths known to us explicitly links – in the sense mentioned – between *iktināz* and *zakāt*. In other words, those who hold that *iktināz* occurs if the *zakāt* due is not paid do not have clear supporting evidence. Some further observations can be made:

First, if the asserted relationship holds, then the intended goal of the Qur'ānic verses (9: 34–35) becomes the payment of *zakāt* rather than the avoidance of *iktināz*. Given that *zakāt* must be paid whether money is hoarded or not, and given numerous Qur'ānic verses that deal specifically and directly with payment of *zakāt*, it is safe to say that the Qur'ān does not need to imply the obligation of *zakāt* through these verses.

Second, if it is accepted that hoarding means keeping money out of circulation, would paying the *zakāt* due on it put it back into circulation? Plainly not: paying 2.5% on the hoard means that 97.5% of it remains away from production, *i.e. de facto* hoarded for one more year at least, and under God's condemnation. Thus, it seems safe to say that the suggested relationship with *zakāt*, in the sense mentioned, does not hold.

It is of relevance here to comment on the alleged role of *zakāt* as a deterrent to *iktināz*. Qaradawi, for example, states that Islam does not confine itself to the mere prohibition of *iktināz* and the threat of severe punishment for it – it takes a practical measure against it via the imposition of *zakāt* (Qaradawi, 1980). A similar position is also taken by Siddiqi (2002). It is undeniable that *zakāt* does have some discouraging secondary effect on hoarding, yet that is not the purpose for which *zakāt* is commanded and prescribed. Rather, what must deter from *iktināz* is that God has prohibited

it.² It might be argued that *zakāt* is more effective as a deterrent than the prohibition alone of *iktināz* since the tax makes unproductive hoarding of wealth costly. Though partially valid, this argument misses the basic point: Islam as a message for humanity is essentially built on educating the human soul to do what is good and forbid what is evil. Besides, what makes some people abstain from practicing *ribā* other than faith and its educative role in building character?

IV. Money Market and *Iktināz*

4.1. Supply of money

The quantity of money available or in circulation in any economy is affected by the public, the banking system, and, particularly, by central banks. From the money market equilibrium point of view, this quantity is taken to be constant in the short term.

Central banks in interest-based economies can either control the rate of interest or the stock of money, where controlling either variable means losing control over the other. Given the prohibition of interest in an Islamic economy, the stock of money becomes the only variable of concern when formulating monetary policy. Chapra (1995) points out that it is the responsibility of the Islamic central bank to ensure a sufficient monetary expansion according to the needs of the economy in order to meet socio-economic goals. As the monetary tools that may be used have been widely discussed in the literature there is no need to go over them here.

Another important issue is money (credit) 'creation' which is a key factor in the money supply. This phenomenon occurs in an interest-based economy through the banking system's required or fractional reserve principle. While maintaining a small fraction of their total reserves (total demand deposits), as stipulated by central banks, commercial banks are able to use the remaining part of their reserves (excess reserves) for lending. The process of lending leads to multiplication of the total amount of money in circulation, where the 'created' or derived money is nothing but accounting or credit money.

The amount of money created depends on several factors – the percentage of the required reserve stipulated by central banks, the lending policies adopted by commercial banks, and the borrowers' attitude towards depositing part or all of the borrowed money back into the banking system from which it was borrowed. While credit 'creation' is a fact of life in

interest-based economies, it is, to say the least, highly questionable in an Islamic economy.

As stated by Sabhani (1998), this is a controversial issue. There are those who hold that (regardless of the reasons) there will always be a need for funds, money 'creation' is a practical way of meeting that need, and so credit 'creation' can be relied upon in an Islamic economy. However, holders of this view differ among themselves on the eligibility of Islamic commercial banks to 'create' credit, and on the way to do it via public banks or central banks.

We would say that credit 'creation' is not a simple matter, nor yet a mere technical issue. Rather, it is a matter of grave concern, from the Islamic viewpoint, in respect of both legitimacy and socio-economic justice. It has, at least, three clear and adverse effects – on the ownership or distribution of gross domestic product, on the purchasing power of money and resulting impact of that on distribution, and on the distribution of returns resulting from the use of the 'created' credit.³ Considering these effects, it is our belief that credit creation may be resorted to only when the need for it is proven and provided it is handled by central banks and the socio-economic effects just mentioned are properly considered. The possibility of satisfying all these conditions together is something that remains to be seen.

4.2. Demand for money and *iktināz*

Muslim economists generally seem to accept two of Keynes' three motives for holding money, namely transaction and precaution, which are related to income, and reject the third motive, speculation, insofar as it is related to the rate of interest. In this regard, Chapra (1995) states that the demand for money balances in an Islamic economy would arise basically from the two mentioned motives (Chapra, 1995). It does seem plausible, in principle, to hold that in an Islamic economy people would hold money in order to meet regular payments and unforeseen contingencies. However, since speculation is not an interest-derived phenomenon, there is no reason whatever to presume the exclusion of the speculative motive from the demand for money in an Islamic economy.

Since both transaction and speculative motives depend on income, the money demand function will be equal to a constant that represents a fraction of total income. The question that necessarily arises here is: where does *iktināz* fit into this? Although *iktināz* is mentioned by Muslim economists here and there, it has not been, to my knowledge, related to the demand for money, *i.e.* it has not been taken to be a determinant factor in

the money demand function. Given that it is prohibited, we can expect that *iktināz* exists. So, it must be part of something. From a policy perspective, it is imperative that we know how the demand for money behaves.⁴ If it is not understood and defined, how can a monetary authority set a policy to ensure that the stock of money is neither 'inadequate' nor 'excessive' as stated by Chapra (1995)? Thus, defining the demand for money in an Islamic system as well as fighting *iktināz* requires an economic definition of *iktināz*.

4.3. The economic meaning of *iktināz*

Since *iktināz* means holding monetary wealth and the demand for money is said, in principle, to arise from transaction and precautionary needs, is *iktināz* expressive of the first motive or the second or neither? In other words, given the condemnation of *iktināz*, does holding money for transaction and/or precautionary needs constitute a wrongdoing?

According to Dornbusch *et al.* (2004), if we are concerned with transaction motives, then we ought to be considering M_1 (currency and demand deposits). But, if we are concerned with precautionary motive, then we ought to be considering M_1 and M_2 (M_1 plus saving and time deposits). Since the definition of the money supply that corresponds closely to the role of money as a medium of exchange is M_1 , which historically corresponds to gold and silver, the demand for money as relevant here seems to be the demand for currency and demand deposits. If this is so, it means that the focus should only be on transaction motives. In other words, the precautionary motives represented by M_2 may not be included in the demand for money in an Islamic economy. Is this the case?

As already noted, M_2 is usually composed of currency, demand deposits, saving, and time deposits. In interest-based economies, M_2 may partially, if not totally, constitute *iktināz* in respect of money held in the banking system as, in these forms, such money is not necessarily destined for investment or employment in productive economic activity.⁵ What happens to the money so held depends on the preferences of financiers, who might use them in non-productive activities. Keynes holds that the key to the transition from a lower to a higher scale of economic activity is held by the banks via their policies of providing or not providing additional finance (Oran, 1998).

However, in principle, this should not be the case in an Islamic economy, since saving and time deposits are supposed to be made on the basis of the profit-loss-sharing principle, via the Islamic tools specially developed for this purpose. This should mean that money held in this form

is intended to be, or is already being, used in productive activities, *i.e.* such holding of money would not be *ikhtināz*. If this is the case, the precautionary motive can be excluded from the demand for money.

If the above argument is sound, it means that the concern about *ikhtināz* relates to M_1 only. This conclusion should not be surprising as M_1 , as earlier noted, is the money supply that corresponds closely to the role of money as a medium of exchange, and indeed is the one mostly considered for policy purposes. Therefore, holding money in the form of currency is undoubtedly *ikhtināz* which has historically been the case, while holding money in the form of demand deposits would be the modern way, so to speak, of *ikhtināz*.⁶

That said, switching from the rate of interest to the rate of profit should not lead to underestimation of the speculative motive, or to its unjustified, automatic exclusion from the demand for money. All that such switching technically does is changing the subject of speculation from *ribā* to profit. Muslim economists have indeed acknowledged this, though with some disagreement on the magnitude of this motive.⁷ However, as far as *ikhtināz* is concerned, the same analysis applied to precautionary motives applies here. That is to say, money held for speculative motives on *PLS*-basis is not *ikhtināz*, otherwise it is.

Bearing that in mind, one can say that money held for precautionary and speculative motives when deposited in *PLS* accounts and/or used to purchase acceptable ordinary stocks is not in *ikhtināz* status. Therefore, these motives need not, in principle, be part of the demand function. This leads us conditionally to say that the demand function in an Islamic economy should only be composed of transaction motives. If this is so, it may be said, so far, that *ikhtināz* technically, means that part of the money held in the form of currency and demand deposits in excess of needs.

Unfortunately, the *status quo* of Muslim societies tells a different story. Saving is not entirely deposited or used as noted above; hence, a significant part of the money held for precautionary and speculative motives is in *ikhtināz* status. Darrat states: "The existence of significant saving accounts comprising, on average, about one third of the total broad stock in most Muslim countries is itself an evidence of rampant interest-based financial dealings in those countries" (Darrat, 1993: 48). Furthermore, the size of *ikhtināz*, in the early 1980s, in Muslim countries was estimated to be about US \$ 80 billion (Mills and Presley, 1999). This is a serious problem indeed, and one that needs urgently to be addressed.

It was stated above that not all the money held for transaction motives is *iktināz*, but only that part 'in excess of needs'. But how do we know whether or when the amount of money held in the form of currency and demand deposits is, or is not, 'in excess of needs'? This brings us back to the earlier mentioned shortcomings in the traditional concept of *iktināz*, namely: what is the minimum unacceptable amount of money to be held, if any? And, what is the unacceptable time period for holding money, if any? These are very important questions that need to be addressed by fiqh scholars. Without a clear stand on them, the endeavours towards building an Islamic monetary theory will be severely constrained.

We will try here to provide answers to these questions, but strongly emphasize that the answers offered are not, in any sense, a *fatwa* (legal opinion). Rather, our intention to deal with the issue at hand in economic terms, in the hope that the answers suggested may inform the deliberation of fiqh scholars.

It is self-evident that saving is done by the rich not the poor, and that the legal borderline between 'poor' and 'rich' is the *niṣāb* of *zakāt*. Therefore, it seems safe to infer from this that whoever is holding an amount of money, regardless of the form of holding it, that falls short of the *niṣāb* is not practicing hoarding, since they are defined as 'poor' and for being poor and entitled to receive *zakāt*. Now, the incidence of *zakāt* is once a year. Thus, holding any amount of money below the *niṣāb* for a year is not hoarding. Conversely, holding an amount of money, in the form of currency and/or demand deposits, above the *niṣāb* of *zakāt* for a whole year is hoarding, at least in that year. If this reasoning is acceptable, *iktināz* may be economically defined as follows: 'any amount of money privately held by individuals and/or businesses in the form of currency and/or demand deposits for a year, at least, regardless of the reasons for that.' This definition can further be extended to include money held for precautionary and speculative motives if this money is not deposited in *PLS* accounts and/or used to purchase acceptable ordinary stocks. Consequently, it may be safe to say that holding money, as defined, above the *niṣāb* for a year should necessarily imply that needs are fully satisfied during that year.

V. The Prohibition of *Iktināz* and the Economy

Based on the overall discussion, it is expected that the elimination, or at least the minimization, of *iktināz* would positively affect the overall performance of the economy. While the full effect of that may not be known beforehand, some effects can be highlighted:

First: although the size of the hoarded money may not be easily known, though predictable, the size of the demand for money with *iktināz* is expected to be larger than that without *iktināz*. Hence, the more successful the system is in fighting *iktināz*, the less need for monetary expansion, and the fewer the negative side-effects of such expansion like price instability and consequent decrease in the purchasing power of money.

Second: saving, hence capital formation is expected to be adversely affected by *iktināz*. It would not be enough to rely on the existence of a natural tendency to save for 'a rainy day' nor, in addition, on the Islamic stand as regards moderating consumption, so as to ensure generation of the needed level of saving (Chapra, 1995). Despite the importance of these elements, they would not lead to the desired results if individuals as well as businesses are not strongly adhering to the prohibition of *iktināz*. Definitely, prohibiting *ribā* would not cause savings to dry up in an Islamic economy, yet saving and capital formation would not occur in the way asserted by Muslim economists unless *iktināz* is minimized.

Third: if saving is at a satisfactory level due to the minimization of *iktināz*, the monetary authority may not be forced to rely heavily on issuing money nor on unwarrantable credit creation. Consequently, moderate monetary expansion as needed for future growth in output, in the mid and long terms, can be easily handled.

Fourth: the argument concerning the neoclassical assumption of positive time preference and its consequent negative effect on the level of saving in an Islamic economy is further weakened by merely invoking the prohibition of *iktināz*. For prohibition of itself implies the existence of hoarding – why else would it be prohibited?

Fifth: the stability of the total demand for money would be questionable in the presence of *iktināz*. It suffices to remember the earlier discussion above on the relationship between *zakāt* and *iktināz*. This debate shows that the concern of some people, at least, is the status of hoarded money from the viewpoint of Islamic jurisprudence after paying the *zakāt* dues on it. Irrational behaviour or not, the debate may lead to say that the eroding effect of *zakāt* and inflation does not seem to be a major concern to those people but rather the legitimacy of the after-*zakāt* hoarded money.

Sixth: the more emphasis is put on the prohibition of *iktināz* and its relation to *ribā*, the more consumers would 'invest' in *PLS* accounts, purchasing acceptable ordinary stocks, or holding their monetary wealth in the form of real assets. All these are, economically speaking, 'healthy options'.

Seventh: The proper working of money as a medium of exchange cannot be attained by the prohibition of *ribā* and the imposition of *zakāt*. Rather, it is attainable through the prohibition of *ribā* and *ikhtināz* along with the imposition of *zakāt*, the three tools used together.

VI. Conclusions

It hardly needs saying that no system can properly attain all its goals unless its components, regardless of the role expected of each, are working systematically under one framework. No component, however necessary, should be taken to be the system-driving factor that can, by working alone or in isolation from the others, achieve all the desired goals.

Although the supply of money in an Islamic economy has been given considerable attention, the same cannot be said about the demand for money. The possible effects of the prohibition of *ribā* and the imposition of *zakāt* on the money market, hence, monetary policy, have been widely discussed, in contrast to the effects of the prohibition of *ikhtināz*, which have been neglected to some extent.

This paper has argued that elimination of *ribā*, though highly important and necessary, is not by itself a sufficient condition either for designing or implementing an Islamic monetary policy. Hence, the prohibition of *ikhtināz*, as a complement to the prohibition of *ribā*, must be put into effect as an integral part of the system. Moreover, the study clarifies that Islam foresaw, long before economic theory did, that the hoarding of money is a continual disturbance in the demand for money that has no appropriate human solution to it. Foreseeing that, Islam prohibits *ikhtināz*.

Muslims should rise to the challenge by working diligently to minimize *ikhtināz*, if not able to eradicate it. The paper concludes that fighting *ikhtināz* effectively requires essentially two things. First and foremost, increasing public awareness about the meaning of *ikhtināz* and its strict prohibition. This may sound a rather strange demand, yet we are strongly inclined to say that most of the Muslim public, educated or otherwise, do not seem to know what *ikhtināz* is, nor do they know about its strict prohibition. Can this be effective? Well, if we are able to rely on people to adhere to the prohibition of *ribā*, why can we not rely on them to do the same in the case of *ikhtināz*? Second, the fight against *ikhtināz* needs the existence of trustworthy and appropriate Islamic financial tools able to absorb as much as possible of savings.

Finally, we would say that if the prohibition of *iktināz* is not taken to the fullest possible extent, the prohibition of *ribā* and the imposition of *zakāt* will not suffice to deliver the Islamic system that Muslims hope for. If we fail to combat it, *iktināz* will continue to constitute a major source of disturbance in overall economic performance and an obstacle to the attainment of the socio-economic goals that Islam urges Muslims to strive for.

NOTES

1. For a comprehensive listing of Qur'ānic verses and Prophet Traditions, see Chapra (1995: 235-240).
2. In a review of a considerable literature concerning money, banking, and monetary policy by Siddiqi (2002), surprisingly enough, *iktināz* is not mentioned at all neither by the author and the sources of his paper nor by any of the commentators of his paper.
3. For a detailed discussion of this subject, see Sabhani (1998).
4. In this regard, it suffices to refer to the provocative work by Goldfeld (1976) concerning the instability of the money demand function in the US economy. For the last thirty years or so there have been numerous works that have intensively investigated the stability of the demand function (Gordon, 1984; Hetzel and Mehra, 1989; Hafer and Jansen, 1991; Mehra, 1992; Breuer and Lippert, 1996; Choi and Seonghwan, 2003; to name but few). Money demand function based on data from the 1950s and 1960s did not well explain later money demand. Since the mid-1970s the money-demand (M_1) function appeared to have been shifting. As mentioned, the instability in the money-demand function in the US economy has triggered several empirical works. However, as Choi and Seonghwan state: "previous studies have been at most only partially successful in explaining such large aberration" (Choi and Seonghwan, 2003: 685). They also conclude that such instability is largely due to misspecification of the money demand function not to actual economic behaviour, and that this function is affected by output uncertainty, monetary uncertainty, output, the rate of interest, and financial innovation. All-in-all, it seems that no decisive answer has been given, for some studies verified stability of M_1 but not M_2 while other studies showed the opposite. Moreover, in a study of some Muslim countries, Darrat verified the stability of M_1 but not M_2 (Darrat, 1993).
5. If this so, Muslims who are saving on interest bases seem to be committing two misdeeds at the same time: dealing with *ribā* and practicing *iktināz*.
6. It is claimed that in the US economy consumers own one third of the demand deposits while the remaining part is held by businesses. However, there is no good information on the distribution of the ownership of currency (Dornbusch, 2004). This could be used as an indicator in order to deal with the demand deposits held by both parties via developing *PLS* tools for very short terms to be used by the public, for the held money not to be considered in *iktināz* status.

7. Given abolition of *ribā* and imposition of *zakāt*, Siddiqi (2002) seems to believe that speculative motive will not be strong enough to generate wide fluctuation in the economy. Mohammed Mohsin, in his comment on Siddiqi's paper disagrees with that. One gets the impression that this debate can only be empirically settled, hopefully in the near future.

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