

AN OVERVIEW OF PUBLIC BORROWING IN EARLY ISLAMIC HISTORY

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1. INTRODUCTION

Public borrowing has assumed great importance in recent years as indicated by the phenomenal rise in the volume of domestic as well as external debt. This is especially true of Muslim countries most of which belong to the group of poor developing countries of the world. There is a growing literature on the "solution" to the crisis supposedly faced by the world financial system because of these debts; some of which are now considered to be unrepayable. There have been attempts to look at the causes of this phenomenon of permanent indebtedness of nations. Islamic economists have also discussed the implications of abolition of interest for public borrowing. They have tried to find alternative ways of financing public needs hitherto financed by borrowing.

It is in this context that scholars have felt the need to look back and see what lessons can be learnt from the Islamic heritage. Did the Islamic state in the past borrow? If so, why and on what terms? Were there any alternatives to borrowing? With these and related questions one can explore the historical records of the many governments, spanning vast regions of the globe over the long period of fourteen hundred years. This is however, a very ambitious project requiring extended teamwork. Yet another problem with such a study is the Islamic authenticity of what the Muslim rulers have been doing all these centuries in all these regions. Authenticity naturally belongs to the decisions and actions of the Prophet (pbuh). The consensus of the community has extended this authenticity to the period of the four pious Caliphs also, i.e. to the policies of the Islamic state till the year 40 after *hijrah*.

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In other words, in the context of public finance (including public borrowing) the policies of the Islamic state till the year 40 after *hijrah* can serve as examples of Islamic policy making and, taking into consideration other relevant factors such as need, scope and perceived functions of borrowing etc., guide to Islamic statecraft in the modern period. As regards other Muslims rulers, their decisions and policies have to be judged on the criteria of the Qur'an and the *sunnah*. In the context of public borrowing, the most important criterion on which the legitimacy of public borrowing by Muslim rulers has to be judged is the prohibition of interest. This means that if an incidence of borrowing on the basis of interest by a Muslim ruler is reported it has to be regarded as an aberration rather than a precedent, generally speaking. This does *not* mean, however, that recording and analyzing such cases is of no use to Islamic economists. There is a possibility that such a course of action was resorted to under 'extreme necessity' (*idtirar*). In this case it becomes possible to condone the action despite the fact it can not be a precedent for others, being a violation of *shari'ah*. While a judgement in such cases may be beyond the scope of an Islamic economist's vocation, it is his job to study these cases and analyze the causes and consequences as benefits an economic historian. In fact such a study on his part will not only facilitate proper 'judgement' on such matters, it is a necessary precondition to it.

Another important dimension of the matter is the linkage of a particular policy decision with the realization of the goals of *shari'ah*. Did public borrowing serve a well recognized goal of *shari'ah*, is an obvious criterion on which its propriety or otherwise should be judged.

This study covers only the periods of the Prophet (pbuh), the four pious Caliphs, the Umayyads and that of the Abbasids till the year 333 A.H/944 A.D. after which real power passed, in succession, to the Buwaihids and the Seljuks, and this continued till the sack of Baghdad by Holaku in 656/1258 which put an end to the Abbasid Caliphate at Baghdad.

Our primary task has been to record the reported cases of borrowing by the rulers for public purposes. Then we look into such details as the need and circumstances which prompted borrowing, the amount borrowed (in cash or kind) the identity of the lender, the terms and conditions attached, if any. We also inquire whether the lending was voluntary or the ruler had to coerce the lender. We also look at the details, if available, of the repayment of the loan. Having noted these features we try to analyze these cases in relation to their causes and consequences. Finally we consider over the lessons that can be drawn, if any.

A serious handicap faced by the writer has been the absence of any other study on the subject which could help in posing the questions or looking for the answers. This should be regarded as one of the reasons, should the discerning reader find the present study deficient in some ways.

2. PUBLIC BORROWING BY THE PROPHET (PBUH)

The Prophet (pbuh) is known to be a frequent borrower in his private capacity at least in the difficult early years in Madinah, but reports relating to these borrowings do not concern us in this study. We have noted only those cases where the Prophet (pbuh) borrowed as the leader of all Muslims and the head of the state he established at Madinah. It is not at all difficult to distinguish between the Prophet's personal borrowing and his borrowing for public purposes since the texts themselves facilitate such a distinction.

Our search has so far led us to six cases of public borrowing by the Prophet (pbuh) which are reported below. A possible seventh case will also be noted in the end.

1. We first present a report by Bil_1, a life-long companion of the Prophet (pbuh) who spent his time mostly near him since the early Meccan period till the Prophet (pbuh) breathed his last in Madinah. This report tells us that the Prophet (pbuh) used to borrow frequently in order to help needy Muslims whenever the circumstances called for doing so. Though these borrowings would be for comparatively small amounts, in cash or kind, the borrowing was undertaken even when no means of repayment were in sight.

"It is reported of Zaid that he heard Abu Salman saying that Abdullah Al Hawzani told him 'I met Bil_1, who used to give call for prayers for the Messenger of Allah (pbuh) at Halab. I asked him to narrate about the expenditures of the Messenger of Allah (pbuh). He said: 'He did not have anything (to spend).¹ I used to look after it on his behalf ever since Allah called him to prophethood till his death. It was his practice that when a man came to him as a Muslim and he saw him in need of clothes he would order me and I would go and borrow and buy a cloak for him, clothe him and feed him. This continued till a person from amongst the polytheists accosted me and said: 'O Bil_1, I have enough resources so you do not need to borrow from any one other than me'. I did accordingly. One day it so happened that, as I made ablution and rose to give the call for prayer, that

polytheist came along accompanied by a group of traders. When he saw me he called, O Abyssinian! I said, yes. He presented a grim face to me and addressed me harshly, saying: `Do you know how many days are left between you and the (end of the) month (when repayment is due)'? Bil_I says, `I told him it is near'. He said, `it is only four days between you and it, after which I will capture you against what you owe and return you to grazing sheep as you used to do before'. I felt what people feel (on hearing such a threat). When I had prayed the night prayer (i.e. *ish_*) and the Prophet (pbuh) retired to his family, I sought permission to see him. He admitted me in. I said `O Messenger of Allah, you are dearer to me than my father and mother, the polytheist from whom I used to borrow has said this and that, and you do not have the means to repay him, nor do have I. He is going to humiliate me. Please permit me to abscond to one of these tribes (outside Madinah) who have accepted Islam till such time as Allah provides to His Messenger, from out of which provision he can pay back the loan. I came out (of the Prophet's place) till I reached my home and put in readiness my sword, socks, shoes and shield at the head of my bed. When the first lights of dawn appeared on the horizon I got ready to go. Suddenly I heard a man calling. O Bil_I! you are to report (immediately) to the Messenger of Allah (pbuh). I set off till I came to him. What I saw there were four camels resting with their loads. I sought permission to see the Prophet (pbuh). The Messenger of Allah (pbuh) told me `cheer up, Allah has sent what you can pay back your loan with! Then he asked `Did you not notice the four camels in rest'? I said, `I did'. He said, "you have the camels as well as their loads. They are laden with clothes and food which have been presented to me by the chieftain of Fidak. Take possession of them and pay off your debt. I did accordingly"²

This incident should belong to the sixth year after the *hijrah*, or the period after that, since Fidak was subdued during that period.

The one important point emerging from this report is the primary attached to need fulfillment. It was regarded by the Prophet (pbuh) to be a purpose important enough to borrow even from non-Muslims and without any definite means of repayment in sight.

2.The second report is not explicit as to the purpose of borrowing but there are clear indications of the loan being repaid out of public treasury. This presumes borrowing for some public purpose. As the details in the Arabic text reveal, the report reproduced below is part of the story of a Jewish person in Madinah

embracing Islam. This person to whom the Prophet (pbuh) owed (a quantity of dates, most probably) wanted to test the Prophet (pbuh) for the quality of self control and forbearance. Hence his peculiar behaviour:

"..... Zaid bin Si'na said: `when the due date of the loan was only two or three days away, the Prophet (pbuh) came to attend the funeral procession of a man from the *Ans_r*, accompanied by Abu Bakr, 'Umar, Usman and some other Companions. When, after saying the funeral prayers, he came near a wall to sit by it, I came to him and gave him a very hard look. I took hold of his shirt and the outer robe and said, "Pay up to me, O Muhammad! By God what I know about default on part of you children of Abd al Muttalib is based on my direct contacts with you people!" Then I looked towards 'Umar whose eyes were moving in his face like the rotation of the heavenly bodies. He looked towards me and said, `O jew!, you do this to the Messenger of Allah? By him Who sent him down with truth, I would have struck your head with my sword but for what I fear to miss'. (Zaid) said, `the Messenger of Allah (pbuh) was calmly looking at 'Umar and smiling. Then he said, `Myself and he are in need of something else (from you), that you advise me to pay back gracefully and advise him to ask for repayment politely. O 'Umar go and pay back what is due to him and give an additional twenty *s_'* of dates against your threat to him. Then (Zaid, son of Si'na) narrated how he embraced Islam".³

3. We now report a case in which the borrowing by the Prophet (pbuh) may have been for private purposes. However, there is some likelihood of the debt having been incurred to meet some public need.

Abu Saeed al Khudhri reported that a bedouin came to the Prophet (pbuh) asking for repayment of a debt owed by him. He behaved rudely and said: "I will continue insisting till you paid up". Thereupon the Companions scolded him and said: "woe to you, do you know whom you are addressing". He said, "I am only claiming my rights". The Prophet (pbuh) said: "why did not you side with him who had the rightful claim"? Then he sent a message to Khawla, daughter of Qais, that if she had some dates she should lend it to him till his own dates arrived out of which he could pay back to her. She responded by saying: `yes, you are dearer to me than my father, O Messenger of Allah!" (The narrator says) so she lent to him and he paid up to the bedouin and presented some food to him. Thereupon he said: `you have fulfilled your obligation, may Allah repay you well'. The Prophet (pbuh) then said: "these are the best of the people. A

community in which the weak can not get his due right without trouble will not be regarded as pure".⁴

The phrase 'till our dates arrive' most probably refers to the annual share from Khaibar out of which a fifth was earmarked for family of the Prophet (pbuh) and the rest for other beneficiaries. These shares would naturally be channelled through the public treasury. That the dates lent by Khawla were to be repaid out of the dates coming from Khaibar leaves both possibilities open: It could be paid out of the fifth assigned to the Prophet's family in which case the loan would have been a private loan. Equally possible, it could have been paid out of the part earmarked for other beneficiaries in which case the original debt must have been incurred in order to meet urgent needs of the same beneficiaries.

A significant point to be noted in the above report is the practice of obtaining a loan in order to pay back an earlier one.

As distinguished from the first two cases, in this case the lender was a Muslim. The second lender whose lending made possible the repayment to the first lender was also a Muslim.

4. The fourth case is a case of borrowing in kind. The object being a camel of a particular age. Repayment was made from out of the camels collected in *zakah*. This rules out the possibility of the loan being in the Prophet's personal capacity since he was barred from *zakah*.

'Abu Rafi' reports that the Prophet (pbuh) borrowed a small camel from a man. Then some camels from out of those collected as *zakah* came to him and he asked Abu Rafi' to pay back the man the camel (owed to him). Abu Rafi' came back and said he could find only better camels (older in age) who had their four teeth grown. He (the Prophet) said, 'give it to him. The best among people are those who are good at paying back'.⁵

As noted by Ibn Hajar al Asqalani⁶ while commenting upon a version of the same *hadith* in Bukh_ri's Sah_h, this debt was most probably incurred for helping somebody meet his basic needs.

The main point that emerges from this case is the propriety of borrowing for public purposes when there is a definite source of revenue in sight. The Prophet (pbuh) borrowed for need fulfillment intending to repay from *zakah* to be realized in future.

5. In the fifth case to be reported the purpose of borrowing is to meet the requirements of *jih_d* — war in the cause of Allah. This occurred on the eve of the battle of Hunain in the eighth year after *hijrah*.

"When the Messenger of Allah (pbuh) decided to march up on Haw_zin to meet them (in battle) he was informed that Safw_n bin Umayya had coats of arms and other weapons. He sent for him — still a polytheist — and said to him: "O Abu Umayya lend us your weapons so that we can face our enemy tomorrow with their help". Safw_n asked, "O Muhammad do you want to confiscate them?" He said, "No I want them temporarily with their return guaranteed till we bring them to you." He said, there is no harm in (doing) this. So he gave him one hundred coats of arms with the accompanying weapons. They also claim that the Messenger of Allah (pbuh) requested him to transport them too, which he did.⁷

In this case the Prophet (pbuh) borrows in kind from a non-Muslim. No coercion is involved nor is any kind of compensation. There is, however, a hint that the 'purpose' itself concerns the lender also.

6. The sixth case is that of borrowing a substantial sum of money from a Muslim individual for financing a major battle.

"Ismail son of Ibrahim son of Abdullah, son of Abu Rabi'ah Makhzumi has reported to us from his father who reported about his grandfather that when the Prophet (pbuh) was to attack Hunayn he borrowed thirty or forty thousand from him. He repaid it when he came back. Then the Prophet (pbuh) told him: "May Allah bless you with prosperity in your family and your property. The proper recompense for lending is repayment and gratitude".⁸

In another version of this tradition recorded by Nasa'i,⁹ the amount of the loan is a definite forty thousand. The same is true of Ahmad bin Hanbal in his Musnad.¹⁰ As regards the source of payment, both versions mention money that accrued to the Prophet (pbuh) subsequently.

The battle of Hunayn took place in the eighth year after *hijrah* immediately after the conquest of Makkah. These were comparatively better days for state finances. The accrual of money referred to in the tradition could have been from the spoils of war consequent to the victory at Hunayn.

The above is clear case of borrowing for defense purposes. It is also evident that the sum paid back equaled the sum borrowed and no extra payment were involved.

7. The last case is that of Abbas, the Prophet's uncle, paying a year's *zakah* in advance, along with that of the current year. Since this was presumably done at the request of the Prophet (pbuh),¹¹ it has been construed as a kind of borrowing. The Prophet (pbuh) significantly used the word *aslafa* for the act, a word normally used for lending.

Ibn Abbas is reported to have said that the Messenger of Allah (pbuh) sent 'Umar as collector of *zakah*. He (Ibn Abbas) says, Abbas was rude to him so he came to Prophet (pbuh) and informed him. He (Ibn Abbas) says, then the Messenger of Allah (pbuh) told him: 'Abbas has advanced to us their year's *zakah* of his wealth as well as that of the coming year'.¹²

In summary, the following can be noted.

The Prophet (pbuh) borrowed both in cash and kind, in small amounts as well as large, from Muslims as well as non-Muslims, from men as well as women. The purpose of borrowing was need fulfillment or defense/*jih_d*. But he also borrowed to pay off more urgent debts. No coercion was involved in his borrowing. Nor did it stipulate repaying more than what was received as loan. He borrowed when he did not possess, in cash or kind, what could meet the purpose in view. He borrowed in anticipation of future income from which repayment could be made, but he also borrowed when no definite future income was in sight. He always repaid the debts he incurred.

To put the above in proper perspective it should be noted that the usual sources of revenue for meeting public expenditure during Prophet's time were the following:

- a) *Zakah* (including *ushr*) which gradually grew in volume after the second year after *hijrah* when it was introduced.
- b) *Fai*, including the product share from Khaibar which was a steady source of revenue.
- c) Spoils of war out of which a share accrued to the public treasury.

d) Voluntary donations, often in response to appeal from the Prophet (pbuh).

The first three sources brought nothing during the first year of the Prophet (pbuh) in Madinah, hence exclusive reliance must have been placed on the last. In the light of available reports, revenue from all these sources was meager till year seven when Khaibar was subdued. Some cases of small borrowing for need fulfillment seem to belong to this period. But, as we have noted above, the two cases of big borrowing (case 5 and 6) belong to the post-Khaibar period and relate to defense purposes.

These records of Prophet's borrowing for public purposes do not mention any attempt by him to appeal for donations before resorting to borrowing, though a lack of report to this effect does not eliminate the possibility.

3. PUBLIC BORROWING IN THE PERIOD AFTER THE PROPHET (PBUH)

We could not find a single instance of public borrowing during the reign of the *Khulafa' Rashid_n* (Caliphs), i.e. years 11-40 A.H. This is not surprising as revenues from *zakah* including *ushr*, *fai* including *kharaj*, as well as spoils of war were steadily rising throughout this period. These revenues would have been sufficient to meet all public expenditure including need fulfillment and *jih_d*/defense.

Something similar applies to the next hundred years of Umayyad rule (41-132 A.H./661-749 A.D). We could not find any instance of state borrowing at the level of the central administration. However, there are reports from the provinces of army commanders borrowing to equip their forces or governors borrowing to pay *At_y_* (salaries/pensions) on time, or in order to provide famine-relief. Four specific cases may be noted.

1. In the first case, an army commander borrows from traders to buy provisions for a twelve thousand strong army.¹³ He pays them back after some weeks.¹⁴

The incident belongs, probably, to the year 65 A.H./684 A.D. The commander concerned is a *tabi'i* (i.e. one who has met a companion of the Prophet (pbuh) Muhallab bin Abu Sufra, who died in the year 83 A.H. He was asked by the governorate to Basra¹⁵ to take care of the *khariji* rebellion which dominated Persia and threatened parts of Iraq.

"They took stock of the public treasury and discovered that it had only two hundred thousand dirhams. This was insufficient. Muhallab then sent for the traders and told them: For a whole year your business is depressed because the supplies from Ahwaz and Persia have been cut off from you. Let us have some transactions. Then you come with me and I will, God willing, fulfill all my obligations toward you. They sold to him and he took whatever he needed to equip his army and to provide for it".¹⁶

This is a case of purchase on credit on a very large scale. Even though no extra returns are involved the traders have a big stake in the whole thing as the success of Muhallab's mission would eventually restore their supplies from Persia.

It is not difficult to imagine that such 'borrowing' or purchase on credit would be repeated elsewhere too, though not necessarily at the central government level.

The report underlines an important point not any less relevant to our age than it was in the seventh century: Sometimes it is possible to meet a deficit by purchasing what you need on credit.

In the year 77 A.H., in a similar situation, a man asked by the governor of Khurasan to launch an attack 'across the river' on Central Asia, is reported to have borrowed from traders and other people in the town of *sughd*.¹⁷

2. Another case of a provincial officer borrowing for public purposes occurred during the reign of 'Umar bin Abd Al 'Aziz (99-101 A.H./715-717 A.D.). The officer, Hayyan bin Shuraih borrowed the sum of twenty thousand dinars from one Harith bin Thabita to meet a deficit in payments to those registered (*ahl al-Diwan*). He wrote to the *Amir al Mumineen* requesting him to arrange repayment to the lender.¹⁸

3. Earlier, most probably during the years 58-59 A.H., Sa'id bin al 'As (d. 59 A.H.) the governor of Madinah during the reign of Amir Mu'awiyah (41-60 A.H./661-680 C.E.) borrowed to feed people during a famine, having first exhausted all the funds in the public treasury.¹⁹

4. The first century of Abbasid rule, from 132 A.H. to 232 A.H. was blessed by firm central administration and robust finances. Then started the period of weak rulers, domination of Turk army chiefs and gross financial mismanagement. The Caliphs ruled only nominally as power was in fact exercised by the army commanders while the finances were managed by *wazirs*. The chief interest of the Caliph lay in the huge sums of money flowing into his private treasury (*Bait-al-mal-al-Khas*) thanks to the appropriation of lands over the past and the customary gifts presented to the Caliph, especially by the aspirants to public offices. It was not unusual, in this period, for the public treasury to be empty while the royalty rolled in money. The army did not get paid in time. Unusual delays in the payment of salaries led the infantry to protest which sometimes culminated in riots in the capital city, Baghdad.

The first reports of public borrowing in our sources appear during the reign of the eighteenth Abbasid Caliph Muqtadir who ruled from 295 A.H. to 320 A.H. (908 A.D. to 932 A.D.) Muqtadir ascended the throne at the young age of thirteen. Real power was wielded by his mother and the *Wazirs* who were changed very frequently. As we shall

see below the urgent need to pay the army while the state coffers were empty was behind most of the public borrowing that occurred.

The nine reports relating to public borrowing given below all belong to the period 300 A.H. to 333 A.H. This period was ruled by four Abbasid Caliphs, Muqtadir (295-320 A.H.), Qahir (320-322 A.H.), Radi (322-329 A.H.) and Muttaqi (329-333 A.H.). We could not cover the later period for many reasons, not the least important among them is the fact that by then the world of Islam was divided into a dozen units having separate rulers and independent finances. Any study covering only the nominal Abbasid caliphate with its seat at Baghdad could no longer be credible.

It also deserves mention that we have relied on sources almost contemporary to the events being reported, e.g. Suli (d. 335 A.H.), Tanukhi (d. 384 A.H.), Miskwaih (d. 421 A.H.) and Sabi (d. 448 A.H.). One of the greatest of the early historians of Islam, Tabari (d. 310 A.H.) does not report any case of public borrowing. Later historians draw upon these and other early sources.

4. PUBLIC BORROWING IN EARLY FOURTH CENTURY A.H.

1."Ali bin `Isa²⁰ used to borrow from traders when some payment came due and he had no other means to make it. He borrowed on the basis of letters of credit (*saft_jat*) coming from the provinces but not yet due for payment. (He borrowed) ten thousand dinars against payment of a profit of one and a half *daniq*²¹ of silver for each dinar. Every month he owed two thousand and five hundred dirhams as profit.²² This practice continued with Yusuf bin Finkhas and Harun bin Imran, or their deputies, for sixteen years, and till after their death. They were not turned away till their death. They had gained this position (of state bankers) during the *wizarah* of Obaidullah bin Yahya bin Khagan.²³ The ruler did not consider it wise to turn them away so that the *Jahbadhah* retained its credibility among the traders and the traders would lend the *Jahbadh* in time of need. If the bankers were to be turned away and others²⁴ were given that position and the traders refused to deal with these, the affairs of the Caliphs would collapse".²⁵

2.Tanukhis` above statement follows his narration of an incident which culminates in the *wazir*, Ali bin `Isa making a special arrangement with the two bankers named above. He is reported to have told them:

"Every lunar month I need a sum of money to be paid to the infantry troops within the first six days of the month. This amounts to thirty thousand dinars which sometimes is not available to me on the first day of the month, even on the second. I want you two to lend me one hundred and fifty thousand dirhams which you can recover within the month out of the revenues from Ahwaz,²⁶ because the administration of Ahwaz revenue is already in your charge.....".²⁷

Significantly, no `profits' are promised in this case, nor is there any mention of letters of credit. The author has quoted his source in giving this report whereas the statement quoted earlier is given on his own authority. It is also to be noted that the two bankers named above were Jews not Muslims.²⁸

3.The two jewish bankers were given official position by Muqtadir's second *wazir*, Abul Hasan Ali bin Muhammad bin al Furat²⁹ whose first round in this office lasted from 296 to 299 A.H.³⁰ Al-Sabi reported that once Abdullah Muhammed bin Isma'il al-Anbari al Zinji told him about this *wazir* that:

"He called Yusuf bin Finkhas the jewish *jahbadh*, who was the *jahbadh* of Ahwaz, and told him, `This situation has arisen and our colleagues had not made the necessary preparations to deal with it. I have assigned their emoluments to (the revenue from) Ahwaz. Now it is very necessary that you pay them in advance for two months. He (Yusuf bin Finkhas) mentioned the large sums already assigned for advance payment on Ahwaz account and that it was not possible for him to take on any more demands. He (*the wazir*) continued to argue with him till he agreed to release one month's pay that very day....."³¹

4. Another instance of interest bearing loan is cited by Miskwaih. It relates to the *wazir* Kaluzani who held office briefly in the year 319 A.H.

"Ibn Qarabah used to indicate to Muqtidar and to Mifleh al-Aswad that it was he who helped the affairs of the *wazarah* being performed and that no *wazir* could do without him. He used to make himself continuously available at Kaluzani's place and to lend him, on behalf of Bani-al-Baridi and others, at the profit of one dirham per dinar. He lent him two hundred thousand dinars which helped the management of Kaluzani's affairs....."³²

5. The same person, Ibn Qarabah, is reported to be lending to Husain bin al-Qasim, who succeeded Kaluzani as *wazir* in 319 A.H. `at the rate of one dirham per dinar as was his practice'.³³

6. Facing a very tight financial situation, Husain is also reported to have sold some public property to raise five hundred thousand dinars and to have realized in advance half the money due in the year 320 A.H., some months before the beginning of that year.³⁴

7. After a couple of years, in 323 A.H. during the reign of Caliph Radi, we find another *wazir*, Abu Ali bin Muqlah, `borrowing' from traders who used to supply flour against what was due from Mosul. He raised four hundred thousand dinars in this manner.³⁵ Significantly, no `profits' are involved in this `borrowing'. However, it becomes clear after a few pages that the `borrowing' actually amounted to advance payment for grains to be collected from the region as taxes and delivered to traders.³⁶

8. We have yet another report about the same year, 323 A.H. This time the *wazir* tried to borrow from traders in order to pay the troops, offering traders letters of credit (*saftajat*), the traders disappeared and the effort did not succeed.³⁷

9. Another report by the same author, Al Suli, relates to the year 331 A.H. The then Amir al-Umara, Nasir al Dawlah, upon learning that the money changers were dealing in interest openly, warned them against doing so and obtained their pledges to that effect. According to al-Suli, however, this helped restrain them only a little.³⁸

This last one is not a report of public borrowing. We have noted it, only to underline the fact that despite the practice of interest-based lending in the market, the authorities remain committed to its elimination till the close of the period we have studied in this paper.

It is difficult to deny, however, that interest was involved in some cases of public borrowing also. This reflects the gross mismanagement of the financial affairs of an otherwise prosperous regime as well as the compulsions of circumstances created by the maintenance of a large force of mercenaries in the capital city of Baghdad. The most surprising case of borrowing on interest relates to the *wazir* Ali bin `Isa, `probably the first to obtain a loan by paying interest according to some scholar'.³⁹ `Ali bin `Isa is reputed to have been a pious Muslim, well versed in *shari'ah* sciences and possessing extraordinary managerial skills.⁴⁰ The only direct report of this *wazir* borrowing from bankers is found in Tanukhi and that too does not mention interest [case (2) above]. But the same author reports Ali bin `Isa borrowing regularly with interest on the basis of letters of credit, without quoting any specific source. Even if we are to accept this sweeping generalization, not corroborated by other historians, the question remains: Did he, under compulsion of circumstances, deliberately violate the prohibition of interest, or did he look differently at using letters of credit the way he did according to the second report quoted above?

On the basis of the scanty material we could obtain, we can distinguish between four types of public borrowing in early fourth century after *hijrah*.

1. Advance payment realized in a *salam* type transaction, i.e. cash obtained against food grains to be delivered in future (Case 7).
2. Discounting letters of credit of bills of exchange, i.e. obtaining cash by surrendering the right to receive a larger amount of cash later. (Cases 1 and 8).

3. Cash obtained by promising to pay later with an addition of a percentage of the sum borrowed (Cases 4 and 5).
4. Cash obtained by allowing the lender to recover the sum borrowed from revenues due in the near future (Cases 2 and 3). As regards case 8 noted above, it is not clear from the report whether it belongs to category 2 or to category 4.

In all the cases reported above it is not the Caliph who borrowed, but the *wazir* who actually ran the administration. Most of the borrowing is done in cash to pay the army in time, but sometimes it is done to make some other payments. Public borrowing in this period has been largely in the nature of bridge-financing, to be repaid from sure sources of revenue in the near future. Loans are repaid out of the *kharaj* revenue (or land taxes). The lenders are Jewish bankers as well as Muslim traders. The amounts involved are large, but not out of proportion with the state revenues in those times.

One significant point to note is the absence of any reference to need fulfillment as the purpose of public borrowing.

As regards the use of coercion in borrowing we have no clear evidence, even though the sources abound in reports of confiscation of the properties of high officials once they fell from favour and of all sorts of extortions from traders.

It is very difficult to opine whether there were any alternatives to public borrowing in so far as it was resorted to. Apparently all other means were exhausted before doing so. Ali bin `Isa is especially reported to have curtailed public expenditure to a very great extent, side by side with abolishing many extra-*shari'ah* taxes.⁴¹

What circumstances forced a pious man and efficient financial manager, who curtailed public expenditure in an otherwise wasteful affluent society, to borrow at interest, and how could he justify it to his own conscience, remains an enigma -- at least till further details are available. This deviation from clearly defined *shari'ah* rules seems, however, to be a culmination of many other deviations in the financial management of the state, the details of which fill the pages of history books.

5. SUMMARY AND CONCLUSIONS

The records of public borrowing examined in this brief study present an interesting contrast. On the one hand we have the most responsible of rulers borrowing for need fulfillment and *jih_d*/defence even when no future revenues were immediately

in sight. On the other hand, the records show irresponsible regimes in an age of affluence forced to borrow for bridge-financing, even if they had to violate the prohibition of interest. The strongly worded indictment of public borrowing by jurists like Imam al Haramain al Juwaini⁴² (419-478 A.H.) is largely in response to the sorry state of affairs that Abbasids had reached in the fourth century A.H. Given fiscal responsibility and adherence to the *maqasid al shari'ah* a different view is more convincing. Much further research is needed to trace the history of public borrowing in the thousand years that separate us from the period studied in this paper. Any guidelines for contemporary policy making will be better drawn after such a research, even though the decisive factors should be the contemporary situation and the example of the Prophet (pbuh) and his companions.

Meanwhile we can draw some lessons of contemporary relevance from this study.

1. Borrowing, when there is a need, is a legitimate activity even if it is from non-Muslims.
2. Fulfilling needs is one genuine reason justifying borrowing, while *jihad* is another.
3. While early history does not present any record of borrowing for financing economic development, it does provide an indirect justification of the same in an age in which economic development (especially of the third world countries) has become a *sine qua non* for need fulfillment as well as for defence/*jihad*.
4. Since the lender receives no worldly return, public borrowing presumes the lender being motivated by moral and religious consideration. Projects directly related to *jihad*, those directed at feeding, clothing and housing the poor and providing medical care to those who can not buy the same, as well as educational and moral-spiritual orientation programs are most likely to motivate people to give *qard hasan*. The social authority should, therefore, make public borrowing purpose-specific and select purpose most likely to motivate lenders, in order to succeed in mobilizing interest free loans to the government.
5. State must repay what it borrows even if doing so necessitates further borrowing.

NOTES

1. This and other words in parentheses have been added to clarify the meaning. They do not belong to the text.
2. Abu Daw_d: Tradition No. 3055, *Kit_b al Im_rah, Bab al-Imam Yaqbil Had_y_ al Mushrik_n*.

3. Baihaqi, Vol. 6, p. 52, *Kit_b al-Tafl_s, Bab maj_' fi'l taqadi*.
4. Ibn Maja, Tradition No. 3326, *Kit_b al Sadaq_t, Bab li Sahib al Haqq maq_l*.
5. Muslim, Vol.4, p. 119, *Kit_b al Musaq_t*, Tradition No. 114.
6. al-`Asqal_n_, Vol. 5, p. 57.
7. Ibn Hish_m, Vol. 4, p. 68
8. Ibn M_ja, Had_th No. 3424; *Kit_b al Sadaq_t, B_b Husn al Qada'*.
9. Nas_i Chapter 44, No. 97; *Kit_b al Buy_', B_b al Istiqr_d*.
10. Ahmad bin Hanbal, Vol. 3, p. 305.
11. al Baihaqi, Vol. 4, p. 111.
12. al Dargutni: Vol. 2, p. 124.
13. al Mubarrad, Vol.3, p. 1060.
14. *Ibid*, Vol. 3, p. 1062.
15. Muhallab himself was later appointed Governor of Ahw_z by the Umayyad Caliph Ab_d al Malik bin Marw_n (65-76 A.H.) vide al Mubarrad, Vol. 3, p. 1102.
16. al Mubarrad, Vol. 3, p. 1060.
17. Tabari, *Tar_kh*, Vol. 6, pp. 312-13.
18. Maqr_z_, *Kit_b al Khitat*, Vol. 1, p. 139.
19. Ibn Manz_r, *Mukhtasar Tar_kh Dimashq li Ibn `Asakir*, Vol. 9, p. 135.
20. Ali bin `Isa was first appointed *waz_r* by Muqtadir in 301 A.H. Later, he was dismissed and imprisoned. He was called upon to shoulder the responsibility again during 315-316. Before his death in 334 he was appointed *waz_r* for a third time in 329 A.H. during the reign of Muttaqi. The above report relates to the first period of his *wizarah*.
21. One *daniq* equalled 1/6 of a dirham. A dinar was equal to 15 dirhams.
22. This means that the above rate was a monthly rate amounting to 20% per annum.
23. Obaidullah bin Khaqan was appointed in 299 A.H.
24. The *jahbadh* was originally "a Financial Clerk, expert in matters of coins, skilled money examiner, treasury receiver, government cashier, money changer or collector In the time of the Abbasid Caliph al Muktadir (295-320/908-32)

however, the *jahbadh* emerged as a banker in the modern sense..... " *Encyclopedia of Islam*, New edition, Vol. II, p. 382, *Jahbadh*, therefore, was the banking department of the government.

25. al Tanukhi, Vol. 8, pp. 31-32.
26. A province in Persia.
27. al Tanukhi, Vol. 8, p. 31.
28. `Arib, p. 77.
29. al Tanukhi, Vol. 8, p. 38.
30. He was succeeded as *wazir* by Obaidullah bin Yaha bin Khaqan mentioned in the first report above.
31. al Sabi, p.198.
32. Miskwaih, p.213.
33. *Ibid*, p.220.
34. *Ibid*, p.226.
35. *Ibid*, p.326.
36. *Ibid*, p.220.
37. al Suli (1979) p.76.
38. *Ibid*, p.231.
39. Fischel, W.J. (1968), p.25, f.n. 2.
40. See for example, Miskwaih, p.28; al Sabi, p.306, Ibn al Taqtaqi, p.241, and Kurd Ali, pp.182-83.
41. See Miskwaih, pp.27-28 and p.152; Al Sabi, p.306, 368 and al Hamadhani, p.203.
42. al Juwaini, pp.274-77.

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