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Ethics and Enforcement: Classical Islamic Principles on Market Regulation and Consumer Protection

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Abstract

This article explores the Islamic jurisprudential foundations for state regulation in economic matters, specifically focusing on price control (taḥdīd al-asʿār), hoarding (iḥtikār), and adulteration (ghishsh). While modern economic systems often rely on secular legislative tools to manage markets, classical Islamic scholars provided detailed guidance on the ethical and legal dimensions of market intervention centuries earlier. Drawing on authoritative sources such as al-Durr al-Mukhtār, Fatāwā ʿĀlamgīriyyah, and Radd al-Muḥtār, this study highlights how the Shariah outlines a just and balanced framework that empowers the state to regulate markets in the public interest.The research demonstrates that Islam permits government intervention not as coercion but as a moral duty to protect the rights of consumers and ensure market integrity. Through detailed examination of classical juristic texts and relevant Qur'anic injunctions and Ḥadīth, the study shows that acts like hoarding essential goods to inflate prices, or concealing product defects through adulteration, are ethically condemned and legally punishable in Islamic law. The article further analyzes how the principles laid out by scholars such as al-Ḥaṣkafī and Ibn ʿĀbidīn remain relevant today in confronting challenges like artificial inflation and food fraud.Ultimately, this paper suggests that reviving Islamic economic ethics can help shape policy solutions in Muslim societies facing contemporary market injustices, providing a faith-based alternative to neoliberal or exploitative capitalist models

Keywords:Consumer Protection, Islamic banking, finance, bussininse.

Introduction

Undeniably, since the dawn of time, humankind (Banī Ādam) has strived tirelessly to improve the quality of life and establish social bonds. This persistent effort led to the development of various economic, financial, and monetary systems. According to historians and researchers, the concept of preserving wealth is as old as civilization itself. In ancient cultures, wealth was safeguarded in many forms such as stored crops, livestock, and precious metals.

The origins of the **conventional banking system** trace back to the **receipts issued by goldsmiths** who used to keep valuables in safe custody. Whenever a need for transaction arose, the bearer would present these receipts as a guarantee. Eventually, society began to treat these receipts as a substitute for precious metals. Over time, these pieces of paper replaced metals in exchange and thus emerged what we now call **money** (zar). With the introduction of paper currency, the conventional banking system took a more defined shape. As time passed, experience brought about improvements, and many structural changes were introduced into this system.

In this article, we will examine the **evolutionary stages of the conventional banking system**. However, before diving into the details, it is crucial to first understand what this system is. Therefore, the article begins with a definition and overview of the conventional banking system, followed by a detailed examination of its historical development.

Definition of the Conventional Banking System

A **bank** is a financial institution that collects people's money, invests it for profit, and distributes a share of that profit to the depositors. Banks perform various roles such as accepting deposits, providing loans to businesses and individuals, issuing currency, safeguarding valuables and essential documents, and offering financial advice to governments.

Dr. Herbert L. Hart defines a banker as:

"A banker is one who in the ordinary course of business honors cheques drawn upon him by persons for whom he receives money on current account."[1]

Translation: A banker is a person who, in the usual course of business, accepts cheques from those individuals whose money he holds in a current account.

According to Jāmi‘ Fīrōz al-Lughāt :

“A bank is a financial institution that collects money from people for safekeeping and lends it out. It pays low interest to depositors and charges high interest from borrowers. The difference in rates is the bank's profit. This profession is called banking.”[2]

Syed Abul A‘lā Maudūdī (رحمه الله) defines a bank as:

“A group of capitalists form an institution of money-lending called a bank. It operates with two types of capital: the shareholders’ initial investment and the depositors’ funds, which grow as the bank gains reputation**.** The true mark of a bank’s success is that it holds as little of its own capital as possible while accumulating more of the public’s money.”[3]

Mawlānā Mushtāq Ahmad Karīmī writes:

“The word ‘bank’ is derived from the Italian ‘Banco’, meaning desk or table, as early bankers used to conduct business from tables. In commercial terms, a bank is a financial institution that collects public deposits and lends to traders and industrialists, typically charging interest on loans while paying lower interest to depositors. The profit lies in this margin.”[4]

Dr. Mahmood Ahmad Ghazi (رحمه الله), a renowned economist, defines it as:

“A bank is an institution engaged in the business of loans and negotiable instruments. Since the very definition of a bank involves dealing in debt, it cannot engage in trade involving tangible assets.”[5]

Mufti Muhammad Taqi Usmani (حفظه الله) states:

"A bank is a commercial institution that accepts deposits from people and provides loans to traders, industrialists, and other individuals. Today's conventional banks charge interest on these loans and pay depositors a lower rate the difference being the bank's profit."[6]

From the definitions above, it is clear that a conventional bank operates primarily on the basis of **loan-based transactions**. It collects deposits from the public and lends them to others on interest (ribā). The interest earned is shared between the bank and its depositors. With these foundational definitions established, we now proceed to explore the **historical background of the conventional banking system:** when, where, and how it originated.

Historical Background of the Conventional Banking System

There are varying opinions among historians and researchers regarding the origins of the conventional banking system. Generally, it is believed that this system is not very ancient; in fact, its evolution in the Western world spans just over two to two and a half centuries. The term "bank" began to be used in Italy during the 16th century. As global trade expanded, so did this institution, and the 20th century is often considered the golden era of its development and acceptance.

In his seminal work "Sood" (Interest), **Sayyid Abul A'lā Mawdūdī** (رحمه الله) divides the history of banking into three distinct phases, which are described as follows:

1. **The Era of Goldsmiths' Receipts**

Before the advent of paper currency, people used to store their wealth in the form of gold and silver. Keeping it at home posed the risk of theft, so they would deposit their cash with goldsmiths (ṣayyāghūn, صَيَّاغُون) for safekeeping. Mawdūdī writes:

"In Western countries, this system originated at a time when paper notes did not exist, and people usually stored their wealth in the form of gold, which they entrusted to goldsmiths for safety rather than keeping it at home."[7]

The goldsmiths, in return, issued handwritten receipts confirming the amount of gold or silver deposited. These receipts could later be returned in exchange for the specified amount of metal. People found it more convenient to use these receipts directly for transactions instead of physically moving the gold back and forth. Over time, these goldsmith-issued receipts began to function as a substitute for money in the market.

Eventually, these receipts circulated widely until someone needed actual gold. Anyone presenting the receipt to the goldsmith would be handed over the gold it represented. In this way, the receipts effectively replaced gold for commercial purposes. Mawdūdī further explains:

"Goldsmiths soon realized through experience that only about one-tenth of the deposited gold was ever withdrawn. The remaining nine-tenths stayed idle in their vaults. So they began lending it out with interest (ribā, رِبٰی), treating it as their own property although in reality, it belonged to the people. Meanwhile, they continued charging safekeeping fees from the original depositors."[8]

But the manipulation didn't stop there. The goldsmiths understood that the receipts they issued were treated in the market just like actual gold. Instead of lending out real gold, they began issuing **fraudulent receipts** backed by nothing to generate loans and earn interest. Mawdūdī illustrates this scam with a clear example:

"If someone deposited gold worth 100 rupees, the goldsmith would issue ten receipts of 100 rupees each. He would give one to the depositor and lend the other nine to others charging interest on all of them."[9]

This deceptive practice led to the goldsmiths becoming owners of 90% of the country's circulating wealth wealth that was neither earned nor legally theirs. As Mawdūdī puts it:

"Clearly, this was a severe form of fraud and deception. These people created 90% of the total money supply in the form of counterfeit paper currency and became its unlawful owners—imposing it as loans upon society and extracting 10–12% interest on it. They had neither earned it, nor had any rightful ownership over it."[10]

Eventually, even **kings and governments** began borrowing from these goldsmiths to manage internal crises or finance wars. This elevated the status of goldsmiths to untouchable financial elites. Instead of being held accountable, they were legally recognized as bankers and financiers, with formal permission to issue paper money, which eventually became known as fiat currency

2. The Second Wave of Fraud: Institutionalizing Usury

After seizing control over paper currency, the goldsmiths-turned-moneylenders (ṣarrāfūn, صَرَّافُون) launched a second wave of deception more dangerous than the first. Their aim was to gain control over the wealth of individuals who had a habit of saving surplus income. Mawdūdī explains:

"The ancient goldsmiths and modern-day financiers then took another step even more perilous. They lured savers by offering interest, drawing their capital into their own hands. When they realized people were investing directly in companies, buying shares, and engaging in business, they persuaded them: 'Why take the burden of partnership, accounting, or risk of loss? Simply deposit your money with us. We'll keep it safe, manage it for free, and even pay you interest.[11]"

Through this scheme, they gained control over savings that could have been used for productive purposes—industry, agriculture, or trade. Instead, the money ended up in the hands of these lenders, who exploited it further. They borrowed at low interest rates and lent at high ones, gaining enormous profits with minimal risk.

As a result, they dominated **all economic classes and institutions** the rich and poor, peasants and laborers, industrial firms and governments all fell under their influence and control.

Key Islamic Terms and Concepts Used*:*

- Interest/usury, prohibited in Islam.
- Cash or physical currency, especially gold/silver.
- Moneylenders or bankers.
- Paper currency, fiat money.
- Medium of exchange (e.g., gold or its substitute).

The Emergence of Joint Ventures among Goldsmiths

After gaining control over **paper currency (العملة الورقية)** and investment, goldsmiths and moneylenders took another decisive step, marking the beginning of what we now call the **banking system (النظام البنكي).** Instead of operating individually, they began working collectively thus, institutions emerged that functioned like modern-day banks.

Maulana Abul A'la Maududi describes this phase:

The goldsmiths and moneylenders took a third step and transformed their business into what is now called the modern system of banking (النظام المصرفي الحديث). Previously, they operated independently. Although some families of moneylenders had grown their financial enterprises into powerful institutions with branches in far-flung locations, they remained separate entities working under their own names. Then came the idea: just as joint-stock companies were being formed in various commercial sectors, why not establish similar companies for handling money? Thus, banks were born institutions that now dominate and control the entire global financial system."[12]

A similar analysis is provided by **Abu Hamza Professor Saeed Mujtaba Saeedi,** an alum of **Islamic University of Madinah .**According to him, the history of banking in the West unfolded as follows:

In the beginning, when paper currency did not yet exist, people stored their wealth in the form of gold or silver. Those who had surplus wealth would deposit it with a goldsmith (الصرّاف) as an **amānah (أمانة)** and receive a written receipt stating the amount of gold held on their behalf. Eventually, these receipts began to circulate in trade and were accepted as payment. People found it easier to transfer receipts rather than withdraw and carry actual gold for each transaction.

Over time, this method of commerce gained popularity. Today's **banknotes, checks (الشيكات), and drafts (الحوالات)** are evolved versions of those early receipts. As goldsmiths and lenders realized that depositors rarely demanded the return of their full amounts all at once, they saw an opportunity: why not lend a portion of this idle gold and earn a profit?

When this proved profitable, they began offering **interest (الفائدة)** on deposits to attract more gold and silver. In turn, they loaned this out at higher rates, thus generating income by **charging interest (الربا)**. Professor Saeedi notes:

"Modern banks are a developed form of this same system. Even though the foundation of modern banking is based on **interest/usury (الربا)** which is undoubtedly impermissible, wrong, and ḥarām (حرام) the fact remains that banks also offer essential services. For example, they facilitate money transfers, handle payments, enable international transactions, and offer safekeeping for valuables. These services are rendered efficiently and at minimal cost. Therefore, rather than abolishing banks entirely, what is needed is a reform of the system to eliminate these corrupt aspects. If done properly, the banking system can be purified and become even more productive."[13]

On this subject, **Mufti Muhammad Taqi Usmani** explains:

*"In the early days, people practiced barter trade (المقايضة) goods were exchanged for goods. Later, specific items such as wheat, barley, and leather were assigned monetary value. Eventually, gold and silver became the standard medium of exchange because of their universal acceptability and portability. Coins were minted, and people began depositing these with moneychangers (الصرافون), who issued receipts as **guarantees (وثائق).** These receipts could be presented later to retrieve the deposited gold. Gradually, people started using these receipts for trade, reducing the need to retrieve actual gold. Moneychangers noticed this and began lending out the deposited gold. This practice laid the groundwork for both paper money and the banking system."[14]

Pre-Christian Conventional Banking System

As the cited excerpts indicate, the origins of the conventional banking system are traced back to goldsmiths and moneylenders, yet in some places, its foundations go even deeper to ancient religious temples. In his landmark work "Sood par Tārīkhi Faislah" (The Historic Verdict on Interest), **Mufti Taqi Usmani** notes that the history of banking can be traced as far back as **2000 BCE**, a view also echoed in the Encyclopedia Britannica.[15]

In ancient civilizations such as Greece, Rome, and Egypt, people used to deposit their wealth in temple treasuries. These temples would then lend out money to the public and the state at moderate interest rates. In this way, religious institutions in antiquity began functioning as **proto-banks.**

By the fifth century CE, goldsmiths, moneylenders, and ṣarrāfūn (money changers) began accepting deposits at their counters thus evolving into the earliest form of **bankers**. In those times, they were referred to as **Trapezites,** meaning "men of the table." Over time, this system evolved further, eventually reaching Rome (Italy) and modern Europe, where the term **"bank"** came into use.

Mufti Taqi Usmani elaborates:

[16]Banking institutions were established centuries before ʿĪsā AS in Greece, Rome, and Egypt. They accepted deposits and issued **ribā-based loans.** These were not private ventures but auxiliary services rendered by wealthy, organized religious institutions. Gradually, the system evolved from temple-based operations to **private business institutes.** In 575 BCE, a banking entity named **Lgibi** was founded in Babylon. It acted as a legal agent for its clients in

purchases, offered agricultural loans, secured repayments through collateralized harvests, granted loans against signatures or pledged assets, and maintained interest-bearing accounts."

Pre-Islamic Conventional Banking System

Turning to the **economic conditions of the Arabs before Islam**, trade was a dominant aspect of Arab life. This trade was not confined to Arabia; Arab merchants frequently traveled to foreign lands. In ancient times, gold and silver coins served as the standard medium of exchange. Gold coins were called **dīnār** and silver coins were known as **dirham.** The regions that used **dīnār** as currency were called **Ahl al-Dhahab** (e.g., Egypt, Syria), whereas those using **dirham** were referred to as **Ahl al-Waraq** (e.g., Iraq and Babylon).[17]

In "Tijārat ke Islāmī Uṣūl wa Ḍawābiṭ", **Dr. Noor Muhammad Ghafari** writes:

"In the pre-Islamic era, gold and silver coins were used as money. The term dīnār referred to gold coins and dirham to silver coins. Their value was not determined by face value but by actual weight.[18]

The scope of Arab trade had expanded significantly; Arab merchants regularly traveled to Egypt, Syria, Yemen, and Iraq, engaging in large-scale commercial activity. Their growing trade influence made them known as a **mercantile nation**, a point even referenced in the Qur'ān:

لِإِيلَافِ قُرَيْشٍ • إِيلَافِهِمْ رِحْلَةَ الشِّتَاءِ وَالصَّيْفِ
"For the accustomed security of the Quraysh—Their accustomed security [in] the caravan of winter and summer." [19]

Before the advent of Islam, cities like **Makkah, Madinah, and Ṭāʾif** had vibrant economic activities. The Arabs had a clear understanding of **supply and demand,** inflation, price manipulation, hoarding, **ṣarf-based loans**, and even speculative trading (like **maysir).** Wealthy traders would often lend on interest, especially to farmers in Ṭāʾif and Madinah, and later seize their entire crop as repayment.

Dr. Noor Muhammad Ghafari explains:

"The Arabs of Jāhiliyyah were well aware of supply and demand dynamics. Hoarding through **iḥtikār** and manipulating market scarcity to inflate prices were common practices. They were skilled in speculation and **qimār.** Traders would buy goods, especially grain, from incoming caravans and create artificial scarcity to charge exorbitant rates. They also lent on ribā and seized entire harvests from indebted farmers—practices resembling today's exploitative capitalism.[20]

In this regard, Mufti Taqi Usmani concludes:

"The modern economic system is fundamentally based on interest, and its roots trace directly back to the ribā-based dealings of the Jāhiliyyah. Scholars agree that pre-Islamic Arabia witnessed not only consumption loans but also **commercial and production loans,** all primarily **ribā-oriented**. These transactions were by no means foreign to Arab society.[21]

The above discussion clarifies that although there wasn't a formally institutionalized **banking sector** in the ancient world, many practices found in today's banking such as monetary exchange, interest-based loans, and credit-debt relations were already prevalent among ancient communities. The transition from **temple treasuries** to private moneylenders, and eventually to formal banks, reveals the deep historical entanglement of **religious institutions, economic power, and commercial expansion.**

The Formal Rise of the Conventional Banking System

The renowned Islamic economist **Dr. Mahmood Ahmad Ghazi** (رحمه الله) in his book (Lectures on Economy and Trade) discusses the historical development of the conventional banking system. According to his analysis, the Western banking model was not a product of sudden planning or deliberate intellectual design. Rather, it gradually evolved over time as a result of changing economic needs and commercial experiences. He writes:

The current banking system in the West did not emerge overnight. Nor did anyone sit down with the explicit intention of designing a comprehensive banking model with specific characteristics. Instead, it came into being automatically over a long period. Commercial expediencies, time, and practical experiences suggested certain modifications, which were incorporated accordingly. In fact, the system has continuously evolved to accommodate changes th[1]at align with the interests of global economic powers.[22]

According to some **Western historians,** the institution of banking dates back to around **1000 BCE,** while others trace it as far back as **1500 BCE,** describing these institutions primarily as **moneylenders** that extended credit. However, Dr. Ghazi (رحمه الله) disagrees with this Eurocentric timeline. He contends that

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similar practices had long existed in the Indian subcontinent, where **Hindu baniyas** had been offering credit-based capital for centuries. He states:

Some Western writers date the origins of banking back to pre-Christian eras some even claim that banking institutions existed as early as 1000 or 1500 BCE. However, if we define banking, as these historians do, as an institution that provides capital on interest and facilitates trade through credit, then such a system existed even earlier. Moneylending, interest-based loans, and investment in trade for profit were well-known practices among the Hindu baniyas long before that. In India, the tradition of **riba-based** loans and investments in various commercial activities has been prevalent for thousands of years.[23]

As for the **contemporary concept of banking** the institutional model we recognize today Dr. Ghazi attributes its origin to **16th-century Italy**. From there, it expanded gradually, shaped by the growth of international trade and the economic ambitions of Western powers. Until the late 19th century, banks had not yet achieved the prominence they later would. It was only in the **mid-20th century** that banking became more complex, structured, and academically institutionalized. Dr. Ghazi notes:

The modern meaning of the word 'bank'—as we understand it today—originated in 16th-century Italy. With the expansion of international trade, the Western banking system grew in both scale and influence. The truth is, until the late 19th century, banks did not hold the same significance or perform the same functions in global trade that they began to assume in the mid-20th century. In fact, the 20th century can be regarded as the era of expansion and development in banking. Over time, the functions of banks have become increasingly diverse and technically complex. So much so, that specialized educational institutions have now been established to teach this field. Some of the world's top universities now host dedicated **departments** and **research centers** for banking and finance, where rigorous research and professional training are carried out

Conclusion

There is no doubt that the banking system emerged organically over time, undergoing various transformations as circumstances changed. However, its **formal inception** dates back to **16th-century Italy,** which is widely regarded as the beginning of the structured banking era.

From there, the modern paper note evolved from the goldsmith's receipt. Today, we use banknotes, checkbooks, pay orders, bank drafts, ATM cards, debit cards, credit cards, and e-banking systems. Thus began the age of modern currency and **traditional banking institutions** as we know them today.

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