BAIT UL MAL AND REVENUE – A MONETARY AND FINANCIAL INSTITUTIONS IN THE MUSLIM WORLD-II

By Prof. Dr. M. A. Soofi First we will study the major sources of revenue to the Muslim State. Aghuides would divide revenues to the Islamic State into two categories:

1. Religious revenue.
2. Secular Revenue.

The Religious Revenue was collected from Muslims alone and included Zakat Taxes i.e. Zakat on flocks and herds, Zakat on gold and silver and the articles of trade and the Zakat on the produce of land or tithe, Sadqah and financial contributions for the holy wars.

The Secular Revenue was collected from non-Muslims alone and consisted of Kharaj or the land tax, the Jizya or the Poll Tax, trade tax on traders, imposts on spoils, mines and treasure trove and the estates of persons who died intestate and without heirs.

The prime source of revenue for any Islamic State was Zakat, which is also one of the five basic tenets of Islam. Next to prayer it is the most important of the religious duties enjoined on the Muslims. Hence Zakat assumes a religious sanctity which is not matched by any mode of public finance anywhere else, so much so that the first pious Caliph made was upon those tribes who refused to pay it.

An Obligation

The giving of Zakat is a "Farz" obligation based upon evidencefound in the Quran, the "Sunnah' the ';Ijma" and in reason. And the cause (sabab) of Zakat being a ';wajib' imperative is the possession in full ownership of a productive ';nisab' (minimum) of property. Property may be said to possess ';productivity' when any of the following three conditions is met.

1. When property is gold or silver.
2. When animals are pastured.
3. When property is intended for trade.

Besides being productive the ';nisab' must be owned in full ownership, partial or de-jure ownership does not subject a person to payment of Zakat. Moreover, nisab must be over and above what is necessary for the satisfaction of the primary needs of life. And also that nisab should be free of debt. Following are the conditions for Zakat being a wajib:

1. Aql (reason) and Bullogh (maturity) for, there can be no responsibility without them.
2. State of Islam, because Zakat is a part of religion and without being a Muslim State it cannot be valid.
3. Hurriyah or freedom, so that the prayer is a free citizen of the Islamic State and not subject to any bondage, hostage or ownership. A slave cannot possess or own property and bence is not liable to pay Zakat.

Exemptions. The following exemptions were granted:

1. Makatab a slave who had obtained the right of manumission on a fixed price. The right to trade and own property was automatically given to such slaves.
2. The debtor, subject to demand of payment of his debt on the part of a fellowman, to the amount of his indebtedness.
3. Dinar property which whas been recovered and was in possession of the person, for more than a year, who pays Zakat on it. This may include property lost without much chance of recovery, such as fugitive or stray slaves.
4. Property lacking in productivity or destined for primary necessities like houses dwelt in, apparel, utensils etc.
5. Property of minors and the insane.

Amount

Zakat was payable at the rate of 2 ½ % of the full monetary value of the property by a person woho had been in possession for 12 months. 52 ½ ';totals of silver or 7 ½ tolas of gold or other property of the same value. On the produce of the land Zakat varied according to whether the land was irrigated or unirreigated. On the irrigated land Zakat was levied at the rate of 1/10th of the yield, and on unirrigated land at 1/20th of the yield.

In reckoning up Zakat the procedure was to add together the articles of the same jins (genus). Thus gold and silver would be added together i.e. their values only. Agricultural produce would be added up separately from cattle. Zakat was also payable in kind.

Al-Ghanimah

Ghanimah essentially was the war booty captured ina war waged in accordance with the tenets of Islam and with the permission of the ';Imam'. Booty acuired in a raid which was conducted without the permission of the Imam, was not ghanimah but theft. From the ghanimah ';khums' i.e. a fifth – was received by the State. The rest four parts were distributed among the soldiers, before the battle had started.

If a minor digression be permitted we might now try to answer the question raised at an earlier stge in this study. We had wanted to know how far the soldier was motivated by material gains. Here we see that four shares out of five of the ghanimah were to be distributed among the warriors, who took part in the campain. And we might already know from what poor circumstances did these soldiers come. Moreover, the eastern Roman Empire and other lands in the north of Arabia had for centuries sustained a reputation for being the lands of riches and of opportunity to ';earn' or to possess much gold and silver, in short wealth. And when for the brave the reward was so much 4/5th of the booty that would not be willing to risk some danger? This I am implying while isolating the religious motivation's which of course I accept to be the domineering motivations.

Tax on Mines

This tax was by some considered essentially a part of Zakat and hence should have been levied at the rate of 2 ½ %. By some other it was considered ghanimah and a rate of 20 % proposed.

Jizyah or The Poll Tax

Jizyah was provided in Quran in the following erse: Make was upon such of those to whom a scripture has been given, as do not believe in God, nor in the last day, until they pay by their hands the Jizyah..... It was payable by the ';Zimmies' non-believers – e.g. Christians, Jews, Idolaters and the Fire-worshippers.

At the basis of the concept of Jizyah was the idea of payment for a service performed. The Islamic State provided protection and security of life and property to the Zimmies. In return they were required to pay Jizyah. Jizyah would not be payable if a zimmie took part in war on behalf of the Islamic State or was converted to Islam, or died, or collection of Jizyah became impossible. If the Muslim governor of a territory felt that he could no longer protect his zimmies – e. g. while vacating or retreating from a recently conquered territory- he was to return the Jizyah, if he had already collected it.

Jizyah was assessed at different rates by different Caliphs or their governors. In Egypt e.g. Amr bin Ass levied a uniform rate of 2 dinars per head per year. Umar I had graduate it: four dinars from the rich, two from the middle class and one from those poor who possessed some property and had an income above subsistance.

Kharaj

Kharaj a literally means the revenue derived from a piece of land or a slave. Thus it can be distinguished as kharaj or heads Ru'us, i. e Jizyah and the land tax.

Kharaj was of two types, Kharaj Maqasamah (proportional) or Kharaj Waizifah (fixed). The former was a proportion, ¼, ½ or 1/3 of the produce of land and the later was a fixed charge on the ground e.g. a fixed monetary amount payable on cultivation of a piece of land regardless of the amount of produce.

The Kharaj was levied on land irrespective of whether the owner was an adult, minor, muslim infidel, freeman or slave man or woman.

There is no evidence of a uniform rate being charged over a number of years available to us. It actually depended upon the assessor to determine the quantity and magnitude of actual payment. Different rates were applied to different qualities of land and different areas e.g. Egypt, Iran, Syria etc. Then different crops would be taxed differently e. g.

lands on which barley was cultivated were charged one ';dirham' per ';jarib' per year, those cultivated with wheat or sugarcane two dirhams.

Some idea of the size of revenue of the Islamic State may be had from the following figures, which are for the time of Umar, I, or early 7th century.

Revenue from Dinars:

Iraq 12, 8000,000
Egypt 1,2000,000
Syria 1, 4000,000

These were only three provinces. And Islam had yet to conquer more areas in the East and the West.

FAY
Many large estates were taken over by the State. Unclaimed and forestland were also included in ';fay'. Such land was either given over to landlords to cultivate the State sharing in the produce or managed by the State itself. Incomes thus derived were wholly reserved for public works.

All the property belonging to the Muslim constituted a part of the Bait al Mal, was a very broad concept and was based on the faith that all suzerainty, inclusive of the right to property over the Universe belonged to Allah Man being His ';agent' on Earth and possessing these things only temporarily. Bait al Mals were of three types.

1. Bait al Mal al Khas
2. Bait al Mal
3. Bait al Mal al Muslimeen

Bait ul Maal Al Khas

This was the ';Royal Treasury' or the privy purse, with its own sources of income and items of expenditure. It would cover the personal expenses of the Caliph, his palace, harem, pensions of the members of the Royal family, palace guards and gifts from the Caliph to foreign Princes.

Bait ul Maal
Bait al Mal was a sort of a State Bank for the Empire. This does not mean that it had all the functions of the present day Central Banks, but that whatever of these functions did exist in their primitive forms were performed by this Bank.

Because the Islamic State was highly centralized both at the provincial and the central levels, administration of the Bait ul Maal was always in the hand of one person. At the provincial level, the supereme head of the Bait al Mal was the Governor of the province.

He was incharge of collection and administration of revenue. These Bait al Mals were situated at Provincial Headquarters.

The Central Bait ul Maal was situated at the capital of the Empire so that it could be under the direct control of the Caliph, who was the supreme head. Under the Caliph ';Khzin al Mal' Secretary of the Treasury was the ';de facto' administrator of the Bait al Maal. He was usually a Cabinet rank officer who would be taken from the civil service or in some cases by direct appointment. He had a counterpart in the provincial administration, too, who was similarly appointed and discharged the same duties.

Bait ul Maal (Al-Muslemeen)

The second public treasury was called Bait al Mal Al Muslemeen or the treasury of all the Muslims. In fact, it was not for the Muslims alone; its duties included welfare of all the citizens of the Islamic State regardless of their caste, colour or creed. The functions of this Bait al Mal consisted in public works, road, bridges, mosques, churches, welfare and provisions of the poor.

The Bait al Mal was situated at the chief mosque and was administered by the Chief Qazi of the country at the central level and by the counterparts of this Qazi at the provincial level.

Following revenue items were to be deposited in the Bait al Mal:

1. The Sadqah or Zakat Revenue
2. Ghanimah
3. Fay, i.e. Kharaj and Jizyah
4. According to some Muslim schools of through there was a fourth class of revenue, accruing from property lost of found (luqtah) and estates (turkah) left by Muslims.

It was the duty of the Caliph to keep all these revenue apart from one another in the treasury because each had its own peculiarities and was to be administered according to its own set of rules.

Liabilities

Liabilities of the public treasury were of two kinds: Liabilities incurred from property kept in the treasury for safekeeping. This raised two interesting questions.

People would come and deposit their valuables with the public treasurer. These might consist of gold, silver, precious metals, jewelry and money. This was a sort of deposit banking. These deposits were recallable at a very short notice and because interest was not allowed by Islam they did not earn any interest. The administrator of the Bait al Mal could advance loans to the people. Now we do not have any data regarding the amount of these loans to enable us to decide whether this was factional reserve banking or not. But I think it was, as I am convinced by the provision that in case there was no funds in the treasury the depositor could not claim his deposit and usually had to wait. This means that such situations could arise in which loans would be advanced by more than the amount of the deposits. Increasing trade and absence of interest might have made this quite possible.

Can we possibly conclude or at best form an ';opinion' from this evidence that fractional reserve banking started in Baghdad several centuries earlier that it did in Italy?

The second type of liabilities were incurred with respect to revenues which were the treasury's own assets:

1. One part of these liabilities was incurred for value received, e. g. by way of compensation for the pay of the soldiers or price of arms and horses.
2. The other part consisted of the liabilities which had been incurred for the general interest or by way of assistance.

Diwans'

As the need arose, i.e. as the geographical limits of the Empire extended, the revenues increased and consequently the financial administration also expanded. This brought into being a host of ';Diwans' or Directors of different departments regional as well as Central Provincial Diwans were nominated by the Governor and the Central by the Caliph. The Caliph could also nominate the provincial Diwans. Most important Diwans were:

1: Diwan Al-Kharaj

His duties were to check the revenue from the Iraqi provinces the chief provinces in the Empire. He in fact was a sort of Accountant General for the land revenue.

2: Diwan Al-Azimma

To control and organize the revenue and expenditure and to centralize it in his own hands the later Caliphs established the Diwan Al Azimma at Baghdad. These Diwans supervised the work of the various provincials Diwans, a copy of these accounts had to be kept with them. This Diwan Al-Kharaj had to deposit a statement of its accounts with Diwan Zimmam Al Kharaj or the Director of Registrars of the Kharaj Department at Baghdad.

Other minor Diwans were:

1. Diwan al Jaish or the Military Department, dealing with the recruitment and pay of armies.
2. Diwan al Dar. The Palace Diwan, incharge of all the palaces of the Caliph.
3. Diwan al Khatem or Keeper of the Royal Seal.

Emoluments

Pay depended upon the appointing authority and differed in amount according to the importance of the dependent. The Diwan Al Kharaj received a salary of 500 Dinars – 1200.00 per month. Salaries of other Diwans ranged from 100 Dinars to 400 Dinars per month.

A point may be clarified here, the Central Govt. did not receive the gross revenue from the provinces, nor did it interfere in the expenditure of the provinces. It was the responsibility of the Governor to budget at the provincial level. Only the surplus accruing thereafter was sent to the Central Board of Revenue.

From the description, above, it might be clear that the Caliphs had a well knit and functional financial organization both at the central and provincial headquarters. About all the major financial departments of the present day governments were present. We might for the sake of comparison, draw up a list of comparable departments.

1. Ministry of Finance – The Vizier al Mal
2. State Bank – Bait al Mal – The Central Board of Revenue
3. Military Finance – Diwan alnue-Diwan al Kharaj – Department of Health, Social Welfare- The Chief Qazi.

The Islamic State till A. D. 1000- and even after that for quite some time was in essence a Theocracy. Religion ruled supreme. It guided all the affairs of the individual and the State. And because interest had been prohibited in Islam there was no counterpart of the present day banking structure. Let us see what sort of financial structure emerged under these religious sanctions.

Currency and Monetary Control

We have already studies the structure of the public treasury – Bait al Mal which essentially was the Central Bank. And we already know that one of the instruments of monetary control during the middle ages was the governance of the ratio of the main currency unit to other moneys in circulation. We find instances of this practice much earlier that Einaudi Cities. The Caliph being the Supreme Governor of the Central Bank used to fix the ratios between different monetary units circulating in the economy. For example the ratio of Dinar to Dirham was 1: 10, which time and again was deliberately varied by the Caliphs.

Weight and fineness of the monetary unit was also varied. Does this mean that this was deliberate monetary policy followed by the Baghdad Government to control the movement to control the movement of prices? Probably yes. But as we do not possess any price series so far we will have to reserve our final judgment. However, we might from the circumstantial evidence form a fair appreciation of the position.

At an earlier stage, we studied the trade and economic structure of the Empire and also took some partial measures of revenues according to it. This evidence leads us to believe that it was a time of relative prosperity. Moreover, by A. D. 1000 the Arabs had assumed the position of the largest trading nation in the East or the West. Possibly they enjoyed favourable Terms of Trade and Balance of Payments for a long time. They also made huge profits by serving as middlemen between the European and Indian and Far Eastern traders, as might be evident from the idea Hitti has given us of the fortunes of Retachilds and Rockefellers of the times.

The revenue for one year cash and in kind to Caliph Haron al Rashid was Dirham 1,755,072,000 or Dinar 175,507,200 which comes to $ 421,217,280,000 which is quite a sizeable amount.

To control such a huge by the medieval standards economy and efficient administration was needed. We have already cited the existence of such an administration above and have, also studied the system of monetary control.

Banking

Bait al Mal, we have seen was the central bank. Aside from this, there were no commercial banks in the modern sense of the term. Most of the trade was carried on by individuals or in partnership but no evidence has been found to indicate the existence of large trading companies.

The central bank was allowed to advance loans to individuls, both for personal as well as commercial use. As there was no interest, the borrower was required to pay a part of the profit he had made to the central bank alongwith the original. This was also the usual form of borrowing or lending money. The lender be it an individual or an organization would share in case profit was mad as a result of the loan being used for commercial purposes. In the case of a loss he was not required to share it.

A peculiar kind of loan existed and it still does in all the Muslim countries which was called '; Qarz-i-Hasna'. Because lending and borrowing had been mentioned in religious laws too, they were also governed thus. A debtor had to clear all his debts before his death, otherwise, he would die a sinner. The lender, in some cases, not to subject his fellowman to this sin would advance ';Qarz-i- Hasna' the repayment of which was not imperative. Two very common words in the medieval literature are ';Jahbadh' and sayrafah.

Jahbadh' is a derivative of the Persian word ';Kahbadh' which means money changer, banker or tax collector. The office of Jahbadh existed under the Sessanid Kings of Iran. It was adapted by the Caliphs and improved and enlarged. The primary function of this office was to keep a tight control over the income of the ';Sayrafah' or money-changers and also to fix the ratio between the gold and silver coins. They also changed silver coins into gold and the vice versa. Fixation of ratio between silver and gold coins was necessitated by the fact that ';The ratio between the dirham and the dinar fluctuated greatly in the market due partly to the law of supply and demand and partly to the dishonesty of Sayrafah.

Sayrafah were mostly Jews and Christians and they used to collect gold and silver bullion from the people, and then in exchange give them coins equivalent to the face value of the bullion, thus themselves profiting by the difference between the face and the material values of gold.

Foundation of an industrial and commercial society on the basis of credit was not quite possible in Islam. For example it would be impossible for me to borrow money, start a business and repay the lender the original and the interest. But I could buy and well on credit from someone else or simple guarantee backed by somebody else. In this case I would not be required to pay any interest but a share in the profit.

Saftajah

A counterpart of the modern bank draft or a sort of a letter of credit existed in the Caliphate. Saftajah is the Arabicised form of Persian ';Saftah' which meant proper money of letter of credit. This was issued by a money changer upon receipt of cash drawn upon another money changer of banker in a different town where the transaction had to take place. There were many companies which dealt in these letters of credit, like the company of Joseph bin Pineas and Aaron bin Amran of Baghdad.

Saftajah had a limit of 40 days normally and was payable in full or in installments on maturity. If cashed before maturity a fee had to be paid. One Ali Ibn Isa in A. D. 913 cashed his ';saftajah' before the date of maturity and had to pay one-xitieth dinar per dinar.

Cheque

By the 10th century A. D. cheques had started being used by the merchants of Baghdad. They were called ';Khatt-i-Saraf' and were drawn on their banks for local transactions even. A man of Sihimash drew a check for 42,000 dinars on another man of the same city in the middle of the 10th Century. The work cheque itself is an Anglicised form of the Arabic word ';Shiqq'.

Conclusion

Despite limited availability of material we have been able to reconstruct a fairly good financial picture of the Arab Empire up to A. D. 1000. We may now summaries our conclusions.