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Shariah and Legal Measures to Prevent Inflation: An Exploratory and Comparative Review

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Abstract:

This research paper examines the Shariah and legal measures to prevent inflation. Inflation is a global economic problem that arises due to various types and causes. From a Shariah perspective, Islam has injunctions against inflation, the prohibition of usury, and the prohibition of hoarding. Rules and regulations have been laid down in the Quran and Hadith to deal with these problems, the purpose of which is the welfare of the people and the establishment of a fair economy. In Islamic economy, price regulation and monetary policies are also determined under the same principles. From a legal perspective, different countries have introduced different laws and policies to curb inflation. In Pakistan, the Price Control, Prevention of Profiteering and Hoarding Act of 1977 provides an important legal framework covering the necessary laws to prevent price fixing, profiteering, and hoarding. This research has highlighted the types of inflation under natural and artificial causes, various measures to prevent them from Shariah and legal point of view, and their comparative analysis. Apart from this, various policy suggestions have been proposed for the prevention of inflation based on the results of the research, which can help in establishing a fair and stable economy.

Introduction

Background: Definition of inflation (inflation) and its effects on the economy

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"Inflation is the rate at which the general level of prices for goods and services rises, and subsequently, the purchasing power of currency falls. Central banks attempt to limit inflation, and avoid deflation, in order to keep the economy running smoothly."¹ (Investopedia, "Inflation Definition")

It is a process that reduces the value of money in the financial system. The main causes of inflation include demand-pull inflation, cost-push inflation, and monetary inflation. Inflation has a profound effect on the economy: it reduces the purchasing power of the public, makes the investment climate uncertain, and can cause social instability.

Statement of the Problem: Problems caused by inflation

The problems caused by inflation are multifaceted. First, it creates difficulties in the daily life of the people, as the real value of income decreases as prices rise. Second, inflation discourages saving, as people save less as the value of money falls. Third, it increases the cost of borrowing, as the principal value of the loan increases. Inflation also causes difficulties in economic planning, as future prices are difficult to predict.

Research Objectives:

The purpose of this research is to examine inflation prevention measures from Shariah and legal perspective. From the Shariah point of view, the rules and principles against inflation are studied in the light of Quran and Hadith. From a legal perspective, existing laws in Pakistan, such as the Price Control, Prevention of Profiteering and Hoarding Act 1977, are reviewed, and their practical implications are analysed.

Significance:

This topic is important because not only people face difficulties due to inflation but also the country's economy is affected. The study of this subject is necessary so that through it effective policies can be formulated which not only ensure the welfare of the people but also stabilize the economy. The results of this research can give useful insights to the policy makers and practical steps can be taken in the light of Shariah and legal principles.

Types and Causes of Inflation:

Types of Inflation:

i. Creeping Inflation:

Creeping inflation occurs when prices rise by 1 to 3 percent annually. This type is generally not considered harmful to the economy, but rather a sign of moderate and steady growth.

ii. Trotting Inflation:

Jump inflation occurs when prices rise by 3 to 10 percent annually. It is more serious and can damage the economy because it creates uncertainty.

iii. Running Inflation:

Jump inflation occurs when prices rise by 3 to 10 percent annually. It is more serious and can damage the economy because it creates uncertainty.

iv. Hyperinflation:

Hyperinflation occurs when prices rise by 50 percent or more in a month. This type is highly undesirable and can lead to the destruction of the country's economy.

v. Stagflation:

Stagnation inflation occurs when there is inflation in the economy as well as economic stagnation. This situation is very difficult because both inflation and unemployment increase simultaneously.²

Causes of Inflation:

i. Demand-Pull Inflation:

It occurs when demand for goods and services exceeds supply, causing prices to rise. It usually arises during economic growth when people spend more.

ii. Cost-Push Inflation:

This happens when the cost of production increases, such as an increase in wages or an increase in the price of raw materials. This causes businesses to pass on their increased costs to consumers.

iii. Scarcity Inflation

It occurs when there is a shortage in the supply of goods and services, which causes prices to rise. This may be due to natural calamities, war or other reasons.

iv. Structural Inflation:

This happens when there are problems with the structure of the economy, such as market monopolies or government policies that raise prices.

v. Suppressed Inflation:

This happens when the government intervenes to control prices, such as imposing price restrictions. But when these restrictions are lifted, prices suddenly rise.³

Prevention of Inflation from Shariah Perspective:

Quranic Teachings:

Order of Justice: In the Qur'an, justice and fairness have been ordered repeatedly. The principle of fairness is important in curbing inflation so that prices do not rise unnecessarily.

"O you who believe! Stand with justice, bear witness for Allah, even if it is against yourself or your parents or relatives"⁴.

Juvenile and Juvenile Justice: In the Quran, it is ordered to do justice in measure.

"Do not be petty, and do justice in measure, and do not deprive people of what they have"⁵.

Timely Payment of Wages: In the Qur'an, it is emphasized to pay the workers' wages in time.

"And give the laborer his wages before his sweat dries up"⁶.

Condemnation of Hoarding: Hoarding is condemned in the Quran.

"Those who hoard gold and silver and do not spend it in the way of Allah, give them glad tidings of a painful chastisement" (Surah al-Tawbah 9:34).

Prohibition against profiteering: Profiteering is condemned in the Quran.

"And do not deprive the people of their possessions, and do not make mischief in the land"⁷.

Ahadith:

Condemnation of Hoarding: The Prophet ﷺ strongly condemned hoarding.

"Whoever withholds grain for forty days, he is absolved from Allah and His Messenger"⁸.

Condemnation of Decline in Measure: The Prophet ﷺ has condemned the reduction of the measure.

"Those who fall short in measuring, they will be very bad in the sight of Allah on the Day of Resurrection"⁹.

Timely Payment of Wages: The Prophet (peace be upon him) has emphasized to pay the workers' wages on time.

"Pay the laborer his wages before his sweat dries up" (Sunan Ibn Majah, Hadith No. 2443).

Order of Justice: The Prophet ﷺ commanded justice and fairness.

"Do justice, it is closer to piety" (Sunan Abi Dawud, Hadith No. 4953).

Jurisprudential Principles:

Price Control: Pricing means pricing. Taseer is permitted in Islamic jurisprudence when prices rise abnormally.

"When the prices in Madina increased, the people requested the Messenger of Allah, peace and blessings be upon him, to set the prices. He said: Allah is the one who sets the prices, the one who restricts, the one who opens up, and the one who provides sustenance. I wish that when I meet Allah, no one complains of injustice against me"¹⁰.

Profiteering: Profiteering is strictly prohibited in Islam.

"Whoever sells something for his Muslim brother that has a loss and does not tell him, he is under the curse of Allah forever"¹¹.

Hoarding: Hoarding is strictly prohibited in Islam.

"Only a sinful person hoards"¹².

Other relevant Shariah principles: Islamic jurisprudence emphasizes trade based on justice, trust, and honesty.

Price Regulation in Islamic Economy:

Pricing: Pricing in Islamic teachings should be based on fairness and justice.

"O you who believe! Complete the measure and do not reduce it"¹³.

Control: The government is allowed to control prices if necessary so that the public is not harmed.

"When the prices rose in Madina, the people requested the Messenger of Allah, may God bless him and grant him peace, to fix the prices"¹⁴.

Prevention of Inflation from Legal Perspective:

Legal Measures: Laws enacted in various countries to curb inflation

Different countries of the world have taken various legal measures to prevent inflation. For example:

United States: Federal Reserve: The monetary policies of the Federal Reserve play an important role in preventing inflation in the United States. Inflation is controlled by changes in interest rates by the Federal Reserve. Consumer Price Index (CPI): Inflation is measured and controlled by the Consumer Price Index.¹⁵

European Union: European Central Bank (ECB): The European Central Bank implements monetary policies that control inflation in the Eurozone. Stability and Growth Pact: This pact is designed to protect European countries from inflation and financial instability.¹⁶

China: People's Bank of China (PBOC): The Chinese central bank controls inflation through monetary policies, such as changes in banks' reserve ratios.¹⁷

Price Control Laws: Laws have been enacted to monitor and control prices.

Legal Framework of Pakistan: Existing laws and policies to curb inflation in Pakistan

Pakistan has various laws and policies to curb inflation:

State Bank of Pakistan (SBP):

Monetary Policy: The State Bank of Pakistan implements monetary policies such as controlling inflation through changes in interest rates.

Inflation Targeting: A fixed inflation target is set which monetary policies are used to achieve.¹⁸

Price Control and Prevention of Profiteering and Hoarding Act 1977:

Price Control: Steps are taken to control prices so that prices of commodities do not rise unnecessarily.

Prevention of Profiteering and Hoarding: Laws against profiteering and hoarding are enacted to control inflation.

Competition Commission of Pakistan (CCP):

Competition Laws: Competition laws are used to increase competition in the market so that prices do not increase.

Price Control Act of 1977: An Overview of Price Control, Profiteering, and Anti-Hoarding Laws

The Price Control, Profiteering and Hoarding Act of 1977 is an important law to prevent inflation in Pakistan. Various measures are taken under this Act:

Pricing Regulation:

Section 6: Under this section, the government is empowered to fix the prices of essential commodities so that there is no profiteering and unnecessary increase in prices.

Prevention of profiteering:

Section 7: Under this section, strict action is taken against profiteers, and fines are imposed on them.

Prevention of Hoarding:

Section 8: Strict action is taken against hoarders, and their warehouses are raided to ensure supply of the stocked goods to the market.¹⁹

Natural and Artificial Causes of Inflation

- **Decrease in agricultural production:**

Agriculture sector plays an important role in the economy of Pakistan. When agricultural production declines, food shortages occur, leading to inflation. This reduction may be due to various factors such as climatic conditions, irrigation problems, and scarcity of agricultural land.

- **natural disasters:**

Natural calamities such as floods, earthquakes, and droughts adversely affect agricultural production. When production declines, commodity prices rise. Floods and droughts in Pakistan in recent years have adversely affected the agricultural sector, leading to an increase in commodity prices.

- **Fluctuations in global commodity prices:**

Pakistan's economy is linked to the global market. When commodity prices rise in the global market, it affects the local market as well. Increase in prices of oil, wheat, and other commodities causes inflation in Pakistan.²⁰

Artificial Causes:

- **Fiscal Policy:**

Inflation is controlled through monetary policy. When the government increases the money supply, it increases prices. In Pakistan several times the money supply was expanded through expansionary monetary policies which led to an increase in inflation.

- **Fiscal Policy:**

Fiscal policy controls government expenditure and revenue. When the government increases its spending or cuts taxes, it increases the money supply in the market and increases inflation.

- **Increase in wage prices:**

When workers' wages rise, it affects the prices of products and services. Labor unions and other organizations in Pakistan press for wage hikes, which push up prices.

- **Constraints in supply chain:**

Disruptions in the supply chain such as transportation problems, lack of warehouses, and other factors lead to reduced supply of goods. This raises prices and increases inflation.

- **Government Regulations:**

Government regulations such as price controls, anti-profiteering laws, and anti-hoarding laws can help control inflation. However, if these regulations are not implemented properly, their effect may be reversed and inflation may increase.

- **Stock:**

Hoarding traders increase prices by creating scarcity of goods. This is an illegal practice that increases inflation. Pakistan has several times taken strict action against hoarding to control prices.²¹

Comparative Analysis: A comparative analysis of Shariah and legal measures to prevent inflation

Shariah and Legal Measures (in Pakistan)

- **Quranic Injunctions and Hadith:**

There are various commands in the Qur'an and Sunnah to prevent inflation, such as zakat, fiscal justice, and the principles of government hoarding.

- **Jurisprudential Principles:**

The jurisprudence includes interpretation, profiteering, and hoarding principles that help prevent inflation.

- **Legal Actions: Price Control Act of 1977:**

In Pakistan, prices are controlled under the Price Control Act, which provides equal opportunities for inflation.

- **Law Against Profiteering:**

The law includes anti-profiteering measures that help curb inflation in various ways.

- **Common features: Legal Organization:**

Both Islamic religion and the legal system include price controls, hoarding prevention, and legal measures against profiteering to prevent inflation.

- **Financial System:**

Both religious principles and legal systems include measures to control the prices of commodities based on the monetary system.

Differences and unique aspects

- **Government Power:**

Shari'a and law differ on the government's power and authority in anti-inflation measures. Religious principles set the limits of government powers, while law is more liberal in the powers of government.

- **Financial Principles:**

Sharia and law differ in the definition of fiscal principles, the basis of expenditure, and the calculation of wages, which affect inflationary measures.

Summary of research findings

Research has shown that different measures of inflation, both in Shariah and legal theory, are taking shape in different countries. In Pakistan's economic environment, legal measures such as the Price Control Act of 1977 have kept prices within reasonable limits, while Islamic principles also recognize zakat, and government measures of government hoarding.

Interpretation of these results

An interpretation of the effects of Shariah measures and legal measures has shown that religious principles include price controls to prevent inflation, prohibition of profiteering, and principles of hoarding, while legal systems include expenditure management, legal taxation, and legal prohibitions exist. There are also differences between the two such as the overreach of government powers and the presence of legal formalities.

Policy recommendations

The policy measures suggested to curb inflation include the following:

Legal control measures need to be further strengthened and enforced.

According to Islamic principles, more government measures are concerned to prevent inflation in an Islamic economy.

Under the measures, adequate opportunities should be provided to improve the economic condition of the people.

This analysis has shown that the involvement of Shariah and legal measures to prevent inflation can have an effective impact on the economy of humanity. This can not only improve the economy but also preserve the basic aspects of people's lives.

Research summary

Research has shown that Shariah and legal measures to prevent inflation vary from country to country, where Islamic principles and laws reflect social norms. In Pakistan, legal measures such as the Price Control Act of 1977 keep prices within reasonable limits, while Islamic economics includes principles of zakat, government hoarding, and profiteering.

Implications of the results

This research has shown that the effects of Shariah and legal measures to prevent inflation lead to economic improvement, public comfort, and improvement in individual economic conditions. Through these measures, the use of natural powers of government institutions is also improved, which prevents economic crises.

Opportunities for future research

For further research on the topic, the results of this research provided us with information on what is needed for further reform and policy delivery in this field. For the future, more detailed research on this topic should be continued to better understand the problems of inflation and to tailor existing measures for further improvement.

This research has shown that the presence of Shariah and legal views on the subject of various measures to prevent inflation can help improve social standards and norms.

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