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A proposed theory of voluntary individual saving from an Islamic perspective

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Abstract

It is well known that voluntary individual saving plays an important role in the capitalist economic system and, in our opinion, plays a more critical role in the Islamic economy. The exclusion of interest on monetary capital raises doubts about the ability of the Islamic economy to achieve a sufficient amount of saving and thus its ability to achieve economic efficiency across time.

The research discussed the difference in the value judgments controlling the saving behavior between the capitalist and Islamic economy, and the implications of this for the motives of individual voluntary saving in the Islamic economy and how to determine its amount.

This research shows a difference in value judgments that lie behind the saving behavior in both the capitalist and Islamic economies and shows that the value judgments controlling saving behavior in the Islamic economy stimulate and enhance individual voluntary saving.

The research suggested a theory of voluntary individual saving in the Islamic economy that differs from the saving theories in the capitalist economy, including the idea of time preference and Keynes' theory.

In addition to the fact that the research provides an alternative to the interest rate in the form of a potential return for cash capital and shows its nature and the method of determining it, the research proves that voluntary individual saving can exist in the Islamic economy even in the absence of a return on saving, regardless of the nature of this return.

Keywords: individual savings, interest rate, The Islamic economy.

Introduction

This research is theoretical research that assumes an economy that adheres to the value provisions of the Islamic economy and proposes a theory of voluntary individual saving in this system using a descriptive- analytical method. It begins with explaining the special importance of voluntary individual saving in the Islamic economy and presents an explanation of concepts related to the study. Then presents its proposed theory of voluntary individual saving in the Islamic economy. Then the research shows the most important analytical differences concerning saving behavior between both the capitalist and Islamic economies. The research concludes with the most important results, in addition to an appendix about the nature of the expected rate of return on financing, which the research suggests as an alternative to the interest rate in the Islamic economy.

Previous studies:

There are many related studies, including:

1. Benhaddou, Fouad, (2020) "Consumption and saving functions and their curves in Islamic economy", The International Journal of Islamic Economics, Issue 79, April 2020.¹

This research presents some of the reasons for saving in the Islamic economy and incentives to mobilize it. Its writer believes that the saving function in the Islamic economy is

¹ file:///C:/Users/User/Downloads/Vol_95XwVzk%20(2).pdf

completely different from its counterpart in the capitalist economy, and this is due to the existence of zakat and spending in the way of God and the state's guarantee of sufficiency.

The research did not provide a comprehensive overview of the reasons for saving, nor did it present a scientific theory of saving in the Islamic economy that highlights the values of this system, in addition to that it did not provide an alternative to the interest rate.

2. Al Hattash, Sufian Abdel Salam, (2019) "Saving controls and its necessities through jurisprudence rules"²

This jurisprudential research shows, from an Islamic jurisprudential perspective, the necessity and controls of saving, and does not provide a scientific theory of saving in the Islamic economy.

3. Kazem, Ammar Majid, (2012) "The interest rate from the traditional and Islamic point of view" Iraqi Journal of Economic Sciences, tenth year, thirty-second issue, 2012.³

This research suggested using the profit ratio as an alternative to the interest rate, and it did not provide a theory of saving and did not show the relationship of saving as a dependent variable of the profit ratio.

In our opinion, the rate of profit is not suitable as a rate of expected return on cash capital. The rate of profit in two alternatives of investment activities can be the same, and the expected rate of return on capital varies, despite the fact that the agreed rate of profit on capital is the same, if the expected rate of return on investment in the two alternative activities is different.

For example, if the profit rate is 40% and the rate of return in one of the two investment activities is 10%, then the expected rate of return on capital is 4% = 10% x 40%, while if the rate of return in another branch of activity is 15%, the expected rate of return on capital will be 6%.

Thus, the expected rate of return of financing that our research proposes accurately crystallizes the expected return on financing as it takes into account both the agreed profit

²<https://www.aliqtisadalislami.net/%D8%B6%D9%88%D8%A7%D8%A8%D8%B7-%D8%A7%D9%84%D8%A7%D8%AF%D8%AE%D8%A7%D8%B1-%D9%88%D8%B6%D8%B1%D9%88%D8%B1%D8%A7%D8%AA%D9%87-%D9%85%D9%86-%D8%AE%D9%84%D8%A7%D9%84-%D8%A7%D9%84%D9%82%D9%88%D8%A7%D8%B9/>

³ <https://www.iasj.net/iasj/download/590f3904d4e937be>

ratio and the rate of return on investment in the activity under consideration together in the same time.

4. Habiba, Zahaf, (2010) "The Role of the Interest Rate in Investment and the Islamic Alternative", Master's Thesis, Faculty of Economics and Commercial Sciences, University of Al- Arabi M'hidi, Algeria, 2010.⁴

This research presents an alternative to interest, the investment participation system, and does not provide a theory of savings.

What does our search add?

The addition of our research represents in a comprehensive highlighting of the motives for individual voluntary saving in the Islamic economy and presenting an alternative to interest on monetary capital in a theoretical framework highlights the teachings of Islamic Sharia.

Our research presents a model for individual voluntary saving that highlights the most important independent variables and how they influence determining its amount in a way that activates the values of the Islamic system in the form of moderation and priorities coefficients and activates justice between the present and the future.

Finally, the research highlights the most important analytical differences related to the theory of voluntary individual saving in both the capitalist and Islamic economies.

Research related concepts:

Priority in fulfilling needs:

It is intended to classify the degree of importance of goods in terms of their entitlement to fulfill them, so they are arranged in descending order, starting with the necessary, then the quasi-necessary, then the improvements. Goods are divided in this way based on their service for a necessary, quasi- necessary, or improvement purpose.

⁴ <http://bib.univ-oeb.dz:8080/jspui/bitstream/123456789/549/1/%D8%AF%D9%88%D8%B1%20%D9%85%D8%B9%D8%AF%D9%84%20%D8%A7%D9%84%D9%81%D8%A7%D8%A6%D8%AF%D8%A9%20%D9%81%D9%8A%20%D8%A7%D9%84%D8%A7%D8%B3%D8%AA%D8%AB%D9%85%D8%A7%D8%B1%20%D9%88%D8%A7%D9%84%D8%A8%D8%AF%D9%8A%D9%84%20%D8%A7%D9%84%D8%A7%D8%B3%D9%84%D8%A7%D9%85%D9%8A%20%D9%84%D9%87.pdf>

Priorities also mean the classification of uses for individual expenditure in terms of the degree of entitlement to whom the spending is directed. They are arranging a descending arrangement that begins with the person spending on himself and his dependents, then spending on the owners of merit expenditures from his relatives, then spending for the sake of God in general, then saving. It is clear that these priorities, with its two branches, are based on the guidance and purposes of Islamic Sharia , and do not leave entirely to the discretion of the individual without a guide from Sharia.

Moderation in spending:

In fact, the broad concept of moderation in spending includes, among other things, taking care of priorities and achieving sufficiency in meeting needs. However, in this analysis, moderation will be limited to a narrow concept related only to the scope and amount of spending. So that spending is characterized by moderation if it does not include spending on taboos, and it is within the framework of what is known about the likes of this individual, and the care of right justice between the needs of the present and the future, and finally, if this spending does not absorb all of the income unless this income is already insufficient, except to achieve sufficiency of the necessities.

Commitment return and legitimate utility:

Commitment return is intended, in this research, an indirect return estimated by the individual, resulting from his commitment to the requirements of Islamic Sharia in his economic decisions. This return expresses the state of contentment and conscience comfort that a Muslim senses from his feeling that he has fulfilled what God has commanded in terms of halal and moderation in spending, and caring for rights and priorities within the framework of ability.

This does not negate the material return that can result from this commitment, which may be represented, for example, in preserving health as a result of moderation. It also does not negate the blessings that an individual can get, as well as the reward in the hereafter, but we exclude it because it cannot be subjected to analysis.

As for legitimate utility, it is intended as a direct return that the individual also appreciates, and that results in making various economic decisions. Utility derives the adjective "legitimate", from its permissibility in the Islamic Sharia.

The concept of "right justice" :

Right justice is based on giving everyone who holds a right his right, as defined by Islamic Sharia, and is based on combining and reconciling different rights, as well as between moral principles and material interests. So it does not recognize absolute rights and freedoms but rather sets controls for these freedoms and rights that will establish a balance that does not bias a party without a party.

Right justice is the characteristic of Islam in everything, not just in allocating resources. The right justice concept in the area of resource allocation is aimed at achieving justice in meeting needs, that is, moderation in meeting needs according to priorities and within the framework of achieving sufficiency for all people.

The concept of "Al-Mudarabah":

"Al-Mudarabah" in the Islamic system means one of the legitimate ways of using cash capital, in which money is on one side and work is on the other side. The profit between the worker and the owner of the cash capital is known in proportion. It is agreed for each of them on a percentage of the profit when it is achieved. If a loss occurs, the owner of the cash capital is the one who bears the loss, unless the worker is a transgressor or dissipater.

"Al-Mudarabah" ratio:

It is the ratio of profit from the expected rate of return on investment in the branch of activity under consideration which is agreed upon for the owner of the cash capital in "Al-Mudarabah".

Expected rate of return of financing:

An analytical tool is provided by the author to calculate the probable cost of cash capital for allocating it among different uses. It is determined by the point of intersection between aggregate demand and aggregate supply of monetary capital in "Al- Mudarabah" market. It is possible to build individual tables of demand and supply of funds in the "Mudarabah" market, and from the aggregation of these tables, we can obtain the tables of the total demand and supply of funds in this market, and the point at which the demand and supply of money-capital intersect in "Al- Mudarabah" market, determines the expected rate of return of financing.

We see that this expected rate could represent a minimum of the probable opportunity cost of using cash capital in the Islamic economy. It is calculated by multiplying the "Al-Mudarabah" ratio by the expected rate of return on investment in the branch of activity under consideration (in the "Mudarabah" market).

If the prevailing rate of "Al-Mudarabah" is, for example, 60% for the cash capital and 40% for the worker (I.e. the Mudarib), and the expected rate of return in investment in trade, on average 20%, hence the expected return of capital, which is what we call "the expected rate of return of financing" will be 12%: It is 60% (the ratio of the share of the capital from the expected profit) multiplied by 20% (average rate of return expected for investment in trade).

The importance of saving in the Islamic economy:

Saving represents an important variable in contemporary economic systems, and this importance stems, among others, from the necessity of saving as a source of investment financing, distinguished from other sources as a self-sourced that mobilizes real economic resources, and is characterized by its breadth and permanent bowl, from which it draws.

In addition to the known importance of saving as a source for financing growth and development in contemporary economic systems, saving has special importance in the Islamic economy, which is represented in the necessity of saving to achieve moderation in expenditure and to achieve distributive justice across time. Moreover, this private importance is also represented in the benefits that the character of the individual acquires from his practicing for saving behavior, such as the feeling of responsibility, moderation in behavior, planning for the future, and to meet his needs, and participate with others in the

development of society. These are all important things for changing oneself and behavior in a way that entails the possibility of changing reality towards a better level of construction.

Given the special importance of saving in the Islamic economy, it is no wonder that we see Islam upgrading rational saving behavior resulting from moderation and justice in spending to the level of worship.

Two mechanisms of saving behavior

We see that the motives for saving in the Islamic economy differ from those of the traditional economy due to the difference in the values that direct the allocation behavior of individuals and the state, and that crystallize in the presence of a mechanism of maximizing the return of commitment with Sharia in conjunction with the mechanism of maximizing the utility.

Individual voluntary saving motives in The Islamic Economy:

In our opinion, saving, in its existence and amount, and mainly, is the result of behavior that adheres to Islamic Sharia to maximize the commitment return:

1. The necessity of moderation in spending, so individuals may have some leftover money and must save it (and invest it).
2. The necessity of achieving justice in meeting the needs between the present and the future may require an amount of saving that secures the achievement of this justice.
3. The multiplicity of due spending aspects of the Muslim individual, and the breadth of its circle, from self-spending and dependents, due expenses, and spending for the sake of God, as well as urging Islam to spend to the extent that made it a condition for obtaining righteousness; All of this requires an investment to reproduce the income and develop it to increase spending and exposure to the grace of God, and this requires saving. The more a person's savings and investments increase, the more hopeful in increasing his livelihood from Allah. God Almighty is commanding to seek and heaven does not rain gold or silver.
4. Doing what God has commanded for the construction of the land requires investments and therefore, saving.

5. Islam urges its followers to achieve power and prepare it for the enemies of God and Muslims, and among the elements of this power is economic power, especially achieving economic independence, which requires saving and investments.

6. The Messenger Mohammad, may God's prayers and peace be upon him, recommends that one keep part of his income for the day of his poverty and his need. On the authority of Abdullah bin Masoud, the Messenger of God, may God's prayers and peace be upon him, said, "He who is moderate will not be poor",

Narrated by Ahmad.

I.e. He "who are not wasteful in their spending, spend more than they need, nor they are not stingy about their families so they fall short in their rights and do not suffice them, but they are justice and benevolent, and the best things are its middle, neither this nor this" (Ibn Kathir, Interpretation of the Great Qur'an)⁵.

7. The continuation of spending from income on various aspects of spending and its expansion across time to spend on offspring, and improving the level of spending, requires saving that are invested, so that money does not erode. It is known, from the Islam point of view, that what does not do the duty but with it is a duty.

8. The Messenger, may God's prayers and peace be upon him, recommends that one leaves the heirs rich.⁶

Individual saving rules:

In our opinion, in light of the value provisions of the Islamic system, the individual saving function results from the implementation of two rules of behavior in spending:

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file:///C:/Users/User/Downloads/%D8%AA%D9%81%D8%B3%D9%8A%D8%B1%20%D8%A7%D8%A8%D9%86%20%D9%83%D8%AB%D9%8A%D8%B1_21648_Foulabook.com_.pdf

⁶

<https://www.dorar.net/hadith/search?q=%D8%A5%D9%86+%D8%AA%D8%B0%D8%B1+%D9%88%D8%B1%D8%AB%D8%AA%D9%83+%D8%A3%D8%BA%D9%86%D9%8A%D8%A7%D8%A1&st=w&xclude=&rawi%5B%5D=>

The first rule:

That the Muslim individual will arrange his spending on the various aspects of spending, and allocates for each of them according to its priority the amount that satisfies his needs in moderation, so if anything remains from income, then it must be saved, a little or a lot. This is because, on the one hand, moderation should be adhered to, and not to exceed it to extravagance and luxury, and on the other hand, there are some reasons already mentioned that make him save money.

The second rule:

If the remainder of the income after the moderate spending (on the individual and dependents, and those who merit due expenditures, and the spending for the sake of God) is insufficient to secure the fulfillment of his needs in the next period with the same level of fulfillment in the current period at least, balancing is made between the present and the future until it is achieved that. This balancing is carried out by reducing the present expenditure, starting with the improvements, then the semi-necessities, then the necessities, until equilibrium is achieved in fulfilling the needs between the present and the future in the conception mentioned in this research.

But if this balancing necessitates reducing the minimum of necessities as the individual appreciates, the individual works to meet this minimum, even if he does not leave anything for the future because this represents a case of significant necessity and, "...Allah will give after hardship, ease." from the verse (7) of Surratt Al-Talaaq.

This is in addition to the fact that the individual, in this case, is supposed to complete his sufficiency from Islamic distribution institutions if the insufficiency of his income to achieve his sufficiency is due to legitimate acceptable reasons.

As is evident, saving is caused by the presence of a residual from present income after moderate spending to meet the needs. It may also be the reason, in addition to this, that part of the present income must be saved to achieve an equilibrium in fulfilling the needs between the present and the future when the relationship between income and needs is expected to be unbalanced in the future in a manner that does not secure meeting the needs of the future at the same level of meeting these needs at least in the present. In light of this, the individual saving function can be derived and formulated as follows:

$$S_{t_0} = y_{t_0} [1 - (a_0 + b_0 + e_0 + m_0)]$$

Provided that:

$$[\{y_{t_1} (a_1 + b_1 + e_1)\} / p_1] \geq [\{y_{t_0} (a_0 + b_0 + e_0)\} / p_0]$$

Where S_{t_0} , y_{t_0} are saving, and real Income, in the original period respectively, and where a_0 , b_0 , e_0 , m_0 are coefficients of moderation in spending on necessities, semi-necessities, improvements and spending for the sake of God, respectively, and where P_0 , P_1 respectively are the number of his dependents in the original period and the following period including his person, and where y_{t_1} , a_1 , b_1 , e_1 are, respectively, income, and moderation coefficients in the next period.

This function highlights the effect and role of the concepts of right justice in the individual saving decision as expressed by moderation coefficients, prioritization and, the condition of the right justice in meeting needs. In the context of excluding private business sector savings, total private savings can be obtained by grouping individual saving in a functional relationship with the sum of the real income of these individuals.

The most important analytical differences

In the analysis of saving, the effect of the difference between the values judgments of the Islamic system in this respect, and the values judgments of the socialist and capitalist systems is clearly evident.

Saving, in the socialist economy, is not voluntary saving, but saving is determined centrally by the central planning body, and it is not based on the achievement of the right justice but rather on a value judgment that may be represented, as it actually happened in the former Soviet Union, in giving priority to development means of production at the expense of production of consumption materials and reducing present consumption for the sake of the future.

There is no scientific law that specifies the ratio of accumulation to consumption, but it is up to these values judgments that permanently and systematically set aside a part of the national income for accumulation. Although theoretically, the aim is to realize the increase in average per capita consumption (Popov)⁷, what actually happened in the former Soviet Union is to

⁷ <https://www.marxists.org/subject/economy/authors/pe/pe-ch39.htm>

limit the current consumption for the account of future expansion. Likewise, the criterion for determining the level of needs that are satisfied in the present and the future, despite the theoretical claim that it is dependent on the choice of the people, may in fact reflect the choice of the ruling Communist Party (Misra B. (1979): 172-207).⁸

In the capitalist system, the saving reasons, and hence determining its amount, are influenced by values judgments its source is the individual who aims to maximize his utility, calculated from his point of view now. The individual is the one that assesses the utility of consumption in the present and the future, and he may assess the utility of the unit of the future consumption as less than the utility of a similar unit of the present consumption, and hence he postpones the consumption of some units of the present consumption, it is inevitable that he will compensate with a greater amount of utility in the future, by obtaining a positive interest on the saving amount resulting from the postponement of some present consumption. This is the essence of the time preference theory in the use of economists after "Fisher" (Fisher: 1930).⁹ Thus, the rate of interest may affect the level of consumption in the present and the future in a way that may not achieve the right justice between them.

In Keynesian economics, there may be a similarity between the reasons for saving as presented by Keynes and some of the reasons that we have presented for saving in the Islamic economy, but it is not quite so: on the one hand, one of the main reasons for saving in the Islamic economy is moderation in spending, a reason which may not exist in the capitalist economy at least concerning harmful consumption and all of the illicit consumption in the Islamic system. Likewise, for this reason, if it exists in the capitalist economy, there is no obligation on the part of individuals stemming from a belief they believe in, nor is there mandatory for them to do so. On the other hand, there are reasons for saving mentioned by Keynes, and it is considered that they have no place in the Islamic economy, including satisfying the instinct of miserliness (Keynes: 1936).¹⁰

And, Yuri Popov, "Essays on political economy, Socialism and socialist orientation",
<https://archive.org/details/essayspoleconsocialism>

⁸ Misra B (1979): "Capitalism Socialism and Planning", OXFORD & IBH PUBLISHING CO., New Delhi. India, pp. 172-207.

file:///C:/Users/User/Downloads/Block-2.pdf

⁹ <https://oll.libertyfund.org/title/fisher-the-theory-of-interest>

¹⁰ https://en.wikipedia.org/wiki/The_General_Theory_of_Employment,_Interest_and_Money

On the third hand, even for similar reasons, such as leaving the heirs rich and saving for the rainy day, it is noted that these two reasons in the Islamic economy are considered a commandment from a messenger who they believe in his Sharia, while in the capitalist economy there may be a conviction with some individuals with these two reasons and may not exist when some else. Moreover, the scope of these two causes, and the other causes of saving, is framed in the Islamic economy by achieving the right justice in meeting the needs between the present and the future and between people together. While in the capitalist economy, this scope is framed by maximizing utility as perceived by the individual decision-maker, and may not achieve justice between the present and the future.

On the fourth and final hand, one of the objective reasons that Keynes presented for saving is the significant changes in the interest rate, which can lead, and other reasons, to the transfer of the entire saving function, while the expected rate of return of financing does not play a role similar to that except through its effect on changing the level of moderation for the decision-maker of saving in the Islamic economy.

In our opinion, whether in classic or Keynesian analysis, the decision to save is made according to the will of individuals who aim to maximize their utilities as each sees them, and the interest on cash capital also affects the saving decision, as it is considered the rate of return on deferred consumption, from two basic ways: that the individual assesses the utility of the unit of consumption in the future is less than the utility of the unit of consumption in the present, and that the individual aims to maximize his individual utility instead of targeting justice in meeting needs. These two main ways of the effect of interest on capital on the saving decision only value judgments that can be replaced by different value judgments, and this is the case in the Islamic economy.

In the Islamic economy, and concerning saving decisions, we find that the idea of time concerning consumption does not give a position for tomorrow's consumption different from the position of consumption today. On the other hand, it is the justice of Islam in meeting the needs that makes the needs of the future have the same right as the needs of the present. It establishes a balance between them making the need have the same right to be fulfilled as long as the degree of priority is equal, and the evaluation of the present and the future does not differ concerning the return on consumption in the Islamic economy¹¹. This is due to the

¹¹ In our view, the legitimate bases of this exist in several pillars:

a. This is a requirement of equilibrium and moderation.

difference in the values judgments from those in other economic systems, this difference makes the level of consumption in present in the Islamic economy, is determined in the context of moderation and equilibrium, and hence the level of saving is determined as it is previously analyzed.

The rate of expected return on financing plays its role within that, and it is a probability rate that differs from the interest in its essence and role.

Changes in the probability yield can only affect the determination of the point that the individual chooses for present consumption in the zone of moderation. A higher probability return may motivate the individual to reduce his spending so that it is determined at the minimum level in the moderation zone, and also a decrease in this expected return on financing may entice the individual to increase his spending so that it is determined at the minimum level in the moderation zone, but in both cases, the individual is assumed that will remain in the zone of moderation not exceeding it.

Likewise, changes in the expected rate of return of financing can affect the amount of savings required as a necessary minimum to achieve a level of consumption in the future that achieves the equilibrium with the level of consumption in the present. Finally, a higher expected rate of return of financing may result in an increase in the amount of real income available in the future from a certain amount of savings, and this may affect the level of consumption in the future. However, this potential effect is achieved by increasing the amount of consumption that reflects a moderate expenditure in the light of available income, and therefore this effect does not work on independence, but in the context of justice as well.

b .The matter is related to the rights of people's needs to fulfill, and therefore moderation and priorities must take into account, the present and the future are equal in that.

c. Likewise, the applying of the idea of temporal preference may contradict moderation, as it may lead to an increase or decrease in current consumption beyond the level of moderation, and consumption in the future as well.

d. Some western economists themselves have gone on to equal the needs of the present and the future for reasons mentioned by Wicksteed, Weather, and Marshall. There is no objection to the wise personal evaluation meeting with the calendar of Islamic Sharia, which was revealed by The God, The Almighty, even if the reasons differ.

Results

1. The doubts raised by excluding interest on cash capital, in the Islamic economy, about the ability of the system to achieve a sufficient amount of saving and thus its ability to achieve economic efficiency across time.
2. It follows from the implementation of the value provisions of the Islamic system that voluntary individual saving is determined through the work of two mechanisms: the mechanism of adherence to the requirements of Islamic Sharia, and then the mechanism of the considered utility. And that through the work of these two mechanisms, the Islamic economy can achieve a level of individual voluntary saving that is compatible with achieving the objectives of this economy.
3. The causes and motives for individual saving in the Islamic economy are different from those in both the capitalist and Marxist socialist economies.
4. Right justice, including its care for moderation, priorities, and the right justice in meeting the needs between the present and the future, plays a dominant role in determining individual voluntary savings.
5. This research presents an alternative tool for the interest on monetary capital in line with the value provisions of the Islamic Sharia, this is the expected rate of return of financing. It is a potential return that is calculated by multiplying the agreed profit rate for the cash capital by the expected rate of return for the investment activity and is used only to choose between alternatives at the beginning of the period. While the actual return on cash capital is determined at the end of the period by multiplying this percentage by the actual (not expected) rate of return for the investment activity in question.
6. The role of the expected rate of return of financing, in this regard, is a role governed by the basic criterion, which is achieving the right justice that leads both individual saving decisions and the public saving decision also.
7. This research suggests that In the Islamic economy, saving can be found in the absence of a direct material return on saving (in the form of interest or any other form) as a result of the commitment of current spending to moderation, and as a result of a commitment to justice in meeting the needs between the present and the future, and for other reasons

previously mentioned. Also, the amount of this saving will be determined in a way that meets these criteria.

Appendix:

The nature of the expected rate of return of financing:

Interest is characterized by being, on the one hand, a cost component that is predetermined and which the entrepreneur takes into account in the activity costs when calculating the profits, on the other hand, it expresses a conditional return for the financier, and is defined as a percentage of the cash capital, regardless of the outcome of the activity. This is at a time when we find that the expected rate of return of financing (Z) is only a tool for calculating the potential cost of the cash capital for the purpose of rationalizing the use of funds¹², but the entrepreneur does not count it as an actual cost element, it is only a measure of the participation of the cash capital in profit if it is achieved so that the investor can pre-calculate his expected net return from the investment for comparison among the available investment alternatives, also, the return on cash capital is not determined in advance and can be zero, positive, or negative according to the actual result of the activity that finances it, so that the role played by (Z) in this regard, from the point of view of the owner of the cash capital, is only a tool for calculating the probable return of financing to choose among available investment alternatives.

According to the in-kind theories of interest, interest is the yield of capital, and the reward for abstaining from current consumption, while interest according to monetary theories is a price for money and a reward for giving up liquidity. Are these theories valid to justify the expected rate of return of financing in the Islamic economy?

¹² In fact, the expected rate of return of financing will be limited to being a calculation tool used by both the financier and the entrepreneur when choosing among available investment alternatives; And what actually exists is the percentage of the Mudarabah, which is the ratio that the money owner deserves from the expected profits. Hence, the percentage that the entrepreneur deserves is determined and it is equal to (1 - the Mudarabah ratio). However, the Mudarabah ratio is not sufficient to know the rate of return of cash capital, unless the expected rate on investments in the branch of activity under consideration is known; Then it is possible to calculate the rate expected to be obtained by the owner of the money-capital by multiplying the expected rate on the investment (x) by the Mudarabah ratio, and this is the expected rate of return of financing. Likewise, the entrepreneur calculates his share of the expected rate on the investment by multiplying the expected rate on the investment (x) by (1- "Al- Mudarabah" ratio) and this is the expected rate of the return on entrepreneurship.

Is the expected rate of return of financing a price for capital in the Islamic economy? The truth is that Islamic Sharia does not confess that capital in its monetary form deserves a predetermined price.

If (Z) is not a price, can we say that it is a counterpart for giving up liquidity? To answer this question, we ask another question: What is the possibility of maintaining liquid funds in the Islamic economy? The truth is, in our opinion, that the demand for liquidity, as well as the demand for goods and services, must be for legitimate purposes, and within the limits of moderation, and therefore the funds held to conduct transactions, and the precaution against emergencies will, mainly, be in the range of what meets the need for it in moderation, and not depend on the expected rate of return of financing.

Likewise, retaining some funds liquid in anticipation of an investment opportunity more profitable, and if that includes retaining liquidity, however, that does not mean that (Z) is in exchange for giving up liquidity, otherwise, the owner of the cash capital deserves a fixed predetermined return because when he gives up the liquidity, he provided the specified service and hence deserves a predetermined instant compensation. This is in addition to the fact that the demand for liquidity pending an opportunity more profitable, in our opinion, is not an essential element in the structure of liquidity demand in an Islamic economy for several reasons, including:

That the money which its owner holds liquid and reaches "Al-Nisab"¹³ and a Hijri year passes for it, subjects to Zakat a quarter of ten, and that does not represent all of the cost of keeping the money liquid, but it is added to it the expected rate of return of financing that could be obtained during the period of keeping the money liquid. Also, waiting for an investment opportunity that is more profitable in an Islamic economy is linked to the possibilities of an objective change in the economic conditions in the economy in question (It is not a matter of mere speculation on the prices differences in the traditional sense), hence, it may be necessary to hold the liquid funds for a long time for this potential opportunity to be realized, the matter which accumulates the costs of holding funds liquid, as well as the possibility that no such hoped expectation will occur, in addition to the possibility of a decrease in the real value of these liquid funds as a result of inflation, as well. Likewise, the funds to be held in liquid form could take their way to short-term investments that can be liquidated upon request, in line with Islam's urge to continue investing the funds.

¹³ "Al-Nisab" is the amount of money that zakat is not deserved in it if the money is less than it.

If (Z) is not a price for cash capital or in exchange for giving up liquidity, can it be considered a return of waiting? The fact is that the saving decision in the Islamic economy, as the author analyzed it, is not the result of a decision of waiting, but rather is the result of establishing the right justice in meeting the needs moderately and according to its priorities across time. Also that saving in this economy does not constitute a sacrifice, but is, in the author's opinion, a requirement for maximizing the return of the commitment with the Islamic Sharia, as well if we had said that (Z) is in exchange for sacrifice, it should have been a fixed positive amount determined in advance, and deserved regardless of the result of the activity, because of when the sacrifice is made it is worth the price.

Finally, if (Z) was not due in exchange for waiting, is it in exchange for the return or the productivity of cash capital? It is known that the marginal productivity theory which is adopted, in this respect, crystallizes the contribution of the factor of production in the production process and the achievement of the product. But analysis can prove that this theory may not accurately reflect the true contribution of cash capital in the production process. And that the cost of capital used for the allocation process at the beginning of the period is a probabilistic cost, calculated as a percentage of the expected net return, and that the actual return of the cash capital is a probabilistic return that is also determined only at the end of the period, after achieving the result of the economic activity in question; and that by multiplying the specified percentage for the cash capital from the expected return (x) by the net profit actually achieved, and not the expected, and also this return is a common return with the entrepreneur' efforts. This is while the cash capital return (and its cost) that is calculated based on its marginal productivity is a fixed and predetermined return (and cost).

We now proceed to analyze the justified real causes of the expected rate of return of financing. These reasons, according to the author, are related, in fact, to a theory of value from an Islamic perspective. According to this theory, for the cash capital to realize, and deserve, a return, it must participate a legitimate work in carrying out an economic activity, and share in the return of this activity, a profit or loss. Money capital is nothing but a previously stored work, and when it participates in Mudarabah it is mixed with a live (present) work, and both types of work participate together in achieving the result of "Al-Mudarabah", either profit or loss.

It is an outcome that consists, on the analytical level, of a functional return for both capital and work, in exchange for their work (stored and present), and a risk-return for both capital and work as well, in exchange for each of them bearing a portion of the potential loss in the

result of the activity. Accordingly, the reason for the right to obtain a percentage of the profits lies in the depreciation of a part of his stored work, in the economic activity, and in his participation in bearing the possibility of loss in the result of the activity in question. The agreed ratio of the owner of the money-capital is multiplied by the expected rate of return on investment so that we obtain the opportunity cost of investment, for allocating purposes, at the beginning of the period; and this percentage is multiplied, for distributing purposes, by the net actual profit at the end of the period, to obtain the actual return of the cash capital, after the actual result of the activity is achieved.

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