REFLECTIONS ON THE INSTITUTIONS OF CREDITS AND BANKING IN THE MEDIEVAL ISLAMIC NEAR EAST

Credit fulfilled several important functions in medieval trade. It financed trade by providing capital or goods for those who temporarily or otherwise did not have the means of carrying out trade; in the form of loans, it provided an outlet for surplus capital to be utilized in a productive and profitable way, and it contributed to the expansion of trade by providing merchants with a means of doing business in an age when the supply of coins was not always adequate. In international or long distance trade, it alleviated the problem of transporting large sums of money across perilous routes and, in combination with other contracts, it served as a means of sharing the risks of commercial ventures.

The extent and magnitude of credit transactions in the context of medieval economic life has in the past been subject to dispute by economic historians By now it is generally accepted that credit transactions and institutions of credit assumed a major role in the trade and economic life of medieval Christian Europe as well as of that of the medieval Islamic Near East. (1) In medieval Europe we can follow the growing

(1) For medieval Europe, cf. M. M. Postan, "Credit in Medieval Trade", *Economic History Review*, vol. I. (1927-28), pp. 234-261, in which Postan convincingly demonstrates that, in terms of commerce, the middle ages in Europe were very definitely not a "pre-credit era".

There is no comparable study with a similar focus for the medieval Islamic importance of credit and banking institutions from their beginnings in southern Europe in the twelfth century through their elaboration into the great commercial banking houses of the 14th through 16th centuries, and the public and deposit banking of premodern times up until the highly developed and sophisticated techniques and institutions of credit in modern times. Although it may have had its ups and downs, the line of development in the West proceeds in an upward direction from the early middle ages until modern times. ([1])

In the Islamic Near East the pattern is quite different. First, the existence and widespread use of fairly complex forms of credit in the economic life of the Islamic world is attested at least three or four centuries before anything comparable is recorded for medieval Europe. By the mid-eighth century a variety of credit institutions were already quite evolved. These are the subject of detailed and perceptive discussion in the legal sources and we encounter frequent reference of varied completeness to them in the Arabic papyri and chronicles and related literature of the first four centuries of the *hijra*. ([2]) While the role and function of credit in commerce and other aspects of economic life was well understood and articulated in these early Arabic sources, the potential inherent in a number of credit practices — especially those relating to banking

world; however, for data supporting this contention cf. S. D. Goitein, *A Mediterranean Society, The Jewish Communities of the Arab World as Portrayed in the Documents of the Cairo Geniza*, vol. I, *Economic Foundations*, California, 1967, pp. 229-262; A. L. Udovitch, *Partnership and Profit in Medieval Islam*, Princeton, 1970, pp. 77-86; S. Labib, "Geld und Kredit, Studien zur Wirtschaftsgeschichte Aegyptens im Mittelalter, *JESHO*, vol. II (1959) pp. 225-246. For a slightly later period, cf. Ronald C. Jennings, "Loans and Credit in Early 17th Century Ottoman Judicial Records", *JESHO*, vol. XVI (1973), pp. 168-216.

(1) For the history of credit and banking institutions in Europe, cf. the bibliography at the end of the excellent article by the late Raymond de Roover, "New Interpretations of the History of Banking", *Journal of World History*, vol. II (1954), pp. 38-76.

(2) As far as I know, no one has yet systematically collected and analyzed the references to the various forms of credit scattered in chronicles and other historical sources emanating from the first three or four centuries of the Islamic period. The only example of a partial treatment of this kind, and one which needs revision, is W. J. Fischel, *Jews in the Economic and Political Life of Medieval Islam*, London 1937, where Fischel assembled a good deal of material on the Jewish "bankers" —*jahābidha*—in Baghdad during the early decades of the tenth century, cf. pp. 1-44.

activities — was never fully realized. They worked well for most of the middle ages in the Near East, yet they seem to have remained static and their growth stunted. The forms and scope of credit activities which we find in the Near East in the eighth century remain essentially unchanged as late as the fifteenth and sixteenth centuries. Unlike the West, they did not evolve into the kind of credit and banking institutions which were so seminal in the economic growth of Europe. One might therefore legitimately wonder why the flourishing commercial activity of the medieval Islamic Near East, with the apparent advantage of a headstart of three or four centuries as compared to Europe, did not give rise to more effective and elaborate institutions of credit and banking.

The answer, I believe, is at least in part to be sought in the social setting of medieval Near Eastern economic life. Before suggesting a partial and even tentative solution to this paradox, I propose to set the background by briefly surveying the major medieval Islamic institutions of credit in two succeeding chronological levels — levels which are also qualitatively distinct. On the first level, from the beginnings of Islam until the eleventh century, our data derives almost entirely from non-documentary sources — primarily theoretical legal sources with a sprinkling of references in chronicles, geographical and belles-lettres works. These permit us a general view of the methods and techniques of credit during the first three and one-half centuries of Islam and provide a basis for some educated speculation on the qualitative aspects of their application in trade. On the second level, this "theoretical" data is supplemented by the information contained in the documents of the Cairo Geniza. In them we find extensive records of actual business activity deriving primarily from the 11th to the 13th century, with some data for later centuries as well and including copious information of all aspects of credit operations. Consequently, these documents provide us with a firm basis for making precise judgments — qualitative as well as quantitative — on the use and function of credit in local and international trade, and are especially valuable in furnishing hints and insights by which we can evaluate the strengths and weaknesses of the various techniques described.

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Credit arrangements which could both facilitate trade and provide a framework for the use of credit as a means of investment in trade are already found in a developed form in some of the earliest Islamic legal works. Buying and selling on credit was an accepted and apparently widespread commercial practice, whether a merchant was trading with his own capital or with that entrusted him by an associate. In the "Book of Partnership" of Shaybānī's *Kitāb al-aṣl*, one of the earliest Islamic legal codes (late eighth or early ninth century), provisions entitling each of the parties to a partnership to buy and sell on credit are constantly asserted as though they were self-evident. (1)

References to the widespread use of credit continue to appear in subsequent Islamic legal literature. The eleventh century legal scholar Sararkhsī declares that "selling on credit is an absolute feature of trade" (2) and Kāsānī, approximately a century later, referring to merchants states that "it is their custom to sell for cash and credit." (3)

Credit sales, both in the shape of deferred payments for goods bought *(al-bay' bil-ta'khīr)* and advance payments for future delivery *(salam)* were considered fully legitimate forms of commercial conduct. (4) Implicitly and explicitly, many early Islamic legal writers assume that credit dealings were indispensable to successful and profitable trading.

In discussing the rights of the agent or managing partner in a *commenda* contract, the legal scholar Sarakhsī says:

(1) For example, in the proposed formulae for written contracts of various forms of partnership, we repeatedly encounter the phrase: *"wa-yabī' bil-naqd wal-nasī'a"*—he (i.e. the partner) may buy and sell for cash and credit. Shaybānī, *Kitāb al-aṣl, Kitāb al-sharika*, ms. Dār al-Kutub al-Miṣriyya, Fiqh Ḥanafī 34, folios 57[b], and 61[b].

(2) Sarakhsī, *Al-Mabsūṭ*, 30 vols., Cairo 1324-1331, vol. 22, p. 38: *"al-bay' bil-nasī'a tijāra muṭlaqa"*.

(3) Kāsānī, *Badā'i' al-ṣanā'i' fī tartīb al-sharā'i'*, 7 vols. Cairo, 1328, vol. 6, p. 68: *"wa-min 'ādatihim al-bay' naqd[an] wa-nasī'at[an]"*.

(4) Cf. J. Schacht, *An Introduction to Islamic Law*, Oxford, 1964, p. 153ff.

"We hold that selling for credit part of the practice of merchants and that it is the most conducive means for the achievement of the investors' goal which is profit and in most cases, profit can only be achieved by selling for credit and not selling for cash." (1)

This statement was intended to apply to all types of trade, but was especially relevant to international trade, as the same writer tells us in the sequence to the preceding passage :

"... trade can also be long-distant, and this latter type of trade cannot come about except by selling on credit." (2)

Not only was international trade impossible without the use of credit, but credit sales were the surest, if not always the swiftest, method of achieving profit. Why this was so, is explained by the same writer (Sarakhsī) in another passage where he states that:

"An object is sold on credit for a larger sum than it would be sold for in cash." (3)

This statement makes clear not only *why* there was a greater profit to be derived from credit transactions but also explains *how* it was possible for traders to extend credit, sometimes for long periods of time without straining or completely immobilizing their resources. The difference in price between a credit and a cash transaction also helps explain why the prohibition against usury, to the extent that it was observed (which was probably considerable), did not exercise any serious, or even retarding restriction on the conduct of commerce. For, while the difference in the price for which one sells on credit and the price for which one sells for cash does not formally or legally constitute interest, in the view of some early legists it does fulfill, from the point of view of its economic function, the same role as interest by providing a return to the creditor for the risks involved in the transaction, and compensating him for the absence of his capital. In this regard, one should also note the existence and great importance from the early centuries

(1) Sarakhsī, *Mabsūṭ*, vol. 22, p. 38.
(2) *Ibid.*, p. 38.
(3) *Ibid.*, vol. 22, p. 45 (top): *"fal-shay' yushtarā bil-nasī'a bi-akthar mimmā yushtarā bihi bil-naqd"*.

of the Islamic hegemony over the Near East of numerous forms of partnership and especially of highly developed and adaptable *commenda* arrangements which, from the point of view of both investor and trader, adequately, flexibly and licitly fulfilled the economic function of an interest-bearing loan. Any comprehensive discussion of credit in the medieval Near East would have to include a lengthier consideration of these contracts; in the present context, however, it is sufficient simply to allude to them and mention them only insofar as they relate directly to explicit institutions of credit.

For the sake of completeness I should also mention the two types of interest-free loans which are discussed in early Islamic legal texts — the *qarḍ* and the *'āriyya* — corresponding almost exactly to the *mutuum* and *commodatum* of Roman law - - i.e. loans for use and loans for consumption. From all indications, however, these forms of loans were almost insignificant in medieval Islamic commerce. ([1])

Islamic commercial law outlines not only methods of dealing for credit, but also makes provisions for dealing in credit. Instruments of credit such as the *ḥawāla* and the *suftaja* are prime examples of this category of credit. The *ḥawāla* was the payment of a debt through the transfer of a claim, and the *suftaja* a letter of credit or bill of exchange. ([2]) The practice of both of these credit instruments up to the 11th century is documented in the Arabic papyri from Egypt and in the chronicles of the 9th and 10th centuries. In private commerce *suftajas* for as large a sum as 42,000 dinars are attested to in the trans-Saharan trade, and for much larger sums in Iraq involving the remittance to the central government of provincial revenues by tax farmers. ([3]) The *suftaja* always, and *ḥawāla* usually occurred in the form of a written obligation, and were thus the first and most important forms of commercial credit papers in the medieval Near East. These were supplemented by a

(1) Cf. Schacht, *An Introduction to Islamic Law*, p. 157.

(2) *Ibid.*, pp. 148-149.

(3) Cf., A. Mez, *The Renaissance of Islam*, English translation by S. Khuda Bakhsh and D. S. Margoliouth, Patna, 1937, p. 476 (quoting Ibn Ḥawqal), and W. J. Fischel, *Jews in the Economic and Political Life of Mediaeval Islam*, p. 19.

number of credit papers such as *ruqʿas* and *sakks* which served as instructions for payment, transfer or deposit of funds with bankers and money changers.

The development of banking or quasi-banking activity in 10th century Iraq, about which much has been written, was truly impressive. However, it is far from clear whether these banks did much more than serve as payment agencies, conduits for the transfer of funds from one geographical location to another and repositories for the safekeeping of the usually ill-gotten gains of various government officials. It is not at all clear if these banking activities involved anything approaching investment banking. I might add here, that, as we shall see, a similar qualification applies to the more adequately documented banking activities reflected in the Geniza documents.

Among the most interesting and original credit techniques emanating from the early Islamic period are certain forms of commercial association based primarily on credit and not on cash or goods. Such, for example, is a distinct form of commercial partnership designated as a "credit partnership," and forms of a *commenda* in which the investment is based on debts or credit purchases.

Of particular interest is the credit partnership. In Hanafī law, one of the major early schools of early Islamic law, the credit partnership is a distinct category of commercial partnership. It is an arrangement in which the capital of the parties consists not of cash or merchandise, but entirely of credit. The credit partnership is already encountered in a fully developed form in the late eighth century, and its description and elaboration offer us some interesting clues into its economic function. Concerning it Sarakhsī says:

> "As for credit partnership, it is also called the partnership of the penniless *(sharikat al-mafālīs)*. It comes about when people form a partnership without any capital in order to buy on credit and then sell. It is designated by the name partnership of good reputations (literally: faces) because the capital of the partners consists of their status and good reputations; for credit is extended only to him who has a good reputation." (1)

(1) Sarakhsī, *Mabsūṭ*, vol. II, p. 152. The Arabic term for "partnership of those with good reputations" is *sharikat al-wujūh*.

The significance of these two designations for the credit partnership -- "the partnership of the penniless," and "the partnership of those with status and good reputations" lies in the fact that they reflect two of the major functions of credit in trade. The first reflects a situation in which traders without sufficient resources of their own seek financing, one in which the traders hire the capital; the second designation reflects a situation in which the capital is seeking a profitable investment outlet, one in which the capital hires the trader.

The role of credit as an investment in trade and as a means of financing trade is articulated in a remarkably sophisticated way by Kāsānī in a polemic passage directed against the Shāfiʿī view of partnership. According to Shāfiʿī, the chief function and purpose of the institution of partnership is the augmentation of the capital investment *(namāʾ al-māl)*. This can be achieved, in his view, only with a tangible investment such as cash, but not with labor or credit. For this reason, among others, Shāfiʿī rejects the validity of both a credit and a work partnership, the latter being an association in which the primary investment is the craft or manufacturing skills of the parties involved. Kāsānī counters Shāfiʿī's objection by arguing that people have been engaging in these two forms of partnership for centuries without rebuke from anyone, and that surely, as the Prophet himself had said, his community would not unanimously agree upon an error. Furthermore, the element of agency *(wakāla)* is operative in these types of partnership, and they are, therefore, valid. The following is what Kāsānī says:

> His statement (i.e. Shāfiʿī's) that partnership was considered permissible in order to facilitate the augmentation of capital implies some original capital to be augmented. We hold that cash partnership was indeed considered permissible in order to facilitate augmentation of capital; but as for work and credit partnerships, these were not considered permissible to facilitate the augmentation of capital, but for the purpose of creating the capital itself. The need for the creation of capital takes precedence over the need for its augmentation. (1)

The credit partnership is thus justified on the grounds of usage, of legal principle, and by virtue of the general economic

(1) Kāsānī, *Badāʾiʿ*, vol. 6, p. 58.

function of partnership which Kāsānī epitomizes as "a method for augmenting or creating capital." (1)

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When we move from the theoretical plane of the discussions in Muslim legal works of institutions of credit in the first three and a half Islamic centuries to the level of attested commercial practice of the 11th through 13th centuries as depicted in the Geniza papers, we find virtually all of these earlier techniques translated into actual practice. This was true of the credit partnership just described, of which we encounter several examples in the Geniza showing how it was used to ally credit with trade and credit with industry and production, (2) as it is true of the other aspects of credit.

Of the thousands of business letters, contracts and miscellaneous commercial documents from the Geniza, there is hardly a handful that does not contain a reference, to some form of a credit transaction. On the most basic commercial level, sales, both wholesale and retail were normally conducted on a credit basis, i.e. on the basis of deferred payment for a fixed period. The documents make clear that the buyer paid a premium for the deferment of payment. This was expressed either by granting a discount from the stated price in return for an immediate cash payment (discounts varied from 2% - 4%), or by the quotation of two prices: one for a cash transaction, and a slightly higher one for a credit transaction. Although the great majority of merchants mentioned in these documents were Jews it is nevertheless worth noting that this practice was sanctioned by at least one of the major early Islamic schools of law, and was not considered usurious. The prevalence of this practice is emphatically demonstrated in a responsum of Maimonides, the 12th century Jewish philosopher and legal scholar, who states that: "This is the accepted custom among

(1) *"ṭarīq istinmā' al-māl aw taḥsīlihi."*

(2) A. Udovitch, "Theory and Practice of Islamic Law: Some Evidence from the Geniza", *Studia Islamica,* XXXII, pp. 292-294.

people in trade, and without it most commerce would come to a standstill." (1)

In addition to widespread commercial credit sales, many petty transactions to cover the needs of daily domestic life were also executed on a credit basis. For this purpose, written orders were sent to tradesmen, grocers and other suppliers, and after a certain number had accumulated they were added up, returned and payment made.

Considering this virtual profusion of credit transactions, it is no surprise that we encounter in 11th century Egypt and North Africa, an elaborate and ramified system of proto-banking and money exchange to accommodate these needs and circumstances.

The institutions which arose in response to these needs can, for the purposes of analysis, be divided into two major categories: money-changers and merchant bankers. Their functions were frequently overlapping.

The operations of the money changers were less complex than that of the merchant bankers and their profession relatively more specialized. The simultaneous circulation in the medieval Islamic world of a great variety of gold and silver coins whose value was subject to frequent fluctuations required persons with knowledge and expertise to facilitate their interchangability; the demand of international traders for specific coinages to finance their far-flung operations required a ready source for obtaining them; the fact that coins were not only a means of exchange, but also an object of trade required their reliable assaying and evaluation. All these functions were fulfilled by the money-changers. They were to be found everywhere, and in such major commercial centers as Alexandria and Fustat there were special areas of the bazaar occupied by the money-changers and which served as the nerve center of financial exchange. The magnitude of their operations varied, encompassing changers who dealt in small sums and limited issues

(1) Maimonides, *Responsa*, ed. J. Blau, 3 vols., Jerusalem, 1957-59, vol. I, pp. 88-89. Much of the data upon which the following discussion is based is to be found in S. D. Goitein, *Mediterranean Society*, vol. i, pp. 229-250.

only to those who had semi-official status and oversaw exchanges amounting to thousands of dinars. Profits from these operations derived not only from shrewd currency speculation based on their intimate acquaintance with the requirements of the money market, but also, and maybe primarily, from a fixed commission charged for each exchange operation transacted. Although we don't possess sufficient data for a firm generalization, the commission was approximately 1% for sums of about 100 dinars, and slightly higher for smaller sums.

Money changing operations were by no means restricted to the money changers. Almost every merchant dabbled in them, and for many it was a large part of their activities, especially those who were significantly involved in international trade. In addition to money-changing, many middle-level and grand merchants engaged in a variety of proto-banking activities.

On the basis of the Geniza material published or studied thus far, there is no example of an individual whose exclusive occupation was banking. No matter how extensive the banking operations of any single merchant, they are invariably encountered together with a correspondingly thriving trade in commodities. Thus, even more so than in the medieval West, they can be characterized as merchant-bankers, with the emphasis on the first element of this compound profession; that is, their banking activities were closely related to their private trading commercial activities.

Among their chief banking functions was the exchange and transfer of specie. The purpose, of course, was to facilitate payments in both local and international commerce. The means by which this was accomplished was the distribution of coins in sealed purses the exact values of which in terms of money of account were indicated on the outside. The seals on the purses were either those of a governmental or semi-official exchange, or those of individual merchants. From business correspondence and from entries into account books we can infer that two separate data were noted on the exterior of the sealed purses: (a) the number of coins, (b) their weight and value. So, for example, we read of purses containing 308 1/4 gold coins with a value of 300 dinars, or 122 gold coins with a value of 119 3/8 dinars. Needless to say, these packaged and labelled purses made settlement of accounts much more convenient, obviating the necessity of weighing, assaying and evaluating coins for every individual transaction. Significantly, most payments and transfers of funds were executed by the actual, physical transfer of these purses. Book transfers, even when they involved the accounts of two customers of a single merchant-banker, were very rare, and the use of written instruments of credit, although common, was not nearly as important as the physical transfer of sealed purses.

The written instruments of credit were of several types — some already anticipated in the earlier theoretical legal works, although occasionally in somewhat modified form, and others that were apparently innovations. The *ḥawāla*, or transfer of debt, functioned pretty much in the manner outlined in the law books, and is encountered frequently in the Geniza documents as a means of substitution for cash payment. The *suftaja*, or bill of exchange which in the West entailed the initial payment of one type currency in return for the payment of another type of currency in a different location, consistently appears in the Geniza as involving the repayment of exactly the same type of money paid to the issuing banker. *Suftajas* were issued by and drawn upon well-known bankers, and a high fee was charged for their issue. They were as good as money; the bearer could fully expect to redeem his *suftaja* for cash immediately upon arrival at his destination, since a daily penalty was assigned for any delay in payment. Information from the Geniza records shows that *suftajas* were much sought after, and were sometimes even preferred to cash. But they were difficult to come by, since merchant-bankers were often reluctant to issue them.

The reasons for this reluctance are not stated explicitly, but can be inferred from the context. The near absolute convertibility of the *suftaja* into cash upon presentation and the penalties for any delay in payment meant that any merchant-banker issuing them would have to be completely certain of his agent, partner or colleague at the other end — i.e., at the location in which the *suftaja* was to be redeemed. Few merchant-bankers apparently had this complete confidence. The reasons for this absence of confidence are probably quite complex. Prominent among them was the fact that mercantile and banking activities were based on a network of personal and social relations, and these, in themselves, were not a firm enough foundation upon which to erect economic institutions which could function independently of this social network.

There is no indication that these *suftajas* were transferable or negotiable. Only the person to whom they were made out could cash them, and only in the place where they were assigned.

In addition to the *ḥawāla* and *suftaja*, there was a broad category of credit papers in use known as *ruqʿas*, which translates into the rather neutral term of "notes". These were employed mostly in local or short-distance trade. They served a variety of functions: as orders for petty payments, as orders for delivery, and also as promissory notes — sometimes for fairly large sums. The strength of these promissory notes derived from the fact that they were issued by well-known merchants. They had the force of cash, not only in commerce, but could be used even to pay government toll collectors. Here again, it was not the *ruqʿa* per se, but the personal status and reputation of the issuer which imparted to it its value.

In its form and function the *ruqʿa* approached closely to that of a modern check. Most of these checks or orders of payment that we encounter in the Geniza documents were for comparatively small sums — one to ten dinars — although we occasionally read of larger sum, as much as one hundred dinars. The act that it was mostly small sums that were involved indicates, as do other factors, that the function of this aspect of banking was primarily payment of petty debts, very much akin to that of a modern checking account. These check-like *ruqʿas* were used to settle a variety of small to medium-size bills which, given the widespread practice of credit purchases, a merchant inevitably incurred in the course of his manifold activities.

This impression is strongly confirmed by examination of the deposit aspect of merchant-banking activity. Whereas it was customary for merchants and others to keep at least a portion of their money on deposit with merchant-bankers, and whereas the merchant-bankers themselves kept deposits of various magnitude with several other merchant-bankers, there is no evidence whatsoever that any interest was paid, or any other type of premium given to the depositors. The merchant-bankers served, as Goitein has pointed out, as a clearinghouse for payments. Indeed, this very service may have constituted the premium for deposits, since we also do not possess any evidence that the merchant-bankers charged any fee for this payment-service, an activity which, as the Geniza papers show, required the investment of time and the maintenance of careful accounting records.

The advantages accruing to the merchant-banker from these deposits were of a potentially numerous sort: A supply, on hand, of varied currencies was a great help in his money-changing activities; he could use the funds in his care to issue *suftajas* for which he received a substantial fee; he could use them to grant loans for which a concealed interest charge was taken; and he could use them for investments of his own in *commendas* and partnerships, or to cover his current expenses until returns from his other investments — which often involved a substantial time lag — were realized.

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The preceding survey was necessarily brief and purposely selective of those aspects of credit and banking which best serve to provide us with an insight into the character and role of banking activities in the Islamic Near East up to the 13th century, and even later.

The first point that must be emphasized is that there was no specialization. Banking activities went hand in hand with regular commercial operations, and they were invariably subsidiary to the merchant's endeavors in the more traditional aspects of trade such as buying, selling, exporting, importing, etc. Indeed, I believe that we are justified in asserting that banking activities of merchants were qualitatively but an extension of his commercial operations and were but one more service and skill, among many others, which any enterprising merchant would be expected to possess. In other words, to one extent or another most merchants actually served as their own bankers. And every aspect of their credit and banking operation — money-changing, issuing bills of exchange, accepting deposits, acting as a clearinghouse for payments both large and small — can be linked directly or indirectly to their commercial endeavors. We should further keep in mind that even though a wide assortment of credit techniques were known and practiced in the Islamic world from the earliest medieval period — techniques similar to those which began to appear in Europe only in the 13th century — their elaboration in economic life was restricted primarily to money changing and related operations, to facilitating payment of debts, and to a much lesser extent to the circulation of convertible written instruments of credit. We return, then, to the question which we posed at the outset : Why, with this considerable chronological headstart, the medieval Islamic world did not give rise to independent, stable organizational institutions of credit?

To answer this question definitively many problems would have to be investigated, as for example, the effect of the very special Near Eastern concept of deposit. In Islamic law, the deposit contract involved no payment of a fee or any other compensation to either depositer or depositary. Its function in Islamic law, as well as in earlier Near Eastern legal traditions, was restricted to that implied by its title, the deposit and safeguarding of money or goods when doing so served the purposes of their owner. The use to which the depositary could put the deposited property was severely prescribed. It may be due to this legal provision that the deposit contract apparently fulfilled such different functions in the Islamic world as compared with the medieval West. In the West, the depositary not only kept the goods, but also had the right to use them for a variety of commercial purposes. In consideration of this privilege, the deposit was returned to its owner with a premium, and deposit developed into a type of proto-banking. Even though the restrictions on the use of deposits in Near Eastern law may not have been consistently observed, it is very likely that this special conception of deposit exercised a strong, inhibiting influence on the development in the Islamic world of any form of deposit-banking and contributed toward keeping credit and banking activities within rather narrow confines.

I believe, however, that neither the Near Eastern concept of deposit, nor other similar factors offer a sufficiently comprehensive explanation for the inertia of banking and credit institutions in the Islamic middle ages. This, I think is to be sought and found in the social context of economic life in the medieval Near East. An examination from this point of view of the institutions of credit and banking — and one might even venture to include many other commercial institutions — reveals an inordinate prominence of status and personal relations as elements in their effective operations. The most common designation of the credit partnership referred to above was *sharikat al-wujūh* — "a partnership of those with status and good reputation" — implying that granting of credit presupposed a distinct social position or understood relationship and attitude between the parties to such transactions. This theme of status and social relationship continues to inform the Geniza data pertaining to credit and banking. For example, the infrequent and reluctant use of *suftajas* (bills of exchange), the acceptance of promissory notes in lieu of cash payment and the occasional overdrafts which merchant-bankers allowed their good customers, were all based on the status of the parties concerned and on the intricate, informally-structured but nevertheless effective network of social-personal relationships. Rarely, if ever, do we observe actual, documented credit and merchant-banking activities operating outside this network. Thus, a somewhat paradoxical conclusion suggests itself: the very factors — status and personal-social relations — which ensured the smooth and successful functioning of credit and merchant-banking activities in the Islamic Mediterranean world during most of the medieval period, were the very elements which effectively confined their growth, elaboration and development into independent, stable organizational forms. Given the slowness and unpredictability of communications between geographically distant locations, and given the sheer physical and psychological limitations on individual social intercourse, the qualitative scale of economic activities was necessarily restricted within the confines of numerous small, and even intimate circles. The possibility of integration into a larger, more cohesive structure was precluded by the comparatively narrow social basis on which economic life was conducted.

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