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MONEY IN ISLAM: 'SIYASAH SHAR'IYYAH' PERSPECTIVE AND ITS STRATEGY TO BE IMPLEMENTED

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Abstract

This paper endeavor to design a gold currency model by using qualitative study and employing a deductive based on library research. This paper tries to trace the superiority gold and silver as money by employing the *siyasa shar'iyyah* approach. Actually, money is not limited to gold and silver. However, by using derive law process from sources of law-making that the '*hukm*' of gold/silver as money is permissible. While the *hukm* for the country for using dinar and dirham could turn into *wajib*. Moreover, "*maqasid sharia*" and "*maslahah-mafsadah*" studies have strengthened a third view. Meera (2009) concludes that fiat money could not realize the objectives of *maqasid shari'ah*. The review declares that gold coins as money serve '*maslahah*'. Three types of currencies proposed to respond to the demands of monetary reform; physical gold system, Gold Backed System and Fiat money 100% reserveratio. By using some economic theory, found that gold system are inline with sharia compliance. Fiat money with 100% reserveratio is might be implemented, however It does not meet the sharia compliance. Therefore, stepping is necessary. Numerous obstacles are taken place. It takes at least 16 years and it could be started by educating people.

Keywords: *Gold-Silver Currency, Fiat Money, Islamic Monetary System, Maqasid Shari'ah, Maslahah*

I. INTRODUCTION

All aspects of life were governed by Islamic law, including economic, political, and social. Therefore, Islamic finance and financial economics is an important factor in Islam because it is conceived for human life and prosperity of the whole world. Financial system in accordance with Islamic law is necessary to be formulated in order justice and prosperity of the world economy can be realized.

Monetary and financial system is currently characterized by fiat money, fractional reserve banking and interest is an unjust system, trigger economic bubble, and eventually lead to economic collapse (Meera, 2009). Moreover, the current financial system is float exchange system that does not have any valuable commodities backed. It has been considered not stable, easy to use unfair tool, Easily used for of exploitation and Speculation (Salmy, 2012).

Some requests for gold to be used as currency has been emerged. This is because of the current monetary system is now revealing the weaknesses after experiencing various crises crisis that global economist crisis in 21st century as the peak. However, The disagreement still happening.

First, in Islamic view: Regarding this point Haneef and Barakat (2002) considers that money is divided into two groups of scholars who argue that the money is only limited to gold and silver, while another group of money is not limited to gold and silver (anything goes as money). The first

group comes mostly from the Salaf and Khalaf. The second group are mostly supported by modern contemporary scholars. Secondly, according to early mainstream western ideology (1800), it was also split into two mainstreams, namely the 'Bullionist' gold is best currency and 'Anti Bullionist' (Siswantoro D, 2002). The first group was supported by Henry Thornton, David Ricardo, John Wheatley, Lord Samuel Jones Loyd Overstone, Thomas Joplin, James R. McCulloch, Samuel Montiford Longfield and Amasa Walker. The second group was supported by Colonel Robert Torrens, James Mill, Thomas Tooke, John Fullarton, and John Stuart Mill. It was shown that that anti Bullionist hypothesis by saying paper money also stable is not true. When the Napoleonic wars (1803 - 1815) and World War I the government printing a huge paper money, inflation has led to the great depression ended out 1932. In the Islamic era, the use of gold is mixed with metals have economic harms (Siswantoro D, 2002).

Floating exchange rate system that does not have any back-up valuable commodity is considered to be unstable and easy as tools of speculation and arbitrage. It can trigger the economic crisis by booming unvaluable paper currency and debasement that contribute to some to the global crisis (Salmy, 2012). Besides that, the World has experienced four crises, namely :

First Generation Model (FGM): According to Krugman, (1989), the main cause of the crisis of this model is the attack by speculators on the exchange rate of a country which forced the country to change its exchange rate. This type of crisis has occurred in Latin America in 1970 and the 1980s. **Second Generation Model (SGM) or crisis in Europe** during the European Exchange Rate Mechanism (ERM) in 1992. This crisis happen due to interest war was taken by each country for retaining their exchange rate, then trigger economic crisis (Krugman, 1989). **Third Generation Model (TGM):** TGM commonly is called Asian Crisis which is encouraged speculators to attack massively and suddenly. Then, it indicates to economic collapse with the fall of the currency, bank rush, bank liquidity problem, rise up of interest rate, and capital outflow- inflow imbalances. Another financial crisis is 2008. The crisis caused by the practice of shadow banking system that afflicts several financial institutions in America. This type of crisis can be categorized by the Fourth Generation Model (Haryanto, 2009).

The Crises and their causes as described above shows that the current monetary system has weaknesses, which can be categorized four cases i.e., fiat money, interest, fractional reserve banking, moral hazard, such as the action of excessive speculation, and greediness. For example, the crisis that occurred in 2008 due to the extravagant lifestyle that caused budget deficits, the attitude of greed, fraud and speculative actions.

In order to prevent the above issues, some scholars suggest using gold as the monetary based. As evidence, the crisis of 1929 - 1930 occurred due to the standard changes from gold standard to fiat money system without bail. Subprime mortgage crisis of 2008 occurred because the current weakness of the Monetary System, in this case Meera said: *"The recent subprime mortgage crisis, which was basically a credit crunch, is manifestation of the shortcoming of the present monetary system. When big players simultaneously crumble down then the problem must be systemic. Hence, it is no coincidence that Countrywide, Citigroup, Merrill Lynch, Morgan Stanley, UBS, Northern Rock etc. all posted billions of dollars of losses as a result of the crisis. We assert that the fiat money system is at the root of this global problem. One features of fiat money is that it can, in certain circumstances, be destroyed – like in credit crunch. Such destruction of money is capable of putting a lot of people and business in financial distress, bring about a recession and cause a host of socio-economic problems"* (Meera, 2009).

Besides that there are some scholars condemned to the current monetary system and some of them proposed a solution. *Firstly:* (Kahf, Khurshid, 1981; Siddiqi, 1981; Chapra, 1986;

Allais,1993; Choudry, 1998) has no denied that the current monetary system has destructed the human prosperity and wealth through increasing price level and massive ownership acquisition illegally in the system. Secondly: (Shappie, 2010, El-Diwany, 2002, Meera, 2002; and 2004) said that the main undisputable-problems of current monetary system are the root of financial and economic crisis resulting in the acute consequences, such as rampant inflation, credit crunch, wider unemployment, injustice, *ribawi* (usury) involves *gharar* (uncertainty), and *maysir* (gambling) (Vadillo, 2004, Lubis, 2001, Mahathir, 2002).

Moreover, Vadillo (2002, 2009) criticized for its corrupt concepts and rebutted the fiat money system and the interest based-economy from the perspective of Islamic law. Thirdly: An idea by replacing through gradual and sustainable changing, as suggested by Mundell (1997), Lietaer and Nerb (2002), and Lewis (2007). Forthly: (Lietaer and Nerb, 2002, Hassan and Choudhury, 2002, Meera, 2004), have criticized that objects of the current monetary system, which are addressed, are three primary-pillars (the fiat-money system, the fractional reserve banking system, and the interest based-economy) of capitalism in today economy. They are monopolized by a group of elite, controlling larger population. Interestingly, a surprising-argument is raised by the regime leaders of existing monetary system, the World Bank president Robert Zoellick, Warren Buffett's father Howard, Jim Grant, and, most recently, retired Federal Reserve chairman, Thomas Hoenig. Unanimously, all of them are voicing their support for a return to a gold standard, by postulating that "The gold standard is very legitimate system, and paper money system generally leads to financial collapse and result in economic chaos". (Durden, 2011). Moreover, according to Roy W. Jastram (1976) in his book "Golden Constant" indicates that if gold is used as a standard of general prices since 400 years ago, then the prices of goods will remain almost same and there has been very small inflation.

However, the opponents of gold system such as Obiyathulla (2008), Murat (2010) and Muflih (2010) have questioned the gold price and monetary stability. They have argued that the gold price is instable and no guarantee of monetary currency albeit the gold standard applied. Therefore, the fiat system is the best as long as the strict management is done.

Some activities toward gold as a currency has started more than 10 years ago. Started Dr Mahathir (DR M) and "Murrabitun" (The Gold Dinar NGO in South Africa Dubai and Trinidad). Dr M offers the idea in the OIC summit. World Islamic Mint (WIM) in dubai Kelantan Dinar, Dinar and Silver State was established. Moreover, Zaim Saidi with "Parent Wakalah Nusantara" have created the network of dinars minted and distributed. Moreover, some academicians have also called to gold as a measure of the value. However, the result is not enough good.

Therefore, this paper looking for answers by proposing several alternatives and then it will be analyzed by several criteria. Salmy (2011) proposed two alternatives that are : using Physical Gold Dinar System (PGDS) and Bretton Woods system or the Gold Backed System (BGS). Moreover, Chapra (2004) offers the fiat money system (as current system) but it will be modified by fiat money system with a 100% reserve requirement. This means that the central bank imposed a 100% reserve ratio.

Then, several alternatives are analyzed by using some economic theories, the theory of currency, infra-structure availabilities, and in Islamic Sharia perspectives (the details will be provided in the discussion part).

Besides that, this paper also employ Islamic perspectives such as the *siyasah shar'iyah* approach, "*maqasid sharia*" and "*maslahah-mafsadah*". Also, it tries to derive law process from sources of law-making to formulate the '*hukm*' for the country for using dinar and dirham.

II. METHOD AND OBJECTIVES

Actually, by using qualitative approach and employing a deductive based on library and history, this paper has six objectives are :

1. To provide highlight overview of historical view in term using gold money, especially starting on Islamic era and thereafter.
 2. To discuss the current weaknesses of the fiat money system and if gold is the best currency.
 3. To find out the appropriate model to implement gold currency .4. To provide a deep discuss money in light Fiqh, maqashid sharia, and Siyasah Syar'iyah Approach. Maslahah and mafsadah will be employed to compare between fiat money and gold money.
 4. To derive Al-Hukm on gold currency and to find out challenges and barriers and also to find out what is the best model will be implemented.
 5. To prepare some possible models including a monetary system based on gold. Eventually, it will be analyzed by employ four economic theories (theory of money, demand and supply of money theory, Gressham's Law theory, and Optimum Currency (OCA) Area theory). A qualitative deductive analysis was used so that it can meet the possible alternative.
 6. Toprovide stepping strategy to implement gold dinar as currency in the society.
- All of Mentioned objectives will be discussed in the next sub-chapters consecutively.

III. RESULT AND DISCUSSION

A. Brief History of Currency in Islam

Since Islam was revealed in the earth through Prophet Muhammad S.A.W. about 14 centuries ago, the historical journey of Islamic civilization has changed over time. As matter of facts with regard to economic cycles, particularly the use of currency, the simplified-resume by author attempts to classify its history into four periods. Firstly, the era of Prophet and companions as the best period ever seen, then secondly the time when four caliphates (*Khulafaur Rasyidin*) ruled, thirdly the age of Islamic caliphates and lastly the decline of Islamic rule started to occur. The classification into four periods is based on the prominent changes related with the currency being used at that time.

The History of Currency during the Prophet era

The use of gold and silver is as old as the human civilization, both economically are dependent. Long time before Islam was revealed, both metal have been used Lydia nation, the tribe that first made them as medium of exchange and the others, since 570-546 BC (Hasan, 2005). Then, Jews and Greek, besides commodity currency being circulated (axe), they used to transact in gold and silver coin. Romans also created the gold money called Denarius in 268 BC, to support the bronze coin in circulation. Nonetheless, if such gold-based money is mixed with bronze metal due to manipulation or self interest, the state would turn to collapse. In addition, Persian also created the money produced from gold and silver coin since 546 BC until 621 AC. According to Mawardi, at the moment their civilization felt due to any causes the gold based money tended to disappear (Mawardi, 1990).

At the age of prophet SAW, both Medina and Mecca periods, prophet did not employ the exclusive currency for Islamic society (Hakim C M, 2001). Prophet specifically decided to initiate one of important elements in monetary economic by anchoring Islamic dirham equal to 14 karat, this initiative is to differentiate the Islamic dirham with the measurement of Persian dirham, which

used to be familiar with three kinds of weight and measurement, 20 karat, 12 karat and 10 karat, 14 originates from $20 + 12 + 10 = 42/3 = 14$.

Indeed, the Arab before converting into Islam, already used the dinar and dirham currency for trade activities with neighboring regions. After coming from *Syam*, they brought gold dinar from Romans (Byzantium). When traveling from Iraq on the other side, they took silver dirham from Persian (Sassanid Empire). Occasionally, they also brought *himyar* dirham from Yemen. Therefore, at that time much foreign currencies were indirectly circulated due to gradual interaction between Arabs in Hijaz and the neighboring states. After the light of Islam brought by Prophet Muhammad S.A.W., the dinar and dirham currency remains as the main money in circulation. Rasulullah SAW and his companions still rely on such currency to intermediate economic activities (such as *Muamalah*, trade and taxation) (Zallum, 1983).

The currency being circulated at that time was not formed into circle-constructed coin like nowadays, rather it was coin minted into square. The Arabs did not consider dinar and dirham according to its nominal values but rather its weight. Such currency in circulation is determined in its values of gold and silver metal. The printed-currency extracting from gold, dinar and dirham is not considered to be valid currency at that time since its form and weight might have decayed and depreciated due to its circulation. Indeed, in order to obtain smaller vales of gold dinar and silver dirham in circulation, it is possible to divide such coin into half parts and one fourth (Adiwarman Karim 2001).

At the moment of Prophet Muhammad got the revelation to be the messenger of Allah, the Mecca tradition including the dinar and dirham currency being used was converted into Islamic daily practices with regard to *Mu'amalah*. Prophet urged to the Medina people to follow what the Mecca people tradition in circulating their dinar and dirham currency in terms of its nominal values instead of its weight. Prophet said "weight is weight for Mecca people and however measurement is measurement for Medina people " (Hassan, 2005).

The History of Currency during *Khulafaur Rasyidin* period

Islamic community continues to use dinar from Romans and dirham from Persian in the form of its original coin and characteristic during Prophet Period, then it is continuously followed by *Abu Bakar AshShiddiq* and at the beginning of *Umar bin Khatthab*. In 20 Hijriah (the eight year of Caliph Umar ruling), He printed out the new dirham money referring to the structure of Persians' dirham. Its weight, inside symbol and letter, written its "*Bahlawi*", Persian letter, remains. The only creation added is "*lafadz*" (words), written in Arabic form, stylized in *Kufi*, like *lafadz "Bismillah"* (In the Name of Allah) and "*Bismillahi Rabbi*" (In the name of my god), placed on the corner of coin. The Muslim has preserved such tradition in printing out the money until the next period of caliphate (Hassan, 2005). At the beginning of government of *khalifah Umar r.a.*, ever had idea to print money from leather, but it was cancelled because it was not agreed by other prophet's companions.

During Utsmani caliphate, the tradition in printing money following the characteristic of Persian dirham added with Islam "*lafadz*" above stated during caliph Umar's period still goes on. Meanwhile, in the period of Caliph Ali, Islamic-characterized currency, started to be printed on limited edition in terms of nominal and amount in circulation (Karim Adiwarman, 2002). Measurement of Islamic dirham at that time was weighed into 6 *daniq* and each 10 dirham was 7 *mitsqal* exactly as what the prophet era used to be. Starting from this period, officially the Muslim has own Islamic dinar and dirham legalized into economic system. Such currency is allowed to circulate for the any economic transaction purpose like local and international trade.

The History of Currency during Islamic Caliphate

The period after *Khulafaur Rasyidin* era, there were caliphs who particularly printed out Islamic currency or money. In 75 Hijriah (695 M), *Khalifah AbdulMalik bin Marwan*, created dirham characterized in Islamic tradition, with lafadz/words written in Arabic-*kufi* letters. After this currency implemented, the Persian dirham was no longer used. Two years after implementation, 77 Hijriah (697 M), *AbdulMalik bin Marwan*, printed out dinar characterized in Islamic tradition removing the Roman dinar in circulation. Besides that, he instructed to eliminate the human face picture and animal figure drawn on such dinar and dirham to be replaced with Islamic words (lafadz) (Triono, 2011). Meantime, *Abdul Malik* significantly performed a monetary reform, the measurements value of dinar were 4.25 grams, 1 dirham 3.98 gram, and then the comparison of both to be stable on rate 1:15. Measurement of dinar was equivalent to 6 daniq and the other side each 10 dirham was equal to 7 mitsqal as the prophet period prevailed. For that period, the nominal and weight measurement was based on human memory and no record ever made (Hassan, 2005).

Bani Mamluk rulers began to circulate three kinds of currency which are gold dinar, silver dirham and copper fulus. The fulus appearance was initiated by society needs to have smaller values of coin. The fulus circulation caused later the gold dinar and silver dirham being used becoming scarce and limited, therefore their value tended to be fluctuated and indeed disappear from circulation. At the end of the day, fulus was massively used replacing two main coins above and economic condition lead to collapse (Rosli and Barakat, 2002). This situation did not take a place longer than predicted since the ruling caliph of *Nasir Hasan* immediately declared that the fulus in circulation was no longer valid and economic situation turned to stable phase. *Mahrizi* proposed and encouraged that using only gold and silver as money, stop debasement of money and, restricted use of fulus (Hassan, 2005).

During *Abbasid* dynasty, the monetary policy made was to reduce the weight of dinar and dirham used to be main currency in circulation. This was caused by the increasing budgetary financing since people tended to pursue the luxurious life therefore the money needed did not fulfill the overall circulation. The state needed to obtain additional resources. Unfortunately this did not meet the wanted number of resources. As a result the minted gold and silver metal to be functioned as the currency had to be mixed with cooper for the sake of profit reason from the money printer perspective (Hassan, 2005). Islamic legal experts and *fuqoha* disagreed with such practices for the inner money destruction reason; it would create inflation and seize the money holder due to gradual decrease in its values. Inflation phenomenon from one side was precipitated by the growing number of dinar and dirham in circulation.

Moreover, during the Islamic caliphate period, some scholars who lived in that time had made a fatwa regarding the currency, such as:

1. *Abu Hamid Al Ghazali* (1058 – 1111 AD) postulated that in barter economy, money was needed as a measurement of good's value. However, money is not needed for money itself. Money is produced to accelerate the exchange and to determine proper nominal valuation of that transaction. According to *Al Gazali* view, "Money seems to be like a mirror which has no colors, but able to reflect all of the colors" (Ihya, 2; 91-93). Moreover, *Al-Gazali* stated that the money function as medium of value store needs to be extracted from long lasting properties; its characteristics are inherited in gold and silver.
2. *Ibn Taimiyah* (1263-1328) who lived during *Bani Mamluk* dynasty advised *Sultan Nasir Hasan* (1328) in order to avoid to the practice seigniorage (paper money), which means the

differences between cost of printing and nominal value of money printed. He strongly suggested the costs of money printing have to be paid by government's budget, besides that he disagreed with importing practices of bronze from Europe as part of money use in circulation. In his book, Ibn Taimiyah initiated five important points. *First*, money trading practice will definitely trigger inflation. *Second*, loosing people's trustee toward money's value stability will forbid people for doing long-term contract and treat unjustly them who had fixed-income such as: employee. *Third*, domestic and local trading will decline gradually because of worry of money's value stability in the future. *Fourth*, international trading will slowly decrease. *Fifth*, valuable metal will flow out from country. Exactly, money trading is considered as *riba* usurious system therefore.

3. *Ibnu Khaldun* (1332 – 1404 AD) highlighted that the wealth of country was not determined by amount of money being circulated rather it was encouraged by its level of production and positive balance payment. One country might print out the money as much as it wanted, but if it was not the reflection of rapid growth in production sector, then the plenty of money was going to be invaluable.
4. *Ibnu Khaldun* stated that gold as well as silver is the best commodity to be a standard value, for instance money which contained of gold and silver value performs more stable and tends to be lower fluctuation on its use, (*Muqaddimah*, 1:407). *Ibnu Khaldun* suggested the country to employ the gold/silver standard for its money / currency, he also theorized how to create the stability price, which is anchored in gold and silver standard, other price of goods might be fluctuating, but not the price of gold and silver (*Muqaddimah*, 2:274).

The History of Currency after the Collapse of Islamic Caliphates

The gold dinar and silver dirham in circulation started to be replaced when the golden period of Islamic caliphs declined and totally collapsed. The gold and silver based-currency, being circulated despite various characteristics prevailing, is no longer used. Initially, the intention to replace gold and silver currency emerged before World War I and its realization took a place during this monumental war. After the war, gold and silver standard is used again to be the monetary system, but it is not involving overall system fully backed by gold and silver. The last days of Utsmani caliph located in Turkey which led to the end of ruling government, Islamic dinar and dirham are no longer valid to be official currency for Muslim in doing economic activities and transaction until nowadays (*Husein*, 2007).

Currently, the Muslim uses the fiat money (paper) as it prevails in all over the world. For the domestic trade purpose, the Muslim employs official paper money released by its country. Meanwhile, for the international trade purpose, they must use money with the strong value like US dollar, Mark German, Yen Japan, Pound Sterling UK and Euro. As far as Islamic history, about 1500 years, the gold dinar used to play very important role, by contrast. Finally, the gold dinar currency is replaced with the paper based-currency soon after the Ottoman Empire collapses. Moreover, regarding the motives replacing to fiat money, *Ahmad Hassan* (2005) summarized as table 1:

Table 1 : Motives of the Fiat Money

| No | Motives | Explanation |
|----|-----------------|---|
| 1 | Military Factor | World War I in 1914 leads to the provocation of most countries to prepare the gold and silver reserve in order to buy the warfare and |

| | | |
|---|------------------|--|
| | | its important infrastructure. Then, those involved countries experience the difficulties in transporting gold and silver to the battlefield that the war takes a place. This condition makes the increasing cost of war. Moreover, during that era, economic disorder forces the people to withdraw their money from banking system in the form of banknotes and paper money that might be possibly issued. As a result, many countries unanimously agree to remove gold-based monetary system with seigniorage |
| 2 | Political Factor | Arabic countries before World War II were administered under Ottoman dynasty which used to circulate gold-based currency, like in any other places. During the war, colonial masters divided Arabic countries into smaller states for the purpose of natural resource exploitation and colonialist strategy to maintain their national disunity. USA and European countries continue to strengthen their political influences on such countries. By controlling money, they could indirectly colonize economically. To always make such colonized countries follow the colonial master order, fiat money is created since through gold based-monetary system it is difficult to exist, due to the prosperity of such countries in gold and silver resources. Thus, the colonialist countries create the fiat based-monetary conspiracy to save their political interest in order to control and preserve its power and influence. Political influences are maintained economically until recently and will be going on as long as the fiat monetary system motored by US dollar becoming the main international currency, since the every deficit of US dollar currency negatively influences the colonized countries, developing countries from its balance of payment. |

After the World War II ends, the gold flows into the winner countries such as USA and its allies. In 1944 USA initiates to organize the G 20 summits, familiar with the Breton Wood agreement. Its main articles are proposed to issue the US dollar backed gold standard monetary system (35 USD is equal to 1 troy ones of gold). Unfortunately, in 1971 USA denies to continue such agreement by printing US dollar without anchoring to gold based-standard.

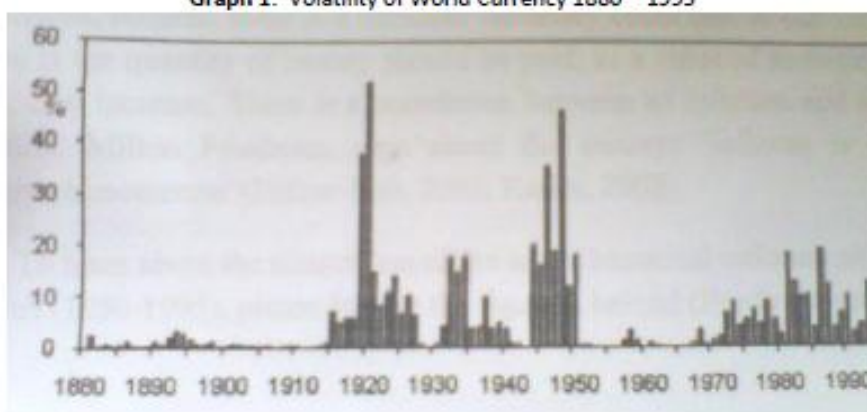
According Imran Hussein, the possibility of World War I was a conspiracy engineering and businessman coming from the countries of super power to create the conditions for chaos to launch their strategy (Hussein, 2011). In this regard, Griffin pointed out that many of the conspiracy has taken place, especially for designing a banknote that fulfills with a mystery, intrigue and strategy have been made. Strategy began in 1910. Deliberation mystery in Jekyll Island, USA has been setting up the Federal Reserve Department (FRD) in 1913 that its members are foreign-owned private companies. FRD was later to serve all the financial affairs of the U.S., which scored USD based Fractional Reserve Banking (FRB) is a fundamental way a bank for profit (Griffin, G Edward ,1999).

Based on the official statement of University of Malaya, the shift into current monetary system is not developed from pre scientific and comprehensive study; rather it is enforced by the regulation binding to the people (UM, 2002). This transformation is motivated by economic interest pursued by several colonialist countries. Using fiat money system, their power will

remain unbreakable and untouchable. Therefore, the colonized countries lag behind them in managing their nation trapped into the backwardness.

As a result, since the current monetary system leaves behind gold based-standard and shifts into paper money, financial catastrophic event starts taking a place due to the monetary system trusted in the will and desire of human being only without morality and justice aspects (Hassan, 2005). Banks printing and issuing money exceeds the needs of society for their own interest to increase their profit. As a result, the trust from society and customers disappears once the rush in financial intermediary system happen due to excessive fiat money in circulation. This condition eventually leads to so many financial crisis as shown in Graph 1.

Graph 1: Volatility of World Currency 1880 – 1995



Source: (Bordo & Young, 2001)

Graph 1 shows that the volatility of world currency from 1880 to 1995. Between 1880 and 1913, the countries in the world used gold as their currency, and the value was stable. The currency was abolished in 1914, because of the war. At that time, the currency of fiat money was on the top of its crushed. Between 1945 and 1970, the Breton Wood system was established and the currency became steady. Started in 1971, when fiat money (USD) was wiped out from gold union, and it is the end of Breton Wood system, the results is high volatility for the currency.

Moreover, after gold union was exterminated, the world currency experienced four global crises, namely crisis first generation in 1970 and 1980's, second generation in 1992, and third generation crisis in 1997 (Krugman, 1998). Besides that, there are two global crises happened, global economic crisis in 2008 and Euro crisis in 2010 which are may be called fourth and fifth generation crisis. It is obvious that there is a problem in fiat money besides having its goodness. Besides that, there are some petition to find out a solution such as: Robert Mundell, Griffin, Robert Zullick, Meera, Vadillo, Mahathir, Thomas Greco. Hence, it needs to find an alternative currency that can provide stability and justice. Accordingly it will be searched in the following materials that are able to meet the criteria of the money through the study of *Siyasah Shar'iyyah*.

B. Fiqh Analysis of Money

The Islamic Economist, Muhammad Aslam Haneef and Emad Rafiq Barakat (2002), has done a study on the various opinions of the scholars of Islam against the use of gold and silver coin, better than *Salaf khalaf*. The results of the investigation concluded that there are two opinions

among scholars, namely: an opinion stating that the currency is limited to gold and silver and the second is the notion that the currency is not limited to gold and silver. There are various opinions amongst Islamic scholars from both the *Salaf* and *Khalaf* historical eras regarding the use of gold and silver as currency. The results of their investigations concluded that there are two groups of opinion among these scholars. The first opinion states that currency or money is limited to gold and silver. The second opinion states that currency or money is not limited to gold and silver (Fulus). The supporters of both groups include Hanafi, Maliki, Shafii and Hanbali scholars basing themselves on the opinions of the Tabi'un, such as Mujahid and Nakha'ie, and contemporary scholars. However, the most supporter of the second opinion came from contemporary scholars.

From the above discussion, it is clear that the hukm of using gold and silver as money originally is *mubah* (permissible). Then, in the next session, by using derive law process from sources of law-making (istinbathul-ahkam), we will discuss the 'hukm' of gold/silver as money (law, judgment) used by individual and country.

Fiqh Discussion: Sources of Law-Making(Istinbathul-Ahkam)

To set hukm syar'i on the use of a currency, there are two things needed to be done (Triono, 2011): First, looking for the facts of currency used during the Prophet Muhammad s.a.w.. Second, looking for the texts related to currency. Third, the formulation of the law on the use of currency.

Facts of Currency in The Period of the Prophet

In the Prophetic eras, there were two types of currency used in the period. The first type was the dinar currency that came from the Roman. Roman dinar used at that time was only one and it had a weight of one mitsqal. One mitsqal was equal to 8 Daniq. While, the weight of 1 Daniq was equal to 20 qirath (or 22 qirath less one Habbah / Kasr). Whereas, the weight of 1 mitsqal was equal to 72 medium-size grain which is cut at both ends, namely equal to 6000 Habbah (seed) *khardal bari* (a type of mustard plant) medium (Zallum 1983). Besides, it was also used Persian dirham currency. At that time, it possessed 3 types of weight: big dirhams (dirham kibar). The weight: 1 mitsqal, or 20 qirath,. Small dirhams (dirham shighar), the weight: 0.5 mitsqal, or 10 qirath, and medium dirham (wasath dirhams). The weight: 0.6 mitsqal, or 12 qirath.

Prophet had determined that the dinar and the dirham were declared valid as legal payment. Rasulullah had decided dirhams to be 14 carats in the field of Monetary, the command could be interpreted that he had set a standard size without changing the print because it was considered to syar'i requirements. Fourteen carat was derived from the $20 + 12 + 10 = 42/3 = 14$.

Regarding to the issue, Rasulullah s.a.w. gold and silver had been used as money, Meera (2011) said : "... in my opinion, we need to remember the Islam which the prophet s.a.w. left for us was complete in its essence, as the following verse from the Qur'an attests.

This day have those who reject faith given up all hope of your religion: yet fear them not but fear Me. This day have I perfected your religion for you, completed My favour upon you, and have chosen for you Islam as your religion. (Al-Ma'idah 5:3).

Since gold-based shari'ah system was established by the prophet s.a.w., it must have been perfect by its principle, otherwise we would have inherited an imperfect religion that needs to be perfected by the later generations.

The Quranic Texts (Nash) of Dinar and Dirham

The using of dirham and dinar currencies is taken from the texts that have been established by the Sunnah of the Prophet Muhammad s.a.w. Nash comes from the Sunnah is *Taqrir* (determination) from Rasulullah s.a.w. dinar and dirham currencies that existed at that time. Even Prophet Muhammad also established the standard scales (*wazan*) prevailing among the Quraysh for the weighing of the dinar and dirham (Triono, 2011). Hadith related to the Prophet s.a.w. The *Taqrir* used of these scales are,

1. Prophet s.a.w. has said: "Scales (*wazan*) are scales of Mecca people and doses (*mikyal*) are the doses people of Medina." (Narrated by Abu Dawud and An-Nasa'i). Legal provisions derived from the Prophet Muhammad s.a.w. were not associated with the use of the currency in trade purposes only. In addition to the determination of the weight rather than the dinar and dirham, the Prophet Muhammad s.a.w. actually had also linked the weight of the dinar and dirham to the practices of other *hukm syara'*.
2. Prophet Muhammad s.a.w. had established for the purposes of other law enforcements, namely in terms of payment of zakat, diyat and cutting the hands of thieves based on dinar. He had set types, nishob and measures for the implementation of these laws in detail. It also applied to dirhams, which was linked to the practice of payment of zakat and diyat.
3. Permissibility for people to exchange with what other features they want, based on the generality of the arguments of the sale and lease. In sale Allah s.w.t. says: "And Allah has allowed the sale." (*al-Baqara: 275*). The word "al bai" (sale) in the verse is general, it means it is allowed to exchange the halal features with other features. In the term of the lease the Prophet s.a.w. said: "If one of you hire a worker (*ajir*), so tell him his wages (*ajrahu*)". The words of the Prophet Muhammad in the phrase "ajrahu" (reward) is general, namely any reward may be given to the person hired, either a good or service. Another proposition that can be used is in the form *Qaida Syara'*. In the fact, everything which can be exchanged is a good, by that argument it can follow *Qaida Syara'* of goods (*ash-yaa'*) reads: "*Al ashlu fil asy-yaa' al ibahatu, maa lam yarid dalilul tahrir*", the meaning is "Derivation is permissible, as long as there is no proof that the forbidden.". By then, the exchange with any good is allowed absolutely, unless there are texts that forbid the exchange of a particular item, such as pork, carrion, blood, and so on.

Legal Decisions

Based on the facts and the texts explained above, then It can be concluded that *hukm syara'* relating to exchange money with goods, or goods with money is absolutely permissible, except for the exchange of money for money that have specific legal systems. Similarly, exchange of services for money, or money with the service, it is absolutely permissible, unless the services are prohibited by certain texts, such as prostitution and witchcraft.

By then, *hukm syara'* relating to the use of the dinar and dirham currencies are not different from the above, because dinar and dirham is a part of the general goods which can be used for various exchanges like the one above. Thus, the conclusion that can be decided from the use of the dinar and dirham currencies is allowed (permissible) (Triono, 2011).

Legal Currency Minted by State Law

Discussion of the exchange law (*mubadalat / tabadul*) as described above is different from the discussion of the currency (*naqd*) to be printed by the state. It can be understood, because the Prophet not only used the currency for trade purposes only, but also for purposes other Islamic

legal practices. The exchange took place in the sale and lease activities by individuals in society. While printing currency is an activity conducted by the state, in this case it is done by the rulers.

By then, both of these activities must be distinguished in legal discussions. The using texts which are used as arguments for the legal decision of the currency printing by state are taken from *Fi'lu Ar-Rasul* (the action of the Prophet s.a.w.) when he became the head of state in Medina.

That can be understood that the Prophet s.a.w. when he was the head of state in Medina never printed a certain currency with special characteristics. Islamic state at the time did not have any particular currency. This situation lasted for the duration of the Prophet Muhammad s.a.w. even in the first four caliphs, included also in the early Umayyad Caliphate. Special minted currency with an Islamic pattern with a certain weight that is fixed only started when Abdul Malik bin Marwan became Caliph (Jati SP, 2001).

Instead of understanding the arguments above it can be concluded that to print its own currency for the state is permissible and not mandatory. It means the state is not required to print its own currency.

Nevertheless, the ruling is subject to change when the government wants to print its own currency. If the primary objective of the printing is to complete the implementation of the Shariah laws which have been charged to them (especially the law with respect to currency such as zakat, kanzul mall, hudud, diyat, sarf, etc.) As well as to protect the entire territory from the possibility that the use of foreign currency may harm the economy of its people, then the ruling becomes mandatory.

However, if the state does not print its own currency, but the country still able to practice all *hukm syara'* which must be implemented, so it is permissible for the state to use a foreign currency which is not printed by the state itself.

By then, if the state does not print its own currency, then it will lead to the practice of *hukm syara'* which must be implemented imperfectly, then the *hukm "mubah"* will be mandatory (*wajib*), as *Qaeda Syara'*, which reads:

"Maa laa yatimmul wajibu illa bihi fahuwa wajibun"

"Everything that is done imperfectly without a duty, then it is being also obliged".

The next problem is, if the state must print its own currency, what currency is required to be printed by the state? Does the state have to print paper currency (*fiat money*) as currency at the present time, or the currency must be in the form of gold and silver?

If it leads to gold and silver, the following questions must be answered: Is the currency led to perfect implementation of Islamic law or facilitate the implementation of Islamic law, and whether the currency can increase the level of independence of the country in implementing Islamic law?. The questions above will be elaborated in the following paragraphs.

In the Islamic perspective, there are certain rules that must be implemented by the state. In other hand, the individual or group of people should not (*haram*) to implement the rules. These rules include the implementation of the systems of government (*nidzomul-hukmi*), economic systems (*nidzomul-iqtishody*) penal code (*nidzomul-'uqubat*), the management of zakat, diyat payments, the service of public interests (*su-unil ri'ayatu ummah*), such as: education, health, social etc.. The evidence comes from the Prophet's action when the Prophet Muhammad s.a.w. was to be the head of state. He said:

"Al-imaamu raain, wahuwa mas'uulun 'an raa'iyatihi"

"Imam/ leader is shepherd / waitress and she will be held to account to the people it serves."

And then, the rules of *syara'* that must be implemented by the country are *qath'iy* (definitely) and unchanging. By then, if the state (ruler) neglects to do so, then it will sin against Allah.

Among these rules are mandatory and absolute, it appeared that the implementation refinement was directly related with gold and silver as currency. Among these *syarak* laws are:

- a) The prohibition of hoarding of gold and silver (*kanzul mall*). The evidence was based on the *ayat*, which reads:

"And those who hoard gold and silver and spend it not in Allah's way, so give glad tidings to them would be a painful doom." (*Surah At Tawbah: 34*)

Prohibition above is to hoard gold and silver as currency, not as goods. Because the prohibition to hoard goods is called as *ihtikar*, not *kanzul mall*. The implementation of this rule, namely enforcing the prohibition of *kanzul mall*, shall be performed by the state, not by individuals or the group of people.

- b) Legal obligation to pay *zakat mal*, namely wealth charity. Among the wealths in question are gold and silver as currency. *Hukm syara'* has also set *nishab* for wealth by using a measure of gold and silver. The evidence is from the words of the Prophet Muhammad s.a.w. : "In every 20 dinars (*zakat*) half a dinar." It means, *zakat dinar* (gold) is 20 dinars (or 85 grams of gold), and *zakat* of 2.5% (1/40). As for the *dirham*, it is the words of the Prophet who said: "And in every 200 *dirhams* (*zakat*) 5 *dirhams*." It means, *zakat dirham* (silver) is 200 *dirhams* (or 595 grams of silver), and *zakat* is 2.5% (1 / 40). *Zakat Mal* is obligatory for every Muslim whose wealth has reached *nishob*, while the obligation to manage *zakat* was applied to the state.
- c) The obligation to pay *diyat*. Islamic law has given the provisions of the payment of *diyat* by using gold and silver standar. The gold amount of *diyat* is 1000 dinars, and the silver amount of *diyat* is 12.000 *dirhams*. The evidence is based on the *hadith* narrated by Ibn Abbas RA, there was a man from Bani Ady killed. The Prophet s.a.w. has determined that the *diyat* is amounted to 12.000 *dirhams* (Narrated Ashabus Sunan). Another *hadith* narrated by Abu Bakr ibn Muhammad ibn Amr ibn Hazm from his father from his grandfather, that the Prophet Muhammad has written a letter to the Yemen. In the letter the Prophet s.a.w. said, "that in the soul of a *mu'min* (killed) there is *diyat*, 100 camels ... And for those who have dinars, (the *diyat* is) 1000 dinars." (narrated by An Nasa'i). Implementation arrangements of *diyat* payment are only required by the state.
- d) Legal liabilities of cutting the hands of thieves. *Hukm syara'* has defined minimum level of assets stolen by using a measure of gold and silver. Minimum levels of thieves who get cutting off of hands is a quarter of a dinar or 3 (three) *dirhams*. The evidence is based on the *Hadith* narrated by 'Aisha RA, Rasulullah s.a.w. said, "Do not cut off the hands of thieves except in (goods worth) a quarter of a dinar or more" (narrated by Khamsah). The implementation of rules relating to this theft is only required by the state.
- e) The acts of the exchange (sale) of currencies (*sharf*). When Islam laid down the law in this exchange of currency (*Sharf*), the currency in question is the currency in gold and silver. The evidence is based on the *Hadith* narrated by Abi Bakrah r.a.: "the Prophet Muhammad s.a.w. forbade the sale of silver and gold silver with gold, but with a value equivalent (equal value). He required us to buy silver to gold according to our will, and requires us to buy gold with

silver according to our will." (narrated by Bukhari and Muslim). Legal arrangements to exchange currencies can be run in accordance with the Islamic law also required by the state.

An additional proposition that can be used to strengthen the argument above is the prohibition to use something (*wasilah*) that can cause harm (*dharar*). If the view that use of foreign currencies will be able to affect the financial and the country's economy, the use of foreign currency should be stopped and the state must print its own currency, namely gold and silver currency. Argument was derived than *Qaida syara'*, which reads:

"Al wasilatu ilal harami haram"

"Any mediation to the haram, haram (forbidden)".

Those are the orders of law-making (*istinbathul ahkam*) about the necessity of the state to mint its own currency by using a gold and silver. By this understanding, the currency to be printed by the state must have a good value that can be used to fine-tune the implementation of its legal obligation.. While by using *dinar* and *dirham* will be released by the state coinciding with the above purpose.

C. FIAT MONEY AND MAQASHID SHARIA

This sub chapter, we will discuss the weakness of the current fiat money system in term of *maqasid sharia*. Related to the theme, Meera (2009) argued that interest-based fiat monetary system works contravenes the *maqasid shariah*. It is argued that the current system allows the government as well as the bank to create money out of thin air. They made money with a zero cost. The fractional reserve system enables banks to do so. This creation of fiat money has caused several problems (Meera, 2009):

- 1) Inflation and asset price bubbles. The creation of money through banking system has made the supply of money increases dramatically. In the theory of quantitative theory of money, the increasing of money supply may increase the price when the growth of money supply is higher than the growth of income. The price of houses, stocks and other sectors that absorb the money supply will increase higher than the inflation rate. The increase of house prices is likely to become a burden for the low-income people.
- 2) The bubble of debt that may harm firms and governments.
Using a mathematical model, Meera (Meera, 2009) has successfully proven that the bank loans are non-repayable in aggregate as the number of money is always smaller than the total amount of debts. It means that some debtors are sure in default. There are three steps that usually being used to solve the default: 1) Creating more money to give the defaulter more loans, 2) The government introduced an additional paper money and coins to the extent of the non-existent interest money, 3) The real wealth of defaulters will be confiscated. The first and second steps will increase the number of money supply while the last point affects to the ownership transfer from defaulter to the bank.
Nevertheless, debt financing is still attractive to the firms as they consider it as cheap fund. However, it should be noted that business has a high risk. His cash flow is not always the same in each period while the payment for the debt is constant. Then, it can be said that the risk of business is higher than the debt itself that demands a riskless payback. So, how far the firm can bear the debt? When the firm suffers a high loss, and cannot bear the debt any longer, the firm may collapse. Enron and Xerox are the example of those who were bankrupt.

Likewise, it can also happen to the government. Today, Greece is suffering crisis due to the debt problem.

- 3) It amplifies business cycle. The business cycle becomes shorter. In other words, the crisis is likely to occur more often.
- 4) The rise of inflation and unemployment. The government is forced to make a trade-off between them.
- 5) Price control of government toward agricultural sector which aims to minimize the inflation rate can harm this sector. The agriculture sector becomes less attractive compared to other sectors which are not controlled by the government. This problem may affect to the supply of Human basic needs.
- 6) Along with interest rates, it requires continuous growth and intensifies competition. Moreover, it caused the money circulation concentrates among the rich which is minority of people by taxing the majority people.
- 7) In the end, it widens the gap of the income distribution and creates poverty. Inflation is a *hidden tax* for the whole people irrespective of their wealth status. Both rich and poor people will be taxed. However, the poor are more suffering than the rich since they have low savings. Moreover, the growth of their income which is below the growth of inflation is going to make them poorer.
- 8) Many social problems occur due to poverty. People are forced to work longer than the normal working hours. They have to do multiple jobs to earn more income. Female as well as children become labor to help the family income. It also may persuade people to do corruption, stealing and other crimes. There are a lot of more social effects.
- 9) The destruction of environment. The existence of interest rate also participates in the environmental destruction. People are going to sell the wood and invest the money at the rate of interest.

The above effects of interest-based fiat money system show us that the protection of *maqasid* cannot be achieved. People are not able to protect their wealth which is one of the *maqasid shariah*. Moreover, the inability to protect the wealth may cause to the loss of the other *maqasid* namely protection of faith. The Prophet said:

"Poverty in all probability, leads to unbelief (kufr)." (Bayhaqi and Tabrani)

Furthermore, the sovereignty of individuals and government would also be lost due to the concentration of wealth to the money creator. It should be noted that the sovereignty is linked to the other *maqasid* namely protection of faith, life, intellect and progeny. When the sovereignty of Muslims is lost, the "new rulers" may change the education system that can affect the intellect, i.e. by changing the education curriculum or even by closing down the religious schools. They prohibit Muslim women to wear hijab. The effect on education and in the intervention in the religion can affect the faith. Meanwhile, the control on the population growth of Muslims also affect the other *maqasid* namely protection of life and progeny. In the end, Muslims are not able protect the whole *maqasid shariah*. Hence, it can be concluded that *maqasid shariah* cannot be attained under the interest-based fiat money system.

D. SIYASAH SHAR'IYYAH APPROACH

In literal, the meaning of *siyasah shariyyah* is a *shariah*-oriented public policy, or government in accordance with the *Shariah*. Meanwhile, *fuqaha'* define *siyasah shar'iyyah* as decision and

policy measure taken by the imam and the 'ulu al-amr on matters for which no specific ruling could be found in the shari'ah (Kamali M. H, 1999). Ibn Qayyim mentioned in *al-Turuq al-Hukmiyyahfi al-siyasah al-shar'iyyah* the words of Ibn 'Aqil, "Siyasah is any measure which actually brings the people closest to beneficence (*salah*) and furthest away from corruption (*fasad*) partakes in just *siyasah* even if it has not been approved by the prophet saw nor regulated by divine revelation.

Moreover, Ibn Qayyim adds that anyone who says that there is not *siyasah shar'iyyah* where the shariah itself is silent is wrong and has misunderstood the companions (*sahabah*)...(Ibn Qayyim (d.751 H)- (1380/1961).

Furthermore, some contemporary scholars also have tried to define it. Kamali interpreted *siyasah shar'iyyah* as a broad doctrine of Islamic law which authorizes the ruler to determine the manner in which the *Shariah* should be administered. Likewise, Khallaf stated that *siyasah shar'iyyah* is administration of public affairs in an Islamic policy with the aim of realizing the interest of, and preventing harm to, the community in harmony with the general principles of the *Shariah* even if it disagrees with the particular rulings of the *mujtahidin*(Kamali, 1999).

There are some examples of the implementation of *siyasah shar'iyyah* made by companions. The decision of Umar ibn Khattab to stop the distribution of zakat to muallaf is made based on the *siyasah shar'iyyah* that Allah has exalted Islam and it is no longer in need of *muallaf* favor (Kamali,1999). Besides, the elimination of *muallaf* as *mustahiq* may strengthen the distribution of zakat to the other *mustahiq*.

Furthermore, Umar also validated a triple talaq pronounced in a single utterance due to the common practice at that time. It aims to prevent people from kidding in marriage. Another example is the decision of the third Chaliph, Uthman ibn Affan, whereby he ordered the collection of the text of the *al-Qur'an* in one volume and then ordered the burning of all other copies which had existed in miscellaneous forms so as to prevent interference with, and controversy over, the authentic text of the *al-Qur'an* (Kamali, 1999).

Based on the aforementioned cases where the Chaliphs have employed *siyasah shar'iyyah* as a tool to determine the ruling or to solve problems, author, in the following discussion is trying to examine which monetary system that is in accordance with *siyasah shar'iyyah*. Hence, the *maslahah* and *mafsadah* of each system, fiat money and gold money will be investigated.

a. Fiat Money

The main criteria that a certain thing is in line with *siyasah shar'iyyah* is that it should not contradict to the *Shariah* ruling as stated by al-Khallaf that *siyasah shar'iyyah* should be in harmony with the general principles of the *Shariah*. In consequent, the *shariah* ruling on fiat money should be addressed before further discussion. However, this issue has been discussed in the previous section with a conclusion that money in Islam is not limited to gold and silver. In other words, the implementation of fiat money system is allowed in the perspective of *Shariah* jurisprudence. Hence, the next step is to analyze the *maslahah* and *mafsadah* of this system.

Maslahah

Fiat money system has several benefits, when Central bank use it as a monetary policy tool in order to achieve its monetary objectives like targeting the inflation rate or exchange rate through controlling the amount of money supply (Isra,1987). Moreover, the printing of paper money is easy to print with low cost and saving the time. The transportation of paper money is easier, safe and

cheaper than metallic money e.g. one thousand rupee note can easily be transferred from one place to another place. Paper money saves gold and silver from useless lockup for other purposes. Paper money can be counted more easily than metallic money. The counting of big amount of coins is a tedious.

Fiat money has elastic supply and it can be printed for any purpose at any time. It also helps to Govt. for emergency uses such as war or depression period. Paper money is easy to recognize nowadays, even a small child can recognize paper money.

Pro-FRB arguments including (Meera, 2009):

- a. The money multiplier brought about through FRB increases liquidity in the market.
- b. The increase of money supply may stimulate the economy through the increased demand and thereby increases the real output.
- c. Controlling the money supply by regulating the statutory reserve ratio provides monetary policy flexibility.
- d. FRB allows the managing of the international competitiveness of a nation's exports. By increasing or decreasing the money supply, wages and the price levels can be affected accordingly.

Besides that, Hasan (2005) pointed out that fiat money has some advantages: 1) easy to carry (mobility), 2) it can be printed in various types and level depends on the volume of trade transaction, 3) low risk to carry, 4) low production cost, 5) flexible to issue that helps the government to quickly support the spending at the emergency time .

Mafsadah

- a. Fiat money Has No Intrinsic Value.

Fiat money has no intrinsic value. The value of fiat money is determined by the government. The ruler is the one that enforces the society to accept the fiat money with a given value. The value will be demise when the ruler announces to not use it as money anymore. For instance, a piece of paper money with the nominal value RM100 is still having its value as long as government is still proclaiming it as money. When the government suddenly changed his discretion stating that it is no longer used as money, the money is not worth RM100 anymore. Consequently, the society may lose their wealth.

- b. Government Freedom to Print Money

The government has the right to control the supply of money. It may increase the amount as well as decrease the amount. For example, the government may print more money to finance his programs. By doing so, the government may earn revenue without levying conventional tax. This profit is so-called seigniorage. When the commodity money prevailed, seigniorage revenue was the difference between the nominal value of the minted coins and the actual market value of the precious metal they contained. However, in this fiat money system, the money issuer may gain high seigniorage because they do not have to source physical metal to create it, while coins have lower seigniorage because it costs something to create the coins and source the metal (www.lexicon.ft.com/Term?term=seigniorage, 2012).

It sounds that it is really beneficial for the government to be able to cover the whole government's programs costs. In fact, this freedom is actually harmful for the country. The government freedom to control money supply may create inflation. The experience of Germany in 1922-1923 with the hyperinflation should be a lesson that the surplus of money supply may decrease the value of money. Another example is what happens in France In 1290 whereby King Philip IV of France did not have enough money to pay for his wars, so he began to debase the currency by increasing the seigniorage he extracted from melting new coins. As a result, French currency devaluated, inflation rises and the both gold and silver disappear from the kingdom (www.lexicon.ft.com/Term?term=seigniorage, 2012).

The effect of money supply to the increase of price can be explained by the quantitative theory of money as follows:

$$MV = PY$$

Where : M = money supply, V = Velocity of money, P = Price, Y = Aggregate income (GDP)

The increasing of money should be followed by the increasing of either price of income or the increasing of both. However, since money grows faster than GDP where M1 grows exponentially due to money creation that will be explained hereafter, the increasing of price is certain.

An increased monetary base with less intrinsic value creates inflation, as defined by Irving Fisher's theory. As the level of goods available for sale are exactly the same, more money in circulation results in higher inflation as these goods will be sold at higher prices to compensate. Zander in 1935 stated as follows (Zander, 1935)

"Whatever the monetary system of a country, it is essential that the measure of value should be clearly and unequivocally determined. Thus where there is a gold currency, a silver currency, or an index currency, the value should be measured by gold, silver, and the index respectively. This basis of measuring economic values, and therefore of any monetary system, is destroyed when in the case of a gold or silver currency the notes of the bank of issue are made legal tender, for this compels everybody to accept these notes in payment regardless of their real value. Compulsory acceptance renders it even impossible to measure the notes by the unit of value and thus to ascertain their value within the country. Indeed, it establishes a legal fiction on the basis of which note and unit of value are identical. For this reason, the names of the units of value - e.g. the terms dollar, mark, pound, become ambiguous in that they mean now a fixed weight of gold and then the note of a bank of issue. Accordingly, the measure of value, on the un-ambiguity of which everything depends, comes to have two definitions. This renders impossible any real measurement and thus the whole monetary system is falsified."

A study conducted by Ibrahim empirically proved that expansion in money supply is inflationary. However, he also found that money supply has positive correlation with real output. It is a necessary prerequisite to expand the production. Hence, further study should be conducted (Ibrahim Mansor, 2009).

c. Fiat Money along Fractional Reserve Banking Enables the Banks to Create Money.

Fiat money with fractional reserve banking system allows banks to create more money. Whenever banks extend the loan to customers, they actually have created money in the form of accounting entry. Hence, in this current monetary system, the bank may also enjoy seigniorage through credit money and interest charges. It should be noted that the most part of money today

is merely an accounting entry in books or computers. Hence, the amount of M0 (paper currencies and coin in circulation) is smaller than M2 (M0 plus demand deposit and time deposit). The study of Meera and Larbani on the monetary statistics of sixty-two countries has proven that the proportion of M0 to M2 is only 34 percent on average. The average annual growth rate of broad money (M2) is 41.4% (M2) while that of GDP is only 4.25%. Such unbalance growth between Money supply and GDP may lead to the inflation as explained by the aforementioned quantitative theory of money.

Furthermore, the creation of money through loan with interest creates another problem. The impact is that the loans are non-repayable in aggregate since the interest portion that should be repaid does not exist in the form of money. It means that loan default must exist in the current monetary system. In consequent, there are three things that should be done to overcome this problem in order to sustain this monetary system, 1) the bank offers another loan to the defaulter, 2) government introduces the additional paper money and coins to fulfill the non-existence interest-money, 3) Banks confiscate the defaulter's assets. The first and second option may increase the money supply while the last may transfer the asset ownership from defaulter to the bank (Meera, 2009) . Disparity of Income

Inflation caused by money creation may lead to the disparity of income among society. Inflation is actually a "hidden tax" for the people. They should spend more money due the increase of price. However, the poor people may suffer more from inflation since they only have low income while the growth of their income is below the inflation rate. Unlike, the rich have more income and they are able to increase their income more than the inflation rate. Moreover, they may invest more to get more profit since they are more likely to receive loan from the bank. Furthermore, this loan facility for the rich made the circulation of money is limited among them. The newly created money is only enjoyed by the rich while the more pain is suffered by the poor. In consequent, the rich may become richer while the poor become poorer (Meera,2009).

d. Fiat Money Enables Currency Speculation and Arbitrage.

The difference of currency used by each country has made it happen. Speculation action leads to the instability of currency. It plays with the currency through manipulating the demand of money in order to earn profit. As a result, it could lead to the crisis. For instance, the East Asian suffered crisis in 1997 including Indonesia and Malaysia. However, the speculators are not the main cause of a crisis but they may worsen the economy. Meera and Aziz stated as follows (Meera, 2009):*"The fiat money interest rate system provides a fertile ground for speculative, manipulative and arbitrage activities in the foreign exchange market."*

e. Based on Seignorage and Money Creation of Out of Thin Air

It makes possible for huge amounts of short-term funds (particularly electronic money) to move in and out of nations within seconds. This fact is very destabilizing. Through the seignorage of fiat money some nations gain substantially when other nations use their currency for international trade and dealings or in domestic transactions. Provides an easy tool for domestic and international financial institutions to gain control over money, wealth, the political structure (i.e. sovereignty) of nations, etc (Meera, 2009). Moreover, Meera, (2009) pointed that creation of fiat money out of thin air has some serious impacts, such as :causes inflation and asset price bubbles, debt bubbles and financial collapses of firms and governments, amplifies business cycles, trade-off between inflation and unemployment, agriculture sector disadvantaged due to price controls in this sector, along with interest rates fiat money places the burden of a continuous growth

requirement, intensifies competition and accumulates wealth in the hands of a minority by taxing the majority, widening gap in the distribution of income - creates poverty and social problems like housing, long working hours, multiple jobs, female and child labor, corruption, crime, etc.

f. Social Impact

Earlier, it has been stated that money creation has created poverty. The increasing of poverty may create many social problems. For example, it may force the women folk to work in order to fulfill their needs. Consequently, children are not well managed that may affect to the child neglect, child abuse etc. Likewise, the divorce rate becomes higher. Poverty also encourages poor people to do crime in order to sustain their lives. Furthermore, poor people may lose their faith by converting to the other religion as stated by Rasulullah saw:

“Poverty, in all probability, leads to unbelief (kufr)” (Bayhaqi and Tabrani)

In term of country, the poor country as the debtor may also lose their sovereignty where they are forced to obey the request of the creditor or the rich country (Meera, 2009).

g. Justice Perspective.

Fiat money cannot guarantee the fairness for everyone who has worked hard and then earn billions of money (i.e. In ringgit). When the trust of international people toward ringgit is going down, the purchasing power of ringgit becomes less. In consequence, the personal wealth of those who have it in ringgit may reduce in term of purchasing power. It shows that fiat money has treated people unfairly. This problem already hit some countries who were in financial crisis. For instance, South-East Asia countries have suffered crisis in 1997 due to the devaluation of their currency. In relation to this problem, Allah SWT forbids human being to do injustice over others, but He orders them to help each other in the kindness. Justice is very important to Islam. Islam considers “adl” as one of criteria to accept the validity of *muamalah* transaction. When the society is filled with injustice, they as a whole will be disturbed.

- h. Along the history of Islam using the gold and silver money, only one great inflation happened. The inflation was not caused by the gold but by the manipulation and the excessive use of *fulus*. Moreover, the government over valued the mix money. This happened in *Mameluk* dynasty (806 H).
- i. Imam Shafi’i ever rejected the currency not made from gold and silver. He refused all analogies of gold and silver.
- j. Regarding with national security and the threat of fiat money, Anwar (2003) has conducted a study the evolution of the euro currency and gold dinar classified to three categories of threat of fiat money system, namely: the problem of financial dependency, threat of inflation and the threat of speculation.

Gold /Silver as Money

Maslahah

Commodity money especially gold does not allow money creation. Accordingly, no institution or country may enjoy substantial seigniorage. In the absence of money creation and seigniorage, inflation can be avoided, the sovereignty of country can be protected, family harmony can be realized, crime can be minimized and etc. Moreover, if a commodity such as gold were legalized as a common currency to replace the different national currencies, then exchange rates will does not

exist. As a result, speculation, manipulation and arbitrage would not be possible. Then, the previous financial crisis due to currency attack could not happen anymore or its possibility is very much reduced (Meera, 2009).

In terms of its characteristics as money, gold has excellent homogeneous, acceptance among people, divisible, rarity, durability and good mobility (Meera, 2009). Gold has intrinsic value, its value is based on demand and supply. Its value is not determined by the government. Price stability, price levels based on gold and silver have been shown to be remarkably stable over long periods of time. Al-Maqrizi proved it in his book *Ighatah. Jastram* (1997) also said that the price level based on gold were extremely stable. He analyzed the whole price index data over four hundred-years. Moreover, he concluded that the stability was not because gold moved towards commodity prices, but because commodity prices eventually returned to gold. (Meera, 2009).

Elimination of interest is the prerequisite to make dinar as stable currency and monetary system.. Hence it may minimize the business cycle effect. The gold value does not need government protection. Its value only depends on the supply and demand. It contravenes the fiat currency where its value needs government intervention. On the other hand, gold does not need monopoly to print, while fiat money needs monopoly rule to print it, namely government. Rasulullah s.a.w. has given primacy to the gold and silver. He said that there will be a time of human being where there is no other thing that have value and benefit at that time except gold and silver .

Regarding the superiority of gold over other forms of money, Meera (2009) said that" gold has intrinsic value just like any other commodity, but it distinguishes itself in that people of every race, creed and nationality desire it for its own sake as proven by the obsession humanity had for this metal throughout history. Moreover, he summarized some characteristics of gold as ideal money, as follows:

Rare and Compact : Gold is rare; found and extracted only in minute quantities from earth. Being compact, a small amount of gold has big value. Therefore, one needs only small amounts for big purchases.

Stable and durable for very long periods : The chemical property of gold is that it is an element that rarely reacts with any other element or compound. It is so inactive that it is even extracted from the earth as gold itself (unlike iron, for example, that is obtained as iron oxide, which is then processed to extract the iron). Gold does not oxidize easily and, therefore, does not get rusty. Even gold treasures buried in the salty seawater for many centuries remain in their pure form. Gold is also not destroyed by extreme heat and pressure.

Homogenous and divisible into minute quantity: This characteristic is important since it allows the pricing of a whole range of values. It is homogenous in the sense that if a gold bar is cut into two halves, one need not choose between the two for they are simply equal. This splitting can go on until each unit is very small in weight. Gold is also homogenous in the sense that gold extracted from different parts of the world are practically substitutable for each other.

Storable : Gold is an ideal store of value, i.e. something that can be saved for future use, even very far into the future. It is not uncommon for fiat money to become obsolete with the passage of time, but gold coins, on the contrary, had always maintained their intrinsic value.

Mobile : Gold can be moved between places easily and, therefore, can be used as money in different nations and places.

Can neither be created nor destroyed: If money can be created or destroyed (as fiat money is) then it is certainly a potential problem for the economy. Inflationary problems may crop up when it is created, while recessions and unemployment occur when it gets destroyed. When people use food items as money, for example, then when one consumes the food, money gets destroyed. But, gold as a metal cannot be created or destroyed and will be always there to play the role of money.

Mafsadah

The objections to the gold as money is approximate in term of inefficiency, difficulties, insufficient of gold, not meet with economic growth and fluctuating of gold price. To deal with some protests, it can be summarized as table 2, and it is also included the rebuttals.

Table 2: Arguments and Rebuttals Regarding Gold as Money

| No | Arguments/Objections | Rebuttals |
|----|---|--|
| 1 | <i>A gold system does not provide the levers for monetary policy control. Therefore governments would be unable to alleviate downturn in business cycles, stimulate growth and generate cash to spend for emergency projects.</i> | <i>The ability of the fiat system to mitigate business cycle is disingenuous given that it is the primary cause. Islam categorically forbids interest and increasing money without the full backing of Gold and Silver. Emergency spending in the fiat system benefits the rich and results in hidden tax for the majority, while in Islam it is sourced from the rich.</i> |
| 2 | <i>There is inadequate supply of gold, which can result in deflation if the gold system is adopted. There are also major imbalances in supply of gold across regions of the world, and maintaining sufficient reserves of gold/silver is a challenging task. Injection of gold into the economy would result in inflation similar to quantitative easing in the fiat system</i> | <i>At the heart of this criticism of the Gold System is the aversion and irrational fear of deflation. Flexible labor markets are a necessary condition to counter the negative effects of falling prices in product markets enabling businesses to remain competitive/profitable under deflationary condition</i> |
| 3 | <i>The Gold system leads to greater price instability in the short term, inhibiting business decisions. Gold is a commodity whose price is too volatile, being constantly shifted by supply and demand.</i> | <i>The argument of short-term price instability solely hinges on relatively high coefficient of variation ratios over the period of the Gold System. However the coefficient of variation is a highly unstable statistic when the average (mean) of a dataset is close to zero as was the case with relatively low and stable long term inflation over the period of the Gold System. Far from destabilizing markets, short-term price variability around a low average in actual fact suggests markets were providing effective signals for</i> |

| | | |
|---|---|---|
| | | <i>producers and consumers to actively engage in economic activity during the period of the Gold System.</i> |
| 4 | <i>The gold system is inelastic and can introduce a mismatch in the quantity of money in relation to volume of economic activity. The insufficient gold-based currency can result in high or cyclical unemployment.</i> | <i>The real problem is not that there is too little Gold but the fact there are too many dollars in the world. The Gold System ensures the amount of money in the economy is relative to economic growth, which therefore makes economic growth real and sustainable</i> |
| 5 | <i>The use of gold and silver requires costs of extraction, mining and transport, which is a significant portion of the GDP of a nation. This also leads to allocation of valuable effort towards, that which could be avoided.</i> | <i>The use of gold and silver requires costs of extraction, mining and transport, which is a significant portion of the GDP of a nation. This also leads to allocation of valuable effort towards, that which could be avoided. Based on office for National Statistics, the average cost for bailing out of economic is 30.17 to GNP (http://www.statistics.gov.uk)</i> |
| 6 | <i>The gold system is not compatible with the Fiat system and to be effective it requires a non-interest based economy.</i> | <i>Indeed the two systems are like chalk and cheese. If a country operating the Gold System began to print money the paper money would lose value and people will exchange the lower value paper for gold from the treasury or begin to hoard gold. The Islamic Gold based economy prohibits interest, which would not fuel credit creation, thereby guaranteeing the integrity of the Gold System</i> |
| 7 | <i>How governments could be trusted to maintain the Gold System. He US for example was accused of printing more dollars than gold reserves in late 1960's before they dropped out of the Bretton Woods agreement.</i> | <i>Islam makes a 100% reserve currency obligatory not optional. This is based on various Quranic textual evidences. For an Islamic state maintaining a 100% gold reserve ratio, is a matter of conviction related to belief and would warrant the removal of the ruler if he flagrantly abuses the supply of money in the economy.</i> |
| 8 | <i>The Gold System suffers from a structural flaw if implemented internationally. Policies implemented by nations can have a biased impact</i> | <i>From examination of the gold exchange system, it becomes clear that it was neither entirely gold/silver based nor was it implemented with the right discipline and</i> |

| | | |
|----|--|--|
| | <i>on economies of other nations. The abandonment of the gold exchange system during the interwar period is evidence of this problem.</i> | <i>priorities. Islam obliges a full gold silver system, whose discipline allows for balance of payments adjustment without the intervention of central banks. The challenges of engaging in gold exchange regime for an emerging state can be addressed with some prudent policies described.</i> |
| 9 | <i>Transitioning to a Gold System is seen as an insurmountable task. The use of the Gold System would it is argued disrupt the financial markets, causing chaos and havoc to the economy.</i> | <i>When we consider that the Gold System is a system of stability without major cyclical effects, independent of government manipulation, devoid of inflationary fiduciary issue, currency debasement, international crisis and long-term balance of payments crisis – we are left thinking as to why indeed it would be such a difficult task to establish the Gold System, when the benefits are so manifestly profound.</i> |
| 10 | <i>The gold and silver system suffers from tendencies to devaluation by debasement to generate liquidity. This not only results in inflation but also takes the good money out of supply – an observation commonly known as Gresham's law.</i> | <i>Islam disallows debasement securing monetary value of the currency. Modern technologies enable producing representative legal tender backed by gold/silver, which avoids this problem. Converse to Gresham's law, strong currencies will soon become preferred media of exchange, making the gold system quickly resume its position in the world</i> |

Source:hti.uk.com

E. DISCUSSION ON MASALEH AL-MURSALAH

Although the money other than fiat money is allowed by some Islamic scholars as mentioned above, the physics of the current fiat money should be questioned. At the time of past Islamic scholars, the currency other than gold and silver is *fulus* which is made of metal or copper. It should be noted that *fulus* is different with the current fiat money. Fiat money in the current monetary system has five subsystems namely: created from nothing (thin air), interest base, fractional reserve banking, trigger speculation, and legal tender. Meanwhile, *fulus* at that time was accepted by people because of legal tender.

Fiat money since its beginning has caused many problems. The previous chapter has explained the existence of conspiracy made by some countries that aim to control the world. Evans J (2000) said that those who are able to control the currency of any country may control that country. Besides, the first occurrence of fiat money is full of mysteries alongside the establishment of Federal Reserve, IMF and Central bank as mentioned by Griffin (1999) in his book, *"The Creature*

from *Jekyll Island*". Even more, President Nixon said that if today the people know what actually the fiat money is, the revolution could happen by tomorrow (Ridvasmara, 2002)

Based on the explanation in the previous sub-chapter, it can be seen that each currency has advantages and disadvantages. However, it can be found that the current fiat money has created a bigger harm to the people's life rather than to provide benefits. Moreover, it may hinder the implementation of *Shari'ah*. Justice principle in *muamalah* is also hard to be attained through fiat money while justice is an aspect that determines the validity of *Muamalah* transaction. The justice covers the relationship among individuals, among groups in a country, and among countries especially between the developed countries and undeveloped countries.

Fiat money has been used in the world less than 50 years. However, it has created crisis for five times. Bordo and Young (2001) found out that a hyperinflation happened in 1913-1950. It was the regime of fiat money. The inflation tended to be lower in 1950-1970 as it was the Bretton Wood regime. Finally, high inflation occurred again after the dismissal of the Bretton Wood regime in 1971. The effect of inflation toward the economy is very serious. It affected the whole countries, whether good countries or bad countries.

Economic crisis and inflation have fallen down the national economy, i.e. Indonesia that had suffered a monetary crisis in 1997. The crisis destroyed every aspect of social life, politics and religions. Furthermore, Krugman (1998) announced that the first crisis (1971) until the third crisis (1997) were caused by the bad aspects of fiat money and the greedy as well as speculative motives. Likewise, it caused the crisis in 2008 and 2010.

Economic stability is very important to the country. The stability may guarantee the economic sustainability of a country. Ibn Khaldun said that economy (stability) is a key factor to the other sectors. The good economy leads to the stable other sectors. In contrast, the bad economy may harm other sectors of life (Ibn Khaldun, *Muqaddimah*). Fiat money system may have an advantage in terms of the easiness to trigger economic development. However, it also carries the potential of economic instability that may create destruction.

Today, undeniably, the economy is growing faster. Almost everything, goods and services, is available. Nevertheless, the economic growth of developing countries is always followed by debt growth. Moreover, for certain countries, the amount of their debts is bigger than GDP. The debts will be a burden for the next generations.

It can be concluded that fiat money is not in line with *masalih al-mursalah* principle: "averting causes of corruption has precedence over bringing about benefit". The lower *maslahah* is abandoned to keep the higher *maslahah*, the public *maslahah* has precedence over a specific *maslahah*. Therefore, knowing the poverty, starving and indebtedness of poor countries becomes larger, the unfair economy, deforestation, global warming and exploitation, the best currency system should be sought and advocated in order to reduce the aforementioned problems.

Some parties view that the current fiat money system should not be changed but it only needs a good management. However, the author argued that it is hard for the fiat money system to attain *maqasid syariah* through good management as long as fiat money still consists of the five elements: created from nothing (thin air), interest based, fractional reserve banking, trigger speculation, and legal tender. The Prophet has presented his *da'wah* model: he changed the system without following either west or east and then fixed his personal management, the new system covered by *akhlaq*.

The initiation to release fiat money from the five elements may face challenges from the big countries (groups or ethnics) which is taking benefits through fiat money system. It is known that big countries have power in the information technology, weapons and war technology and control the economy. The initial introduction of fiat money consisted of many problems including war and conspiracy as explained before. For example, Evans Jerry (2010) said that the Roschild's generations are controlling fiat money for 40% of the total amount in the world. The question is do they want their business being disturbed?

Having found the big problems carried by fiat money, the next step is to find the alternative of find money. Meera (2009) proposed the real money that fulfills the five requirements as money: (1) Standardized such that its value can be ascertained easily. (2) Accepted widely. Acceptable' by means of law, and hence the term 'legal tender'. (3) Divisible that it can be used for the exchange of a range of values. (4) Mobile, i.e. easy to carry around. (5) Stable/Durable, so that it does not deteriorate, (6) Perish, deplete or erode easily due to its own chemical structure, weather, pest, fire or other reasons. A number of 'real money' can be as a solution which include: (1) gold and silver money, (2) a basket of commodities as money, (3) complementary currencies, and (4) Real Money Units (RMU). A number of commodities as money include wheat, shells, salt, leather, gold and silver.

Moreover, Kameel (2009) pointed that gold and silver is superior over other forms of money. He stated that a commodity money like gold, therefore, is superior and desirable money compared to fiat money. It promises a just and stable monetary system while protecting the wealth (*al-māfī*), sovereignty, culture and religion of the people. It also does not impose a 'hidden tax' on the people, which particularly affects the poor and the wage earners. Nonetheless, in all, commodity monies are, therefore, compatible with the *maqāsid al-Sharī'ah* (Meera, 2009). He criticized some opponent by saying "Therefore, the Holy Qur'ān, the traditions of the Prophet (s.a.w.), the history of Islam and the writings of Muslim scholars of the past, all do indeed point towards gold and silver as money in Islam. But somehow in the passage of time, Muslims seem to have lost the wisdom behind this, adopted fiat money and have subjected themselves to subjugation, poverty and humiliation as observed by al-Maqrīzī in Egypt with *fulūs* as money".

From the above reviews, it is clear that the financial system based on gold and silver have more strong point and the advantage in terms of fairness, stability, similarity and welfare, whereas fiat money is able to be duplicated easily to trigger the economic growth and also it is practicality/mobility. Besides that, the implementation of the gold and silver currency is very difficult, due to constraints created by the IMF articles. Then the factor of gold reserves also become a great hindrance. If these factors can be overcome then it is very possible gold coin will be back to reform the new system.

In the next sub chapter, it will discuss barriers and challenges, also the specific strategy to address those problems. The change cannot be done in sudden and radical, but such movement may worsen the condition of Muslims in the whole world. Allah SWT emphasizes: "Allah burdens not a person beyond his scope" (Al-Baqarah: 286) and many other evidences showing the relief of Allah. Besides, there are other evidences advocating changing the condition gradually. The radical change is hard to be implemented but it may destroy the principles of Muslim *Ummah*. The country economic development should be maintained since its destruction may bring sequence troubles. The downfall of this system abruptly may lead to the crisis and demolish companies. Therefore, the gradual change from the micro one should be advocated. It should be noted that the change from gold standard to fiat money system was implemented also involved step by step through excellent strategy.

F. CURRENCY SYSTEM BASED ON GOLD AND ITS STRATEGY TO BE IMPLEMENTED

Historically, gold-based monetary system has proven the ability and empirical in maintaining the stability of the currency and reduces inflation compared with fiat currency system (the float system). Gold and silver currency is also a claim in Islam as meet the criteria of Islamic currency was quoted in al-Qur'an and al-Hadith and timely view of Islamic scholars. In addition, gold and silver currency nearly filled to all the functions and the theory outlined currencies by the neither classical economists nor modern compared to other commodities.

Although, there are some positive arguments that support theoretically, however it is not automatically gold system can be implemented. Gold-based systems until now still cannot be realized because there are many obstacles and problems string of changing times and economic slowdown. Therefore, this paper tries reveal challenges and clarifications requiring implementation of a comprehensive analysis by using 3 steps:

- a. Determine the alternatives of system whether based on gold currency or fiat money with 100% reserve
- b. Determine assessed factor that included four monetary theory, the needed infrastructure, and Islamic value factor.
- c. Analysis; by using deep deductive analysis (using table).

Alternatives Determination

According Salmay(2012), the world's monetary system has undergone several changes in accordance with the changing times.

1. Bimetallic system: is the metal-exchange system based on silver and gold as well as copper. This system began in 570 BC by the nation of Lydia (Hassan 1999) until the end of the Ottoman Khalif (1923)
2. Goldsmith (1640-1800): The system is applicable for physical gold money system has led to difficulties in settling trade in large numbers especially in storage, security and transport. Therefore, traders of gold and silver deposit their money to private firms especially goldsmiths. This system is based on the cash redemption of gold coin stored in the goldsmith firms, then goldsmith will issue a receipts or notes representing gold stored.
3. Classical gold standard (1821 – 1914): that is pegging of the currency based on weight of gold in trading as well exchange in the form of gold freely.
4. Floating Exchange System (Float Fiat Money) 1915-1925): The classical gold standard system ended when World War I happen, then the paper money system is began. As all the countries involved war. They print some amount uncontrollable of money for war. Thus the gold reserve is insufficient. Then superpower country forced to use paper money, by asking to the colonized country to store their gold and resists are issued as debt notes (Bordo, 1993).
5. Gold Standard System II (1925 – 1931)
6. Floating Exchange System II (1931- 1945), It emerges because of the depression and World War II
7. Bretton Wood system (1944 - 1971): The system is the system of Bretton Woods fixed exchange rate with gold in the backup. The Currency values established by gold or USD. Gold value determined USD 35/auns. USD are exchangeable with gold. So the state holders can exchange USD to gold vice versa. Bretton Woods also called gold system backed up.

8. Fiat money systems (1971-Present): After the Bretton Woods system was canceled by Nixon, then the paper money printed without any backup.

Based on the above description, the author divides the currency system into 3 areas:

- a. Fiat money system (as current system). However, this paper modified by fiat money system with a 100% reserve requirement. This means that the central bank imposed a 100% reserve ratio. The bank (commercial / government) are only allowed to give credit for the amount of customer deposits.
- b. Bimetallic system and gold standard or Physical Gold Dinar System (PGDS), which is the currency of both in domestic and international trade is using Physical Gold Dinar.
- c. Bretton Woods system or the Gold Backed System (BGS): It is a currency system using paper money backed on gold reserves and the GDP of the country (sometimes using selected commodities) (Salmy, 2011).

Factor Determination

Furthermore, some monetary theory is used as the foundation the valuation is entirely appropriate system used in the current economy. Four theories that used the currency theory, theory of Gresham's Law, the theory of Optimum Currency Agreement, and the theory of demand and supply of money (Salmy, 2011).

1. Theory of currency: the currency theory aims to establish the stability and strength of the currency. Whether a system fulfill all the basic functions of money that has been outlined by classical and modern economists.
2. Gresham's law theory: This theory explains that two or more currencies used the simultaneously in a country, it means the currency has no intrinsic value (bad money) and a currency which has value (good money), then will occur " bad Money Drive Out Good Money". Implementation of gold as currency should be alone. If they use accordingly with fiat money Gresham Law will occur, it means good money (gold) will be driven out by bad money (paper money).
3. Money supply and demand theory: This theory explains that the balance of supply and demand for money should be maintained, if it is not then it will cause some problems such inflation, deflation, and the instability. It is important to note that gold sufficiency must meet with demand for money.
4. Optimum Currency Agreement (OCA): This theory is important because in the our life today , a country is depend on each other. Then OCA aims to make sure whether a group of countries in accordance to implement a currency system simultaneously. For example, a group of countries that will implement the gold dinar must fulfill criteria for interdependence among Countries in the trade, shock of symmetry, mobility of production factors and the basic macroeconomic conditions (Salmy, 2011). Actually, no country today that is able to stand on its own. Optimum Currency Area (OCA) consideration very important as a county before join to a common currency should evaluate benefit to their country. If they join to the common currency, they will consider benefit and lost based on OCA calculation. Includes macroeconomic condition of the country . In the current situation, gaps (social, economy and politic) among countries is very wide. The gaps mentioned will be regarded as a resistance. As a first steps the implementation of the gold dinar currency started from OIC countries through bilateral commercial transactions / multilateral. Triono DC (2011) using the theory of optimum currency area (OCA) and using model analysis Structural Vector Auto regression (SVAR)

revealed that the OIC countries are eligible to perform common currencies. The research concluded that the best zone and more feasible for starting a currency union is North Africa zone, the next is South Asia and South-East Asia Zone and the last is the Middle East Zone. Besides that, if they have enough gold among zones, it will obtain some benefit if they conduct international trade by using gold as transactions settlement whether bilateral or multilateral.

In addition, it is necessary analyze the ability of the country to provide infrastructure for implement monetary system based on gold whether Physical Gold Dinar System (PGDS and the Gold Backed System (BGS. The Infrastructures are:

1. International regulations: the Infrastructure is the biggest obstacle, such as IMF ACT articles that have been established on May 30th April 1976. IMF has conducted the 2nd amendment on Article IV-Part 2 (b) (i) where the IMF member (countries) should use SDR or anything except gold as a backup on their currency (the House of Commons, 1977; IMF 2010 a). Nevertheless, this Article can be canceled if 85% of IMF members (countries) agree to the amendment Act.
2. Agreement with other countries: Implementation of the gold dinar as a whole must be on the whole world and cannot be implemented only in a few countries. Because all countries in the world interdependencies between each other. However, to achieve agreement among countries to implement physical gold as currency will face some problems.
3. Domestic Acts (Act of security and control value of the currency). An examples for Gold counterfeiting and Gold hoarding. In the current situation/value it is possible the people to hoard gold to take some benefit. And in the current technology, it is possible making white gold by mixed silver and copper. Hence, implementation of physical gold as currency should be imposed by government, in order the government can control and manage the system by authority of acts.
5. Government awareness and willingness: The awareness/willingness depend on the awareness of the some countries in the regional area. Government or a country should have a strong awareness and enthusiasm in promoting the use of the physical gold as a currency. This is important because the implementation of Gold is impossible without supporting from the central government. As printing money is one of the important function of the government. For example, during Caliph Abdul Malik bin Marwan, who has brought Physical Gold as a consolidation symbol of the people and be able to drive away the colonial, independence, and Islamic proud (Griersom, 1960)
6. Gold dinar availability
7. Gold sufficiency: Gold holder among countries is not equal. The current data shows that stock of gold among countries is very conspicuous. If gold is not sufficient, some countries will face difficulties to obtain enough gold for their currency. As presence gold is not rampant, gold just concentrate in the big countries. Even OIC members just possess 10% of total of gold. Table 3 shown inequality of gold holder will affect international trade.

Table 3: Countries Gold Holder

| NO | COUNTRIES | GOLD (TONNES) | % |
|-----|-----------|---------------|------|
| 1 | USA | 8,133.50 | 29% |
| 2 | Germany | 3,401.00 | 12% |
| 3 | Italy | 2,451.80 | 9% |
| 4 | France | 2,435.40 | 9% |
| . | . | . | . |
| . | . | . | . |
| 108 | Comoros | 0 | 0% |
| | Total | 28,398.90 | 100% |

Source : IMF 2010

8. Gross Domestik Product
9. Harmonization international monetary system (for BGS). The willingness of all (some) countries for standardization is very important.

Moreover, the Islamic value is also employed to evaluate the system, The Islamic value are: capability to remove riba, gharar, and maysir. Besides that, whether the system is able to realize a just system. The characteristics of money such as acceptability, rare / limited, recognizable, divisible, uniform, mobility, durability and stability are also used to evaluate the system.

Analysis : Deep Deductive Table Analysis

Deep deductive analysis depicted as follows:

Table 2 : Deductive Analysis

| No | Structures / Infrastructures | Physical Gold System - Gold Dinar (PGS) | BACKED GOLD SYSTEM (BGS) | FIAT MONEY 100% RESERVE REQUIREMENT |
|----|--------------------------------|--|--|-------------------------------------|
| A | Economic Theory | | | |
| | Currency Theory | | | |
| | a. Medium of exchange | Well functioned | Well Functioned | Well Functioned |
| | b. Measurement of value | Well functioned | Well Functioned | Not Well Functioned |
| | c. Store of value | Well functioned due to its intrinsic value | Well Functioned due to its backing value | Not Well Functioned |
| | d. Differed payment instrument | Well functioned due to its stable value | Well Functioned | Not Well Functioned |
| | | | | |
| | a. Rare and Compact | Yes | Yes | No |
| | b. Stable | Yes | Yes | No |

| | | | | |
|---|---|--|---|---------------------------------|
| | c. Storable | Yes | No | No |
| | d. Mobile | No | Yes | Yes |
| | e. Can neither be created nor destroyed | Yes | No | No |
| | f. Durable for very long periods | Yes | No | No |
| | g. Acceptability | Yes | Yes | Yes |
| | h. Divisible | No | Yes | Yes |
| 2 | Supply and Demand ²³¹ | Not well functioned due to gold characteristic (Scarce depend on mining) | Supply of money Depend on Gold and GDP | Well functioned |
| 3 | Gresham's Law Theory ²³² | It will take place if in circulation together with fiat money or fulus | Gresham's Law will not occur | Gresham's Law will not occur |
| 4 | Optimum Currency Area (OCA) Theory | Very difficult to fulfill the requirement / criteria | Not involved OCA Theory since it is not using gold physically | Not involved OCA Theory |
| | | | | |
| C | Infrastructure Requirements | | | |
| 1 | Awareness and willingness of governments ²³³ | Less powerful | Less powerful | Not involved to the requirement |
| 2 | Government agreement in the bilateral/multilateral trade ²³⁴ | Less powerful | Less powerful | Not involved to the requirement |
| 3 | International law (IMF articles) ²³⁵ | Impossible | Impossible | Not involved to the requirement |
| 4 | Domestic law to ensure the security and smoothness the | Depend on international | Depend on international | Not involved to |

²³¹ MV = PT

²³² Bad Money Will Drive Out Good Money

²³³ World Gold Council (WGC) was established in 2009, they asked the IMF to return the gold standard system. Besides that, the World Bank President Robert Zilick made a statement to go back to Gold Standard on 2010. Besides that, G-20 summit in Paris, 2011 argued to reform the monetary system due to global economic unbalances

²³⁴ Only a few countries that agree to use gold for trade settlement (Sudan, Libya, Iran, Bahrain, Norwich, Cape town, and Malaysia)

²³⁵ At least 85% of IMF members (countries) are agree to amend the hindered articles (Article IV, part 2 (b)(i))

| | system | agreement | agreement | the requirement |
|---|--|-----------------------------------|--|---------------------------------|
| 5 | Gold Dinar availability | Less enough ²³⁶ | Not involved to the requirement | Not involved to the requirement |
| 6 | Gold reserve sufficiency | Not sufficient | Not sufficient but can be propped up by other commodities ²³⁷ | Not involved to the requirement |
| 7 | The existence of Central bank acts for controlling the system and other domestic infrastructures | Depend on International agreement | Depend on International agreement | Can be provided |
| D | Islamic Value | | | |
| 1 | Fiqh analysis | Permissible(Encouraged) | Permissible(Encouraged) | Permissible(Encouraged) |
| 2 | Riba abolishment capability | Capable | Capable | Not all |
| 3 | Gharar eradication ²³⁸ | Capable | Capable | Not all |
| 4 | Maysir eradication ²³⁹ | Capable | Capable | Incapable |
| 5 | Justice / Fairness principles ²⁴⁰ | Capable | Capable | Incapable |

From the analysis above shows that Physical Gold System (PGS) faces many challenges such as the IMF articles, gold reserve adequacy and international agreements. Besides that, all used economic theory proven that PGS cannot fulfill the requirement. Whereas, Gold Backed System (BGS) has an even better level than PGS in terms of: economic theory and infrastructure factors. Both PGS or BGS are fulfill to the shariah requirements Fiat money backed 100% gold reserve is qualify in terms of: most all economic theory and some infrastructure. However, this system does not comply with shariah requirements such as riba, gharar and maysir the elimination. Besides, it is also not able to guarantee a just and stable system.

²³⁶ it has been reported only a few countries that have been minted gold dinar

²³⁷ Such as Oil, Gas, Rice, Wheat, Grain, Iron etc..

²³⁸ A currency that does not have a strong value for exchange or backup is considered as gharar, because it would expose uncertainty and doubts (Salmy, 2012)

²³⁹ The current floating exchange currency system can cause maysir or gambling, because it can be used as an instrument for speculation and arbitrage by other countries

²⁴⁰ The current fiat system is unjust because of a double pyramid of money creation (and of course compound interest)

Step by Step Implementation Process

It can be concluded that gold system as the best system (in terms of fulfillment to the requirement) cannot be implemented. Therefore the first step is educating people in various ways. Secondly: Introducing of gold dinar system in small areas. Thirdly: Minting Gold dinars are needed for means introduce to the community. Then followed by a variety of seminars and educating other forums.

Moreover, it is necessary propose some techniques such Road map development, Using of gold dinar in the domestic transaction and lastly, transaction among individuals and business using gold facilitated by al-rahnu.

To avoid chaos, gold dinar implementation should take appropriate way, steps by step strategy is better than radical movement. Meera (2009) promote 16 years to establish gold dinar implementation, as follow :

Table 3: Time Frame Gold Dinar Implementation System

| Time Frame (Year) | Actions |
|-------------------|--|
| 0 – 2 | <ol style="list-style-type: none"> 1. Educating People and Government awareness to the new era monetary system based on real money, commodity money, complementary money, and gold dinar. 2. Establish gold dinar Centre, producing and distributing information concerning the issue. It also produces pamphlet, brochures, websites etc. 3. Socialization and promotion: Using gold dinar in international trade. It should be started in small scale and several countries. A countries could conduct a trading with a country which is as producer gold. Hence, a country be able to increase their gold stock. 4. Establish infrastructures i.e cooperative, al-Rahn to realize domestic transaction transactions system by using gold dinar. |
| 3-5 | <ol style="list-style-type: none"> 1. Encourage for establishment of glod saving company such as Employer Provide Fund (EPF), 'Tabung Haji', 'Amanah Saham Dinar Emas', Gold Dinar provider etc. 2. Mint gold dinar physically, net working and introducing with businessman in order they accept payment by gold dinar, i.e. retail shop, 'tabung haji', zakah centre etc. 3. Community establishment to practice a transaction by gold dinar payment. 4. Introduced and issued gold dinar debit cards, gold dinar charge cards, gold dinar cash cards, and e-dinar. 5. To establish Islamic Wolrd Mint to standardize Dinar mint. |
| 6 - 15 | <ol style="list-style-type: none"> 6. Chanelling banks and businesses in order they make in gold payment system and replacement saving to the gold account. 7. Socialization to central bank in order they control money supply. And to replace money supply to M0 gradually. 8. Amas gold stock to back up M0 9. To promote using gold dinar in bilateral / multilateral trade 10. Develop the gold dinar system in PRICING in gold and |

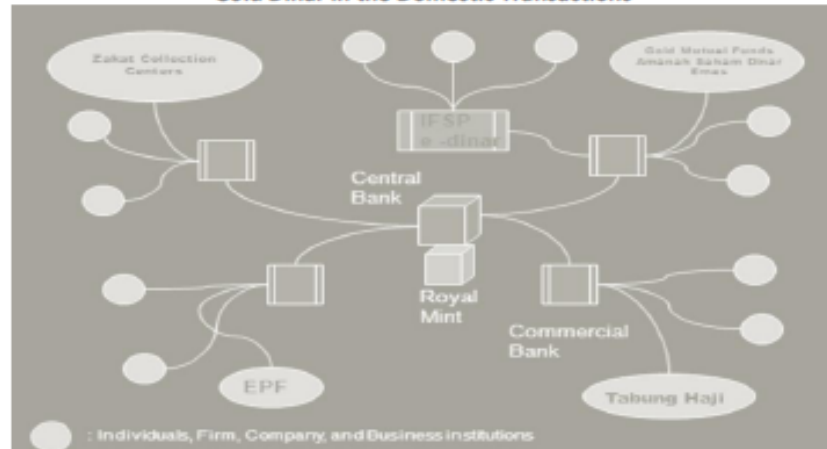
| | |
|--|---|
| | settling also in gold. Pricing goods and services in gold is an utmost important characteristic of the ultimate gold dinar system. Such pricing in gold would virtually eliminate inflation from the economy. |
|--|---|

Gold Dinar in the Domestic Transactions

The strategies of implementation of gold dinar are more appropriate if it execute gradually and carefully. The reason is if the transformation from fiat money to gold dinar drastically reforms, it will lead chaotic and disadvantages even the purpose is for public interest (Meera, 2004). Therefore it is better to introduce it in international level either bilateral or multilateral trade. This way is to minimize implication gold dinar toward economy such as national currency, banking system, and financial system (Meera, 2004). The simple approach to introduce gold dinar in the domestic area, it can be done by electronic payment system. It is similar with debit card which using the gold as money. As they are illustrated at the figure 2 below:

Figure 2

Gold Dinar in the Domestic Transactions



Source: *The Thief of Nations*

The gold dinar in domestic transaction initially is for savings, besides that for payment of mahr, zakat, Hajj. It is also for transform savings into payment system. The transactions and payments domestic can integrate with modern financial architecture such as automatic teller machine (ATM), Islamic debit card, Credit Card. E-dinar and card gold dinar can be done simply.

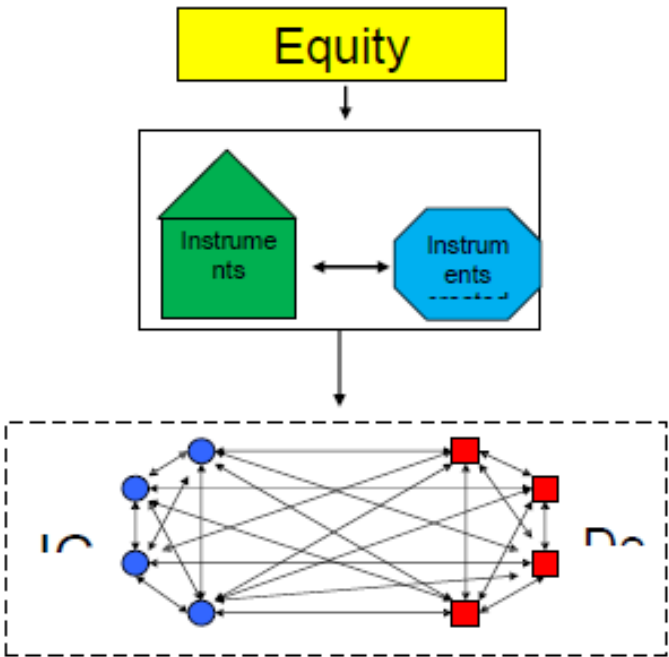
Moreover, in term to take advantage of modern IT infrastructure and improve efficiency of the dinar system, the Kedai al Rahnu can also issue *gold dinar debit cards, gold dinar charge cards, and gold dinar cash cards* (Meera, 2009). Firstly, gold dinar debits cards. These cards are managed by Kedai al Rahnu. It will issue these cards to those having gold account with the Kedai al Rahnu. The card can be used for making payments in gold dinar in outlets that would accept gold dinar. These outlets are also gold account holders (Meera, 2009).

Secondly, gold dinar charge card. In the gold dinar charge card, the client need not have gold account. The gold dinar charge card is like the American Express card, where the client can use the card for gold payments and periodically receives statement for transactions made. The client is required to settle the amount in full. The difference here, from normal charge cards, is that the amount payable is in quantities of gold (Meera, 2009).

Thirdly, gold dinar cash card. The gold dinar cash card is similar to Touch&Go cards. The cards would be loaded with a certain amount of gold. The dinar cash card can be used for investment in gold and for making payments in gold. The cash card is card-based, as opposed to account-based in the debit and charge cards. This means if the card is destroyed, lost or stolen the client could lose the amount of gold it carries. Nevertheless, with modern technologies the cards could also be personalized (Meera, 2009).

The third cards are used by individuals and businesses transact and transfer gold among their accounts using gold dinar debit cards, charge cards and cash cards. All their transactions are monitored electronically and real-time accounts kept by Kedai al-Rahn. Statements are sent to account-holders periodically. It is described in figure 3..

Figure 3
Transaction among Individuals and Business Using Gold Facilitated by al- Rahn



Source: *Integrating al-Rahn with the Gold Dinar: The initial building-blocks towards a gold-based economy* by: Meera (2004)

Besides that, it is necessary to encourage making transactions using gold is to introduce a virtual gold dinar market electronically where clients can purchase goods through the internet and make payments on-line. To start with, hajj and umrah can be priced in gold dinars. Implementing on a worldwide basis clients should be made able to withdraw or use their gold dinar cards internationally. For example those performing hajj in Mecca should be able use their gold accounts there to withdraw, exchange into riyals, transfer or make payments in gold. This could be further enhanced by linking with other gold payment systems in existence like the e-gold and e-dinar systems (Meera, 2009)

IV. CONCLUSION

Based on the above discusses, it can be concluded as follows:

1. In terms of historical perspective, there is an evidence that gold coins have been used begin pre-Islamic, Islamic era until the collapse of the Ottoman caliphate. This historical evidence might be strengthen the effort for establishing gold dinar as the currency in the current economy.
2. After gold union was exterminated, the world currency experienced four global crises, namely crisis first generation in 1970 and 1980's, second generation in 1992, and third generation crisis in 1997 (Krugman, 1998). Besides that, there are two global crises happened, global economic crisis in 2008 and Euro crisis in 2010 which are may be called fourth and fifth generation crisis. It is obvious that there is a problem in fiat money besides having its goodness.
3. The initial using gold / silver as money is permissible. Nevertheless, the ruling is subject to change when the government wants to print its own currency. If the primary objective of the printing is to complete the implementation of the Shariah laws which have been charged to them (especially the law with respect to currency such as zakat, kanzul mall, hudud, diyat, sarf, etc.) As well as to protect the entire territory from the possibility that the use of foreign currency may harm the economy of its people, then the ruling becomes mandatory / wajib.
4. Regarding the relationship between fiat money and maqashid sharia. It can be said that fiat money could not realize the ethico-moral objectives of *maqasid shari'ah*.
5. From the above reviews, it is clear that the financial system based on gold and silver have more strong point and the advantage in terms of fairness, stability, similarity and welfare, whereas fiat money enable to be duplicated easily to trigger the economic growth and also it is practicality/mobility.
6. Based on discussion, shows that Physical Gold System (PGS) faces many challenges such as the IMF articles, gold reserve adequacy and international agreements. Besides that, all used economic theory proven that PGS cannot fulfill the requirement. Whereas, Gold Backed System (BGS) has an even better level than PGS in terms of: economic theory and infrastructure factors. Both PGS or BGS are fulfill to the shariah requirements. However, Fiat money backed 100% gold reserve is qualify in terms of: most all economic theory and some infrastructure. However, this system does not comply with shariah requirements such as riba, gharar and maysir the elimination. Besides, it is also not able to guarantee a just and stable system.
7. To avoid chaos, gold dinar implementation should take appropriate way, steps by step strategy is better than radical movement. Therefore most step is educating people in various ways. Secondly: Introducing of gold dinar system in small areas. Thirdly: Minting Gold dinars are needed for means introduce to the community. Then followed by a variety of seminars and educating other forums. Moreover, it is necessary propose some techniques such Road map development, Using of gold dinar in the domestic transaction and lastly, transaction among individuals and business using gold facilitated by al-rahnu.

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