CHAPTER 7

Money in Islamic Banking System

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Abstract The idea of revisiting currency and the gold dinar from an Islamic standpoint is an interesting topic of discussion in the context of the current monetary system. This chapter examines the historical aspects and supremacy of a gold currency and the weakness of fiat money using a *maslahah-mafsadah* approach. It considers some possible alternative forms of gold as money and then discusses some obstacles and barriers in the hope of finding a model of gold as money to implement in the current economic system. A deductive method is used to explore the implementation of a gold currency based on historical study and library research. The findings reveal that money is not limited to gold and silver. However, by deriving new law from original law process, the law (hukm) of gold or silver as money is permissible.

Keywords Islamic finance · Fiat money · Gold dinar · Monetary system · *Maslahah-mafsadah*

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7.1 Introduction

The discussion of money is interesting in terms of its role and function in the economy. The discussion has been popular by relating the fiat money in the current monetary system and the economic crises that have happened frequently. The general agreement is that the present monetary system has led to instability and created various injustices, especially in the economies of developing countries.

However, the most contemporary Islamic economic literature seems to have implicitly accepted the existing monetary system based on fiat money (Abas 2014). Some of them, like Edawati (2012), have argued that gold and silver may not necessarily be the solution or is not required by the Shariah. Nevertheless, some gold activists (Meera 2004; Meera and Kameel 2009) have argued that Islamic currency as sanctioned by Shariah is gold or silver, and they called for revisiting the potential role of the gold dinar as money.

Hence, this chapter attempts to refine the debate by examining the strengths and weaknesses of fiat money and gold money by employing a *maslahah-mafsadah* approach. Furthermore, we will discuss the various commodities that can be used as money and determine the best commodity money. In addition, the chapter also discusses the law and history of using gold as money from an Islamic point of view. Based on these discussions, we expect to arrive at a basic position from which to propose gold dinar as money. To address this issue, we explore gold as currency from a historical and *fiqihi* perspective.

7.2 A Brief History of Currency in Islam

Since Islam was revealed through the Prophet Muhammad (PBUH) approximately fourteen centuries ago, the historical journey of Islamic civilization has had its ups and downs. With regard to economic cycles, particularly the use of currency, we classify its history into four periods: (1) the era of the Prophet (PBUH) and his companions, (2) the period of the four caliphates (*Khulafa' al- Rashidin*), (3) the age of the Islamic caliphates, and (4) the decline of the Islamic caliphates. The classification into four periods is based on the significant changes connected with the currency used at the time.

7.2.1 History of Currency during the Time of the Prophet (PBUH)

The use of gold and silver is as old as human civilization. Before the emergence of Islam, both gold and silver were used by the nation of Lydia in the period 570–546 BC (Hasan 2005). This practice was followed by the Jews and Greeks. Besides the commodity currency, which circulated in the form of an axe, transactions were made in gold and silver coins. The Romans also issued gold money called the denarius in 268 BC to support the bronze coin in circulation. From 546 BC until 621 AD, the Persians issued gold and silver currency. However, according to Al-Mawardi, their civilization fell because they started to issue money in the form of an alloy of gold and bronze, which resulted in the disappearance of gold-based money (Al-Mawardi 1990).

The Arabs, before converting to Islam, were already using the dinar and dirham for trade with neighboring regions. When trading in Syria, they bought gold dinars from the Romans (Byzantium). When travelling from Iraq, they took silver dirhams from the Persians (Sassanid Empire). Occasionally, they also bought himyar dirhams from Yemen. This means that during the Prophet's (PBUH) time, numerous foreign currencies were circulating between the Arabs in Hijaz and the neighboring states. The Prophet Muhammad (PBUH) stated that the dinar and dirham remained the main currency in circulation. He and his companions relied on this currency to mediate economic activities (such as *muamalah*, trade, and *zakat*) (Zallum 1983).

The Prophet (PBUH) did not issue a currency exclusively for Islamic society (Hakim 2001). However, he did decide to set the Islamic dirham at 14 karat. This initiative was to differentiate the Islamic dirham from the measurement of the Persian dirham, which had three weights and measurements: 20 karat, 12 karat, and 10 karat. The number 14 originated from $20 + 12 + 10 = 42/3 = 14$.

The currency that circulated was not formed into circular coins like we have today; rather coins were minted into squares. The Arabs did not consider dinars and dirhams according to their nominal values but rather their weight. Such currency in circulation was determined on the basis of its value in gold and silver. The minted currency extracted from gold was not considered to be a valid currency since its form and weight might have depreciated owing to its circulation. To obtain smaller values of the gold dinar and silver dirham in circulation, it is possible to divide such coinage into half parts and fourths (Karim 2006).

After Muhammad (PBUH) became the Messenger of Allah, he urged the people of Medina to follow what the Meccan tradition of circulating their dinars and dirhams in terms of their nominal values instead of their weight. The Prophet said, "Weight is weight for the people of Mecca, however measurement is measurement for the people of Medina" (Hasan 2005).

7.2.2 History of Currency during **Khulafa' al- Rashidin** *Period*

Muslim society continued to use the Roman dinar and Persian dirham during the Prophet's time. The practice was followed by Abu Bakr Siddiq as well as at the beginning of Umar bin Khattab's rule. In 20 Hijriyyah (the eighth year of Caliph Umar's rule) he minted new dirhams based on the structure of the Persian dirham. Its weight, inner markings, and letters, written in Persian Bahlawi, remained unchanged. The only additions were "*Lafaz*" (words), written in Arabic, stylized in *Kufi*, like *Lafaz* "*Bismillah*" (in the name of Allah) and "*Bismillahi Rabbi*" (in the name of my God), placed in the corner of the coin. Muslims preserved this tradition in minting coins until the caliphate of Ali (Hasan 2005). At the beginning of his administration, Umar had the idea to print money from leather, but this practice was abolished because his companions did not agree with it.

During the rule of Uthman bin Affan, the tradition of minting money followed the tradition initiated by Umar; however, during Ali's rule, limited-edition coins were minted (Karim 2006). The measurement of the Islamic dirham at that time was weighed into 6 daniq, and 10 dirhams was 7 mithqal, to correspond to the era of the Prophet (PBUH). Starting from this period, Muslims had their own officially legalized Islamic dinar and dirham.

7.2.3 History of Currency during Islamic Caliphate

In 75 Hijriyyah (695 M), Caliph Abdul Malik bin Marwan minted new dirhams characterized in the Islamic tradition, with *lafaz* written in Arabic *kufi* letters. Thenceforth, the Persian dirham was no longer used. Two years later, 77 Hijriah (697 M), dinars in the Islamic tradition were minted, replacing the Roman dinar in circulation. Additionally, the caliph eliminated the human face and animal figure that had been inscribed on the coins and replaced them with *lafaz*. The caliph oversaw significant monetary reforms. The weight and measurement value of the dinar was 4.25 grams; 1 dirham was equal to 2.98 grams, with the exchange rate of the two coins stabilized at a rate of 1:15. The measurement of the dinar was equivalent to 6 daniq, whereas 10 dirhams equalled to 7 mithqal, in line with the Prophet's era. For that period, the nominal and weight measurements were based on human memory; there was no written record (Hasan 2005).

Bani Mamluk rulers began to circulate three kinds of currency: gold dinars, silver dirhams, and copper fulus (singular *fils*). The creation of the fils was initiated by the societal need to have coins of smaller denomination. Owing to the circulation of fulus, gold dinars and silver dirhams became scarce and limited, forcing the fluctuation of the coin's value over time, and ultimately causing it to vanish from circulation. At the end of the day, the overabundant use of fulus replaced gold and silver, leading to economic collapse (Rosli and Barakat 2002). However, the economic crisis was short lived. The ruling Caliph Nasir Hasan immediately declared that the fils was no longer valid, which led to stabilization of the economy. Al-Maqrizi proposed using only gold and silver as money to stopping the debasement of money and restrict the use of fulus (Hasan 2005).

During the Abbasid dynasty, monetary policy was to reduce the weight of the dinar and dirham in circulation because of increasing budgets. Since people tended to pursue life's luxuries, the money needed did not meet overall circulation requirements. The state needed to obtain additional resources. Unfortunately, it could not acquire everything it needed. As a result, the minted gold and silver metal had to be mixed with copper in order to earn a profit from minting the coins (Hasan 2005). Islamic legal experts and *fuqaha* disagreed with such a practice as it would lead to inflation and a gradual decrease in value. Inflation was precipitated by the growing number of dinars and dirhams in circulation.

7.2.4 History of Currency Following Collapse of Islamic Caliphate

The gold dinar and silver dirham in circulation started to be replaced after the golden age of Islamic civilization. Initially, a plan to replace gold and silver emerged before World War I, and its realization took place during this monumental war. After the war, the gold and silver standard continued to be in force, but only partially. In the last days of the Ottoman caliphate, the Islamic dinar and dirham were no longer valid as official currency for Muslims (Hosein 2008). Hasan (2005) pointed out that the objective of replacing the gold dinar with fiat money was to control global economic, military, and political powers.

Currently, Muslims and the entire world use fiat money (paper). For domestic trade purposes, Muslims use the official paper money of their respective nations. However, for international trade purposes, Muslims use currency of high value like the U.S. dollar, the Japanese yen, the UK pound sterling, and the euro. For this reason, some opponents, such as Imran Hussein, contended that World War I might be a conspiracy among superpowers to deal with the situation, which Western powers perceived as a threat to their strategic goals(Hosein 2008). In this connection, Griffin has pointed out that a conspiracy had indeed taken place, especially in designing the new U.S. dollar. The conspiracy started in 1910, and the resulting central bank is referred to by Griffin as the Creature from Jekyll Island. The strategy called for the creation of a Federal Reserve System (FRS) in 1913. The FRS was set up to oversee all financial affairs in the United States, based on fractional-reserve banking (FRB), which is the fundamental means for banks to obtain huge profits (Griffin 2000).

With the end of World War II, gold flowed into the winning countries such as the United States and its allies. In 1944, the United States initiated the G20 summits, similar to the Bretton Woods system. Its main principles are to establish a system in which the U.S. dollar would be backed by gold (USD 35 = 1 troy ounce of gold). Unfortunately, in 1971, the US government breached the agreement by printing the dollar without anchoring it to gold (Iqbal 2009).

As a result, public trust in the system declined owing to excessive fiat money in circulation. Over the years, this situation has led to many financial crises. Bordo and Jonung (2001) explained that the volatility in foreign exchange markets lasted from 1880 to 1995. Between 1880 and 1913, the main countries of the world used gold as their currency, and its value was stable. The currency was abolished in 1914 because of the war. At that time, the fiat currency crashed. Between 1945 and 1970, the Bretton Woods system was established and the currency stabilized. In 1971, when the U.S. dollar fiat currency was no longer anchored to gold, the result was high currency volatility.

The world experienced three global crises after the gold standard was discontinued. The first generation of crises occurred in the 1970s and

1980s, the second in 1992, and the third in 1997 (Kruggman 1998). Two additional global crises were the global economic crisis in 2008 and the euro crisis in 2010. These are large-scale issues inherent in fiat money systems and cannot be avoided.

However, this claim should be explored in more detail in terms of the advantages and disadvantages of the gold standard, its viability feasibility, and issues pertaining to its implementation in modern times. This discussion should include the Islamic perspective, such as *fiqh* analysis, the *maqasid shariah*, and the *siyasah* Shariah approach.

7.3 *Fiqh* Discussion of Money

Muslim economists Haneef and Barakat (2002) have investigated the views of Muslim scholars one the use of gold and silver coinage. The results of their study showed that there exist two opinions among scholars: according to one opinion, currency is limited to gold and silver, while according to the second is the opinion the currency is not limited to gold and silver.

Islamic scholars in both the Salaf and Khalaf periods hold various opinions regarding the use of gold and silver as currency. The investigation revealed two groups of opinion among the scholars; the first states that currency or money is limited to gold and silver, while the second opinion argues against that view. Supporters of both groups are scholars of the Hanafi, Maliki, Shafi'i, and Hanbali, in addition to contemporary scholars who base their views on the opinions of the Tabi'un, such as Mujahid, Nakha'i, Laith Ibn Sa'ad, and Al-Zuhri (Haneef and Barakat 2002).

Both groups of scholars provide evidence to support their views. Moreover, the greatest support for the second opinion comes from contemporary scholars and contemporary *fiqh* councils. Although the second group allows that currency is not necessarily limited to gold and silver, they agree that the precious metals can represent the value of other materials, such as copper. With regard to fils coins, they were made of copper and other metals, but the fils is different from the current fiat money. Fiat money is created out of thin air, with nothing of intrinsic value to back it up. Both come in different forms and have different characteristics. A detailed discussion of this issue will be explored in the next section of *maslahah-mafsadah*.

7.4 The *Siyasah* Shariah Approach

Literally, the meaning of *siyasah shariah* is a Shariah-oriented public policy or government in accordance with the Shariah. Muslim jurists have defined *siyasah shariah* as decisions and policy measures taken by an imam and the *'ulu al-amr* on matters for which no specific ruling can be found in the Shariah (Kamali 1989). Ibn Qayyim (1961) asserted that *siyasah* is any measure that brings people closest to beneficence (*salah*) and furthest from corruption (*fasad*), and any such measure partakes in just *siyasah* even if it has not been approved by the Prophet (PBUH) or regulated by divine revelation.

Contemporary scholars have also tried to define *siyasah shariah*. Kamali (1989) interpreted it as a broad doctrine of Islamic law that authorizes the ruler to determine the manner in which the Shariah should be administered. Likewise, Khallaf stated that *siyasah shariah* is the 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 *mujtahiden* (Kamali 1989), while Ibn al-Qayyim (2005) introduced the notion that *siyasah shariah* included government duties, legislation, and judicial rulings.

Among the examples of the implementation of *siyasah shariah* by the companions is the decision of Umar ibn Khattab to stop the distribution of *zakat* to the *muallaf*. In addition to that, Umar also validated a triple *talaq* pronounced in a single utterance (Kamali 1989). Another example is the decision of the third Caliph, Othman bin Affan, who ordered the collection of the text of the Qur'an in one volume (Kamali 1989).

Based on the aforementioned cases where the caliphs used *siyasah shariah* as a tool to determine a ruling or to resolve issues, in what follows, this chapter examines which currency in the current monetary system should be used by the government to avoid harm and confer benefits in accordance with *maslahah*, *mafsadah*, and *maqasid shariah*. It is based on the principle that government must resolve problems based on *siyasah shariah* and give due consideration to the *qawaid fiqhiyyah*, "*Tasarruf al-imam ala al-rayat manut bi al-maslahah*," which means the government's or leader's duty to serve the people should be based on *maslahah* (benefit).

7.4.1 **Maslahah** ***of Fiat Money***

The principle of *siyasah shariah* should not contradict Shariah rulings, as stated by al-Khallaf, and the *siyasah shariah* should be in harmony with the general principles of Shariah. Consequently, the Shariah ruling on fiat money should be addressed before going any further in our discussion. However, this issue was discussed in the previous section, where the conclusion was drawn that money in Islam is not limited to gold and silver. In other words, the use of other commodities, such as wheat, barley, dates, salt, and others that are of value, is allowed under Shariah jurisprudence. Hence, the next step is to analyze the *maslahah* and *mafsadah* of this system.

The fiat money system has several benefits, such as when central banks use it as a monetary policy tool to achieve its monetary objectives, like targeting the inflation rate or exchange rate by controlling the money supply. Moreover, paper money can be printed easily and at low cost. Paper money can also be transported more easily, safely, and cheaply than can metallic money. Fiat money has an elastic supply and can be printed for any purpose at any time. It also helps the government in times of emergency, such as in times of war or depression. Paper money is easily identified, even for small children.

Hasan (2005) highlighted the following advantages of fiat money: (1) it is easy to carry (mobility), (2) can be printed in various denominations depending on the size of a transaction, (3) not risky to carry, (4) has low production costs, and (5) its issuance is flexible, which helps the government to finance spending in an emergency.

7.4.2 **Mafsadah** ***of Fiat Money***

Besides the *maslahah* of fiat money, *mafsadah* includes the following features as described in Table 7.1. The Table describes the *mafsadah* of fiat money, which includes economic, political, and social illness. Economic illness consists of the value of money, seigniorage, FRB, and inflation. Fiat money causes poverty and leads one to unbelief. Political illness would stem from the fact that fiat money threatens the very sovereignty and security of a nation.

7.4.3 **Maslahah** ***of Gold and Silver as Money***

Commodity money, especially gold, does not allow for the creation of money. Accordingly, no institution or country may obtain a substantial seigniorage. In the absence of money creation and seigniorage, inflation

Table 7.1 *Mafsadah* of fiat money

No	*Issues*	*Explanation*	*The Supporting Author(s)*
1	Fiat money has no Intrinsic Value	Created from thin air	Meera (2004), Meera and Kameel (2009), Meera, (2011b)
2	Government Freedom to Print Money	The government may earn revenue without levying conventional tax. This profit is so-called seigniorage which is considered the source of *riba*	Mahani (2009), Saidi (2009), Alias (2010), Yaacob (2012)
3	Fiat Money along fractional reserve banking enables the banks to create money	The banks are making profit easily, which encourages the practice of *riba* in the economy	Meera and Kameel (2009), Meera (2012), Yaacob (2012)
4	Fiat Money Enables Currency Speculation and Arbitrage	Speculators exploit the weakness of fiat money and current monetary system	Hosein (2011), Meera et al. (2004),
5	Social Impact and Injustice	Fiat money creation creates poverty and unbeliever (*kufur*)	Meera and Kameel (2009)
6	Trigger Inflation, National and Financial threats	Fiat money threatens national/financial security and sovereignty	Alias (2010)

can be avoided and the sovereignty of the nation can be protected, family harmony realized, and crime minimized. Moreover, if a commodity such as gold were legalized as a common currency and serve as the national currency, then exchange rates would not exist. As a result, speculation and manipulation would be impossible. This means previous financial crises would never have happened, or at least the chances of its occurrence would have been severely reduced (Meera and Kameel 2009).

In terms of its characteristics as money, gold enjoys high acceptance among people and is divisible, scarce, durable, and mobile (Meera and Kameel 2009). Gold has intrinsic value and its value is based on demand and supply. Undetermined by the government, its price, based on its own supply and demand, has proven remarkably stable over long periods of time. Al-Maqrizi proved this in his book Jastram (1977) and went on to show that the price level based on gold was extremely stable. He analyzed all price index data over

400 years and concluded that the price stability was not because gold adjusted in conformity with commodity prices but because commodity prices eventually adjusted to the supply and demand of gold (Meera and Kameel 2009).

The elimination of interest and fiat money are prerequisites to making the dinar a stable currency and the backbone of a stable monetary system. This could minimize the business decay cycle effect. The value of gold does not require government protection. Its value depends solely on supply and demand. It contravenes fiat currency whose value requires government intervention. On the other hand, gold does not need a monopoly, while fiat money requires a monopoly rule for it to work, meaning the government must be the monopolist. The Messenger (PBUH) has given primacy to gold and silver. He said that there will come a time when nothing has value except gold and silver.

Regarding the superiority of gold over other forms of money, Meera and Kameel (2009) asserts 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 has had for this metal throughout history." Moreover, Meera and Kameel (2009) summarized some of the characteristics of gold as ideal money, such as its scarcity and compactness, stability and durability over very long periods of time, its homogeneity and divisibility into small quantities, its ease of storage, and the fact that it can be neither created nor destroyed.

7.4.4 **Mafsadah** *of Gold and Silver as Money*

The *mafsadah* of gold and silver as money includes their inefficiency, constraints, scarcity, and economic impairment. However, these objections have been rebutted by HTI (www.hti.uk.com), as depicted in Table 7.2.

In addition, to address these objections, such as the inadequate supply of gold and gold elasticity issues, Meera and Kameel (2009) proposed a net-off payment system using an electronic payment system that would result in efficient transactions.

7.4.5 *Discussion on* **Masalih Al-Mursalah**

Although any other money besides fiat money is allowed by some Islamic scholars as mentioned earlier, the physics of the current fiat money should be questioned. In earlier times, currency other than gold and silver is fils,

Table 7.2 Arguments and rebuttals regarding the weakness of gold as money

No	*Arguments/Objections*	*Rebuttals*
1	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.	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.
2	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.	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
3	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.	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)
4	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.	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

Source: www.hizb.org.uk

which is made of metal or copper. It should be noted that fils differs from the current fiat money. Fiat money, in the current monetary system, has five features: it is created from nothing (thin air), is interest based, involves FRB, triggers speculation, and is legal tender. Meanwhile, fils at that time was accepted by people because it was legal tender.

Based on the explanation in the previous section, it can be seen that each currency has its advantages and disadvantages. However, the current fiat money has led to the mistreatment of people rather than providing them benefits. Moreover, it may hinder the implementation of Shariah. The principle of justice in *muamalah* is difficult to attain through the use of fiat money because justice is an aspect of a system that determines the validity of *muamalah* transactions. Justice covers relationships among individuals, groups, and nations, especially between developed and developing countries.

Fiat money has been in use worldwide for less than 50 years. However, it has been the cause of five financial crises. Bordo and Jonung (2001) found that hyperinflation occurred in 1913–1950 as a result of fiat money. In 1950–1970, under the Bretton Woods regime, inflation was low, but the termination of the Bretton Woods system in 1971 ushered in the return of high rates of inflation (Fig. 7.1). Inflation has very significant and deleterious effects on an economy, and those effects impact the entire country.

With regard to economic stability, Ibn Khaldun (1982) in his book *Muqaddimah* said that stability a key for an economy and affects all sectors. A good economy means the stability of all sectors. In contrast, bad economic management may harm society. The fiat money system may have an advantage in terms of facilitating economic development; however, it also carries with it the potential to cause economic instability, which may lead to destruction.

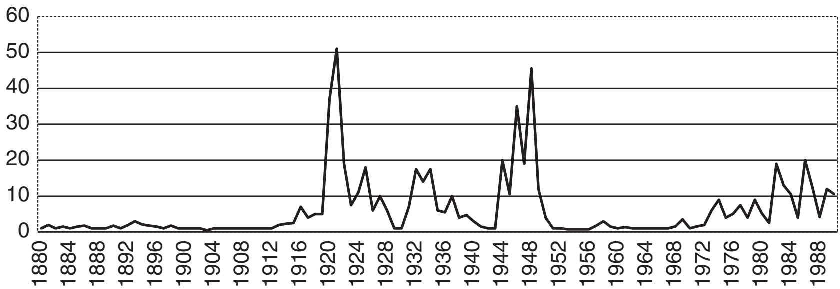

Fig. 7.1 Volatility of world currencies, 1880–1995

Source: Bordo and Jonung (2001)

The economy today is growing rapidly. Nevertheless, economic growth is always followed by a growth in debt levels. Moreover, in certain countries, debt exceeds GDP. The debts will be a burden for the next generation. These facts prompt fiat money critics to call for the end of the fiat money regime. Evan and Griffin have said that since its beginning fiat money has been the source of numerous problems, in addition to the conspiracy in some countries that wish to control the world. Evans (2010) said that those who control the currency of a country control that country. Griffin (1998) alleged that the first occurrence of fiat money is mysterious, alongside the establishment of the Federal Reserve, IMF, and central bank.

Meera (2012) asserted that among the problems resulting from the use of fiat money are an unjust economy, poverty, starvation, growing indebtedness of poor countries, deforestation, global warming, and exploitation. He thus proposed a monetary system based on gold as a measure of value, which would rectify the aforementioned problems. Some parties believe that the current fiat money system should not be changed but requires good management. However, this argument is weak because a fiat-money-based system cannot achieve *maqasid shariah* in any form. Fiat money consists of five elements: it is created from nothing, is interest based, involves FRB, triggers speculation, and is based on legal tender.

To deal with these problems, Meera and Kameel (2009) proposed the real money concept that fulfills the following requirements of 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 so that it can be used for exchange in a range of transactions; (4) mobile, that is, easy to carry around; (5) stable/durable, so that it does not deteriorate; (6) does not perish, deplete, or erode easily due to its own chemical structure, weather, pests, fire, or other reasons. A number of different real monies can meet these requirements including (1) gold and silver money, (2) a basket of commodities such as wheat, shells, salt, and leather; (3) complementary currencies, and (4) real money units (RMUs). Meera and Kameel (2009) also criticized some opponents of this idea as follows:

> 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 with 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-Maqrizi'in Egypt with *fulus* as money.

7.5 Strategy to Establish Gold as Money in the Current Economic System

Historically, a gold-based monetary system has proven its ability to maintain currency stability and reduce inflation compared with fiat money (the float system). Gold and silver currency also meets the criteria of Islamic currency quoted in the Qur'an and hadith. In addition, gold and silver currency fulfils nearly all functions of a currency outlined by classical and contemporary economists.

However, a gold-based monetary system is not easy to implement. It cannot yet be realized because there are various obstacles and problems preventing the adoption of such a system. We therefore attempt to identify the challenges to implementing a gold-based system and find solutions using a comprehensive analysis that consists of the following steps:

1. Determine the variants of a possible system;
2. Determine the criteria for choosing the best alternative, including monetary theories, infrastructures, and Islamic values;
3. Using deductive reasoning, determine the best alternative.

7.5.1 Determining the Alternatives

According to Yaacob (2012), the global monetary system has undergone several changes:

1. Bimetallism: A metal-exchange system based on silver and gold as well as copper. This system began in 570 BC in the nation of Lydia (Hassan 2005) and lasted until the end of the Ottoman caliphate (1923).
2. Goldsmith issuance (1640–1800): This system used physical gold money as a medium of exchange but led to difficulties in trade arrangements in large volume, especially in terms of storage, security, and transport. Therefore, traders in gold and silver deposited their money with private firms, especially goldsmiths. This system was based on the cash redemption of gold coin stored at goldsmith firms; goldsmiths issue receipts or notes representing the gold stored.
3. Classical gold standard (1821–1914): The gold standard is defined as a monetary system whereby a nation declares the unification of its currency backed by gold. Here the country allows its people to freely

buy and sell gold within a certain price and facilitates the import and export of gold (Mankiw 2007; Metzler 2006).

4. Floating exchange system/floating fiat currency (1915–1925): The classical gold standard ended with World War I, after which a paper money system began as all countries involved printed money to pay for war expenditures. Gold reserves were insufficient. Then the superpowers forced other countries to use paper money by asking the colonized countries to store their gold and issue debt notes (Bordo 1993).
5. Gold standard system II (1925–1931).
6. Floating exchange system II (1931–1945) emerged because of the Great Depression and World War II.
7. Bretton Woods system (1944–1971): The system of Bretton Woods fixed the exchange rate with gold as backing. The money value was measured by gold. Gold's price was fixed at USD 35 per ounce. The U.S. dollar was exchangeable for gold. Every country that held U.S. dollars could exchange them for gold and vice versa.
8. Fiat money systems (1971–present): After the Bretton Woods system was cancelled by Nixon in 1971, paper money was printed without any backing.

Based on the preceding description, this study divides the currency system into three alternatives:

1. Fiat money system (current system);
2. Physical gold dinar system (PGDS): This system combines elements of bimetallism, a gold standard, a physical gold dinar, and the Bretton Woods system or gold-backed system. It is a currency system that uses paper money backed by gold reserves (Yaacob 2012).
3. Gold as measure of value system (GMVS): This system measures all prices of commodities in terms of gold.

7.5.2 *Criteria Determination*

Selected monetary theories are used as the foundation to evaluate the proposed alternatives. These theories are currency theory, Gresham's law, optimal currency area theory, and quantity of money theory (Yaacob 2012).

1. Currency theory: The currency represents a relationship between a commodity and the function of money. It refers to whether a commodity can fulfill the basic functions of money as outlined by classical and modern economists. The basic functions are serving as a medium of exchange, a measure of value, payment instrument, and store of value.
2. Gresham's law: This theory says that if two or more currencies are used simultaneously in a country, a currency with no intrinsic value (bad money) and a currency that has intrinsic value (good money), the bad money will drive out the good money.
3. Quantity theory of money: This theory says that the balance of supply and demand for money should be maintained. An imbalance can cause problems such as inflation, deflation, and instability. It is important to note that gold reserves must meet the demand for money.
4. Optimal currency area (OCA) consideration: Implementation of a gold dinar system must be carried out by several countries simultaneously. If such a system is implemented by only one country, it cannot be effective because all nations are interrelated. A change in one nation's currency will affect other countries, especially in the currency union. A currency union usually follows OCA theory. Countries that have joined the currency union must meet the OCA standard to gain the optimum benefits. Countries that do not meet the OCA requirements will not receive noticeable benefits from currency union but will suffer. Furthermore, if a currency union is established by one or a few countries, then Gresham's law will prevail (Sanep 2009). In addition, macroeconomic conditions, GDP, currency heterogeneity among countries, and the willingness of a country to use a particular currency are the important factors to be considered.

7.5.3 Infrastructure and Regulations

The required infrastructures to implement the gold *dinar* system are as follows:

1. International regulations: The infrastructure is the biggest obstacle, as established by IMF ACT on 30th April 1976. IMF introduced a

second amendment to Article IV-Part 2 (b) (i), which stipulates that IMF member (countries) should use Special Drawing Rights (SDRs) or anything except gold as a backup of their currency. Nevertheless, this article can be cancelled if 85% of IMF members (countries) agree to the amendment.

2. Agreement with other countries: Implementation of the gold dinar as a whole must be throughout the entire world and cannot be implemented in a few countries. All countries are interdependent. However, achieving agreement among countries to implement physical gold as a currency will face numerous problems.
3. Domestic acts (act of security and control value of the currency): Examples include gold counterfeiting and gold hoarding. In the current situation/value, it is possible for people to hoard gold. Moreover, with current technology, it is possible to make white gold by mixing silver and copper. Hence, the implementation of physical gold as a currency should be imposed by the government so that it can regulate and manage the system.
4. Government awareness and willingness: Governments or countries should have a strong awareness and enthusiasm in promoting the use of physical gold as a currency. This is important because the use of gold is impossible without support from the central government, as printing money is one of the important functions of government. For example, during the rule of Caliph Abdul Malik bin Marwan, who introduced physical gold as a symbol of unity of the people, the caliph was able to establish Muslim independence (Griersom 1960).
5. Gold dinar availability and adequacy of gold reserves: Gold-holding countries are not equal. The current available data show that the stock of gold among countries is conspicuous. If gold holdings are not sufficient, some countries will face challenges trying to obtain enough gold to back their currency. Gold is concentrated in certain major countries. OIC members possess only 10% of the total gold. Table 7.3 shows the inequality of gold holders, which will affect international trade.

Moreover, Islamic values are also applied to evaluate the system. Islamic values include the capability to remove *riba*, *gharar*, and *maysir* and whether the system is able to realize a just system. Characteristics of

Table 7.3 Gold holder countries

No.	*Countries*	*Gold (Tons)*	*Percent (%)*
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

money, such as its acceptability, scarcity, recognizability, divisibility, uniformity, mobility, durability, and stability, are also used to evaluate the system.

7.5.4 Deductive Analysis to Select the Best Alternative

The next step entails performing an analysis of the alternatives based on the aforementioned criteria. A deductive analysis is depicted in Table 7.4.

The preceding analysis shows that the physical gold dinar (PGD) system faces many challenges, such as IMF articles, gold reserve adequacy, and international agreements. In addition, economic theory proves that PGD cannot meet the requirements. PGD fulfills all Shariah criteria, while fiat money is qualified in terms of all economic theory and infrastructures. However, this system does not comply with Shariah requirements, such as the elimination of *riba, gharir*, and *maysir*. Furthermore, it does not lead to the creation of a just and stable system.

Therefore, GMV can be considered the proper system for the following reasons:

a. The system can perform the function of money,
b. The system can fulfill the requirements of commodity as money;
c. The system does not contradict economic theories such as the quantity theory of money, Gresham's law, and OCA;
d. The system satisfies infrastructure criteria.
e. The system aligns with Islamic values in terms of *fiqh* requirements, *riba* (usury), *gharar* (uncertainty), *maysir* (gambling), and justice/fairness principles.

Table 7.4 Deductive analysis

No	*Structures /Infrastructures*	*Physical gold* dinar *as money (PGD)*	*Fiat money (FM)*	*Gold as measurement of value (GMV)*[1]
A	Currency theory			
1	Function of money theory			
	a. Medium of exchange	Well-functioning	Well-functioning	Well-functioning
	b. Measurement of value	Well-functioning	Not functioning well	Well-functioning[2]
	c. Store of value	Well-functioning due to its intrinsic value	Not functioning well	Well-functioning
	d. Differed payment instrument	Well-functioning due to its stable value	Not functioning well	Well-functioning
2	Characteristic commodity as money			
	a. Rare and compact	Yes	No	Yes
	b. Stable	Yes	No	Yes
	c. Storable	Yes	No	Yes
	d. Mobile	No	Yes	Yes
	e. Can neither be created nor destroyed	Yes	No	Yes
	f. Durable for very long periods	Yes	No	Yes
	g. Acceptability	Yes	Yes	Yes
	h. Divisible	No	Yes	Yes
B	Economic theory			
1	Supply and demand[3]	Not functioning well due to gold availability.	Well functioned	Well-functioning as Gold is not used physically. Gold just as measure of value, other commodities can be used as money.
2	Gresham's law theory[4]	It will take place if issued together with fiat money or *fulus*	Gresham's Law will not occur	Well-functioning as Gold is not used physically. Gold just as measure of value.

Table 7.4 (continued)

No	*Structures /Infrastructures*	*Physical gold* dinar *as money (PGD)*	*Fiat money (FM)*	*Gold as measurement of value (GMV)*[1]
3	Optimum currency area (OCA) theory	Very difficult to fulfill the requirement /criteria	Not involved in OCA Theory	Not involved in OCA as the system just be implemented among cooperative members
C	Infrastructures requirement			
1	Awareness and willingness of governments[5]	Less powerful	Not involved in the requirement	Government will support the system because of economic and tax reasons[6]
2	Government agreement in the bilateral /multilateral trade[7]	Less powerful	Not involved to the requirement	Not involved in the requirement because the implementation is only on the domestic community
3	International law (IMF articles)[8]	Impossible	Not involved in the requirement	Not involved in the requirement
4	Domestic law to ensure the security and smoothness of the system	Depends on international agreement	Not involved in the requirement	Government will support the system[9]
5	Gold *Dinar* availability	Not enough[10]	Not involved in the requirement	Not involved in the requirement[11]
6	Gold reserve sufficiency	Enough but is not distributed well	Not involved in the requirement	Physical Gold *Dinar* is not absolutely required[12]
7	Central Bank acts for controlling the system and other domestic infrastructures	Depends on International agreement	Can be provided	Can be provided

(continued)

Table 7.4 (continued)

No	*Structures /Infrastructures*	*Physical gold* dinar *as money (PGD)*	*Fiat money (FM)*	*Gold as measurement of value (GMV)*[1]
D	Islamic value			
1	*Fiqh* analysis	Strongly recommended	Permissible	Strongly recommended
2	*Riba* eradication capability	Capable	Incapable	Capable[13]
3	*Gharar* eradication[14]	Capable	Incapable	Capable[15]
4	*Maysir* eradication[16]	Capable	Incapable	Capable[17]
5	Justice /Fairness principles[18]	Capable	Incapable	Capable[19]

7.6 Conclusion

This chapter discussed the *siyasah Shariah* and the implementation strategy of money in Islam. The *masalih-mursalah* approach was applied to highlight the essence of money in Islam. Furthermore, the *maqasid shariah* constitutes the primary foundation by which to determine the appropriate money for the modern age.

Through our historical analysis of money in Islam, we noted that gold and silver dirhams and dinars were used by Muslims from the time of the Prophet (PBUH). During the Bani Mamluk era, there were three kinds of currencies: gold dinars, silver dirhams, and copper fulus. Under the Bretton Woods system, the currency that circulated among nations was still backed by gold. However, following the collapse of the Bretton Woods system, fiat money was introduced and continues to be used globally to this day.

Muslim legal scholars argued about the issue from two major different points of view. Some Muslim scholars opined that currency is limited to gold and silver, while others argued that other forms of valuable goods can be used as backing. According to *salaf* scholars, a currency must be valued only in terms of gold and silver, whereas modern scholars (*khalaf*) argue that currency can be other commodities and is not limited to gold and silver. They have shown that copper, tin, and other precious metals can be used instead of gold and silver. Both groups offer their own lines of evidence. Furthermore, the discussion on *masalih-mursalah*, the characteristic of fiat money, was examined by considering its benefits and advantages versus its drawbacks or harms. This discussion was based on the perspective of Islam where the *maqasid shariah* was the main point of reference.

The preceding discussion showed that fiat money has its advantages, such as its mobility, ease of printing, dependence on the volume of trade transactions, low risk to carry, low production cost, and flexibility (Hasan 2005). However, as also was mentioned, its disadvantages far outweigh its advantages: it is not backed by anything, can be printed easily, is based on debt, triggers inflation, leads to social injustice, leads to speculation and arbitrage, and causes other financial destruction.

The gold dinar also has its advantages and disadvantages. Its main advantage is that it facilitates attainment of *maqasid shariah* and *maslahah* for the *ummah*. The gold *dinar* will establish justice in the *ummah* and foster human wellbeing. Other advantages are its high acceptance among people, divisibility, scarcity, durability, and mobility. In addition, a gold currency does not create "seigniorage" in which its value is its intrinsic value. Gold as a currency is the solution to the inflation problem. To sum up, a gold currency system is more stable than and superior to fiat money.

A gold system cannot be implemented easily because the adoption of a gold currency faces many challenges. The barriers are IMF rules, laws, acts, infrastructures, and international agreements. Deductive analysis shows that the PGD system would face these and many other challengesIn addition, economic theory show that the PGD cannot fulfill the requirements of a currency, it meets all Shariah criteria, but fiat money qualifies in terms of economic theory and infrastructures. However, such a system does not comply with Shariah requirements, such as the elimination of *riba*, *gharar*, and *maysir*. Furthermore, it cannot lead to the creation of a just and stable society. Therefore, GMV can be considered the best system because it is in line with the function of money, fulfills the requirements of a commodity-based money, is in agreement with economic theory, such as supply and demand, Gresham's law, and OCA. Additionally, GMV meets infrastructure criteria. Finally, such a system would be in line with Islamic values in terms of *fiqh* requirements, *riba* (usury), *gharar* (uncertainty), *maysir* (gambling), and justice/fairness principles.

Notes

1. In the first stage, the system can be implemented by cooperatives established by the community. Membership is based on cooperation, goodwill, and voluntarism.
2. Every member already has a savings account in a cooperative.
3. MV = PT
4. Bad money will drive out good money
5. The World Gold Council (WGC) was established in 2009 and asked the IMF to return the gold standard system. Besides that, the World Bank President, Robert Zoelick requested the return of gold standard in 2010. In addition, the G-20 summit in Paris, 2011 asked to reform the monetary system due to global economic imbalances.
6. The system will accelerate economic activity. Tax income will be imposed on any financial transaction.
7. Only a few countries agreed to use gold for trade settlement (Sudan, Libya, Iran, Bahrain, Norwich, Cape Town, and Malaysia in 2003)
8. At least 85% of IMF members (countries) agree on the amendment of the articles (Article IV, part 2 (b)(i)
9. Government support is needed, especially political support. (Article no. 29 and 33 UUD 1945)
10. Only a few countries have minted a gold *dinar*.
11. Physical gold *dinar* is not needed.
12. Valuable commodities also can be functioned as money
13. The system is based on gold, not based on fiat money.
14. A currency that does not have any value is considered *gharar*, because it would lead to uncertainty and doubts (Edawati 2012).
15. The system is based on gold, not based on fiat money.
16. 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.
17. The system is based on gold, not based on fiat money.
18. The current fiat system is unjust because it leads to a double pyramid of money creation.
19. The system is based on the cooperative model. There is no forced invitation and based on voluntary membership.

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