Gold vis-à-vis money in Islam: the case against Dinarist Movement

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Abstract

Purpose – This paper aims to delve in an aspect of monetary economics, addressing its Islamic wing in general and dinar advocates in particular.

Design/methodology/approach – The paper argues that calls to reinstitution of dinar currencies are not only anachronistic and unnecessary but also counter-productive and potentially un-Islamic.

Findings – The paper further posits that regardless of the nature of economy, legal tender fiat money and bank money are of the same genus, and treating them otherwise is not consistent with Islamic jurisprudential precepts.

Originality/value – The study also highlights that mismanagement, avarice and human follies are to blame for financial maladies; regression to metallic currency is a panacea to neither the conundrums nor Islamic.

Keywords Gold, Islamic finance, Islamic law, Bimetallism, Dinar, Monetary economics

Paper type Research paper

1. Introduction

Dinarists[1] impute instability of free-float fiat currencies as the chief culprit behind global economic crises and business cycle fluctuations, citing examples of the great depression of the 1930s, Mexican Peso crisis of the 1990s, ASEAN currency crises and the most recent global crisis in 2008. The last crisis, owing to its global nature, also affected many Muslim-majority economies, leading to many leaders and economists call for an overhaul of the monetary systems, bringing back the gold dinar and silver dirham of the Islamic golden age or, in the least, reversion to the gold standard. The chirping of goldbugs is not simply limited to Muslim scholars or laity; the dogmatic authority with which it is propagated in certain circles makes it distinct compared to other calls for the gold standard. The issue of implementing gold dinar nudges on an overlapping nexus of economics, law and politics. Thus, scholars from various disciplines and of various stripes have written about it from respective standpoints. From the legal side, the legality of fiat/paper money and Islamicity of dinar/dirham have been key focus areas. From economics side, much emphasis has been on the mechanism and role gold dinars would play in a potential Islamic economy. Among politicians, in Malaysia, a hotbed of Dinarist movement, former Prime Minister Mahathir Mohammed called for implementing dinar in 2011, resulting in a cascade of studies on the feasibility of gold dinar and silver dirham, from financial experts and religious scholars. These calls had some effect in practice too. Some alternative payment systems were proposed and implemented, especially by adopting gold dinar for international trade, electronic payment systems of e-dinar, payment of zakah, gifts, marriage dowry, etc. Mansor

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(2011), Ibrahim (2012), Umar Azmon (2002) and Zuhaimy (2003) extolled the virtues of gold dinar as good investment assets compared to non-gold tangible assets. Majority of these arguments revolve around gold's ostensible status as inflation-proof asset. We contradict this notion on several grounds: historical, economical and Islamic-legal precepts. We argue that the claims of gold and silver being the only Islamically acceptable currency are outlandish, and that it is also feeble due to economic inefficiency and non-pragmatic nature of its implementation prospects.

Operating under critical theory assumptions, this paper uses multiple qualitative methods of library research and relies on a combination of existing literature review, historical analysis of jurisprudence related to Islamic monetary themes and conceptual arguments rooted in macroeconomic theories to defend its thesis contrary to *dinarism*. This paper is organized in the following manner. First, we discuss the origins of money. We outline how money was conceptualized and thereafter put into practice from ancient times up until the nineteenth century CE. This includes a brief survey of classical and modern Muslim scholars' juristic positions on conceptualization of money. Then, we look at the gold standard, why it failed and lessons pertinent to the dinar and dirham movement:

- its internal instability;
- propensity to deflate the economy;
- obstacle to achieving economic growth, and paradoxically;
- risk of a long-run inflation.

Thereafter, we defend our claim of the tenuous nature of the *dinarism* movement. Finally, we finish off with a recapitulation of our salient arguments and offer suggestions for interested researchers for the way forward.

2. How money came to be

The evolution of money from days of simple barter to epoch of digital entries is a testament of human gumption and inventiveness. The purpose of this statement is not the hollow adulation of human enterprise; rather, it acts as a premise to understanding how substance of money evolved pragmatically – and its definition, dynamically. When barter's inbuilt drawback of double coincidence in wants obstructed transactions, it led to waste of time to gather information and paralyzed specialization of labor; human ambitions dabbled in experimentations with commodities to surmount those demerits. The result was a precursor to what we understand today as money. What the wheel did to human civilization, money did to trade and commerce.

2.1 Conceptualizing money

A study of historic traditions leads to two possible conceptualizations of money:

(1) by what it is (substance); or

(2) by what it does (function).

Substance-based discussions on money have been extraneous in the milieu of monetary economics for quite some time, and understandably so. The range of commodities used as money – whether it is salt, cigarettes, gold or human labor – is long and of lesser temporal importance. The functional approach treats money *in toto* as a medium of exchange, measure and store of value and unit of account. This function simplifies trade by reconciling the conflicting sides of barter: sale and buy. Thus, a sheep shearer can sell 10 kg of wool,

keep that money with her and buy later what she wants – and when she wants. The final exchange involves real goods and services on either end. Money merely liaises. Thus, in the functional approach, when humans realized that the circle of exchange can be consummated without resorting to precious objects, money was conceptualized as a go-between – the value of which is of less consequence than its function. If a cheap object can accomplish the same purpose as a dear one, opting for the latter is inane. Thus, the functional approach is also a common-sense approach.

In Islamic traditions, money's conceptualization can be divided into two narratives:

(1) organic descriptions of historical monetary practice by Muslims; and

(2) legal discourse on parameters of money.

The latter's views are most dominant in shaping the post-modern discourses in Islamic monetary economics, and *ipso facto* germane to this paper. Mohamad and Sifat (2015) suggested carving up Islamic history in three stages in terms of how money was understood. The first stage was pre-prophetic Arabia when convention was law, next, the prophetic era and lastly, the modern era – specifically post-Ottoman era. The first two eras are identical for all practical intents as the prophet did not enjoin a particular form of money. In the last stage, from the Hanafi School, al-Sarakhsi believed gold and silver to be synonymous as money and clearly outlined their property as medium of exchanges. Other Hanafis also maintained that gold and silver are not desired for themselves but rather for the values they represent. Several major figures in the Hanbali school, including the founder Ahmad, Ibn Taymiyyah and Ibn Qayyim, echoed the previous sentiment and asserted in clear terms that money's most coveted attribute is that it is a unit (Ibn Taymiyyah al-Harrani, 2006) through which other goods are valued – i.e. a *numeraire*. Ibn Qayyim fine-tunes this further by qualifying money to have a value that should not vacillate much, citing that if its value is volatile like other commodities, society will suffer from want of a measure to measure value of traded objects (Islahi, 2005; Ibn Qayyim al-Jawziyya, 2006). In the Medinan school, Imam Malik treated any commodity commonly used as medium of exchange to be money (bin Anas, 2008). Al-Ghazali added a spiritual requirement of money condemning its use beyond what its creation was intended for (Islahi, 2005). A detailed historical survey of money's conceptualization by Muslim legal experts is well beyond the scope of this paper. Nonetheless, to facilitate ease of understanding, a synopsis table is furnished below grouping scholars and their views regarding money (Table I).

2.2 Ancient moneys to the nineteenth century CE

The discourse on what works as money was shaped and re-shaped by the *numeraire* function of money. Thus, the process through which goods and services were measured led to money assuming a value for itself. Time and again, this value fluctuated *vis-à-vis* variations in the general price levels of an economy. This newly acquired attribute of money's value was unlike values we attach to other goods and services on a daily basis. When money was made of or tethered to a precious metal, its value fluctuated contrariwise with other goods and services. Therefore, money's internal value could be controlled only by reigning fluctuations of domestic price levels. This slowly began to pose problems domestically. Similarly, a lack of uniformity in what counts as money created problems for cross-border trades. To allow mutual convertibility the issue of substance regained importance. Slowly most nations adopted one precious metal or another – or their admixture. After experimentations with bronze and copper, gold and silver gained prominence. However, one problem sprang. Gold and silver coins were too soft to endure the wear and tear of circulation. This was compounded by corrupt individuals clipping the

Particulars	The metallic view	The numeraire view
Summary	Only gold and silver count as money	Moneyness does not depend on physical content Emphasizes efficiency in serving as medium of exchange, store of value and *numeraire* unit
Rationale	Prophetic practice Mention of gold and silver as precious objects both in this world and *'akhirah* in Qur'an' Necessary for dispensing criminal justice; e.g. to implement blood money and thievery punishments To dissuade *iktinaz* (hoarding) Historic stability of gold and silver	No explicit legislative scripture on what constitutes money; no definitive command to use gold or silver Accommodates *'urf* (custom, convention) Delegates authority to learned *'ulama* to decide what constitutes money based on economic factors, time, necessity, removal of hardship, etc.
Advocates	Ahnaf: Abu Hanifah, Abu Yusuf, Jassas Malikiyyah: Ibn Nafi', 'Illiyish, al-Adawi Shafi'iyyah: al-Nawawi, al-Ghazali, al-Suyuti, al-Maqrizi Modern: al-Nabahani, Imran Hosein, Baqir al-Sadr, Ibn Badran	Ahnaf: al-Shaybani Malikiyyah: Malik, al-Hattab, al-Wansharisi Hanabilah: Ahmad, Ibn Taymiyyah, Ibn Qayyim Modern: Taqi Uthmani, Islamic Fiqh Academy, Yusuf al-Qaradawi, Muslim World League

Table I.
Scholarly opinion matrix

precious content, leaving the coin's weight fall below original measure. Thus, these coins had to be mixed with alloys to ensure durability. This required standardization by an authority, which for thousands of years was undertaken by volunteering private agencies. Adam Smith lavishly praised such raw and artless evolution of benevolent social institutions of money, capital accumulation and division of labor in his celebrated work *Wealth of Nations*. At this point, enter the governments.

Goaded by opportunism, the states began stamping coins with symbols to fortify the standardization process. The embossment of state symbol furnished the coins with nearly unassailable legitimacy in both authenticity and confidence. Soon, instead of coins being valuable because of the substance, the certification of substance by state emblem rendered it valuable. It will not be an overstatement to claim that this marks the state overtaking metal as *de facto* source of value. The states abused this privilege exorbitantly by debasing the metal content, seemingly at will. This led to the now-famous Kopernik's Law that bad money drives good money out of circulation. The problem of bad money was exacerbated by premium placed on gold by merchants in Europe, which distorted relative price of metals. To surmount these difficulties of commodity money, banks started to issue paper receipts which were redeemable for metals stored by the depositor. These receipts ended up replacing the metals as *de facto* money as they were as good as gold – literally. The gold movement on today, in part, draws inspiration from that era where money was 100 per cent backed. Eventually, people realized the inanity of spending "money" to dig the precious metal out of mines only to lock it back in vaults. This realization marks a momentous epiphany in monetary history, which acted as a precursor to fractional reserve banking (FRB). Failing to suppress the urge to over-issue notes, banks enjoyed quick and easy fecundation of their coffers, thanks to the FRB. Accordingly, intermittent stints of inflation percolated around the world. Now is a moment to take a brief pause and consider the implications such inflationary throbs. Seeing the tethering of money to gold at its heyday could not stay inflation; the claim by goldbugs that re-yoking of money to gold today will

deter inflation strains credulity. Meanwhile, as private banks exploited deposit receipts to their advantage, states seized a monopolistic grip over conversion of metals into coin, i.e. the minting process. Initially, this was *pro bono publico*, though later, a small amount was charged to defray manufacturing and administrative costs – now known as seigniorage. Importantly, the main objective of gaining control over the minting process was its lucrativeness. Thwarting inflation or health of the economy was of secondary import. This, in turn, coupled by growing international trade led to complex foreign exchange issues, which piqued the state interest in monetary affairs. As a result, the central bank was born. The gradual proliferation of central banking slowly curbed the credit creation powers of banks. Owing to failure of many private banks in the 1920s, a number of central banks grew globally, which assumed the role known today as lender of last resort. Other expressed goals of central banks included stabilizing the currency value domestically and externally. They also served a government's banker and issued currency notes. While this guided evolution was taking place, gold coins were already circulating in many economies. The newfound power and responsibilities of central banks resulted in streamlining the prevalent metallic coin system. Cometh the gold standard.

2.3 The gold standard

The gold standard was a natural sequel to the gold coinage. Though various countries adopted various gold-to-note ratios to cushion the currency, the element they all had in common was an unquestionable connection between physical gold reserves and volume of currency in circulation. To be concise, volume of gold dictated volume of money. The minimum gold reserve requirement ensured this. At this time – with varying levels of success – the central banks strived to keep stable the price of gold. But this did nothing to domestic price level of goods and services. Central banks soon learned a costly lesson that gold standard only stabilizes the tether between volume of gold (V_g) and volume of currency (V_c), not domestic price levels. While gold price did not fluctuate much, V_g did. Naturally, this impacted V_c, which adjusted accordingly. It will be fair to say gold standard – by design – forced domestic price instability, failed at containing inflation and perhaps abetted recessions. In a true gold standard, countries cannot prevent each other from exporting or importing gold. The whole standard hinges on the assumption of keeping gold supply perfectly elastic. This assumption materializes when an international authority volunteers to buy and sell gold at a fixed rate at all times. In today's globalized age of rampant free trade and liberalization, the stability of exchange rates is of more importance than ever before. Reverting to gold at today's economic juncture is counter-productive. Four points in this regard are noteworthy:

2.3.1 Internal stability. Let's say countries X and Y are on gold standard. X's reserve requirement is set at 30 per cent, meaning its central bank holds 30 per cent of circulating currency in physical gold to ensure convertibility. There is no reason for it to hold any more than the legal minimum. An inflow of £100m from country Y now will enrich X's vaults by £100m worth of gold. The central bank of X is now forced to issue £333m in notes. Assuming X's banking system operates on a 20 per cent reserve requirement, the £100m of gold will now translate to £1.67bn of credit creation in X's economy – an unsolicited monetary expansion, which threatens to destabilize an otherwise stable economy. The converse is true gold outflow and deflation.

2.3.2 Deflationary bias. The onus of adjustment is invariably upon the weaker nation. Thus, when an economy faces downward pressure on its currency value, it is forced to downsize, which raises unemployment. A credit losing country is compelled to contract credit, while the credit gaining country is under no obligation to expand.

2.3.3 Economic expansion and financial transactions. Even a century ago, when gold standard was alive, money circulation was in harmony with real economic output. History shows us how gold supply fell short to mitigate monetary needs of economic expansion. To compound matters, the real output of the world from 1951 till today is more than double of what the world witnessed in its entire existence up to 1950. Gold would have been unable to finance such exponential growth. It will also be remiss to disregard the sheer volume of financial transactions occurring today. Speculation alone causes trillions of £change hands daily. Forex spot transactions account for 60-80 times the value of global real output.

2.3.4 Long run inflation. The long-run trajectory of price levels depends on the velocity of gold mining in prominent producers like Russia and South Africa. Besides, a whole range of factors – most vicious being political leverage wielded by gold producers – leading to interrupt the supply of gold can have major ramifications on long term price levels. This usually ends up in slow, gradual deflation lasting decades. Contrarily, technological advances in gold mining can inflate inflation rates for many decades. Back in the gold standard days, central bankers were more or less powerless to control the average long-run inflation (or deflation) rate as it depended on the tug of war between world production of gold, growing world population and velocity of gold extraction.

2.4 Historic usage of dinar

The earliest traces of gold dinar usage harkens back to Romans and Persians. The *de facto* name then was denarius. It was used commonly in Arabian Peninsula and was adopted by Prophet Muhammad, and thereafter the rightly guided successors, extending till the demise of the Ottoman Empire. The term dinar is derived from denarius. The minting of dinar under Islamic rulers' auspices began under Caliph Abdul Malik bin Marwan. He standardized the coinage at 4.25 grams of 24 carat gold. Such weightage was ratified by the-then regnant jurist class of Islamic scholars. This led to claims of dinar advocates that using gold dinar is the *Shari'ah*'s preferred method of currency use. The official last use of gold dinar as legal tender was in 1924 when the Ottoman Empire collapsed. The works on gold dinar in academia following the demise of Ottoman Empire lists contribution by al-Maqrizi during the Mamluk era. In recent times Vadillo, Meera, Shah, Zuhaimy, Nasri and Azizi and Hosein have been ardent advocates of return to Dinar. Almost universally, the currencies of ancient times were metal coins – with gold and silver being the dominant duo. In the geographical area, which would later be the cornerstone of the Islamic world, gold *dinar* became the choice currency unit under the Byzantine Empire, while silver *dirham* gained prominence in the Persian Empire. Less than half a century following the conquest of Roman and Persian Empires, the Islamic state officially started the process of minting Islamic *dinars* and *dirhams* (Dunlop, 1957).

3. Debunking dinarism

Having made explicit our premise in opposition to switching to dinar/dirham, we defend our position in this section not only by debunking common arguments promulgated by Dinarists but also by challenging the legitimacy of Islamicity of dinars to begin with on theological and ideological grounds. It is worth noting, however, that while Dinarists' fervent calls for reinstating gold coinage stem from supposedly theological and ideological grounds, the goldbugs in non-Islamic realm essentially advocate for returning to the gold standard – not the age of metal coins. We admit, albeit, the Dinarists are not a monolithic group. The spectrum of rejection of paper money (or bank money) among them range from reprehensible (contrary to spirit of Islam) to outright antagonistic to the letter of Islam. We contend, however, the claim that Islam decrees Muslims to use a particular currency is

specious and unsubstantiated by explicit and unambiguous scriptural texts. All such claims involve considerable semantic gymnastics, and at times grossly irrational extrapolation and projection of historic fantasies onto a prescriptive economic and policy narrative – contradicting both the letter and spirit of Qur'an and Sunnah. In this section, we lay down our rebuttals on various grounds – mostly economic and a few legal arguments.

3.1 Zero interest rate

The issue of *riba* is the guardian knot for Islamic economists. The prohibition on interest is clear and unequivocal from multiple Qur'anic verses. This serves as the most decisive clue on economic matters from the Qur'an. To forge an Islamically amenable monetary regime, or an economy for that matter, avoiding *riba* must be the center of *locus*. Because interest is essentially the price of money, in modern times, this injunction essentially translates to a rate of interest of 0 per cent. Surveying historical performances of paper money and Islamic coinage, there is absolutely no evidence that this i_r = 0 per cent has been achieved by metallic coinage, let alone sustained. Paper money, *per contra*, under certain circumstances, did reach that magical zero figure – albeit inadvertently. Japan famously experienced an interbank interest rate of 0 per cent in 1999. This recurred in the aftermath of recent financial crisis. The USA had a seven-year experiment with zero interest rate from 2008 to 2015. Though such interest policy is still considered unconventional or fringe by economic norms, Modica and Sulmasy claim that such unconventional practices were necessary to refinance a high level of American public debt and aided in recapitalizing the worldwide banking system, which was reeling from 2007 to 2008 financial fiasco. Woodford points out that when implementing zero interest rate policy a Government can forge economic growth through spending enough in stimulus to cover the entire output gap. Friedman too believed that a nominal interest rate of zero presents no problem in monetary policy.

It could be argued that these instances of zero interest rate throughout world history miniscule. Besides, not only were these instances originally unintended and definitely not driven by religion or philosophy, they nonetheless stand as an example of feasibility of an economic system using paper money without nominal interest rate.

The Fiqhi or jurisprudential issues surrounding the legality of paper money is now more or less settled. In recent times, the most influential decree came from a meeting in the mid-1980s in Saudi Arabia, when the Fiqh Council decided in favor of legality of paper-based fiat money on various grounds, the details of which are beyond the scope of this paper. This view is not to be derided by the dinar campaigners, as it has its roots in classical Islamic legal theory, and its arguments stem from classical positions held by scholars such as Ahmad ibn Hanbal, Ibn Qayyim, Ibn Taymiyyah, Al-Shaybani and Ibn Hazm. In fact, Imam Ahmad had ruled that gold and silver are not the sole vehicles of money circulation, and it is not to be limited to metals as there are no explicit textual scripture supporting it. Among modern luminaries, Mufti Taqi Uthmani from Pakistan and Qatar based Egyptial cleric Yusuf Qaradawi too have opined in its favor.

3.2 Lack of physical gold and gharar

Among the Organization of Islamic Countries (OIC), only Indonesia ranks among the noteworthy producers of gold. Its production rate too – at nearly seven per cent – pales in comparison to its global counterparts. Therefore, even if the Islamic nations were to band together a communion where gold could be traded as a common currency between themselves, they would still be susceptible to whims of global forces for the physical gold itself, as no other country barring Indonesia possesses much of gold ore deposits. Hence, a hypothetical dinar system in these countries would result in non-Islamic countries wielding

an inordinate amount of power to manipulate and exploit the internal economies of Muslim countries, which South Africa, the USA, China and Russia being major players, owing to their ownership of physical gold deposits. Hence, we argue that such a decision to tether the economy to gold via dinar and dirham currencies may prove suicidal for the OIC nations as the world producers will have an opportunity to collude and fix the prices of gold and silver. Besides, this would open up a major field for speculation in gold, which leads us to the next legal minutiae of ambiguity or gharar. The Financial Times lexicon defines gharar as risk, uncertainty or hazard. It is typically used in context of Islamic Finance where financial products containing conditions of sale which are ambiguous, unknown, incomplete or uncertain. Medieval scholar Ibn Taymiyyah defines it as an element in a contract wherein risk-taking is present concomitantly with unfair devouring potential of one's property by another. Contemporary expert Mahmoud el-Gamal considers it to be unbundled risk in financial contracts. According to scholarly consensus, this is strictly proscribed in Islamic jurisprudence. The relevance of gharar to this case stems from the inherent possibilities of speculation by the world powers that possess swathes of underground gold and the financial market players, the combined actions of which can cause extreme volatility in gold prices and destabilizing Islamic countries' economies. All scholars agree that in a contract or everyday transaction risks should be shared equally by all parties. As the gharar in this case is not only unevenly shared but also one sided, it risks endangering not only few individuals but entire monetary systems of a country. Therefore, OIC nations switching to dinar and dirham system also run the risks of wading into gharar, a corollary to the prohibition of usury.

3.3 Effective interest rate of dinar

Another factor that could potentially wreak havoc in a dinar-based economy is that the cost of producing the coin itself can result in a high (non-zero) interest rate. As coins cannot be made out of thin air and a production cost exists, the cost must be accounted for. The cost of production includes two main constituents: the cost of the physical gold and the cost of transformation of raw metal into official coins. On top of this, seigniorage has to be added as the state does not perform the function for free, as previous sections of this paper has documented. Thus, we can condense the cost of dinar production (effective rate of interest for dinars) into three stages, acquiring the bullion (subject to global prices), costs incurred at the minting factories and seigniorage commanded by the state monopoly. Let us contrast this with paper-based fiat money, which is close to zero. The costs associated with dinar far outmatch that of paper money. This systemic flaw is inherent in gold or silver based coinage system, which not only runs the risk of hiking interest rate, which an Islamic currency must avoid at all costs, but also encourages Kopernik's Law back into action by driving good money out of the market.

3.4 Lessons from debasement

3.4.1 Warfare and seigniorage. History teaches us that the most universal reason for coin debasement has been proliferation or warfare. When states historically were faced with the threat of external incursions they reacted by strengthening armed forces personnel and upgrading defense capacities – both dear ventures. The matter with armed forces is that they had to be paid in cash. As credit would not do and soldiers would only accept cash, states were forced to cut new coins from prevalent currency metals. Typical of this phenomenon is the famous great debasement saga of mid-1550s when Henry VIII and Edward VI ordered massive debasement ostensibly to bolster the British Navy and finance public project expenditures (notably defense related). In reality, Henry VIII is alleged to have debased to finance his

lavish lifestyle, fondness of building new palaces and engaging in wars – the French campaign in particular. Downey (1997) documents the near ubiquity with which continental European monarchs took liberty with secret debasement of coinage value to generate wealth and perpetuate their ostentatious lifestyles. Around the same time, over in the Islamic world, the Ottomans were guilty of the same, doubling the money supply as the Caliph ordered to strike 800 *akces* out of 100 silver dirham, which has previously been 450 *akces* (Karaman and Pamuk, 2010). Incidentally, in addition to financing the excess of their courts, the heads of states had another motive to engage in debasement: seigniorage; the revenue generated through minting process – which naturally magnifies during debasement. The combination of these not only perpetuated the lifestyle and war campaigns of the rulers, it also enabled covering emergency expenses and defraying debts. This, however, ran into the Kopernik's Law conundrum, which is popularly (and erroneously) referred to as Gresham's Law.

3.4.2 Kopernik's Law mechanism. The law is concisely described in existing economics literature as bad money drives out good money. For the purpose of this paper, we shall understand the law as the following equation:

$$V_c = P_c + \omega \times G \tag{1}$$

Where:

V_c = Coin's face value;
P_c = Production cost of coinage;
ω = Purity ratio of gold; and
G = Price of gold as determined by global market forces.

The equality of left and right hand sides of the equation is parlous at best. Despite theoretical equality, in practice, a currency will survive circulation only if $V_c > P_c + \omega \times G$. However, if the right hand side rises in value, Kopernik's Law is invoked. The most obvious instigator here is a rise in G, global price of gold. Let us illustrate this with an example. Say a 1 oz. gold coin with a face value of \$100 circulates. It costs \$10 to produce it. The coin is 80 per cent pure gold, and the world price of 1 oz. gold is \$100. Therefore, \$100 = \$10 + 0.8 × 100 = \$80. Hence, LHS > RHS. In other words, the coin's face value is greater than its intrinsic value (\$80). This poses no problem and the coin can circulate unhindered. Now, if the global price of gold rises to \$130/oz. the intrinsic value of the coin stands at \$10 + 0.8 × 130 = \$114. This provides the common citizen an incentive to hoard the coin as it surpasses its face value. An astute citizen can then extract the pure gold portion of the coin and sell it in the market and obtain \$114. Deducting the production cost of \$10, she is left with \$104 – a \$4 profit due to gold's appreciation in value. With the proceed of \$104 the citizen can buy another gold coin from the market and generate profit *ad infinitum*.

3.4.3 Hoarding. The economic impacts of this are twofold. First, higher gold price will raise the demand for the coins, shifting the aggregate demand curve for coin (money) to right side. Next, the speculators will melt the pure gold content of the metals, effectively vanishing gold (and coins) out of circulation. This would result in a left-ward shift of aggregate money supply curve. As demonstrated in Figure 1, the combined result is new interest rate of R_n ($>R_o$).

If this hypothetical situation (which is not unlikely at all given the volatility of commodity prices in global markets) were to arise in an Islamic economy, the implementation of gold coinage would actuate a high rate of interest, which ideally should be zero – and thereby defeat the purpose of instituting gold coinage to begin with. Furthermore, it will negatively impact investment, hike unemployment, raise the risks of

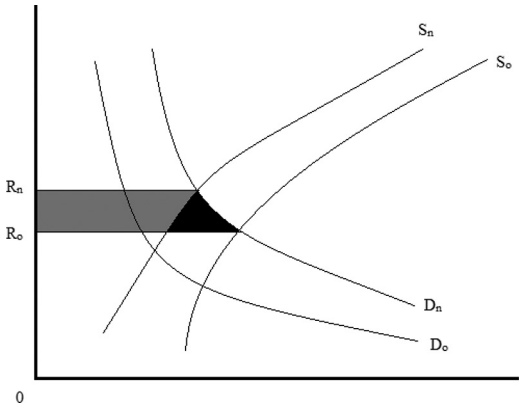

Figure 1.
Supply-demand interaction to determine new interest rate

deflation and stunt economic growth. Faced with the portents of deflation, government's first line of defense is to stimulate the money supply. In a coin-based monetary regime, this is universally done by debasement – reduction of metallic content or ω (purity ratio) in our equation. However, this too triggers Kopernik's Law. When citizens realize that new coins are being issued with decreased intrinsic value they begin to hoard older coins – effectively driving good coins out of circulation. This results in inflation, dragging down the fiat value of the coins. History tells us that in these situations people used to either hoard good coins or melt them. This demonstrates why issuing new (debased) coins is a self-defeating process, and why attempts to thwart deflation or covering emergency state expenditures with new coins always results in disappearance of old (good/better) money.

From an Islamic standpoint, effects of Kopernik's Law are not merely an economic inefficiency but an ideological effront. Hoarding is categorically forbidden in Islam via express proscription in the Qur'an[2] and prophetic traditions[3]. This is compounded by the risk of interest rate hike arising from issuing new coins: when the issuance of new coinage is not substantially higher than older coins, the aggregate money supply curve shifts to the left, raising the price of money: i.e. interest rate. This too is an unwelcome scenario for Muslims. The effect of seigniorage in issuing new coins is problematic as well. Even though in the equation above seigniorage is afforded no place, in reality, a major motivation for states to issue new coins was to generate wealth for the rulers by charging a commission for the minting process. Thus, in practice, the face value of a gold coin incorporates three elements:

(1) global price of gold;

(2) real cost of transforming the metal into a coin (production cost); and

(3) commission charged by the state monopolist – seigniorage.

To accommodate the seigniorage the coinage monopolist tinkers with the ω (purity ratio) to slot in the desired profit rate for the state. Paper/fiat money, *per contra*, incurs nugatory costs to produce.

3.5 Independence of central banks

The autonomy of the central banks is illusory. Though recent trends are indicative of greater transparency and autonomy, it is the governments who pull the real strings. Keeping in mind that central bank governors are government appointments too, it is hardly

surprising that monetary policy is often scapegoated for failures of fiscal policies. In fact, in a gold regime the central bank runs out of monetary policy levers to combat business cycle downturns, stimulate growth through even if it it is via desperate measures as quantitative easing, and save cash for the rainy day. Hasan (2012) astutely points out that constant supervision of the central bank governors from "authoritative eyes" causes them to "miss the train and under kill to avoid the charge of over killing".

3.6 Industrial usage

Aside from costs associated with exploration, mining, extraction and transport, in a metallic regime the coins can easily cannibalize a sizeable portion of the GDP by dragging down supply for industrial usage of gold and silver which could have otherwise been deployed in electrical material (as conductors, soldered joints, switch and relay contacts or connectors), electronics (GPS units, cell phones, televisions or computers), medals, photography, jewelry and silverware, dentistry, medicine, aerospace engineering, glassmaking, etc. (Geology, 2005).

3.7 Salvific exclusivity of gold and silver in Islam

Compared to strands of conventional economics with over a millennium of history of monetary development, Islamic discourse on money is rather scant. One explanation for this could be that paper money was not known to classical jurists of Islam during the codification stage of major schools of jurisprudence as paper money had not gained circulation at the time. This true both for lands under Muslim control as well as neighboring sovereigns. Interestingly, the earliest in-depth discussion on aspects of paper money appear to arise out of scholastic efforts by Muslim jurists in Indian subcontinent – which neighbors China, the modern practitioner of paper money (Juynboll, 1985). Many previous studies have found that the approaches emanating from the traditionalist slant of Islamic *fiqh* and legal traditions can be sub-divided into several distinct approaches. These discussions bear significant implications on legal and administrative affairs of Muslim states: such as on *Zakah*, trade and money exchange.

Unlike conventional economics' definition of money, the Islamic equivalent, *naqd*, has lexical roots that emerged to distinguish between two things and/or determine its reality. Classic Arabic dictionary *Qamoos* mentions *naqd* has the distinguisher between *dirham* and other items (Jallad, 2008). In Economics parlance, money is a measure of matters four: a medium, a standard, a measure and a store. Thus, money refers to anything that surfaces in a society as a medium of exchange. Here, anything precludes requirements of intrinsic value, surrounding which much controversy exists. Thus, the fact that exogenous factors such as legislative decree or coercion impart its value is immaterial – as it happens with paper money.

Imam Malik bin Anas ruled that if society agreed upon treating animal skins as money, and it were forged into pieces resembling coins and monetary units, it would be reprehensible to be traded for gold and silver on deferred basis (Bubandt, 2009). Ibn Taymiyyah believed no religious compulsion exists in defining legally or naturally what constitutes money. He considered social habits and custom to be sole authority of what qualifies as money (Islahi, 2005), predicated upon the principle that the money itself is not the objective of trade; instead, they are a standard for transactions – acting as *de facto* numeraire. In this way, he explained legitimacy of gold *dinar* and silver *dirham* as money. Similarly, Shafi'ee scholar al-Ghazali also mentioned money can be anything that is consented or accepted by society to be so, including even pieces of wood or stone (Islahi, 2001). This dispels a prevalent myth that gold and silver have exclusive and a religiously ordained right to be treated as money.

Commodities such as seashells, ivory, fish bones, tea, rice and even cigarettes gained acceptance as money throughout the history. The specialization of vocations owing to division of labor, coupled with complications of barter led to necessity of more abstract and complex nature of money. Thereby, commodities lost attraction as money as they themselves vacillated in value – subject to supply and demand. They also suffered from physical erosion and ponderous transportation drawbacks. This led to the rise in demand for gold and silver. As common people were not privy to their exact mass and value, standardization was necessary. Hence, governments intervened to prevent haphazard minting of coins by blacksmiths and took over the responsibility to mint so that mass and quality can be guaranteed. This version of origination of money is popular. It will not be far-fetched to call it nearly ubiquitous as well. However, an alternative narrative exists. Some Islamic economics experts and theologians point out to a prophetic narration by al-Ahbar (Şengül, 2015), which claims Prophet Adam to be the first person to mint gold as a currency (Faruqi, 1979). The logical reasoning presented to bolster this view is that as Adam was taught all the names of things in existence till the Day of Judgment (*yawm-al-qiyamah*), it stands to reason that Adam also knew what money and *dinar* was (Hassan, 2017).

The spectrum of substances used as money throughout history has been extremely wide and dependent on various societal and economic realities and ingenuities of different times in the past. Out of the prerequisite qualities needed to qualify as money, nearly all economists agree that it has to be stored and carried easily, it should stand through the test of wear and tear, etc. It is, thus, hardly surprising that gold and silver grew so widespread throughout history. The sovereign states took up the responsibility of determining the measure and value of these precious metal containing minted coins. Thus, they would seal them in a coin format to enable people to use them freely in exchange for goods and services. As the coins exclusively consisted of the metals originally, their values corresponded to the proportion of the metallic content. Only then public's trust in it gained ground. Despite such advantages, some problems arose out of using gold and silver coins. These problems ended up impeding economic exchanges and productivity. The ultimate result was the innovation of newer forms of money. The inherent drawbacks associated with gold and silver coins included ease of government and private delinquents in purposively altering the metallic content, influx of alloy making technology, and theft. Besides, wherever regulated means of coinage minting was absent, the unstandardized coins would grow in the circulation of various shapes and materials.

4. The way ahead

With a possible intent to regain the forlorn glory of Islamic heyday, and with a definitive intent to assert a Muslim identity, we are afraid this well-meaning movement is fighting the wrong enemy. Literature shows that no decisive theory of money exists in Islam's primary texts. Naturally, the jurists differed too. The existence of a very wide spectrum of views on the matter by classical and modern scholars alone should inspire our *dinarist* colleagues to preach less dogmatically and scour for alternatives more along economic arguments of efficiency and socio-political angles of stability, sustainability and ethics. Moreover, the modern financial system evolved to execute trade and transactions efficiently. There is no evidence that switching from fiat to gold will purge the financial system of its corruption and moral dross. Corruption and manipulation were rife when gold was at the helm. Why should it be different now? To drive the discussion forward, we believe two guests should be invited: behavioral economics from the conventional

sciences and *maqasid* theory from the sacred realm. Infusing understandings of what drives greed, corruption and mistreatment of others with higher objectives of the Lawgiver's Law will prove more engaging.

5. Conclusion

In this paper, a multi-prong approach is presented to demonstrate from a confluence of economic, legal, theoretical and historical viewpoints that money can exist independent of gold and silver. Nonetheless, anything suitable that gains acceptance as money still is subjected to limitations of the sacred text regarding *riba* – be it minted or unminted. The classical discussions on the validity of money shifted courses radically as paper money's introduction became widespread. As paper money now renders the preeminent role of economic transactions and forms the basic unitary block of all economic measurements, a novel approach has been devised by Islamic jurists to deal with a legal and economic framework to incorporate the newly endemic form of money. As soon as in the nineteenth century, it was widely regarded that paper money represented gold reserves with a central regulatory authority. Nonetheless, in the twentieth century this became less convincing as it no longer reflected the then reality anymore. Finally, the last nail on gold's coffin was delivered in the UK in 1931 and the USA in the 1970s as coincided with the collapse of Bretton Woods Agreement. As of now, there is no country in the world, which issues a currency that is backed up or based on by gold or silver. Thus, newer concepts were to be developed with traces from classical *fiqh* (Islamic jurisprudence) to use in a way that facilitates embedding of paper money.

An exhaustive literature review lends credence to the understanding that these conceptions are not attractive merely because they are historically or legally sound. Rather, the constrictions wielded by modern economic realities invite a necessity to solve the conundrum in such a way that makes money usage not only legally acceptable but also permitting economic transactions which are indispensable for day to day operation in Islamic countries. At the same time, the theorists and industry practitioners need to be cognizant of relying on *hila* or legal tricks or loopholes which taint the theoretical discourse. Examples of these include links to foreign exchange transactions, forward sales (sometimes including *salam* and its auxiliary innovations), financial engineering products, derivatives, etc. the fact that whether these transactions are of indispensable nature for the continuity of life as well as preservation of the main principles of *shari'ah* itself is tenable is a bone of contention between traditionally leading jurists and modern exponents. Moreover, the political realities also have a bearing on the decisions rendered by the jurists. Case in point: el-Gamal (2013) delivers several scathing indictments of '*ulama[4]*, whom he calls rent-a-jurist. Bianchi (2007) also outright castigates this endemic trend and goes as far as to coining a new phrase to name this trend: a class of financial '*ulama*, who serve on boards of *shari'ah* compliance or compatibility of various Islamic banks, or conventional banks with Islamic banking wings, endorse products, assess the legality of practices, conduct audits, deliver religious edicts pertaining to transactions, address concerns, etc. Thus, we can see the multidisciplinary and multidimensional implications of the *dinarism* movement, which threatens to impact beyond mere monetary system of Muslim countries but economies as a whole. We acknowledge that some *dinarists* attempt to mollify various objections raised by suggesting a gold-payment-scheme where only the net amount of gold is traded (Meera *et al.*, 2009). In principle, we are convinced of virtues of similar trade-credit practices – like the Wirtschaftsring (WIR) system in Switzerland. However, considering the lopsided nature of trade dependencies of Muslim nations on non-Muslim nations, that is hardly an

option. This is compounded by the fact that international trade is fully devoid of gold standard. As Hasan (2008) aptly puts it, clamoring for a domestic gold standard is ploughing in sand when gold standard is not international. Even if we were to entertain the gold-payment-scheme for argument's sake, it involves expressing imports and exports in terms of gold weight. Since the 1978 amendments to the IMF articles specifically bar members from expressing their currencies' value in terms of gold, adopting the gold-payment-scheme for most Muslim nations will prove fatal.

To recapitulate our position, we have argued in line of classical Islamic jurists' positions that money need not be limited to gold and silver in Islam. Though gold and silver had been used during the golden age of Islamic caliphate, it is by happenstance and not divine decree – as evidenced by the positions of Ibn Taymiyyah, al-Ghazali, Ahmad ibn Hanbal and others. If anything, in Islamic sources, money is better understood as a medium of exchange and a numeraire – not a commodity. Islam also mandates that the price of money be zero – i.e. no interest. Achieving this goal is next to impossible with metallic coinage. We have also learned from history that metallic coinage always suffers debasement in the long run. Thus, metallic money is encumbered with a natural predilection to lose its commodity attributes, content purity and slowly paves the way to being a pure medium of exchange. The introduction of paper/fiat money with nil intrinsic value poses no problem to theological demands of Islamic doctrines. The experience of Japan – albeit inadvertently – with zero interest rate, and in recent times in the USA, vindicate the theoretical possibility of achieving a null interest rate within existing fiat monetary system. We have demonstrated through explanation of Kopernik's Law that achieving the same with gold and silver coinage is improbable due to volatility of gold prices in the world markets, as well as seigniorage demands by minting monopolies. These issues are incongruent with Islamic tenets as well. The claims of inflationary tendencies of fiat regimes have been blown out of proportion too by *dinarists*, particularly considering how the metallic system suffers from the same plight. We have also underscored the issue of *gharar* or deceptive uncertainty emanating from induction of metallic systems. All in all, reversion to gold dinar and silver dirham constitutes regression – not progress; its claims of Islamicity is weak, it is inefficient and serves only to romantic nostalgia of reminiscing the Islamic golden age of affluence. It serves no practical purpose.

Notes

1. The term dinarism in this article refers loosely to a clique of academics promulgating reversion to Islamic metallic currencies. Prominent among them are Ahamaed Kameel from Malaysia, Noor Deros from Singapore, Umar Vadillo of Italy and the Murabitun movement of Africa.
2. Qur'an: Chapter 9, Verse 34; Chapter 26, Verse 183.
3. "May the importer be blessed and the monopolist (hoarder) be cursed".

   He who hoards up food from the Muslims, May Allah inflict him with leprosy and bankruptcy.

   He who hoards up food for more than 40 days (in entertainment of higher prices), Allah has no need of him and he has no need of Allah".
4. Refers to clergy qualified to render religious edicts. Though the rulings of *'ulama* are not technically legally binding, their edicts hold weight in shaping religious practices of Muslim communities.

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