The Lure of Gold and Silver Dinars and Dirhams for the 21st Century

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INTRODUCTION

Islamic finance can be seen as a child of the Islamic revival that emerged at the end of the 19th century in the Middle East, in particular Egypt. Prominent names were Jamal-al-Dìn al-Afghani (1839–1897), his pupil Muhammad Abdou (1849–1905), the mufti of Egypt, and Muhammad Rashid Rida (1865-1935), born in Lebanon but living in Egypt. This revival was fed by a deep-felt resentment towards the Western powers, which they felt had humiliated Islam, and as an answer Rashid Rida developed the ideal of a modern Islamic state ruled by Islamic religious law. Among those who continued this work were the founder of the Muslim Brotherhood in Egypt, Hassan al-Banna (1906-1949), another Egyptian Muslim Brother, Sayyid Qutb (1906-1966), and Maulana Sayyid Abu’l-A’la Maududi (1903-1979) in British India and after the 1947 Partition in Pakistan.[[1]](#footnote-1) An important younger contributor was the Iraqi Shi’ite Muhammad Baqir al-Sadr (1935-1980). Maududi was perhaps the first to develop, from the early 1940s, a programme for an Islamic economy and Qutb likewise set out, in 1949, what an Islamic society and an Islamic economy should look like, on what principles of ownership and on what ethical rules it should be based.[[2]](#footnote-2)

With the oil bonanza of the early 1970s the time was ripe to put some of these ideas into practice and the first explicitly Islamic banks saw the light of day. The Islamic finance industry as it has developed has, however, come under fire from critics who argue that it may be sharia-*compliant*, obeying the letter of sharia, but that it is not really sharia-*based*, that it is at odds with the spirit of Islam. Critics in particular complain that Islamic finance in large part forsakes the ideals of profit sharing and profit-and-loss sharing and embraces debt-based freractional-reserve banking.[[3]](#footnote-3) This sentiment is shared by others, who are not motivated by religious convictions but are opposed to fractional-reserve banking on the ground of its alleged dangers to economic stability and justice. The focus here is on Muslim groups active during the last quarter of a century or so, including those that seek an alternative to fractional-reserve banking because of technical, not religious, objections. What unites them is a yearning for a stable, fully metallic gold- or gold-and-silver currency. First, the ideas of these groups will be explained, starting with the Murabitun movement. This is followed by a survey of other proponents of a gold dinar and, at least as regards some of them, also a silver dirham. That includes the Indonesian group IMN-World Islamic Standard, Islamic State (IS, ad-Dawlah al-Islāmiyah), Hizb ut-Tahrir (Liberation Party) and the Minaret of Freedom Institute, plus a group that is more loosely interested in gold as a means to cement economic cooperation between Muslim-majority countries. After this rundown of projects and proposals the objections of these groups to the conventional monetary system and the prevailing Islamic finance industry and next their objectives are explained. After an analysis of the various projects and plans from a strictly economic point of view the paper winds up with an assessment.

THE MURABITUN MOVEMENT

No group has done more to introduce an Islamic metallic currency as an alternative to conventional fractional-reserve banking than the Murabitun Movement (not to be confused with Al-Murabitun or Al-Murabitoun, a group formed in 2013 by the merger of two former splinter groups of Al-Qaida in the Islamic Maghreb). The movement was founded in the 1980s by the converted Scotsman Shaykh Dr Abdalqadir as-Sufi (born 1930 as Ian Dallas), who, as stridently as Ezra Pound (1885-1972) did both in his poems (*Cantos* 45 and 51 in particular)[[4]](#footnote-4), and in his fascist radio propaganda from Italy during the Second World War, fulminates against interest, or usury, as the greatest of the sins of liberal democratic states.[[5]](#footnote-5) What as-Sufi calls ‘the psychosis of believing and obeying the impulses of market’, or the capitalism of those states, is the root cause of, in his words, vanishing species, globally fateful warming and genocide.[[6]](#footnote-6) The Murabitun’s political activist is Shaykh Umar Ibrahim Vadillo (born 1964), a Spanish Muslim. Ibrahim Vadillo has in effect taken over from as-Sufi, as as-Sufi has put his support for the introduction of Islamic coins on hold. He now thinks that prior to that introduction Muslims should first find ways to manage without the financial instruments and institutions of capitalism. This is because the Islamic coins are, in his view, inextricably wound up with a correct organization of the collection of zakat (alms giving), which is not yet feasible.[[7]](#footnote-7)

The Murabitun movement derives its name from the 11th and 12th-century Murabitun, also known as Almoravids. This was a group made up of West Saharan tribes, Berber-speaking tribes prominent among them, who conquered large swathes of the Maghreb and strove to impose, or in their view restore, a pure form of Sunni Islam, untainted by the lax morals characteristic of luxurious city life. In 1086 they were invited by Muslim rulers in Spain to support them in their struggle against the Christian rulers, the Umayyad caliphate of Cordoba having been dissolved in 1032. The Murabitun succeeded in reconquering a large part of the peninsula until uprisings and attacks by Christian Spanish rulers and Almohads from Morocco put an end to their rule.[[8]](#footnote-8) As-Sufi apparently finds inspiration in the exploits of the historical Murabitun. After the publication of the cartoons depicting the Prophet by the Danish daily *Jyllands-Posten* on 30 September, 2005, he thundered that ‘The idea that the dubious doctrine of Freedom of Speech should be defended over the scribbling of an insult revealed the quite nihilistic bankruptcy of the current world-view of corporation capitalism’ and lamented the lack of leadership in Islam, in this case in Britain, that ‘produced that dreadful fringe that the BBC and Sky have a genius for finding—I mean those who inform the viewers that Islam means peace, tolerance and democracy, which is surely nonsense. Islam means submission to the Commands of Allah, glory be to Him. Allah commands, “Love with the love of Allah and hate with the hatred of Allah.” ’. Still, after a rambling discourse on the massacres suffered by Muslims in former Ottoman territories and on the un-Islamic character of Wahhabism, alternated with both vicious attacks on the Western countries and eulogies of their political constitutions in the past, a call to vote for Cameron rather than Blair (in order ‘to protect the legal rights of the individual’) and regret at the loss of power of the British monarch (in line with his preference for a strong leader and rejection of democracy), he declares himself against terrorism.[[9]](#footnote-9) His harking back to the Murabitun suggests, however, that he would not reject using military force if victory were within reach.

The message of the Murabitun movement is the central role that zakat should play. This role requires[[10]](#footnote-10):

1. An appointed *amir* (commander, leader);

2. That amir’s appointment of zakat collectors;

3. This resulting in a collected and assessed amount of zakat;

4. The gathering of the zakat in a *bayt al-maal* (central treasury);

5. The immediate distribution of the zakat to the legally worthy recipients.

First, this is not how zakat collection and distribution is organised at present and second, this is deemed incompatible with a monetary system based on *riba* (surplus, excess, usually equated with interest), using money that is in fact no more than a promissory note – that is, debt – and can be created and destroyed by pressing a key on a computer keyboard. The task the Murabitun set themselves therefore is to reorganise both the collection and distribution of zakat and the monetary system.

To further his aims, Shaykh Vadillo in 1993 founded an institution of which he is still the chairman, the World Islamic Mint, with its seat in Abu Dhabi. The Mint promotes the gold dinar and silver dirham and sets standards for those coins.[[11]](#footnote-11) His missionary zeal bore fruit when on 20 September 2006 the Malaysian state of Kelantan, governed by the Pan-Malaysian Islamic Party, introduced gold dinar coins in three denominations. It was the next step in a process in which the youth organisation of that political party had also played an active role, having unveiled a gold dinar already at its annual general meeting in Kelantan on May 3, 1998. According to State Financial Planning committee chairman Datuk Husam Musa the coins were meant as a means of saving.[[12]](#footnote-12) They initially did not serve as legal tender or even as a means of payment, but the next step was that on 12 August 2010 the state government issued gold dinar and companion silver dirham coins that were explicitly meant to circulate as an alternative to the Malaysian *ringgit* and were touted as sharia-compliant.[[13]](#footnote-13) Then, scarcely a year later, in the presence of delegations from other countries the Kelantan government announced that henceforth gold dinar and silver dirham coins would be accepted in payment for *zakat al-mal*, the annual Islamic wealth tax for social purposes.[[14]](#footnote-14) At the time they were already widely accepted by shops and government agencies. Earlier in 2011, the Malaysian state of Perak had launched its own dinar and dirham.[[15]](#footnote-15) Islamic Mint in Kelantan is supported by an organisation called Muamalah Council that runs an on-line payment system and publishes directories of firms accepting payment in gold dinar and silver dirham.[[16]](#footnote-16)

A serious setback for the World Islamic Mint and the Kelantan state government was the refusal of Malaysian Zakat Collection Centres to accept zakat payments in gold dinar, a sharia requirement in the eyes of the Murabitun. Furthermore, the Kelantan state mufti Datuk Mohamad Shukri Mohamad stated that the division of power between the federal government and the states assigns the right to issue legal tender exclusively to the central bank, Bank Negara Malaysia.[[17]](#footnote-17) It may be noted that Bank Negara Malaysia issues its own gold bullion coin, the Kijang Emas (golden deer), in three sizes, weighing respectively 1 Troy ounce, ½ Troy ounce and ¼ Troy ounce. It is distributed by a commercial bank, Maybank Berhad, for investment purposes.[[18]](#footnote-18) The coin is a far cry from the currency the Islamic Mint and the Kelantan state government have in mind.

OTHER ISLAMIC PROPONENTS OF A GOLD (AND SILVER) CURRENCY

Along with the Murabitun, other groups are in favour of a gold dinar and silver dirham, or have introduced their version already. These include the IMN-World Islamic Standard in Indonesia, Islamic State and Hizb ub-Tahrir. The Minaret of Freedom Institute by contrast favours a metallic currency without specifically having a predilection for dinars and dirhams. One might, finally, discern a group that does not want to replace existing national systems by another one, but is in favour of some form of gold dinar for settling international payments imbalances between Muslim-majority countries. Former Malaysian Prime Minister Mahathir Muhammad was an outspoken representative of this group. We thus have the following line-up:

1. The Murabitun Movement.

2. The Malaysian initiative was enthusiastically followed in Indonesia. An organisation called Islamic Mint Nusantara[[19]](#footnote-19), now using the name IMN-World Islamic Standard, was set up in 2000 in order to mint gold dinars and silver dirhams. They run a mobile exchange system, Dinarfirst, fully backed by gold and silver coins, meant for saving purposes, zakat payments, *mahar* (nuptial gift) and ‘sundry financial transactions’—which can only mean as a medium of exchange.[[20]](#footnote-20)

3. The Islamic State Caliphate announced, in a video released on 29 August 2015, that it was minting gold dinars and silver dirhams, supplemented by copper fulus for small denominations.[[21]](#footnote-21) They are not only meant for circulation in the areas under Islamic State’s rule, but are also offered to residents of other countries. Sets containing two gold dinars, three silver dirhams and two copper fulus could be ordered by paying US $950 into a bitcoin account.[[22]](#footnote-22) It is rumoured, though, that the coins issued by Islamic State were not made of solid gold, but are only plated with gold.[[23]](#footnote-23)

Figure 1. Coins of Islamic State.



Source: Gillian Mohney, ‘Islamic State Claims to Mint Gold Coins in Effort to Drive US to Financial Ruin’, 2015, https://news.vice.com/article/islamic-state-claims-to-mint-gold-coins-in-effort-to-drive-us-to-financial-ruin.

4. The British branch of Hizb ut-Tahrir, a group that is out to restore the Caliphate in the Muslim world (but not IS-style), propagates a full gold dinar and silver dirham currency for Muslims and similar fully metallic currencies for other countries, arguing that such a currenct not only is required for a genuinely Islamic state but is also indispensable for economic stability and sustainable growth.[[24]](#footnote-24)

5. The Minaret of Freedom Institute of Bethesda in the US, an Islamic think-tank close to the Austrian School of economics in its views on the economy, is, like Hizb ut-Tahrir, convinced that a truly Islamic society requires a metallic standard and argues that the rest of the world would be well-advised to adopt the gold standard as well, as it is seen as a prerequisite for a more just, inflation-free economy. Its President, Imad-ad-Dean Ahmad, states that ‘The case for following our Islamic heritage on these matters is moral as well as utilitarian’.[[25]](#footnote-25) Unlike Hizb ut-Tahrir, though, he sets little store by specifically Islamic dinars and dirhams. Like one strand of the Austrian school, what counts for him is to have a stable currency.[[26]](#footnote-26) Ahmad even goes so far as to maintain that ‘A 100% reserve in a monetary commodity is not necessary if one has ample total collateral to maintain confidence’. He does not pay any attention to silver.

6. The (unorganised) sixth group, like the last two, sees a gold dinar first of all as a safeguard for monetary stability, that is, a means to prevent inflation. Mahathir Muhammad, then the Prime Minister of Malaysia, proposed in 2001 to introduce a gold dinar equivalent to 1 ounce of gold that would serve for settlement of trade between Malaysia and the Muslim-majority countries with which it had a Bilateral Payment Arrangement. He put much emphasis on such a gold dinar as an instrument to forge closer links between Islamic countries and give the *umma*, the community of Muslims,a more prominent place in the sun.[[27]](#footnote-27) It would be a supplement to the prevailing system rather than a full substitute, and should ensure first and foremost that the Islamic world could hold its own in a world payment system dominated by US dollars, euros, yen and, increasingly, yuan. The only country supporting his proposal was Iran and the idea mainly lies dormant, but it crops up every now and then. At a summit of the Organisation of the Islamic Conference (OIC) in 2003 a proposal for an Islamic trade system denominated in gold dinars was discussed.[[28]](#footnote-28) *The Economist* called it quixotic, which it surely was at the time, but it probably is not yet buried.

Former Libyan leader Muammar al-Gaddafi was taken with similar ideas. He dreamt of an alliance of Muslim states sharing the gold dinar and forcing the rest of the world to pay for oil in those dinars. The gold dinar should join the dollar and the euro as a dominant international money.[[29]](#footnote-29)

We see groups and individuals with different views of the role a gold dinar and, in some cases, a silver dirham, should play, and why they should be introduced. Most, however, are opposed to both the conventional banking system and the Islamic finance industry in its present form. In the Introduction some of their objections were noted. The next section expands this discussion.

OBJECTIONS TO CONVENTIONAL AND ISLAMIC FINANCE

It is widely felt by Muslims that conventional finance, including insurance, is not sharia-compliant. This is because it is tainted with:

(i) *riba*,

(ii) *gharar* (avoidable risk and uncertainty) and *maysir* (gambling, speculation),

(iii) haram goods and services;

while furthermore the contract law it applies differs in some respects from Islamic contract law.[[30]](#footnote-30)

Islamic finance claims to be free from these defects. However, critics note that Islamic finance essentially mimics conventional finance and is not fundamentally different.[[31]](#footnote-31) There is one point these critics stress in particular, namely the fact that Islamic finance preaches profit sharing and profit-and-loss sharing (PLS) but actually practices debt finance, which is intricably bound up with fractional-reserve banking.[[32]](#footnote-32) If conventional banks grant a loan, they credit the borrower’s bank account, creating money in the processs.[[33]](#footnote-33) This is also the principal mode of operation of Islamic banks. The money supply consequently is not fully backed by base money (gold or silver, but mainly central bank money and coins issued by the government or the central bank), let alone gold and silver. This fractional-reserve banking, the critics emphasise, is the source of many economic ills, such as inflation, speculative booms followed by disastrous busts and an increasingly imbalanced distribution of wealth.[[34]](#footnote-34) The power of governments and banks to create money is seen as benefiting the elite who controls the financial institutions and brings it wealth and increased power to the detriment of the not-so-fortunate. This, and the loss of purchasing power as a result of inflation, is deemed unacceptable to Muslims, as one of the *Maqasid al-Sharia* (goals of the divine law) is the preservation of wealth.[[35]](#footnote-35)

Some champions of gold dinars and silver dirhams are convinced that the fractional-reserve system is an instrument in the hands of the foes of Islam. One vocal activist, Imrān N. Hosein, observes that ‘It is both strange and embarrassing that even at this late hour when enemies are about to weld into place the final iron gate of a financial Guantanamo, so many Muslims remain ignorant about the devilish nature of European-created money in the modern world’.[[36]](#footnote-36) He sounds the alarm bell because ‘There seems to be little understanding of the role that a European-created money-system has been playing in delivering to enemies of Islam the capacity to engage in massive legalised theft of the wealth of mankind. Nor is there realization that those enemies have designed a monetary system that would eventually deliver to them financial dictatorship over the whole world. They have already succeeded in enslaving millions of Muslims (as well as others amongst mankind) with slave wages and even destitution, while pursuing a sinister global agenda on behalf of the Euro-Jewish State of Israel. It is truly pathetic to listen to those who blame Pakistanis and Indonesians for miserable poverty in Pakistan and Indonesia.’[[37]](#footnote-37) The weapon of those enemies of Islam is the system of non-redeemable paper money. This money can be devalued, which means a legalised theft of the holder’s wealth and adds to the burden for borrowing countries of repaying loans taken on interest, in the end bankrupting them so that they are at the mercy of the lenders. That is what those lenders are after, all the time. They can now buy property, labour, goods and services from the indebted countries at low prices and live in luxury, leaving the debtors in poverty and in the process causing corruption in the countries they loot. Sure enough all this is meant to ‘pave the way for the Euro-Jewish State of Israel to become the ruling state in the world and, eventually, for a ruler of Israel to startle the world with the utterly fraudulent claim that he is the true Messiah.’ And why do governments in Muslim-majority countries not see the danger? That is because of ‘the subservient role to which they must adhere as governments in their relations with the Judeo-Christian alliance that now rules the world.’[[38]](#footnote-38) A similar apocalyptic vision comes from Nik Mahani Mohamad, a former pupil of Imran Hosein and one-time executive director of Kelantan Golden Trade, the firm that mints the gold dinar and silver dirham. She holds that the fractional reserve banking system lies at the root of the rotten capitalist system spread by the Western powers. Like Hosein, she does not hesitate to see in this system the coming of the Dajjal, the Jewish False Messiah.[[39]](#footnote-39) She, too, prophesies about the dire role of Israel: ‘With the control over currencies and making it whether ‘regional’ or ‘single’ currencies; we now understand that our each individual country ‘sovereignty’ is now slowly beginning to be passed into the hands of the Central Powers—call it IMF and the World Bank! Soon USD will be made to demise and so too the Ruling State Power will be shifted from USA to another Central Power—centered no doubt in Israel as prophesised by our Holy Prophet Muhammad SAW’.[[40]](#footnote-40) It is left to her readers to figure out how Israel could ever play such a pernicious role in international finance.

In the same vein, Islamic State wants its own currency ‘to prevent blind and tyrannical monetary system that was imposed on the Muslims and was a reason for their enslavement, impoverishment and the wasting of national wealth, making it easy prey in the hands of the Jews and Christians’.[[41]](#footnote-41)

Imran Hosein and Mahani Mohamad are frequently quoted, for instance in master theses written at Malaysian universities.[[42]](#footnote-42) Though in the discussion on the subject the measured tone of the likes of El Diwany is more usual than the shrill voices of Hosein and Mahani Mohamad, many share their conviction that fractional-reserve banking and fiat money serve to concentrate wealth and also sovereignty in the hands of those who control the system.[[43]](#footnote-43) An interesting position is taken by Imad-ad-Dean Ahmad of the Minaret of Freedom Institute. Like many economists who follow the Austrian School, Ahmad is in favour of the gold standard because it makes for monetary stability and prevents both manipulation of the currency by the authorities and unjust benefits for the rich, who possess inflation-proof assets. A stable currency, not in danger of the erosion of its value by inflation, is a prerequisite for a just society, and therefore for an Islamic society, but no less for others.[[44]](#footnote-44) Unlike most Muslim advocates of a gold currency, he does not equate interest with *riba*[[45]](#footnote-45) and he sees as one of the benefits of a gold standard that interest rates tend to be lower than under a managed currency. Hizb ut-Tahrir likewise puts the stability of the currency centre stage, but sticks to the rejection of interest common among Muslims.

A curious conviction among opponents of an interest-based system, which they seem to have borrowed from Bernard Lietaer, famous for his advocacy of alternative exchange systems, is that an interest-based bank system requires an ever-expanding fiduciary money circulation.[[46]](#footnote-46) This is based on the belief that interest payments imply that money is taken out of circulation. But that would require that banks operate without incurring any costs, do not distribute profits and do not use retained profits for investments or deposits with other institutions. Another strand in Lietaer’s crusade against interest, shared by many Muslim critics of fractional-reserve banking, is that interest payments are a major source of wealth concentration. In reality, interest appears to play a minor role at most in this respect. Other forms of capital income (rent, profits) and, perhaps more importantly, business acumen, monopolies, tax deals, tax evasion and political manipulation of the fiscal system are much more likely to be the driving forces.[[47]](#footnote-47) The critics’ complaint that the fiat money circulation shrinks during a recession, due to a fall in the volume of credit, making a bad situation worse, is better founded, though central banks do have instruments to counter such a fall in the money supply.

It appears that a gold dinar and a silver dirham find support across a broad spectrum of Islamic economists and political activists. They are united in their opposition to fiduciary money and fractional reserve banking. Many are also motivated by a sense of frustration over the rules and practices that dominate financial systems in Muslim-majority countries, as everywhere else.[[48]](#footnote-48) These are seen as a remnant of the colonial period, and an alternative to the Western financial system that is rooted in Islam is a heartfelt wish. But the proponents have different ideas about the design and purpose of such an alternative system.

WHAT ARE THE GOLD DINAR AND THE SILVER DIRHAM FOR

People have different ends in mind when propagating a gold dinar and a silver dirham. First are those who see the dinar and dirham as essential for obeying Islamic religous law, the sharia. These include the Murabitun/World Islamic Mint, Islamic State and, presumably, IMN-World Islamic Standard.[[49]](#footnote-49) It is asserted, with liberal quotes from the sources, that the Quran and the Hadith when discussing money mean gold and silver money.[[50]](#footnote-50) It may be objected that it could hardly have been otherwise, because fiduciary money did not exist in the world known to the Prophet Muhammad and his Companions. That argument, however, does not carry much weight with the Murabitun or Islamic State. Shaykh Vadillo stresses that zakat cannot be paid in fiduciary money, which is no more than a debt: ‘Zakat in Islam must be paid in *‘ayn*, that is tangible merchandise and cannot be paid in *dayn*, that is, a debt, a liability or a promisory note’.[[51]](#footnote-51) And that is not all. The gold dinar and silver dirham should more generally help Muslims to better obey the sharia. According to World Islamic Mint, paper money, or fiat money, again is not real money but no more than a promise to pay. It may, and is very likely to, lose value over time, whereas the gold and silver coins in use in the 14 centuries before the existence of ‘the new postcolonial national states created from the dismemberment of Dar al-Islam[[52]](#footnote-52)’ by and large retained their purchasing power over that period.[[53]](#footnote-53) Gold and silver are no one else’s liability but fiduciary money is. If a Muslim uses, say, the US dollar, the issuers hold the ‘real’ payment outside Muslim jurisdiction and ‘paper money has been a permanent instrument of default and cheating the Muslims’. All this is not sharia-compliant, because Muslims must not entrust wealth to non-Muslims and, furthermore, a promise of payment must not be used as a medium of exchange. Islamic Mint also states that not only zakat payments, but also payments made in connection with marriages can only be sharia-compliant if not made in fiduciary money. Both the Murabitun behind the World Islamic Mint and Islamic State strive to unite Muslims behind a sharia-compliant monetary system as part of a caliphate that unites Muslims and frees them from submission to the present economic order.

The Murabitun set great store by minting coins that have the same metallic content as the early dinar and dirham, though not exactly as the coins circulating at the time of the Prophet. Instead, they want to copy the early truly Islamic dinar and dirham. According to Ibn Khaldun, it was the fifth Umayyad caliph, Abd al-Malik (caliph 685-705), who founded a mint that supplied the first standardized Islamic coins, with Islamic inscriptions.[[54]](#footnote-54) They were based on the coins in use at that time, the Byzantine gold solidus or bezant and the Persian silver drahm. ‘Dinar’ stems from the Roman denarius, which had become synonymous with solidus. Its weight, however, was reduced by Abd al-Malik from approximately 4.55 grams to 4.25 grams gold of between 96% and 98% fine. The word ‘dirham’ derives *via* the drahm from the Greek drachma. Its weight was 2.97 grams, down from the Persian (Sassanid) one of 4.11 to 4.15 grams. It follows that a dirham should have 7/10 of the weight of a dinar.[[55]](#footnote-55) This harking back to the early period of Islam does not imply that the Murabitun want to renounce such modern achievements as electronic payments. Bank money is fully acceptable, only bank balances should be 100% backed by gold (they are silent on silver in this respect).

With Islamic State it is different. They may embrace modern means of communcation, but in monetary matters they want to go back as far as possible to the time of the Prophet. Their coins are meant to be used as a physical means of payment, though it is not clear how far they have succeeded in bringing them into circulation. The gold dinar of Islamic State differs very slightly from the World Islamic Mint standard, having a weight of 4.27 grams (21 carat). Their silver dirham, though, only weighs 2 grams. The dinar of Islamic Mint Nusantara remains closer to the coins of the time of the Prophet, consisting of 4.44 grams of gold (presumably of greater fineness). Its dirham weighs 3.11 gram, again between the original one and Abd al-Malik’s version.[[56]](#footnote-56)

A second group is made up of Minaret of Freedom and Hizb ut-Tahrir. They are in favour of a fully metallic currency for its alleged benefits to society in the first place. They differ in that Hizb ut-Tahrir favours a bimetallic currency, with both gold and silver coins, because of the higher money supply such a system will allow, whereas for Minaret of Freedom a gold-based currency, even without full 100% gold backing, would suffice.[[57]](#footnote-57) Neither group expresses a wish to replicate a system from the seventh or eighth century, even if Hizb ut-Tahrir’s ideal is a caliphate.

The third group is made up of people like Mahathir and Gaddafi, who saw a gold dinar as an anchor for monetary stability but most of all as a vehicle for uniting and strengthening the Muslim-majority part of the world, making it the equal of other world powers.

What unites the first and the third group seems to be a feeling of resentment about two centuries of Western dominance and it is not only piety or the wish to create a better financial system that play a role, but also the hope to recapture something of the former glory of Islam. It is very much about identity.

At this point an analysis of how the proposed systems might work in practice is in order. The basic idea of the economics discipline is that there is no such thing as a free lunch, or, there is a presumption of positive opportunity costs. What problems might confront economies introducing the proposed currency systems?

THE FUNCTIONING OF A GOLD DINAR AND THE SILVER DIRHAM CURRENCY

Those who, like the Murabitun, wish to base zakat payments on the arrangements in use in the early days of Islam, may run into difficulties when they take those arrangements too literally. If one follows the Hadith literally, zakat should be levied starting from a *nisab* (minimum level of wealth) which is put at five camels, forty sheep, two hundred dirhams of silver, or five *wasq* of grain, fruits, or agricultural crops.[[58]](#footnote-58) But what should the *nisab* be today, starting from those texts? Obviously, sheep and camels are often absent in an urban environment and price ratios have changed. Two hundred dirhams of silver will not always buy exactly five camels or some given volume of fruits and if the *nisab* is left unchanged, people will if possible choose as a yardstick the good that offers the highest exemption. But it is not difficult to find a rationale behind the original *nisab*. Five *wasq* of grain would feed three people for a year, with something in reserve for emergencies. Likewise, two hundred dirhams is said to have been sufficient to keep body and soul together for three persons for a year.[[59]](#footnote-59) At the price ratios prevailing at the time of the Prophet, the different yardsticks would probably have given similar outcomes in terms of purchasing power, which offers a solution to the problem but implies that the original *nisab* cannot be applied by those living now. To an outsider it looks as if the correct thing to do now is to establish a nisab corresponding to some amount of purchasing power, but this is too simple, because there is no end of discussion among Islamic scholars not only on threshholds but also on the range of assets that should be subject to zakat.[[60]](#footnote-60) The question is whether one should only levy zakat on assets mentioned in the Hadith, observing the thresholds mentioned there, and if not, to what extent *qiyas* (application of analogy), *ijtihad* (independent reasoning by a qualified jurist) and *istihsan* (juristic preference, justifying exceptions to strict or literal legal interpretations) can be applied. The Murabitun are vague on this point.

How would a bimetallic currency system as favoured by both the Murabitun and Hizb ut-Tahrir function? A system with a two standard coins made of different metals has to cope with problems peculiar to such a system. The price ratio between the metals will generally fluctuate over time and given the prices of goods and services denominated in one of the standard coins, prices denominated in the other one will fluctuate as well. Users have more calculations to do when collecting and processing price information, which translates into higher transaction costs in the economy. A fixed price ratio between the two coins would require a constant price ratio between the two monetary metals on the metals market and that would be difficult to maintain. If the price ratio on the market for metals would deviate from the official monetary price ratio, Gresham’s Law, which says that ‘bad’ money drives out ‘good’ money from circulation, would come into operation. The ‘good’ money, that is the coins made from the relatively underpriced money, would be driven from ciculation by the coins made from the relatively overpriced metal, as it would be profitable to melt down the underpriced coins and sell them on the metals market. A given weight of coins made of the underpriced metal would fetch more coins made of the overpriced metal than a direct exchange of the coins at the official price ratio would. Admittedly, opinions differ on whether this really was a serious defect of the system as it functioned in the United States, France and a number of other countries in the 19th century. Some argue that free minting and deminting saw to it that market prices adjusted to the official price ratio. The coins made from the relatively overpriced metal would be the preferred one for making payments and, being legal tender, the receiving party could not refuse them. Market participants who needed large sums to amortise debt would find it profitable to buy the metal in question on the metals market and have it mintend. The demand for that metal would increase and drive the market price up.[[61]](#footnote-61) This is a moot point, but even if true, the weight of one or a couple of Islamic countries adopting a bimetallistic system would certainly not be enough to have such an effect on metal price ratios. So they would be stuck with two price systems and strong forces would be at work to stick to one standard metal for the payment system, as the Murabitun seem to accept.

The main economic argument for introducing a fully metallic standard, whether monometallistic or bimetallistic, is that it will function differently—and better—than a fractional reserve system, or so their proponents claim. Some important distinguishing characterstics are:

1. The money supply in a country or currency area becomes rather inflexible, being limited by the domestic supply of gold or silver and gold. If these are limited or cannot easily be converted into coins or be acquired by the authorities or institutions that offer gold- and silver-backed e-money, it can only increase through a positive balance on the current account of the balance of payments or through capital imports (foreign borrowing and investments from abroad).

2. Countries with gold or silver mines might be able to increase production, but the rate of production is bound to be very small relative to existing supplies and thus can only bring limited relief. A gold or gold-and-silver currency might therefore stymie economic growth or make deflation necessary. Deflation would take place because at a given price level the demand for money increases and economic agents will be willing to reduce their prices in order to get hold of money. The increased demand for money thus drives the relative price of the monetary metal up. Given that the monetary metal functions as the unit of account, nominal prices of other goods and services will fall.

3. A fully metallic money, without fractional-reserve banking, does not only have implications for the money supply, but also for financial intermediation. Financing is no longer possible with newly created money. The banks, just like other financial institutions and financial markets, first must attract money by offering money holders other financial assets, such as time deposits, shares and participations in an investment fund, before they themselves can provide funds.

Only Hizb ut-Tahrir has adressed these issues seriously, demonstrating a much deeper understanding of monetary economics than, in particular, Islamic State and the Murabitun, who simply want to follow their interpretation of God’s commands, with a cavalier disregard for the consequences. Let us run through the list:

1. A fully metallic currency is by nature left to market force and provides no place for monetary management, unless recourse is made to practices which the propagandists of fully metallic currencies will tend to see as fraudulent, in particular the clipping of coins or changing the metal volume of coins without corresponding changes in the denomination of the coins. The attractive feature of gold and silver coins, in their eyes, is precisely the price stability that is thrown overboard by tinkering with the denomination of the coins. Imad-ad-Dean Ahmad of the Minaret of Freedom agrees that circumstances may demand an expansion or contraction of the money supply at times, but market forces will see to it that this happens ‘naturally through additional mining or the meltdown of jewelry. It can contract through the diversion of coins into jewelry or other products. The difficulty involved in money supply adjustment is natural and controlled by God’[[62]](#footnote-62) — Who apparently acts through the market mechanism, and fast enough, which is no more than a pious hope.

2. The need, or even inevitability, of deflation is acknowledged by the proponents of the gold dinar and silver dirham, but they tend to play down the associated problems. These, however, may be quite serious:

a. Price ratios between goods, including services, constantly change, and an adjustment of relative prices is much easier when some nominal prices and wages can go up without others going down than when nominal reductions in prices and, even more, wage cuts have to be accepted. Resistance to nominal price reductions, and most of all wage cuts, may impair the functioning of the price mechanism and cause unemployment.

b. A given nominal debt will increase in real terms (purchasing power) when the price level falls and thus become more onerous, increasing the risk of default.

c. People have an incentive to postpone purchases if prices fall.

Central banks are therefore allergic to deflation and instead favour a moderate rate of inflation. Proponents of a fully metallic currency, however, argue that the market will adjust to deflation and understand that lower wages and prices are not synonymous with a loss of purchasing power. Hizb ut-Tahrir in particular believes that in an Islamic economic environment people will not be subject to this money illusion and will thus not equate price with value.[[63]](#footnote-63) Perhaps.

As for the burden of debt, Hizb ut-Tahrir sees it as a welcome incentive to get rid of debt. They prefer funding of investment by savings. In their view, ‘the Islamic model is built on the premise of encouraging the market participant of the virtue of living within one’s means and funding investment through savings and not unsustainable debt’.[[64]](#footnote-64) Funding by share capital would meet with their approval. It may be noted that if deflation becomes the normal state of affairs and people get rid of money illusion, debt would likely be indexed, or the nominal rate of interest will be lowered. However, in a truly Islamic economy no interest or loans are allowed in the first place, and indexation would also be problematic, because sharia scholars generally maintain that debt can only be traded and amortised at face value. But as Hizb ut-Tahrir sees debt finance as inferior to profit sharing or profit-and-loss sharing, they would not bemoan its demise.

Then the incentive to postpone purchases. Hizb ut-Tahrir calls this a false dogma. If wages are flexible the incentive to delay a purchase will disappear, they think, as the price to wage ratio does not change. This neglects, however, that the ratio between future prices and present wages does change, still makingt attractive to postpone purchases. This is because money holdings carry an implicit positive interest rate under deflation: the purchasing power of one nominal unit of money increases over time. That makes money more attractive *vis-à-vis* other assets, including financial assets such as shares and *sukuk* (Islamic certificates), to the detriment of financial intermediation and investment and possibly leading to unemployment. Arguably such a positive implicit interest is at odds with the Islamic view on money, which resembles Aristotle’s, and in his footsteps the Scholastics’, view that money is first and foremost a means of exchange and a unit of account and not an asset to be held.[[65]](#footnote-65)

3. The Murabitun, Hizb ut-Tahrir and kindred spirits would surely push for pure forms of Islamic finance, PLS (Profit-and-Loss Sharing). As the development of the prevailing Islamic finance industry shows, however, the market has a strong need for debt finance. PLS makes up only a small part of total financing by Islamic banks.[[66]](#footnote-66) Running the payment mechanism enables banks to monitor the cash flows of their clients and thus receive an early warning if their fortunes are in danger of taking a wrong turn. If they have granted credit they can intervene. Financiers without access to such monitoring may be tempted to charge higher rates or require a higher markup on funds supplied in order to make up for higher perceived risk. Very likely, therefore, the economies of jurisdictions introducing a full-fledged gold dinar and silver dirham, with financial intermediation decoupled from the payment mechanism, would have to face a less efficient functioning of financial intermediation, in particular if in addition debt finance is banned. For another thing, restrictions on debt finance would make financing of consumption extremely difficult—probably a good thing in the eyes of Hizb ut-Tahrir.

AN ASSESSMENT

Advocates of the gold dinar and silver dirham act from various motives. Some prefer the monetary discipline of a fully metallic currency over the opportunities for monetary management offered by a fiduciary currency. Others want to go back to the early times of Islam. There is an element of arbitrariness in such a drive, as neither the Murabitun nor Islamic State intend to forego the benefits of modern technology, in particular as regards communication and travel. The Murabitun in addition have no problem with accepting electronic payments mechanisms. Moreover, the case for adopting gold dinars and silver dirhams seems less compelling even for Muslims of a traditionalist bent if one realises that the Prophet probably accepted a fully metallic currency because that is what was in use in his time. It was simply the prevailing system and there does not seem to be any reason, according to Chapra, why later generations might not consider adopting a fiduciary currency. The second caliph, Umar (caliph 634-644), even contemplated introducing camel skin coins. His advisers, however, warned him that money creation might get out of hand and result in a disastrously large-scale slaughter of camels.[[67]](#footnote-67) Chapra also notes that Islamic jurists from later periods, such as Ahmad ibn Hanbal (the inspirator of the Hanbali *madhhab* or law school, died 855) and Ibn Taymiyyah (who is often regarded as a forerunner of the Salafi movement, died 1328) saw the acceptance of specific forms of money as depending on custom and usage. In Chapra’s eyes the quasi-unanimous acceptance of fiduciary money by modern Islamic jurists and fiqh committees of the Organisation of the Islamic Conference (in October 1986) and others is tantamount to an *ijma* (consensus among the scholars, widely accepted as a source of law).

A full-blooded gold and silver currency would be very expensive and work as a straightjacket for the economy. That would be the price for what is seen as a prerequisite of an Islamic, just society, though Minaret of Freedom and Hizb ut-Tahrir tend to trivialise these downsides. The wish to use gold as a transaction currency in trade between Muslim-majority countries seems to lack religious foundations, or, for that matter, an economic rationale. It is first and foremost a drive to club as Muslim countries. The Murabitun movement is a very special case, with their fixation on sharia-compliant zakat payments. The various movements differ in their rejection of what is perceived as a Western-dominated world order, Minaret of Freedom being markedly less critical than Islamic State, Hizb ut-Tahrir and the Murabitun.

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64. *Gold Standard*. [↑](#footnote-ref-64)
65. Muhammad Taqi Usmani, *An Introduction to Islamic Finance*, 1998, 12, available on http://www.muftitaqiusmani.com; Aristotle, 1992, *The Politics*, translated by T.A. Sinclair and revised by T.J. Saunders, Harmondsworth: Penguin 1992, 85-87. [↑](#footnote-ref-65)
66. *Musharaka* (shared ownership) and *mudaraba* (sleeping partnership)*,* the PLS forms of finance, for instance made up no more than 16.3% of outstanding financing by Pakistan’s Islamic banks as per end March, 2017 (*Islamic Banking Bulletin*, State Bank of Pakistan, March 2017, 8, http://www.sbp.org.pk/ibd/Bulletin/2017/Mar.pdf. True, *diminishing* *musharaka* held a share of 32.3%, but is in fact more akin to *ijara*: the bank and the buyer jointly own real estate and the buyer pays rent plus a markup on the (diminishing) share owned by the bank. [↑](#footnote-ref-66)
67. Muhammad Umer Chapra, ‘Monetary Management in an Islamic Economy’, *Islamic Economic Studies* 4:1 (1996), 1-36. [↑](#footnote-ref-67)