

## Gold and Silver Based Currency

All praise be to Allah (swt), Who created man and taught him knowledge through the pen, giving him knowledge of which he was not aware. Peace and blessings be on our Prophet (saw), who will intercede on our behalf on the Day of Judgment, beseeching Allah (swt) for our salvation from Hell. Peace be upon the Companions (ra), the followers, the followers after them, the righteous, the truthful, the martyrs, the jurists, the scholars, the mujtahidin, the imams and the muhaddithin, who upheld this Deen and carried it forward. They kept the Deen alive through tireless efforts, hard work and sacrifices of the night.

Islam is a noble Deen, providing a complete system of life as a code of conduct for society. In the light of Islam, an individual or a nation can achieve material progress, by adopting an elevated intellectual basis. Islam does not believe in stagnation at all, but encourages people to take orders in the light of Shari'ah texts and rules, treating all manner of issues that arise. If we take a closer look at the problems of human life, we see that the economic problem is of utmost importance. Moreover, there is no doubt that it is impossible to achieve global economic stability, without incorporating the Islamic rulings. This is particularly so in economic matters. Under the guidance of Qur'an and Sunnah, the Islamic economy would not only be practical, but also strong and stable compared to systems designed by man.

One of the major difficulties in recent times is in the use of fiat currency. The question always arises as to whether or not this wholly paper currency is exacerbating global economic problems. Is the form of currency eradicating poverty or is all wealth accumulating within a certain elite, making the poor even poorer? What is the solution in such a situation? For this, we have to refer to the Shari'ah and the type of currency which it stipulates for society. In this context, a study of Seerah and history reveals that from the time of the Prophet (saw) to the end of the Ottoman Caliphate, fiat currency was not used. In its place, currency backed by gold and silver, silver dinars and gold dirhams, were denominated as currency in a bimetallic standard. Moreover, the reason for prosperity in this period was partly due to the intrinsic value of gold and silver. Due to its inherent value, the currency did not require propping up by any external support. Hence, the economy of that time developed and grew naturally in a stable, sustainable manner, providing economic opportunity to large populations.

Amidst a global economic crisis, there is a pressing need to show the people burdened by Capitalism a way out through the economic system of Islam. Inflation and other economic difficulties are an outcome of fiat currency and can be overcome by having a bimetallic gold and silver backed currency. Of course, this is possible only through the re-establishment of the Khilafah (Caliphate) upon the method of the Prophethood, when the fiat currency will be completely abolished, replaced by silver dinars and gold dirhams, as currency, alleviating the economic woes of the present society, whilst providing a stable and sustainable solution to the current, recurrent crises.

### **Fiat Currency:**

Fiat currency is not currency in its real sense, despite of its popularity and institutional reputation. Without intrinsic value, fiat currency is the medium for foreign exchange due to being sponsored by states and governments, leading towards instability and the founding of crises. It is a fact that the economic situation of nations and countries has deteriorated due to the lack of real wealth backing fiat currency. Currency exchange rates between different countries are a permanent dilemma. The economic and political situation of economically weak countries is nearing the verge of collapse, if not having collapsed already.

Fiat money is a fraudulent invention in the world today. It allows the banking elite to enrich itself, printing money, deploying interest based debt instruments, using fractional

reserve banking and increasing money supply upon maturation of debt. It is printing money, as it were, whereas the masses pay through back breaking inflation due to the constant, consequent, devaluation of the currency. Unlike the advocate of fiat currency, John Keynes, the monetarist economist Milton Friedman stated, "Inflation is always and everywhere a monetary phenomenon." This relationship between the over-supply of banknotes and a resulting depreciation in their value was noted also by classical economists, such as David Hume and David Ricardo, who also debated the effect of currency devaluation, termed monetary inflation, upon the rising prices of goods, termed price inflation or plain inflation.

### **Reasons for Inflation:**

Fiat currency used to be convertible with real wealth, printed in quantities representative to reserves of gold and silver held by states. However, there has been no such restriction since the Bretton Woods Agreement broke in 1971, when on the 15<sup>th</sup> August 1971, the United States unilaterally terminated convertibility of the US dollar to gold, effectively bringing the Bretton Woods system to an abrupt end, whilst rendering the dollar a fiat currency. This is why currency regulating agencies and governments can print as much currency as they wish to increase their available funds. However, if the currency is printed, then its value automatically decreases, i.e. its purchasing power decreases, unleashing inflation. As a result, people lose faith in the currency, which is detrimental to the "printing press" masquerading as a government, as the aware people then turn to other currencies or forms of wealth. Printing even limited amounts of fiat currency consistently continues to decrease the purchasing power of the currency. On the contrary, the value of the metallic currency remains stable over time, running into centuries.

The deception of fiat money is that one does not even realize one's growing poverty. If an employee's salary is reduced by five per cent, he has a strong objection, but when the purchasing power of his salary due to inflation declines by ten per cent, he is unaware of being duped. Inflation has tripled in as many years as one's salary doubles in Pakistan in recent times. Gold price has jumped from Rs 85 per tola (11.664gm) in 1952 to over Rs 70,000 per tola in 2019, revealing the weakening rupee. Rising prices are an integral part of the fiat currency based economies. On average, inflation in the fiat currency has been 9.17%, while in a country where inflation is four to five per cent a year, it is considered a success. However, previously under the gold standard, maximum inflation has been reported at 1.75%; otherwise, most of the time the prices had been stable or with even negative, 0.5% deflation.

If the currency is bimetallic, with both gold and silver, as Islam stipulates, then generalized inflation is not observed in the economy in normal circumstances. In a single metallic standard, such as gold only, inflation occurs when a large amount of the gold enters the society, which is more than the requirement of the country. For example, when a large gold mine was discovered in California in 1849, inflation in the United States averaged 1.75 percent over the next twelve years. However, with a bimetallic standard, the fall of the value of gold is compensated by a reciprocal increase in the value of silver, lending to stability in prices. In contrast, by printing fiat currency, governments increase their income, all the while making their people poorer by devaluing the currency in their very pockets, thus secretly collecting inflation tax from their people.

### **The Bretton Woods Agreement**

By World War Two, the practice of printing paper money had become widespread among the warring nations of the world. However, a difficulty that arose was related to how the central banks conducted business transactions with each other. No central bank could accept another central bank's printed paper currency and instead demanded gold. A large conference, attended by 730 delegates from forty-four allied countries, was held during World War Two in 1944 at Bretton Woods, New Hampshire, USA, to address the problem. It resulted in the formation of the International Monetary Fund and the World Bank. Now, whenever a state gains control over another state's fiat currency, it secretly dominates the

other country's economy, industry, trade and wealth. Similarly, the original purpose of creating the Bretton Woods System was to establish US hegemony over the world.

At the time of the conference, the United States held two-thirds of the total gold held by central banks around the world. During the conference, a gold convertible exchange was agreed, which meant that one could buy as much gold as there were dollars. This paved the way for the hegemony of the dollar over the world's currencies. 35 US dollars were equated to one ounce of gold and the United States was obliged to give the same amount of gold for 35 dollars. The price of other world currencies was to be determined in US dollars. The dollar was made the currency standard instead of gold, meaning the "standard dollar" was introduced with the cover of gold instead of gold itself.

### **The Beginning of the Dollar Raj (Empire):**

Following the agreement, other countries were forced to keep their currency at a fixed rate against the US dollar, whether they had to buy or sell dollars for it. The outcome was that fiat dollars were now circulating around the world, due to streams of international trade. Much of that which previously had to be seized through military might could now be taken in a game of exchange rates, because the gold barrier had been removed. The treaty laid the grounds for a new form of slavery that was not possible in the early days of the gold currency. Fiat currency is the slave of its manufacturer, but gold and silver currency cannot be manipulated in this way. The Bretton Woods Agreement chained the whole world to economic slavery of the US economy.

Western countries who were about to lose their colonies made such institutional arrangements at the Bretton Woods Conference, so that exploitation of emerging countries continued. Third World countries neither participated in the consultation during this conference nor had anything to do with its resultant decisions. Instead of gaining anything, they lost immensely, discovering that this system was hedged against them since its inception. It was ensured that they would always remain under the influence of the colonialist powers, as long as they tied themselves to the colonialist world order.

By 1971, the value of gold held by the United States had fallen by two-thirds, while European countries and Japan began to rapidly increase their gold reserves, with the price of gold rising to more than 35 Dollars an ounce. The tax burden multiplied as the United States printed notes relentlessly during the Korean and Vietnam Wars, as well as for Europe's development under the Marshal Plan in order to create global liquidity for the dollar, making it a global currency. Surreptitiously, dollars were also printed to save the world from the "threat" of Communism.

Then, in 1971, the United States unilaterally reneged on its promise from Bretton Woods, which is also known as "the Nixon Shock." US President Richard Nixon announced that the United States would no longer exchange gold for dollars, according to the previous regime of convertibility. He had bought so much oil from the Arabian Gulf States that had the Arabian Gulf States demanded gold in exchange for dollars, the United States would be unable to repay them, even if it gave up all its gold. With this US declaration of 1971, the value of billions of Arab-held dollars were written off, almost as paper waste, whilst the United States benefited greatly from their loss.

Following the breach of the Bretton Woods Agreement, each country was given the right to print its own fiat currency. Rich countries immediately printed large quantities of fiat money and lent to poor countries, such that these poorer countries cannot repay, even after several generations, as they plunge year on year into the abyss of interest based debt. All this time, the paper dollar of the United States had been elevated to the status of the global reserve currency. Whatever the United States had set to gain from the Bretton Woods Agreement in 1944 had now been achieved.

### **Master and Slave Currency**

When India was ruled by the British, although the local currency was the Indian Rupee, it was subordinate to the Pound Sterling. The British government set the exchange rate at will and Indian traders were forced to accept it. The Bretton Woods Agreement has more than a passing resemblance to Old World currency colonialism in this respect, the difference being that the Pound was replaced by the New World dollar, whilst now the whole world was to be exploited, instead of just the Indian Subcontinent. The world's currencies have become its slaves and the master currency always has a clear advantage in international trade. The master currency has the status of the global reserve currency, such that the US can keep issuing the currency and keep importing, despite maintaining large trade deficits.

### **Return to Gold and Silver Based Currency**

The whole world has been in a state of severe economic instability since the advent of fiat notes. Apparently, even the most stable economic powers, sometimes due to inflation and sometimes under the burden of interest bearing loans, have had their economies shattered. A clear example of this was the global recession faced by the world in 2007-08, which shook even the larger economies in Europe and the United States. Under these circumstances, the reality of fiat currency is no more than just a piece of paper, which has no significance of its own, as it has no strong backing, as is the case with gold and silver. The currency of real worth, the dinar and the dirham, must be re-introduced in the world, so that the threat of economic instability is eliminated forever.

Compared to the current fiat currency, the practice of issuing gold dinars and silver dirhams will not only rid the world of economic problems, but the monopoly of the capitalist system and colonialist countries over the world economy can be broken. The colonialist powers trap Muslim countries and other Third World countries in the name of interest based loans and aid. They make arbitrary decisions in order to achieve their interests in the region. In the form of a gold and silver based currency, the Islamic World cannot only achieve economic freedom, but also win over burdened Third World countries, so that the call to Islam flourishes within them, becoming a platform for challenging the leading state of the world.

### **Obstacles to the Practice of Dinars and Dirhams and their Solutions:**

Under the guise of the concept of freedom of ownership, the West has instilled in people the feeling that they are freer and more privileged than previous nations in history. However, in reality, everyone is trapped like a cog in the wheel of a global capitalist economic system. The West's notion of freedom lasts only as long as the financial interests of the ruling class are not compromised. In Islam, on the other hand, the purpose of life is servitude to Allah (swt) and deeds of man are limited to the Shari'ah rulings.

The corruption of the Capitalist system is becoming more evident due to the growing awareness in the Muslim Ummah. However, there is still a small section of our society, though shrinking, that supports the ruling elite, whilst being overawed by the veneer of the Western system. It finds fault with each and every aspect of the Islamic civilization, as opposed to the Western one, and one way or the other, seeking the opportunity to criticize Islam. These people raise objections to the currency based on gold and silver as compared to the fiat currency. Their objections will be reviewed and refuted in the following paragraphs.

### **Objection 1. There is Insufficient Gold and Silver in the World to Issue as Currency**

The most popular objection of the supporters of the current kufr system is that gold is so scarce in the world that it cannot be used as a currency. To answer this, let us first look at how much gold there is in the world. According to the World Gold Council, 2500 tonnes of new gold is mined in the world every year. According to an estimate, the total amount of gold mined in the history of the world until 1950, is approximately the same amount which has been mined since 1950 till now. Today, the total amount of gold in the world is more than 170,000 tonnes.

Opponents of the dinar and the dirham cite examples to make this quantity less credible, which makes it seem very small. For example, if all this gold were collected, it would fit under the Eiffel Tower in Paris. However, when the same amount is looked at from a different angle, it is apparent that gold is meant to be a currency of value, due to its relative scarcity. Moreover, the main function of a currency is to deal with trade transactions, so we only need gold as much as required to settle trade matters and to maintain liquidity.

For the richest five per cent in the world, whose affairs consist of exchanging inflated sums of money through interest based financial instruments, gold and silver cannot possibly support this inflated, artificial economy. However, it can be considered that nowadays regarding capital intensive matters, there are no dollars or paper notes exchanged. Examining the M0, M1 and M2 types of capital, there are forms of alternative capital money substitutes and derivatives. In this method, money is increased as much as required, as digits on computers in the stock exchanges. According to one estimate, there are so many digital and derivative currencies in the world that if all their currency notes were printed and placed on top of each other, they would reach the moon. If there is no currency note to carry this fictitious wealth, then how can one say that there should be so much gold in the world to back it? First of all, in the Islamic system, all this fictitious wealth cannot exist and in its place, real wealth and trade exists. Despite the relative scarcity of gold and silver, it is more than enough to support this real trade.

One could also raise an objection here that of the 170,000 tonnes of gold, a large amount is as jewelry, so it is unusable and so we should only consider the gold that is in government custody. If we look at it from this point of view, only the top twenty countries in the world have gold reserves of about 30,500 tonnes, that is, 30.5 billion grams of gold in the form of bullion in government coffers, which, if made into dinars, would be close to seven billion dinars. According to survey, the ratio of silver to gold in the world is 9:1, which means that there is nine times more silver in the world than gold, whilst the ratio of unmined silver to unmined gold in the earth is 19: 1. As of 2011, the total reserves of silver across the world are 530,000 tons which equal 530 billion grams of silver. If dirham coins, of 2.975 gm, were to be made of this silver, around 200 billion coins can be minted. The total amount of gold and silver in the world is more than enough to become a global currency.

### **Objection 2. There is Insufficient Gold and Silver in Pakistan**

There are about 65 tonnes of gold in government reserves in Pakistan, while there is no reliable data about how much gold the common masses have. If we take only government gold, sixty-five million grams of gold, then more than fifteen million dinars can be produced which, if distributed among the 220 million people of Pakistan, will yield 0.07 dinars or Rs. 2300 per person. Considering the fact that more than half of the people of Pakistan are either poor or belong to the lower middle class, this amount is enough for those belonging to the lower middle class, as their daily income and expenses range from Rs. 500 to Rs 2000.

During the transition to gold and silver, alongside existing fiat currency and bartering, this five trillion rupees worth of gold gives the upcoming Khilafah in Pakistan sufficient breathing space and grace period, during which annexation of precious mineral rich lands can occur. Annexation is a political solution for pooling resources and it is a Shariah obligation for Muslims to live in one state, with a single Khaleefah. For instance, if the Khilafah immediately annexes the Central Asian Muslim states, which will not be difficult Insha Allah, then Uzbekistan and Kazakhstan alone have about 750 tonnes of gold, whilst the total population of these two states is about fifty million. Similarly, if the Khilafah was established in Pakistan and it annexed the Gulf States within a few months, which will not be difficult Allah (swt) willing, then Saudi Arabia alone has 323 tonnes of gold, with a total population of 35 million. In addition, with the black gold in the Gulf States that the world needs, the Khilafah can make up for shortfalls by trading oil for gold.

Similarly if we talk about silver then there are current doubts about sufficient resources. Production of silver in Pakistan is only three tonnes annually, which is modest compared to

the region of Latin America, where silver is in abundance. However, in the Islamic lands, Turkey has the world's seventh largest silver mine at Gumuskoy, whereas Algeria and Azerbaijan also have substantial silver mines. Inshaa'Allah soon, the upcoming Khilafah will unify all the Islamic lands into one, which will not be difficult because the entire Islamic Ummah not only shares the same Islamic creed, its thoughts and emotions are in harmony due to Islam. All Muslims are furious at the treacherous rulers imposed upon them and yearning for change on the basis of Islam. That's why the moment when the Khilafah (Caliphate) on the Method of Prophethood is established in any region, when the Muslim armies under the leadership of the Righteous Khaleefah wage Jihad against the occupying Kuffar comprehensively and decisively, liberating Muslim lands, then the Muslims will also stand up against their oppressors, so that they can unify under the Khilafah.

In this way, soon after the Khilafah is established InshaAllah, Muslims will be self sufficient in agriculture, industry and trade, as well as gold and silver. Moreover, it will be the Kuffar who would kneel in front of Muslims because they will then be dependent on us, rather than vice versa. This can happen with the Nasr of Allah (swt) because it is only He (swt) Who raises in glory anyone He (swt) wishes and humiliates whomsoever He (swt) wishes.

### **Objection 3. The Value of Gold and Silver Cannot Sustain the Economy**

Another reason cited for the scarcity of gold and silver is that even if there is enough gold and silver to be given to every man, due to digital and derivative currency, the world economy is so large that gold and silver alone cannot possibly support it. The focus here is not on the physical quantity of gold and silver but on its purchasing power. For example, suppose there are ten people in an economy who buy one loaf of bread for one rupee every day, then they will need ten notes of one rupee every day, so that they can continue buying and selling. Now if the amount of currency in the economy remains only ten rupees and the number of people buying one loaf of bread increases to one thousand, then these ten rupees will not be able to sustain this buying and selling. Thus the shortage of currency becomes a problem in the economy. Daily life will be paralyzed. In capitalist economics, the supply of currency must be commensurate with the commercial activity in society.

However, it is in this view that the rebuttal is hidden. When gold and silver are used as a currency, then this does not apply. Consider how commodities nowadays are valued. The price of bread is one rupee, but we can ask, what is the value of one rupee? Other things are actually valued according to the currency scale because it is itself a measure of pricing. The concept of currency is due to its purchasing power instead of its own price or its exchange rate. The exchange rate is also important because it shows what you can buy from a society, with the new currency that is being exchanged. Thus the essential matter is the purchasing power. The price of goods in a society is based on supply and demand. The function of currency should only be to measure. When it is said that the bread is one rupee, the actual value of the bread has nothing to do with the rupee note or the number one itself. Bread does not always have to be for one rupee. It can be for a single paisa and even for a thousand rupees. It depends on the purchasing power of that penny or that thousand rupees at the time.

If there are ten rupees and ten people in the society then trading can be done. Even if a thousand people come, it can be bought and sold by reducing the price of goods, with respect to the currency. Those ten rupees in circulation, in the form of ten one rupee notes, at that point will be considered of greater value. For buying bread now, the rupee must be issued into smaller denomination notes, such as one paisa, one hundredth of a rupee. The same ten rupees is then able to serve as an active currency in an economy of a thousand of people.

The amount of gold and silver in the world or the amount of gold and silver in Pakistan has nothing to do with how large the real trade is. The price of gold and silver can function with real trade of any size. The issue is simply to divide it into smaller denominations. There are many ways to denominate currency purchases for daily life. There can be half and

quarter dinars for small purchases and sales, half and quarter silver dirhams and copper pennies containing a small amount of gold or silver. Such coins can be made, having 1 mg of gold or silver with 99 mg of copper.

So it is certain that the current gold and silver reserves can be used to support the economy of the Khilafah if it is established in Pakistan. The only difference will be tenfold deflation, i.e. Rs 10 note will be Rs 1 and Rs 5,000 note will be Rs 500. So if a loaf of bread is ten rupees today, effectively in the bimetallic standard, its price will be one rupee. In the same way, wages will be adjusted. That is, if a person's wage is Rs. 100,000 today, effectively it will then be Rs. 10,000.

A tangential but related point is that there is sufficient gold and silver to support the real economy, such as industry and agriculture. There is no need in the Islamic society to support what may be called the monstrously large false economy of interest instruments, stocks and derivatives.

#### **Objection 4. The Dinar and Dirham will have to increase the Value of Gold and Silver for Itself**

Consider that ten rupees can support an economy of ten loaves of bread or a thousand loaves of bread. The purchasing power of these ten rupees will increase a lot. If gold and silver are issued as a currency, then the value of gold and silver will be much higher than its current value, so the next objection raised is that doing so will greatly benefit those who have gold stocks at the moment.

The simple answer to this objection is that the real value of gold and silver is always much higher than their apparent value. In reality, the problem is of restoration of the currently deflated value of precious metals to their real intrinsic values, which would occur naturally and inevitably. Consider the Federal Reserve in Manhattan, New York, below whose building are huge stocks of gold, it's there for a reason. Warren Buffet, the world's third richest man, sardonically remarked, "Gold gets dug out of the ground in Africa or someplace, then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head." Perhaps not.

It is a fact that man has been mesmerized by gold and silver since time immemorial. Even today those who seem to be against the gold currency love gold so much that they hoard as much as they can grab. Despite the disappearance of the monetary role of gold in practice, as far as theory is concerned, gold is still the partial basis of all currencies today. When an ordinary American was asked why his government was printing so many dollars unnecessarily, he replied based on the first thought that came to him, "What difference does it make when we have so much gold in Fort Knox?" Despite fiat currency conceptually having the backing of the state as legal tender, public perception inevitably links it to real wealth.

Five of the richest countries in terms of GDP are those whose central banks have a gold rate of more than 70% in their Forex reserves, the United States itself owns the world's largest gold reserves. Yet, to maintain the colonialist world order, for any state to become a member of the IMF, it is prohibited for it to use gold as its currency. This is whilst the same IMF has its own gold reserves. So the importance given to gold by the colonialists is evident from their hoarding.

In fact, the price of gold is the best tool to measure the value of any currency. If the price of gold goes up and the purchasing power of the currency goes down due to inflation, then people will naturally start adopting gold instead of currency. Many times during IMF dictated devaluation of the Rupee, Muslims have rushed to buy up gold. No government can gloss over the historical financial role of gold even with propaganda and negative publicity. Moreover, gold is a public commodity, so people can buy it from the market whenever they want, which is loathed by the current capitalist states because whenever public confidence in the paper currency decreases and the bond market bloats, they start buying gold. The abandoning of state currency by the people in this way further weakens the currency, which

is detrimental to the government. It can also potentially completely erode confidence in the currency, destroy the bond market and disrupt the entire paper currency system. That is why governments try to put hurdles in the way of people purchasing gold. In previous times, when governments had more coercive power and the people did not have the same awareness as today's information age, governments used to do it by force. However, nowadays it is more difficult, so they have come up with another way, which is to underplay the central importance of precious metals. Governments keep the price of gold low for if they do not do so, then fiat tender will not be able to compete with gold and their entire system will be left in shambles. So suppressing gold prices has been a permanent fixture of central banks and colonialist governments.

The fact is that the price of gold as a commodity is still high today, despite artificial means to keep its price low, so that the fiat currency system can be supported. When gold returns to its original natural status as a currency, it can support and sustain the global economy easily.

### **Objection 5. The Gold and Silver Standard will lead to deflation which is detrimental to the economy**

It is clear that commodities have no inherent relationship with fiat tender, but merely a formal relationship that can be changed by government legal will. Furthermore, gold and silver can return to their original natural values and establish a new price relationship with commodities. In light of this, an objection can be made that issuing gold and silver currency will cause a lot of deflation, i.e. the prices of commodities will fall more compared to gold and silver. It can be further added that were deflation to become a permanent fixture of the economy, it would be undesirable.

In answer to this, we need to differentiate between the goal and the path to achieve it. The path to the establishment of the Islamic State in Madinah passed through the bitter Makkan phase first. The goal was not abandoned because it was difficult to achieve. The journey towards the goal continued because the goal itself was obligatory according to the Shari'ah.

The benefits of gold and silver based currency as a whole will be reaped when it becomes widespread within the society. The difficulties encountered in phasing out fiat currency before that cannot reduce the importance of its purpose. One of the difficulties is that the fiat money has taken roots within the society. Subsequently, society has become mired in inflation due to its unnecessary and artificial spread. When the people adopt gold and silver, the price of gold and silver will go back to its original level. Inflation will come down as prices will fall. This is not an undesirable outcome because in the end, it will benefit the people immensely.

Another false notion is that in a society with gold and silver currency, the society will suffer a slight deflation on a permanent basis, as the amount of currency will remain the same or grow very slowly, whilst goods and services increase rapidly and will continue to grow. This notion is false and a manifestation of the ingrained, rigid capitalist paradigm that even such a slight deflation is harmful to the economy.

The first form of deflation is the transfer of money from an area, such as a natural disaster or a war or civil war situation that forces people to migrate. This process is immediate as one within a society finds himself deprived of capital and currency. This is never due to the nature of the currency but due to political factors or natural conditions. Effectively that the society loses capital, whilst the number of customers decreases and the number of buyers decrease. In such catastrophic cases, the seller has to reduce the prices in order to sustain income. This is a case which is due to external influences. There is no guarantee that this will not happen again. Its effects will occur on any currency, based on legal tender or precious metals. However, the impression given is that if such a situation arises, paper money is more flexible to deal with it, but it is not.



Sometimes when there is an immediate shortage of wealth, the society finds a solution on its own because trade is a natural necessity and like water, it flows along the path of least resistance. Gold backed currency is particularly frictionless for trade. Moreover, if both gold and silver become extremely scarce in an area then people move towards bartering. That would hold true of any currency and is seen during collapses of fiat currencies in contemporary times. So why level this particular deflation argument at gold dinars and silver dirhams alone.

The second form of deflation is one in which adopting dinars and dirhams is evidently beneficial. For instance, if I have one dirham and can buy a dozen eggs from it, then when the price of eggs falls and one dirham can now buy two dozen eggs, this case will be beneficial for the consumer. The reason for lowering of prices may be that due to scientific development and better governance in the society, for instance, more poultry farms are opened and the means of production increase as this leads to better supply of products and services. The supply of goods increases and the price of goods decreases. That is, more and more people in the society can afford to buy these things. Relatively the purchasing power of every person increases and they are able to get the best of things. Computers were very expensive upon their invention, but now due to scientific advances increasing their supply, everyone can buy a computer. Similarly mobile phones were expensive when first introduced. Later, as new manufacturers enter the market, with more cost effective techniques, prices lowered with competition and innovation. Such deflation or reduction in prices is positive in every aspect.

So why are capitalist economists so opposed to deflation in any circumstance? The reason is that they think that deflation destroys the economy and bankrupts businesses. However, they are blind to the actual reason which is their interest based system. It is this matter which must be examined to allay their fear that the Islamic economic system, an interest free economy, would suffer the same fate.

In reality the fear of the capitalist is about the price of loans, in their interest based economy, and loan defaulting. Suppose I took a loan of Rs. 100,000 from a bank and invested it in a furniture business. The bank stipulated that I would repay Rs. 3000 per month to the bank out of which Rs. 2000 would be the principal amount of the loan and Rs. 1000 would be interest. If my income is only Rs 3,000 and I sell a chair for Rs 100 every day, my business will run smoothly because the bank is getting real money and interest. Now, if there is pressure of deflation in the society and I see that people are not buying chairs, then I will have to reduce the price to Rs. 50. In other words, I have lost money, i.e. my income is only Rs. 1500. However, because this deflation occurs homogeneously within society, the commodities I need will also have become cheaper. So I can still live a good life. My business is less on paper but in reality I may be more prosperous because I will be able to buy more on the lower income. However, in terms of bank loans and repayment of interest, this situation is harmful to the banking elite because if my income is now Rs. 1500, I will not be able to pay the interest on the loan. The bank may then bankrupt my business. The reason why the advocates of the interest based loan system consider deflation so harmful is because their focus is on preventing defaults on their money making scheme, interest based debt.

In addition to bank loans, we need to look at a business level. If I buy wood for Rs. 60 and make a chair and sell it to someone for Rs. 100, my business can run smoothly. However, when the price of the chair falls to Rs. 50, then I suffer losses and I have to close the business. However, when the chair is 50 rupees, the wood will be 30 rupees, i.e. the loss will be only once and as such it is a one-time profit and loss cycle in the business. Moreover, both deflation and inflation can happen. If the price of chairs has always dropped during the process of making a chair, say, due to scientific innovation as long as it is not severe and immediate and of catastrophic proportions, effecting many related sectors, the principles of economics will regulate and stabilize. For example, even if chair makers close down businesses through losses, due to the persistent demand for chairs in the presence of a

reduction in chair makers, prices will rise again until this business becomes profitable i.e. supply and demand reaches equilibrium.

In this form of deflation, when society creates more products and services due to scientific progress, better governance and population growth, the amount of currency remains the same due to the stable presence of natural or mineral resources. So the society gradually moves towards deflation and the purchasing power of the currency increases. It is a slow process that does no harm to real trade and benefits the common man by increasing purchasing power. Of course, it is incompatible with the banking mafia but it is also true in the long run, currency in circulation should increase commensurate to the growth, which provides for balance in prices and room for growth in the economy. In some cases, an increase in the currency can be useful, such as when the population or the economy grows rapidly. The only solution that Shariah also allows us is to keep extracting gold and silver out of the earth, rather than turning to the printing machine as capitalists do.

In Pakistan, the Reko Diq site has the world's fifth-largest gold reserves, while the rest of the Islamic world also has vast gold and silver reserves in general, and above all, as we believe, the world's resources are sufficient for human needs. In other words, Allah (swt) has buried treasures all over the world to meet the needs of the current seven billion people and manifold more. It requires exploration, as Allah (swt) has commanded the humans to spread upon the earth and seek His bounty, and He is the Best of providers.

## **6. Dinars and Dirhams will Tie the Hands of the Government in Emergencies**

Since fiat money can be easily created, governments have the advantage of being able to print as much currency as they want in an emergency in order to dampen the effect of difficult times. There is also objection to the dinar and dirham system on the basis that if the country faces war or natural calamity, when the government needs more money, its hands will be tied. However, in the system of fiat currency they can immediately deal with the situation by printing notes.

Let's take a look at both situations in turn, starting with wars.

In World War One, forty million people were killed, whilst in World War Two, sixty million people were killed. The damage to the economy and its impact on the rest of the population can be gauged by the fact that an estimated 2.5% of the population of the world was killed due to war. In order to sustain these large wars, the states needed a lot of money for which they relentlessly printed notes. Economists say that if this power of printing notes did not exist, the states would have ended the wars long before. A contemporary example of this is the current US aid to the Jewish entity or the wars in Afghanistan and Iraq. If the costs of continuing these wars were to be paid directly by American citizens in the form of taxes, which would encroach on their standard of living, the United States' deep state would be under huge pressure for invading Afghanistan and Iraq.

In order to achieve their goals, the colonialist elite run their business by printing notes without the knowledge of the people, effectively stealing by devaluing the notes in their pockets. The people support their governments as this indirect taxation is not easily appreciated. On the other hand, when the Prophet (saw) needed funds for his expedition, he ordered his Companions (ra), to donate funds. Today, the Khaleefah can, through the Shariah revenues, State industry profits and public property supervision, arrange the resources required for war.

As for the second situation, that of natural calamities, the government has to respond immediately and urgently needs money to deal with emergencies. Even in such cases, the gold and silver backed system does not pose any problem. Instead it opens a door to management of matters more transparently and honestly. Suppose there is a flood or an earthquake and the government has to buy 100,000 tents immediately. If there is money in the treasury, whether it is paper currency or dinar and dirham, it does not matter. In that case, both currencies are equally useful. However, if there is no money in the treasury,

dinars and dirhams cannot be created whilst notes can be printed. Given this apparent benefit, people forget the process behind it, as notes can be printed in two ways, one by issuing the physical note and the other by issuing a bond-type document in the market, with a yield of interest after a time. By both mechanisms, the state will be able to buy tents.

However, if the government prints the notes itself, it is a theft from the public collectively. As for the bonds, the government is borrowing from the market at interest, which has to be repaid, creating pressure for higher taxation, whilst postponing the devaluation until the time of repaying the bond. Moreover, the paper currency loan will be borrowed from the market at interest, whilst the dinar and dirham loan will be interest free. These lenders can be ordinary people and philanthropists, seeking reward from Allah (swt). Even tents can be bought on loan from tent merchants.

It is true that the process of printing notes is rapid and convenient, but if there is political will, then borrowing in dinars and dirhams or obtaining items from traders through advance sales can also be quick and easy. On the other hand, the Khilafah can reserve some of its wealth in its treasury for emergencies and in such circumstances it can withhold other expenses.

Whether it is an emergency or a war situation, a critical factor in dealing with them, apart from the role of the government, is the rule of Zakah and Sadaqah for the sake of Allah (swt) in Islamic society. As a result, the Islamic society does not suffer from a lack of capital in any emergency or in a situation of war, even if the treasury is running low.

## **Conclusion**

Fiat money is embedded in foreign exchange, as a medium of exchange based on trust. Some countries have kept reserves of gold and silver as collateral, while in others, state property is also considered as a guarantee. However, fiat currency in origin is legal tender, based on confidence, used between states for exchange for goods, services and other currencies.

In contrast, the Shariah obligates us to implement gold and silver based currency. Islam has mandated that the currency of the state is backed by gold and silver alone. RasulAllah (saw) commanded the Muslims to mint Gold Dinars, weighing 4.25g, and Silver Dirhams, weighing 2.975g, as the currency of the state. The Shari'ah has linked various Shari'ah rules with gold and silver alone e.g. blood money, the nisab of Zakah and the minimum amount of wealth for which the hand of thief is cut. These are all evidences that the money of the Islamic economic system is only gold and silver and nothing else. Bukhari narrated from Urwah (ra) that the Honorable Prophet (saw) gave him a dinar to buy a sheep. With the money he bought two sheep, then he sold one sheep for one dinar and brought one sheep to the Honorable Prophet (saw). The Honorable Prophet (saw) prayed for blessings in his trade. Therefore, Urwah always used to earn a profit, even if it was in dealing in clay.

Even today one sheep can be bought with the equivalent of one dinar of gold and if one puts in a little more effort and ingenuity, one can buy two sheep. This shows that the value of dinars and dirhams is constantly stable, whilst Pakistan's fiat currency can never maintain its value, suffering constant decline since 1947. It is clear from the inflation index that the rupee has depreciated sharply. However, if gold and silver were used as a measure of value again, then the prices of Makkah and Madinah from 1400 years ago would not be far away from what they would be today. Similarly, if we look at the history of the world, we find that Muslim India had been the richest region in the world for centuries before the greedy colonialists invaded. Plentiful opportunities for work and production existed within them. Trade of goods from these lands reached remote parts of the world. However, this was at a time when the currency was based on gold and silver and the global interest based banking mafia did not exist. The fiat money system has made the working-class extremely poor due to inflation and exchange rate manipulation, whilst states that print paper money and use it to control international exchange rates became rich.

A look at contemporary economic systems reveals that there is no stable system in the world that is comprehensive and sustainable for solving all economic problems. In every system other than Islam, the powerful exploit the weak. Those who are rich gradually take over all the resources of wealth. Those who are poor gradually became more and more tormented by poverty. The capitalist moneylenders have developed sophisticated exploitative forms of banking to sustain their interest based business, spreading its tentacles across the world. After the failure of the Communist state, Capitalism has failed to solve human economic problems.

In contrast, an unbiased analysis of the Islamic economic system reveals that it not only solved the problems of the Madinah State, but also the Shari'ah texts have the capacity and capability to solve problems which are present fourteen centuries later. Therefore, the solution to all the economic problems that have come up until now and may arise till the Day of Judgment are present in the economic system of Islam. The Islamic economic system is in harmony with the Sunnah of Allah (swt) in terms of what He (swt) created of wealth and natural laws of trading. This system is neither an experiment nor the result of any mental exercise of economists. Instead, this economic system is from the Creator (swt) of the universe, which was sent through revelation, by the Prophet of Islam, Muhammad (saw). Islam provides the only economic system which, if implemented in the whole world, can solve all the economic needs of the world, as well as societal problems arising from these needs. Considering all the statistical examples, and for the sovereignty of an Islamic economy and the economic prosperity of an Islamic society, the practical application of the currency of the Prophet's time should be taken seriously, which itself is possible only through the re-establishment of the Khilafah (Caliphate) upon the method of the Prophethood.

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