



The History of Gold Money, Money and Its Relevancy

Irma Naddiya - Ashurov Sharofiddin -Aznan Hasan

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Abstract

This purpose of this research was to analyse the history of gold money, money and its relevancy. The present study, casts light, through investigating the current usage of Gold Dinar, chronological history of money and existing usage of Gold as a currency throughout the ages from ancient times to the present day. This research, aims to examine interest in using the Gold Dinar as well as emphasizes its advantages and disadvantages. To achieve the objectives of this research, qualitative research methods including content analysis and interviews were used. The study utilized personal interviews with scholars, and studying books, journals, magazines, as well as the empirical analysis from the available evidence such as documents published by the IMF and UN. The study found the problem exists because the manipulation of paper money or in economic term called inflation. Inflation destroys prosperity. Thus, the soundness of money should be maintained domestically and internationally through a system of fixed exchange rates based on universal gold convertibility. Indeed, stability in the value of money is very important in socio economic. It is a fundamental call for a new approach to financial governance based on balanced budgets, fiscal transparency, and political accountability. Gold, in that sense, is the defense for preserving national financial independence.

Keyword: Money, gold, dinar, gold standard, financial stability.

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Introduction

This article aims to analyse the gold as money in term of its history and its usage in different ages. Moreover, this study discussed the weaknesses and strength in using gold standard. This study explores those objectives through content analysis methods by analysing the views of scholars, their arguments and evidences and interview with expert.

As to answer the stated objectives above, this study focuses the discussion on the following:

- i) Definition of gold money in different types of usage,
- ii) Chronological history of money,
- iii) Existing usage of Gold as a currency in the ordinary business of the life of different eras throughout the ages from ancient times to the present day,
- iv) The Disadvantages of using gold money,
- v) The Advantages of using gold money.

Definition of Gold Standard, Gold Bullion, Gold Coin and Commodity Money

In order to understand the study, one should understand the following terminologies:

- 1) Gold Standard.
- 2) Gold Bullion.
- 3) Gold Coin.
- 4) Commodity Money.

1.1 Gold Standard

A gold standard is a system that ties the value of money to the value of a fixed quantity of gold, according to Nathan Lewis in his book *The Once and Future Money* from 2007. Only a few academics have discussed the gold standard's practices, which can be simplified as follows (Lewis 2007; Roy W. Jastrom 2009; John Tomlinson 1993):

- i. The gold standard referred to paper currencies whose value was pegged to the value of a specified amount of gold. Commonly, paper money was legally redeemable for gold on demand. When the value of paper currency fell below its gold parity, paper money (base money) was returned to its issuers, who (ideally) would then remove it from circulation. Supply was reduced, supporting the value of the currency. When the value of the paper currency rose above the gold parity, supply was increased. Thus this kind of practice can play a role as a mechanism for value-peg of the currency.

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- ii. One of the weaknesses of this practice is that a gold standard is not, and never has been, a system by which the amount of base money is determined by the amount of gold held by the monetary authorities. From this it can be seen that importing or exporting gold, or other such actions, are generally of little concern, since moving gold from place to place does not change its value.
- iii. Other weakness point of this practice is, the modern gold standard, based on redeemable paper money, began when people decided not to hoard and protect their own gold holdings, fearing theft or other risks, and instead deposited their gold with private institutions, receiving a claim check in return. Deposit an ounce of gold; get a one-ounce claim check. It did not matter what form the check took – even the handwritten not would do- as long as it was legally binding. In Britain this began as a side business of the scrivener in the early seventeenth century. Goldsmiths, who had the facilities to store and protect large gold holdings, later took over this business, particularly after 1640. People deposited their bullion and coin with the goldsmiths and received claim checks. They gradually found that their claim checks circulated as well or better than the bullion they had deposited.
- iv. Other weakness point of the system is no specific regulator to regulate the standard but created by free market. According to scholar the gold standard was created by the free market, the citizenry, and it operates to manage the supply of paper currency under a self-adjusting market system. There is no central bank, no secretive policy board, no armies of statisticians churning out spurious indexes and aggregates, indeed no discretionary monetary policy at all. The government's contribution to the system is merely to ensure that banks abide by their legal contract to honour the redemption of their bills for specie.

1.2 Gold Bullion

The term "gold bullion" refers to gold that has already been shaped into bars, either in crude dore form (80% fine) as treated at the mine site, or as defined by weight and greater fineness and verified by the stamp of an acknowledged refinery (Shayne McGuire, 2010). There are some variances in the acceptable measure of weight and fineness standards for "good delivery" in each of the major markets. Weights range from 1 kilogram (32.151 troy ounces) to 400 ounces. When refined, gold bards generally consist of between 995 and 999 parts of gold per thousand (i.e between 99.5 and 99.9 percent fine). Refined bullion is close to 24 carats because one carat equals 41.667 parts of gold to 1,000 parts of alloy.

The usage of gold bullion can be understood via few practices as follows (Jonathan Spall, 2011):

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- i. bullion market generally serve as a conduit between large gold suppliers (such as producers, refiners, and central banks) and smaller investors and fabricators. The physical gold market is essentially a spot market, but it is complemented by the use of forward trading for the hedging of physical positions. Trading is interoffice or (off-the floor), with prices quoted by individual traders (except in the case of a fixing, when agents come together to agree on a price).
- ii. Market participants comprise bullion dealers, who act as principals, adopting open positions in the market: brokers, who close their positions by either matching transactions. However, many gold houses combine these functions. Also, dealers generally either have their own refining capacity or have it available to them. However, as for Islamic point of view, the practice of forward trading of gold will definitely trigger Shariah compliant issue as any trading on gold should be done on spot. Many Shariah issues can be observed on the relations of market participants when in depth analysis on them.

1.3 Gold Coin

The term 'coin' typically used as a common date or generic gold or silver coin is the name given to the millions of coins that were minted in the United States roughly between 1890 and 1933, the year in which the U.S government prohibited citizens from owning gold bullion and when it stopped minting gold coins. Although a number of these coins are extremely rare (such as the 1907 "Rolled Edge" \$10 Gold Piece, of which fewer than 50 survive in mint condition), common date coins were minted in vast quantities and yet have a high survival rate. The \$20 gold Liberty Head coin, issued in 1904, is a classic common date rare coin with a mintage of over six million. Only a small number of them remain in existence today, and of those, the ones that have been certified make up the population of the coins.

The attributes of gold coin can be understood as follows (Peter L. Bernstein, 2000):

- i) A coin's population determines its rarity, and evidently rarer coins are worth more. In the 1980s, a great number of investors were attracted to the rare coin market-many out of concern about the rising government deficit at the time and while interest diminished during the 1990s stock market boom, investment demand has risen in recent years as gold and silver have continued to climb, while the number of coins remains relatively fixed.
- ii) Every time gold has rallied; rare coins have risen much faster, as buyers have entered the market to purchase the dwindling supply of coins.

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1.4 Commodity Money

Money that derives its value from the commodity from which it is made is referred to as commodity money. It is objects that can be used as money as well as having value in and of itself. (O'Sullivan, Arthur; Steven M. Sheffrin, 2003: 246). According to Joseph T. Salerno (2010), some examples of commodities that have been used as exchange mediums include gold, silver, copper, peppercorns, large stones, decorated belts, shells, cigarettes, cannabis, candy, and barley.

The usage of commodity money can be understood via few practices as follows (Glyn Davis, 2005):

- i) These items were sometimes used in a metric of perceived value in conjunction to one another, in various commodity valuation or price system economies. Commodity money has several problems; most notably that it requires a 'coincidence of wants'. For example, if a wheat farmer needs what a fruit farmer produces, a direct swap is impossible as seasonal fruit would spoil before the grain harvest.
- ii) A solution is to trade fruit for wheat indirectly through a third, "intermediate", and commodity: the fruit is exchanged for the intermediate commodity when the fruit ripens. If this *intermediate commodity* doesn't perish and is reliably in demand throughout the year (e.g. copper or gold) then it can be exchanged for wheat after the harvest.
- iii) The function of the intermediate commodity as a store-of-value can be standardized into a widespread commodity money, reducing the coincidence of wants problem. By overcoming the limitations of simple barter, commodity money makes the market in all other commodities more liquid (Sheffrin 2003).
- iv) Many cultures around the world eventually developed the use of commodity money. Ancient China, Africa, and India used cowry shells. Trade in Japan's feudal system was based on the koku – a unit of rice. The shekel was an ancient unit of weight and currency. The first usage of the term came from Mesopotamia in 3000 BC and referred to a specific weight of barley, which related other values in a metric such as silver, bronze, copper etc. A barley/shekel was originally both a unit of currency and a unit of weight (Samuel Noah Kramer, 1988: 52-55).
- v) From early times, metals, where available, have usually been favored for use as proto-money over such commodities as cattle, cowry shells, or salt, because they are at once durable, portable, and easily divisible. The use of gold as proto-money

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has been traced back to the fourth millennium BC when the Egyptians used gold bars of a set weight as a medium of exchange, as had been done earlier in Mesopotamia with silver bars. The first known ruler who officially set standards of weight and money was Pheidon. The first stamped money (having the mark of some authority in the form of a picture or words) can be seen in the Bibliothèque National of Paris. It is an electrum stater of a turtle coin, coined at Aegina Island. This remarkable coin dates about 700 BC. Electrum coins were also introduced about 650 BC in Lybia. (Glyn Davies, 1994: 172-339).

- vi) Coinage was widely adopted across mainland Greece during the 6th century BC, eventually leading to the Athenian Empire's 5th century BC, dominance of the region through their export of silver coinage. A major silver vein discovery at Laurium in 483 BC led to the huge expansion of the Athenian military fleet (Samuel Noah Kramer, 1988).
- vii) It was the discovery of the touchstone which led the way for metal-based commodity money and coinage. Any soft metal can be tested for purity on a touchstone, allowing one to quickly calculate the total content of a particular metal in a lump. Gold is a soft metal, which is also hard to come by, dense, and storable. As a result, monetary gold spread very quickly from Asia Minor, where it first gained wide usage, to the entire world (Samuel Noah Kramer, 1988).
- viii) Using such a system still required several steps and mathematical calculation. The touchstone allows one to estimate the amount of gold in an alloy, which is then multiplied by the weight to find the amount of gold alone in a lump. To make this process easier, the concept of standard coinage was introduced.
- ix) Coins were pre-weighed and pre-alloyed, so as long as the manufacturer was aware of the origin of the coin, no use of the touchstone was required. Coins were typically minted by governments in a carefully protected process, and then stamped with an emblem that guaranteed the weight and value of the metal. It was, however, extremely common for governments to assert that the value of such money lay in its emblem and thus to subsequently reduce the value of the currency by lowering the content of valuable metal.
- x) Although gold and silver were commonly used to mint coins, other metals could be used. For instance, Ancient Sparta minted coins from iron to discourage its citizens from engaging in foreign trade. In the early seventeenth century Sweden lacked more precious metal and so produced "plate money", which were large slabs

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of copper approximately 50 cm or more in length and width, appropriately stamped with indications of their value (Samuel Noah Kramer, 1988).

- xi) Metal based coins had the advantage of carrying their value within the coins themselves on the other hand, they induced manipulations: the clipping of coins in the attempt to get and recycle the precious metal. A greater problem was the simultaneous co-existence of gold, silver and copper coins in Europe. English and Spanish traders valued gold coins more than silver coins, as many of their neighbours did, with the effect that the English gold-based guinea coin began to rise against the English silver based crown in the 1670s and 1680s. Consequently, silver was ultimately pulled out of England for dubious amounts of gold coming into the country at a rate no other European nation would share.
- xii) Stability came into the system with national Banks guaranteeing to change money into gold at a promised rate; it did, however, not come easily. The Bank of England risked a national financial catastrophe in the 1730s when customers demanded their money be changed into gold in a moment of crisis (Samuel Noah Kramer, 1988). Eventually London's merchants saved the bank and the nation with financial guarantees.

Gift Economics

Non-monetary societies operated primarily according to the principles of gift economics in the absence of a medium of exchanges. A vast, commodity-based economy developed by the Mesopotamian civilization. In terms of rules dealing with debt, legal contracts, business practises, and private property, the Babylonians and its nearby city states later developed the earliest system of economics as we know it today. Money was not just an invention; it was also an absolute necessity. The best-preserved ancient code of law, the Code of Hammurabi, was originally created in ancient Babylon around 1760 BC. Hammurabi, the sixth king of Babylon, put it into effect. The code of Ur-Nammu, king of Ur in 2050 BC, the code of Eshnunna in 1930 BC, and the code of Lipit-Ishtar of Isin in 1870 BC are examples of earlier collections of laws. (Sheila Dow 2005: 385). The role of money in civil society was formalised by these codes. They determine rates of interest on debts, penalties for wrongdoing, and compensation for various legal violations. According to Charles F. Horne (2007), the shekel was an ancient unit of both weight and currency. It was first used in Mesopotamia around 3000 BC to define a specific weight of barley and equivalent amounts of materials such as silver, bronze and copper. The use of a single unit to define both mass and currency was a similar concept to the British pound, which was originally defined as a one pound mass of silver.



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The Issuance of Gold Dinar by Islamic Empire

During Prophetic Era

At the time of the Prophet PBUH in the early 7th Century, the Muslims did not mint the gold dinars or silver dirhams yet. The Prophet pbuh accepted the Roman Byzantine gold solidus, also known as the bezant, and the Persian Sassanid Empire's silver dirham as the monetary standards for Muslims. In this is wisdom because these coins enabled just trade among Muslims and with non-Muslims as well (www.worldribaconference.org).

However, the gold dinar is a gold coin first issued in 77 AH (696-7 CE) by Caliph Abd al-Malik ibn Marwan. The name is derived from denarius, a Roman currency. The weight of the dinar is 1 mithqal (4.25 grams). Although there was a dictum that the Byzantine solidus was not to be used outside of the Byzantine Empire, there was some trade that involved these coins which then did not get re-minted by the emperors minting operations, and quickly became worn. Towards the end of the 7th century CE, Arabic copies of solid - dinars issued by the caliph Abd al-Malik (685-705 CE), who had access to supplies of gold from the upper Nile - began to circulate in areas outside of the Byzantine empire. These corresponded in weight to only 20 carats (4.0 g), but matched with the weight of the worn solid that were circulating in those areas at the time. The two coins circulated together in these areas for a time (John Porteous, 1969: 14-33).

During Companion Caliph

The first dated coins that can be assigned to the Muslims are copies of silver Dirhams of the Sassanian ruler Yazdegerd III, struck during the Caliphate of 'Uthman (John Porteous, 1969). These coins differ from the original ones in that an Arabic inscription is found in the obverse margins, normally reading "In the Name of Allah". The subsequent series was issued using types based on drachmas of Khosrau II, whose coins probably represented a significant proportion of the currency in circulation. In parallel with the later Khosrau-type Arab-Sassanian coins first issued under the Well-Guided Caliphs of Islam, a more extensive series was struck with Khosrau's name replaced by that of the local Arab governor or, in two cases, that of the Caliph. Historical evidence makes it clear that most of these coins bear Hijra dates. The earliest Muslim copper coins are anonymous and undated but a series exists which may have been issued during the Caliphates of 'Uthman or 'Ali. These are crude copies of Byzantine 12 pieces of Heraclius from Alexandria.

By the year 75 AH/ 695 CE Abd al-Malik had decided on changes to the coinage. A scattering of patterned pieces in silver exist from this date, based on Sassanian prototypes but with distinctive Arabic reverses. This experiment, which maintained the Sassanian weight standard of 3.5-4.0 grams was not proceeded with and in 79 AH/698 CE a completely new type of silver coin was struck at 14 mints to a new nominal weight of 2.97 grams. Unlike the

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contemporary gold coinage, this figure does not seem to have been achieved in practice. The average weight of sixty undamaged specimens of 79-84 AH is only 2.71 grams, a figure very close to that for a unique coin of 79 AH struck with no mint name (as was the standard procedure for the gold Dinars produced in Damascus). These new coins which bore the name of 'Dirham', established the style of the Arab-Sassanian predecessors at 25 to 28 mm in diameter. Their design is composed of Arabic inscriptions surrounded by circles and annulets. On each side there is a three or four line legend with a single circular inscription. Outside this are three line circles with, at first, five annulets surrounding them. The side normally taken as the obverse has as its central legend the Kalima or shahada: "There is no god except Allah alone, there is no partner with Him." Around it is the mint/ date formula reading "In the Name of Allah: this Dirham was struck in (mint name e.g. Damascus) in the year (e.g. 79 AH)". The reverse has a four line central inscription taken from the Surah 112 of the Quran; "Allahu Ahad, Ahallu-Samad, Lam yalid wa lam yulad wa lam yakul-lahu kufu-an ahad".

The marginal legend states: "Muhammad is the Messenger of Allah, he was sent with guidance and the religion of truth to make it prevail over every other religion, averse though the idolaters may be" (Quran 9:33) The gold coins were first struck to the contemporary standard of 4.4 grams and with one or more Arabic Standing figures on the obverse and an Arabic legend on the reverse. Dated coins exist from 74 AH and are named as 'Dinars'.

These experimental issues were replaced in 77 AH, except in North Africa and Spain, by completely epigraphical designs very similar to the designs adopted for the silver pieces but with a shorter reverse legend and no annulets or inner circles. This type was used without appreciable change for the whole of Umayyad period, the coins being struck to a new and carefully controlled standard of 4.25 grams. This weight was reputed to be based on the average of the current Byzantine solidi, was called a mithqal, a term used earlier for 1/72 of a rattle. Evidence of the importance attached to the close control of the new Dinars is provided by the existence of glass weights, mainly from Egypt. They usually show the governor's name, sometimes the date but all marked with coin denomination (John, 1969).

The issues in gold from North Africa began as copies of the coins of Heraclius and his son (but with an abbreviated Kalima in Latin), the reverse 'cross on steps' losing in most cases its cross piece. Dinars, halves and thirds were struck, all to the new weight standard. Later coins are dated by indiction, from Indiction II (85/4) changing to the Hijra date in Roman numerals in 94 AH with Arabic phrases appearing in the field from 97 AH. In the year 100, North Africa came into line with the eastern issues although the mint is named as Ifriqiya. The legends are shorter and the reverse has a new central inscription: "In the Name of Allah, the Merciful, the Compassionate". This was used also on the coins from Al-Andalus, and on the half and third Dinars, most of which show no mint but may well have been struck in Al-Andalus.

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The Power of Gold

Judy Shelton in her book *Money Meltdown*, asserted the most appealing feature of a global gold standard is that no nation is forced to surrender control if its money supply to a super national organization or global central bank. No nation is asked to conform to a specified budget model or to comply with a universal decree concerning the size of its domestic budget as a percentage of its gross domestic product (Shelton, 1994: 342). One nation might wish to channel a large portion of its economy through the federal budget so that national revenues are largely redistributed by the government. Another nation might wish to carry out libertarian policies, extracting from its citizens only the smallest fraction of revenues to support only the most essential government services. The point is whether the citizens of a nation choose to operate a welfare state or whether they choose to have limited government, they can still participate in the global economy on a common monetary footing (Shelton 1994: 342). The only requirement is that they abide by the rules of a gold standard. The government must (1) run a balanced budget and (2) provide for convertibility of its currency into gold on demand (Judy Shelton, 1994. p. 342).

Few scholars discussed the superiority of gold which can be simplified below:

- i. An interview with Ahamed Kameel Mydin Meera⁴, an adoption of a gold standard changes the nature of the relationship between private citizens and public officials. Government is much more answerable to taxpayers on fiscal issues. The constraint of having to maintain a balanced budget ensures that politician cannot commit funds without the full awareness and approval of the citizenry. Because governments are not permitted to run deficits under a gold standard, citizens must directly bear the burden of the expenditures they authorize as part of the domestic budget. If they demand high levels of spending for defence or social services, they accordingly must fund those expenses by providing sufficient tax revenues.
- ii. While implementation of a gold standard in no way would force government expenditures to be low, it might well have a dampening effect on federal spending, because people who otherwise would be eager to accept the gifts proffered by politicians in the form of subsidies and transfer payment would become more discerning, knowing they would have to pick up the bill. Indeed, one of the great advantages of the gold standard, as Ludwig von Mises notes, is that it offers citizens “a form of protection against spend-thrift government.” Mises views the fiscal accountability aspect of the gold standard as an extremely positive feature, one that forces both citizens and politicians to pay more attention to budget decisions and to justify all government spending (Ludwig Von Mises, 2010).

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- iii. If, under the gold standard, a government is asked to spend money for something new, the minister of finance can say: “And where do I get the money? Tell me, first, how I will find the money for this additional expenditure. Under an inflationary system, nothing is simpler for the politicians to do than to order the government printing office to provide as much money as they need for their projects. Under a gold standard, sound government has a much better chance; its leader can say to the people and to the politicians: “We can’t do it unless we increase taxes” (Judy Shelton: 1994. p.343).

But under inflationary conditions, people acquire the habit of looking upon the government as an institution with limitless means at its disposal; the state, the government, can do anything. If, for instance, the nation wants a new highway system, the government is expected to build it. But where will the government get the money? (Judy Shelton, 1994).

- iv. When a government is held strictly accountable by its citizens, the principles of democracy are reinforced. The government functions to serve the nation rather than as a separate bureaucratic entity with objectives of its own. Government of the people, by the people, and for the people becomes more than a philosophical ideal; it turns into a political reality with pragmatic applications for controlling the budget. For citizens who long ago dismissed any notion of self-governance, a different mindset is required. Under a gold standard, individuals assume more direct responsibility in allocating resources for the good of their nation. When transparency is restored to the budget process, the level of government spending is approved and anticipated (Judy Shelton, 1994).
- v. A gold standard fixes the value of money in terms of a universally recognized commodity so that money holders have the confidence in knowing that their paper claim can be converted to a real asset at a prespecified rate. The gold standard establishes a solid foundation for making rational economic decisions and then enables individuals to exercise personal choice in pursuing their own financial and economic objectives. (Judy Shelton, 1994: p.349).
- vi. Certainly, gold has always enjoyed an excellent reputation among central bankers. Central banks that reveal their holdings show impressive stashes of the barbaric metal. According to *The Economist*, they held in their possession some 35,000 tons of gold in January 1993 – equal to seventeen years’ output from mines. Ironically (or perhaps not) central banks still cling to one-third of all the world’s gold, even though it has been more than two decades since the official link between currencies and gold was severed. Although the central banks of Holland and Belgium

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generated a fair amount of publicity when they sold substantial portions of their gold reserves in 1992, the overall level of gold stocks in central bank vaults has remained remarkably stable since the middle of this century. Statistics furnished by the International Monetary Fund show that the monetary gold holdings of the world's central banks, along with official international organizations (such as the IMF) and other monetary authorities (such as the Saudi Arabian Monetary Authority), amounted to 1,000 million ounces in 1952. Some forty years later, at year-end 1991, gold holdings stood at 1,140 million ounces. (Shelton, 1994:349).

- vii. Some might find it difficult to understand why central bankers, who should represent the epitome of monetary sophistication, keep an average 30 percent of their total reserves in the form of non-interest-bearing gold. On the other hand, the keepers of the world's financial system place great emphasis on price stability and sound money. Moreover, they are keen observers of history. Gold provides insurance against economic and political calamity. It is still widely regarded as a "war chest" that can be tapped in the event of global currency chaos. Gold, in that sense, is the bulwark for preserving national financial independence. (Judy Shelton, 1994).
- viii. If central bankers turn to gold as the ultimate guarantor of monetary integrity, should private citizens be less demanding? Those who demean the monetary use of gold as a provincial vestige of the past underestimate its contemporary appeal among financial sophisticates from Basel to Beijing. No citizen should permit the purchasing power of hard-earned wages to be undermined by fiscal malfeasance or monetary manipulation. The soundness of currencies should be maintained domestically and internationally through a system of fixed exchange rates based on universal gold convertibility. This is no mere academic proposal for international monetary reform; it is a fundamental call for a new approach to financial governance based on balanced budgets, fiscal transparency, and political accountability. (Ibid)

The Disadvantages and Advantages of Gold Standard

As the immediate impacts of the financial crisis are digested, and currency devaluation emerges as perhaps the final tool to engender recovery, it is time to consider again alternatives to this unstable fiat paper regime. With the thorough discrediting of much of the world's banking system throughout the recent crisis, there is an opportunity to re-examine the monetary pillars of western banking – including credit creation through fiat currencies that are wholly devoid of any asset backing. Can and should the world return to the Gold Standard? Perhaps it is very important to reignite this debate by setting out then refuting the main arguments cited

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against the Gold Standard. These arguments are distilled from the economics literature and media analysis. The arguments represent the lifecycle and scope of a contemporary gold based monetary system. We explain these arguments and counter arguments to explore whether they are still valid in light of recent and historic precedence, and whether they are insurmountable in the quest for a more stable currency in an unstable world.

The Disadvantages

There are quite a number of people who are against the return to Gold dinar. They believe that the return to gold dinar is neither desired nor practicable. They also say that the introduction of gold dinar in Muslim countries is in no way in Islamic imperative and they claim the system is likely to end in a chaotic failure. They always stating the following reasons why it is undesirable:

1. The total amount of gold that has ever been mined has been estimated at around 142,000 metric tons (Butterman, W.C.; Earle B. Amey III: 2005) and arguments have been made that this amount is too small to serve as a monetary base. The value of this amount of gold is over 6 trillion dollars while the monetary base of the US, with a roughly 20% share of the world economy, stands at \$2.7 trillion at the end of 2011. (Ibid).
2. The unequal distribution of gold as a natural resource makes the gold standard much more advantageous in terms of cost and international economic empowerment for those countries that produce gold. (George J.W Goodman 1981), In 2010 the largest producers of gold, in order, are China, followed by Australia, the US, South Africa and Russia. The country with the largest reserves is Australia. (Liezal Hill 2011).
3. The gold standard acts as a limit on economic growth. (David A Myer 2010) “As an economy’s productive capacity grows, then so should its money supply. Because a gold standard requires that money be backed in the metal, then the scarcity of the metal constrains the ability of the economy to produce more capital and grow.” (Ibid).
4. Mainstream economists believe that economic recessions can be largely mitigated by increasing money supply during economic downturns. (Mankiw, N. Gregory 2002). Following a gold standard would mean that the amount of money would be determined by the supply of gold, and hence monetary policy could no longer be used to stabilize the economy in times of economic recession. (Ibid). Such reason is often employed to partially blame the gold standard for the Great Depression,

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citing that the Federal Reserve couldn't expand credit enough to offset the deflationary forces at work in the market. (Richard H Timberlake 2005).

5. Although the gold standard has brought long-run price stability, it has also historically been associated with high short-run price volatility. (Michael D Bordo 2008). It has been argued by, among others, Anna Schwartz, that this kind of instability in short-term price levels can lead to financial instability as lenders and borrowers become uncertain about the value of debt. (Bordo, Michael D.; Robert D. Dittmar, William T. Gavin (2007).
6. Deflation punishes debtors. Real debt burdens therefore rise, causing borrowers to cut spending to service their debts or to default. Lenders become wealthier, but may choose to save some of their additional wealth rather than spending it all. The overall amount of expenditure is therefore likely to fall. (John Mauldin, Jonathan Tepper 2011).
7. Monetary policy would essentially be determined by the rate of gold production (Brad DeLong 1996). Fluctuations in the amount of gold that is mined could cause inflation if there is an increase or deflation if there is a decrease. Some hold the view that this contributed to the severity and length of the Great Depression as the gold standard forced the central banks to keep monetary policy too tight, creating deflation. (Michael D Bordo 2008).
8. If a country wanted to devalue its currency, a gold standard would generally produce sharper changes than the smooth declines seen in fiat currencies, depending on the method of devaluation. (Megan McArdle 2007).

The first thing we should admit is that the current monetary system has a serious problems and an alternative to this system needs to be found out. If we critically examined the case against gold dinar, we can come to the conclusion that their arguments are economically and logically ill-founded. Therefore, as we approach towards the digital economic transformation, we come to the conclusion that there is a compelling economic and religious rationale for the introduction of cryptocurrency backed by gold. Such conclusion is a response or rather a refutation of the arguments of those who oppose gold dinar. At least the researcher can provide three justifications for the prospect of gold-backed cryptocurrency.

The first justification lies in money is not desired for its reason, according to Imam al-Ghazali. Many Islamic legal scholars, including Ibn Taymiyyah, concurred with him in saying that money is merely a means of payment for transactions and not a desire in and of itself. (M. Asrorun Niam Sholeh, M.Fauzinudin Faiz & Moh.Muhlis Anwar, 2022). Cryptocurrencies



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commonly compared to gold because they share the same hedging characteristics against financial and economic instability as precious metals. A cryptocurrency known as a "gold-backed cryptocurrency" (GBC) is one in which the value of the underlying real asset determines the currency's worth (gold). This implies that, in addition to being decentralised and simple to trade, gold-backed cryptocurrencies also have intrinsic value, making them far more advantageous than conventional cryptocurrencies. (Shaen Corbet, Brian Lucey & Larisa Yarovaya, 2018).

Accordingly, the development of science and technology serves as a constant reminder that we live in a society that is becoming more advanced. A cornerstone of that evolution is cryptocurrency that is backed by gold. The second reason highlight the importance of reducing dependence on the US dollar as an international currency. Namely, gold-backed cryptocurrency can provide a viable alternative to the current and dominant US currency.

The final justification finds fault with current fiat and fractional reserve banking system. It is argued that, with the practice of interest rate, the current system is unjust and inherently unstable. For example, there is evidence that key factors contributing to financial imbalances, such as credit, liquidity, and risk taking, interact closely with the standard monetary policy framework. Policymakers are unlikely to affectively prevent financial crises, because there is a risk that the central bank's reputation will be tarnished, which could undermine its overall independence and credibility. In a broader sense, a need for financial stability could result in so-called financial dominance (F Smets, 2014).

Hence, the recurring currency and financial turbulence experienced in recent past is just a manifestation of the major weakness of the system. The foundation to this instability stems from the ability of banks to create money, which allows money supply to grow by default. Then, through the equation of exchange and given potential output, the growing money supply can generate instability in the economy (Douglas Arner, Ross Buckley, Dirk Zetzsche, and Artem Sergeev (2022). Thus, gold-backed cryptocurrency, as it is argued, is free from these weaknesses.

The Advantages

The arguments presented above are as the main impediments to a successful return to the Gold Standard. While the study consider that the arguments are not as strong as often presented and have argued accordingly, the main arguments for the Gold Standard must also be made, and in their own right provide a compelling argument for the required radical change. When governments and major banks have the unfettered right to print money, the result has sadly always been the same – significant increases in money supply and ultimately high inflation. This fact is the strongest argument in favor of a solid asset backed currency. As George Bernard Shaw in 1928 wrote (Michael D. Bordo 2008):

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“The most important thing about money is to maintain its stability... You have to choose between trusting the natural stability of gold and the honesty and intelligence of members of the government. With due respect for these gentlemen, I advise you, as long as the capitalist system lasts, to vote for gold”.

Few politicians today advocate a return to the gold standard, other than adherents of the Austrian school and some supply-siders. However, some prominent economists have expressed sympathy with a hard-currency basis, and have argued against politically-controlled fiat money, including former U.S Federal Reserve Chairman Alan Greenspan (himself a former Objectivist), and macro economist Robert Barro. (Joseph T.Salerno, 1982). *“The Gold Standard: An Analysis of Some Recent Proposals”*. Cato Policy Analysis. Cato Institute.) Greenspan famously argued the case for returning to a ‘pure’ gold standard in his 1966 paper “Gold and Economic Freedom”, in which he described supporters of fiat currencies as “welfare statist” intent on using monetary policies to finance spending.

Gold as a medium of exchange it functions to facilitate trade settlement, provide stability in transactions and not act as a hindrance to the functioning of the economy – an accusation all too often levelled at Fiat paper money, particularly with the spectre of money supply driven inflation.

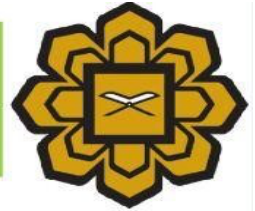
1. Long-term price stability has been described as the great virtue of the gold standard (Michael D. Bordo, 2008). He stressed that the gold standard limits the power of governments to inflate prices through excessive issuance of paper currency. Under the gold standard, high levels of inflation are rare, and hyperinflation is nearly impossible as the money supply can only grow at the rate that the gold supply increases. Economy-wide price increases caused by ever-increasing amounts of currency chasing a constant supply of goods are rare, as gold supply for monetary use is limited by the available gold that can be minted into coin. (Bettina Bien Greaves, 2010). High levels of inflation under a gold standard are usually seen only when warfare destroys a large part of the economy, reducing the production of goods, or when a major new source of gold becomes available. In the U.S. one of those periods of warfare was the Civil War, which destroyed the economy of the South, while the California Gold Rush made large amounts of gold available for minting (Bettina Bien Greaves, 2010).
2. The gold standard provides fixed international exchange rates between those countries that have adopted it, and thus reduces uncertainty in international trade (Bettina Bien Greaves, 2010). Historically, imbalances between price levels in different countries would be partly or wholly offset by an automatic balance-of-payment adjustment mechanism called the “price specie flow mechanism.” Gold used to pay for imports reduces the money supply of importing nations, causing deflation and a reduction in the general price level for goods and services, making

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them more competitive, while the importation of gold by net exporters serves to increase the money supply, causes inflation and an increase in the general price level, making them less competitive (Bettina Bien Greaves, 2010).

3. The gold standard acts as a check on government deficit spending as it limits the amount of debt that can be issued. It also prevents governments from inflating away the real value of their already existing debt through currency devaluation (Alan Greenspan, 1966). A central bank cannot be an unlimited buyer of last resort of government debt. A central bank could not create unlimited quantities of money at will, as there is a limited supply of gold (Bettina Bien Greaves, 2010).
4. A gold standard cannot be used for what some economists call, financial repression. (Greenspan, 1966). Newly printed money can be used to purchase goods and services, and to discharge debts, at no cost to the printer. This acts as a mechanism to transfer the wealth of society to those that can print money, from everyone else. Financial repression is most successful in liquidating debts when accompanied by a steady dose of inflation, and it can be considered a form of taxation. (Carmen M Reinhart & Kenneth S Rogoff, 2008). Alan Greenspan wrote "Deficit spending is simply a scheme for the confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statist's antagonism toward the gold standard."(Alan Greenspan, 1966) Per John Maynard Keynes "By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens". (Ron Paul 2011) Financial repression negatively affects economic growth.(Ron Paul 2011).The gold standard benefits savers by preventing their savings from being devalued or destroyed through inflation, and by rewarding them with higher real (inflation adjusted) interest rates. In the US and United Kingdom, from 1945 to 1980 negative real interest rates have cost lenders an estimated 3-4% of GDP per year on average (Ron Paul, 2011).
5. Many Muslim scholars asserted that, the usage of fiat money as a medium of exchange should be replaced by another medium that would be fair and just; preferably gold. One advantage would be that the government will not be able to exercise total control over it as is the case of paper money. The government will no longer be able to issue more gold than is available as was the case with the paper currency where the government can print as much currency as it wishes. After all, how much will it cost to print a piece of paper? The value of gold will only change when a new gold mine is found but that too will not be a severe change. Moreover, the value of gold will eventually stabilize after a period of time.



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Conclusion

From the perspective of world history, the victory of fiat paper currencies is relatively recent. Yet, until the last few years, discussion of the gold standard was almost banished from academic and public discourse. Given the progressivist ideology of our time, to suggest that a modern system is inferior to an older one is reactionary and therefore wrong. One of the most popular lines against the gold standard in the 1970s and 1980s was the idea that a gold dollar would be held hostage by the Soviets and their immense gold reserves. Barry Eichengreen, Richard Cooper, and many others regarded this as a conclusive argument against gold. (Barry Eichengreen, "Introduction," *The Gold Standard in Theory and History* (New York: Methuen, 1985), p. 29; and Richard Cooper, 1982, "The Gold Standard: Historical Facts and Future Prospects," in Eichengreen, 1985, p. 260). Even Richard T. Ely, founder of the American Economic Association, was sympathetic to the gold standard in his 1893 textbook. As late as the 1929 edition, Ely wrote: "With all of its shortcomings, the gold standard has the great advantage that its variations, largely the result of the play of the forces of the market, are beyond the arbitrary control of government" (Alan Greenspan, 1966).

As for the Islamic countries, nowadays they are facing a problem with the financial institutions which act as intermediaries between the capital providers or depositors and the individuals, or businesses which need the capital to buy premises, automobiles and for business operations. In return, the financial institution charge interest on the loans given to the individuals and businesses and pay fixed interest to the depositors. One of the reasons that the financial institution charge fixed interest is because the paper money deposited and lends out are subject to inflation. In other word RM10,000 today is not the same as RM10,000 five years from today as the value of paper money is always unstable.

From the discussion above, researcher found that stability in the value of money is very important in socio economic. There must be justice in economic. The problem exists because the manipulation of paper money or in economic term called inflation. Inflation destroys prosperity. Thus, gold has all the qualities of good money such as divisibility, portability, high value per unit of weight, durability and uniform quality. Secondly, gold stands as protector of property rights. The strength of gold dinar is depending on the gold standard where citizens have the right to have their paper currency redeemed in gold coins. Thirdly, another characteristic made gold a natural choice of money is because of recognizable substance that was easily portable and inherent value.

The failure of the gold standard could be concluded by existence of financial institutions which, lend money and charge interest to the borrowers. They are actually creating money out of money. In order to accommodate the shortage supply of money in the market due to the creation of money out of money, the government has to print more money. When more money is being printed at will, inflation will occur. In the ages prior to the paper money only the precious metals had been found to be reliable for money. This is because the precious metal did not inflate in value. Rais Umar, leader of the Murabitun Worldwide Movement says that



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"Gold itself is not a promise of payment but merchandise, a commodity. It holds value by itself and it has no inflation" (New Straits Time, 2002). Payment settlement needs a fixed currency exchange between trading countries. Paper money does not have intrinsic value and with it, currency exchange could be done impulsively and irresponsibly. It all depends on the manipulation of the currencies as seen during the economic crisis.



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