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Seigniorage of fiat money and the Maqasid al-Shari'ah: The compatibility of the gold dinar with the Maqasid

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Abstract

Purpose

Having argued in the part I paper that the interest-based fiat monetary system is not compatible with the objectives of the Islamic law or the Shariah, this paper seeks to argue why commodity moneys, like the gold dinar and silver dirham, are compatible with the maqasid.

Design/methodology/approach

This is a theoretical paper that integrates information from the Qur'an, the traditions of the Prophet, the writings of early Islamic scholars and historical observations vis-à-vis the objectives or the maqasid al-Shariah and makes logical deductions therefrom.

Findings

The theoretical conclusion is that while fiat money is counterproductive to the maqasid al-Shariah, commodity moneys like the gold dinar and silver dirham, are indeed compatible with the maqasid. The Islamic economic system is, therefore, fundamentally a "barter" system, i.e. an exchange economy where goods and services are exchanged value for value, but avoids the problems associated with barter by taking some of the commodities exchanged in the economy, that have the characteristics of money, as money. Gold is argued to be the best Shari'ah money.

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If the theoretical deductions and contentions of the paper are correct, then their practical implications cannot simply be understated. For the Islamic economic system to emerge in reality, or for that matter any process of Islamization of knowledge/disciplines to succeed, it is foremost crucial that commodity moneys gradually replace fiat money.

Originality/value

The paper establishes that commodity moneys like gold and silver are Shariah-compatible moneys, whereas the current fiat money is not.

Keywords

Interest

Economics

Islam

Citation

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