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THE ROLE OF GOLD AND SILVER IN THE ISLAMIC MONETARY SYSTEM

Asty Amanda,[1] Elvira Mey Roza,[2] Tongku Harapan Martua,[3] Mahmud Yunus[4]
[1,2,3,4]Ekonomi Syariah, Fakultas Agama Islam, Universitas Islam Sumatera Utara
*e-mail: astyamanda09@gmail.com[1] elvirameyrozastr880@gmail.com[2] mahmudyunus2233@gmail.com[3] tongkuharapan1707@gmail.com[4]

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Abstract

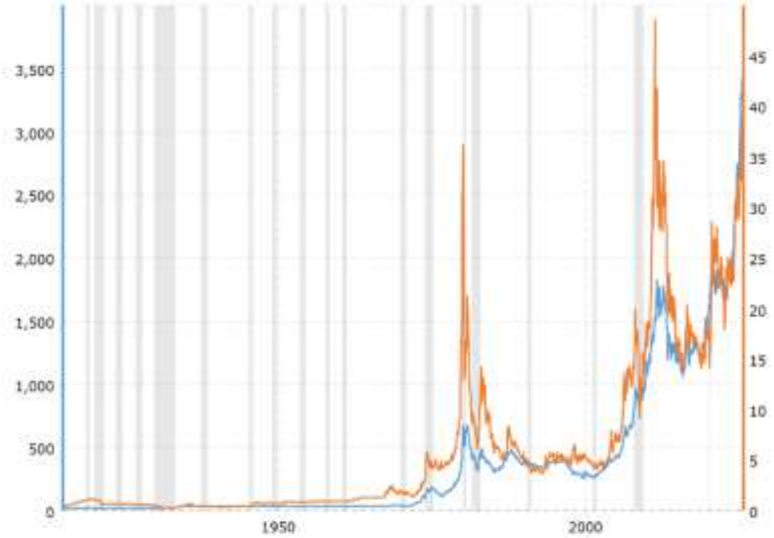
The Islamic monetary system possesses distinct characteristics that differentiate it from conventional systems, particularly in its reliance on real commodities as a medium of exchange and store of value. Gold (dinar) and silver (dirham) have historically served as the primary instruments in the Islamic monetary framework, from the time of Prophet Muhammad (PBUH) through the era of the Rightly Guided Caliphs. This article explores the strategic role of gold and silver in maintaining economic stability, preventing inflation, and fostering a just financial system. Unlike fiat currencies, whose value is often influenced by debt and artificial monetary policies, gold and silver derive their worth from intrinsic value. This study employs a qualitative approach through literature review of classical and contemporary sources. The findings indicate that using gold and silver as currency offers resilience against global economic fluctuations, minimizes value volatility, and enhances trust in transactions. Reintroducing the dinar-dirham system is viewed as a potential solution to current monetary crises and global financial inequality, although several technical and structural challenges must be addressed before practical implementation can be realized.

Keyword : ***The Role Of Gold, Islamic Monetary System***

1. INTRODUCTION

In recent decades, the world has witnessed recurring financial crises, unstable currency values, rising inflation, and widening economic inequality. These issues are closely linked to the dominant fiat monetary system, which allows for the unlimited printing of money without intrinsic value. The 2008 global financial crisis exemplifies the fragility of a system driven by debt, speculation, and central banking policies that often lack transparency and long-term stability. As the gap between real economic productivity and financial instruments grows, many have started to question the reliability and fairness of fiat currencies. This ongoing instability has triggered renewed interest in alternative monetary systems that are more stable, transparent, and just. One such system is the Islamic monetary system, which historically relied on real commoditiesspecifically gold (dinar) and silver (dirham)as currency. From the time of Prophet Muhammad (PBUH) through the era of the Rightly Guided Caliphs, this system ensured economic justice, protected against inflation, and promoted honest trade. Unlike fiat money, gold and silver have intrinsic value, are universally recognized, and cannot be artificially created. These characteristics made them effective in preserving wealth and trust over centuries. Their scarcity and stability rendered them ideal for monetary use in an Islamic framework that prohibits interest, speculation, and unjust enrichment.(Pujiyono, 2004).

Gold Price vs Silver Price Historical Chart



In the modern era, however, gold and silver have been largely sidelined as official currency and are primarily viewed as investment assets or hedges against inflation. Despite this, a growing number of Islamic scholars, economists, and communities have begun to re-examine the viability of returning to a dinar-dirham system, particularly in light of the systemic vulnerabilities exposed by global economic turbulence. The increasing dissatisfaction with fiat currenciesespecially in developing and Muslim-majority countrieshas revived discussions about the ethical and practical benefits of a monetary system rooted in real value and Shariah principles. The main problem lies in the detachment of modern monetary systems from intrinsic value. This detachment allows for inflationary policies, wealth concentration, and financial manipulationissues that run counter to Islamic economic ethics. Moreover, the global monetary order is dominated by a few strong currencies, creating dependency and vulnerability for other nations. In such a landscape, the Islamic monetary system based on gold and silver offers a conceptual and historical alternative that emphasizes justice, balance, and real economic activity.(Huda, 2022).

Given this context, it becomes essential to investigate the role of gold and silver in the Islamic monetary traditionnot just as historical artifacts but as potentially relevant instruments for today's economic challenges. This study aims to explore the theoretical foundations, historical practices, and contemporary relevance of using dinar and dirham in modern Islamic finance. By doing so, it seeks to provide deeper insights into whether a returnpartial or completeto a gold and silver-based system could offer solutions to current monetary instability and contribute to a more just and resilient global financial structure.(Hadiyanto et al., 2024).

2. THEORETICAL FOUNDATION

a. Intrinsic Value Theory (Aristotle, 4th century BCE)

This theory emphasizes that money should hold value in itself, not just be a symbol of value. Gold and silver were recognized by Aristotle as naturally valuable commodities suitable for money. In Islamic tradition, scholars like Ibn Khaldun in the 14th century also upheld this idea, making intrinsic value a central part of the Islamic monetary system.(Ibrahim, 2012).

b. Classical Quantity Theory of Money (Irving Fisher, 1911)

In his book "The Purchasing Power of Money," Fisher introduced the equation $MV = PT$, showing that increasing the money supply without real economic growth causes inflation. This theory supports the use of gold and silver in Islamic finance, as their limited supply naturally controls inflation, ensuring monetary stability.(Alim & Suryadi, 2021).

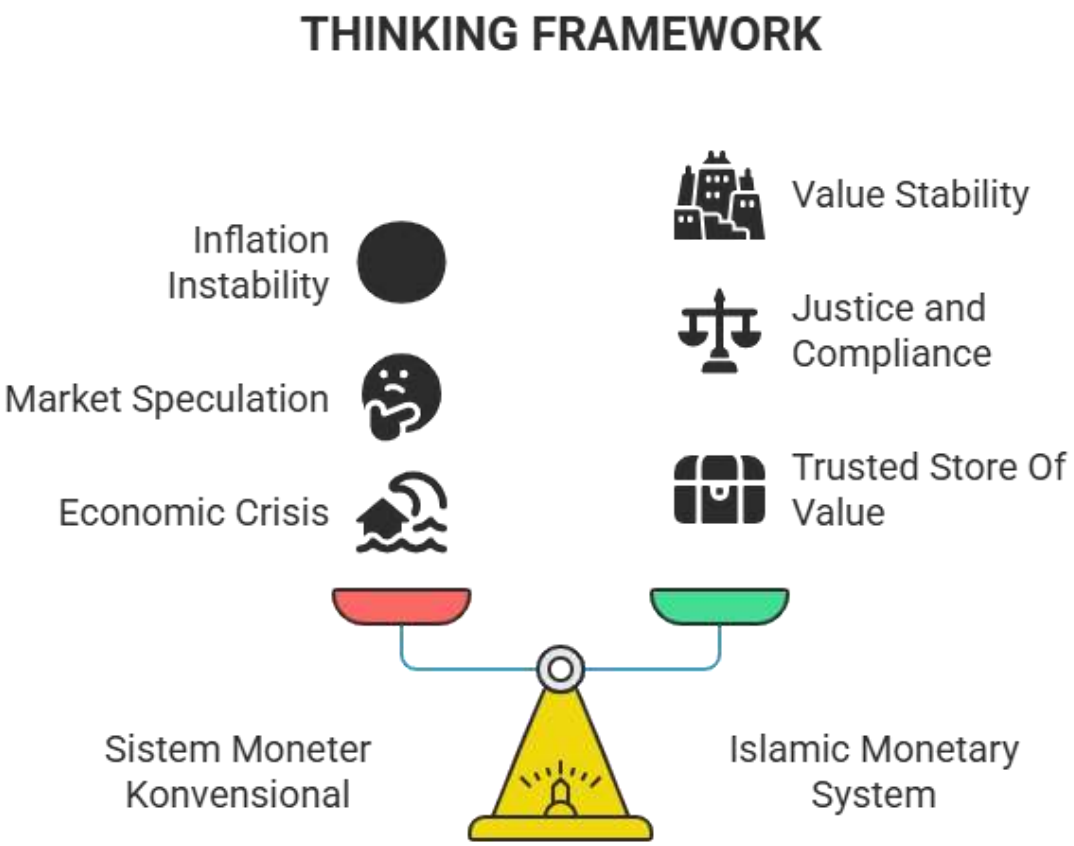
c. Islamic Theory of Money (Al-Ghazali, 11th century and Ibn Taymiyyah.)

This theory outlines that money in Islam is a medium of exchange and store of value, not a tradable commodity. Both scholars emphasized that only dinar (gold) and dirham (silver) meet the ethical and functional criteria of Islamic money. This theory was further developed by contemporary scholars like Mufti Taqi Usmani in the 20th century.(Rahman & Haniah, 2024).

d. Gresham's Law Sir (Thomas Gresham, 1558)

This economic principle states that bad money drives out good money when both are legal tender. Historically, when debased or fiat currency coexists with gold or silver coins, people tend to spend the bad money and hoard the good. This supports why Islamic economies emphasized exclusive use of dinar and dirham to avoid currency manipulation and preserve value.(Rawi et al., 2024). The theoretical foundation supporting the use of gold and silver in the Islamic monetary system is grounded in a strong intellectual and historical framework. The Intrinsic Value Theory emphasizes that currency must possess real, inherent worth, which gold and silver naturally provide. The Classical Quantity Theory of Money explains how limiting money supply something achieved through commodity-backed currency prevents inflation, aligning with Islamic economic principles. The Islamic Theory of Money, rooted in the works of Al-Ghazali and Ibn Taymiyyah, affirms that money should not be traded for profit and must serve the public good, which gold and silver fulfill. The Austrian Theory of Sound Money further supports these views by advocating for monetary systems tied to tangible assets to avoid economic instability. Lastly, Gresham's Law shows the danger of fiat money coexisting with sound money, underscoring the need for consistent, stable currency. Together, these theories strongly validate the relevance of dinar and dirham in a just and stable Islamic economy.

Figure 1. Conceptual Framework



This conceptual graphic compares the conventional monetary system with the Islamic monetary system. The conventional system tends to cause inflation, market speculation, and economic crises. In contrast, the Islamic monetary system promotes value stability, justice and Shariah compliance, and serves as a trusted store of value. The balance illustration highlights the superiority of the Islamic system in maintaining economic stability in a fair.

3. RESEARCH METHODOLOGY

This study employs a descriptive qualitative approach aimed at exploring and understanding the role of gold and silver in the Islamic monetary system through literature review. The methodology is based on the framework proposed by Sugiyono (2017), who explains that qualitative research is used to understand social and cultural phenomena from the perspective of the participants. The data in this research were obtained from secondary sources, specifically scholarly journals, academic books on Islamic economics, and other relevant publications. Data collection was conducted through documentation techniques, which involved identifying, reviewing, and analyzing written sources that discuss the history, theoretical background, and current relevance of dinar and dirham in Islamic finance. The collected data were analyzed qualitatively through data reduction, data presentation, and drawing conclusions. This approach was chosen to gain a comprehensive and critical understanding of various scholarly views and to assess the practical relevance of implementing a gold and silver-based monetary system in the context of modern economic challenges.(Hasan, 2017).

4. RESULTS AND DISCUSSION

History of the Use of Dinar and Dirham in Islamic Civilization

The usage of dinar (gold) and dirham (silver) as currency in Islamic civilization has a deep-rooted historical foundation that extends beyond mere economic utility. These forms of money played a central role in shaping Islamic economic, legal, and social systems. Before the advent of Islam, the Arabian Peninsula was already familiar with foreign currenciesprimarily the Roman denarius and the Persian drachmawhich were used in commercial transactions. The early Muslims adopted these coins due to their availability, relying on the weight and purity of the metal rather than the ruling authority that minted them. During the time of Prophet Muhammad (peace be upon him), transactions using gold and silver were prevalent, and Islamic principles began to shape how money should be used ethically and justly. The Prophet established clear guidelines regarding weights, measures, and fair trading practices. However, it was during the rule of the second Caliph, Umar ibn al-Khattab, that steps were first taken toward formalizing a monetary system based on Islamic principles. Umar allowed coins to be stamped with Arabic script and Qur'anic verses, signaling the beginning of an independent Islamic monetary identity.(Hadiyanto et al., 2024).

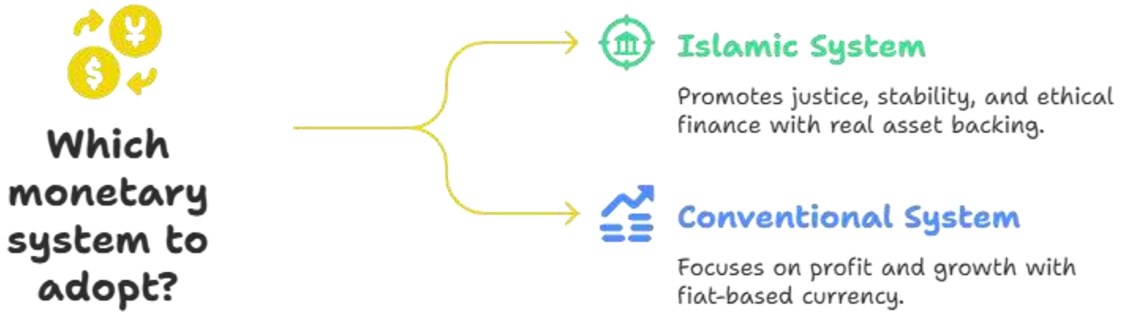
The most significant development occurred during the reign of the Umayyad Caliph Abd al-Malik ibn Marwan in the late 7th century. He introduced a completely Islamic coinage system by minting dinars and dirhams that bore no images of emperors or pagan symbols but instead featured Islamic declarations such as the shahada and Qur'anic verses. This reform marked a turning point in Islamic economic history, as it established a unified currency across the vast Islamic empire. The design, weight, and metal content of these coins became standardized, which facilitated trade and tax collection while strengthening the Islamic identity of the state. These coins became widespread in the Abbasid, Fatimid, and Mamluk periods, extending their influence across North Africa, the Middle East, Central Asia, and even parts of Europe. The stability and trust in these currencies fostered economic expansion and international trade. For centuries, the dinar and dirham were respected worldwide for their consistent quality and intrinsic value. They represented more than monetary instrumentsthey were reflections of the ethical and divine order that Islam aimed to establish in society. The collapse of the Islamic monetary system began with the fragmentation of the Muslim world, the rise of colonial powers, and the introduction of fiat currencies by Western institutions. The gold dinar and silver dirham gradually disappeared from circulation and were replaced by paper money not backed by physical commodities. However, interest in reviving these currencies has re-emerged in contemporary Islamic finance discourse, particularly as concerns grow regarding inflation, currency manipulation, and economic instability in fiat-based economies.(Sanusi, 2001).

Characteristics of Gold and Silver as Islamic Medium of Exchange

Gold and silver, as represented by the dinar and dirham, hold a special place in Islamic economic thought due to their intrinsic qualities and alignment with Islamic ethical values. One of the most important features of both metals is their intrinsic value. Unlike fiat currencies, which rely on trust in a central authority and are subject to inflation, gold and silver have real, inherent worth based on their physical properties. This makes them resistant to manipulation, devaluation, and counterfeitingthus ensuring long-term financial stability and trust in economic transactions. Islam emphasizes justice and balance in all financial dealings. Gold and silver fulfill this requirement because they are universally recognized, divisible without loss of value, durable over time, and scarce enough to maintain their worth. These characteristics make them ideal mediums of exchange and reliable stores of value, preserving wealth across generations and regions. Their usage ensures that money functions not as a tool for speculation or interest-based accumulation but as a fair and just means to facilitate trade, meet basic needs, and uphold social equity.(Krichene & Ghassan, 2019). The Qur'an and Hadith also provide specific endorsements for the use of gold and silver. Several rulings related to zakat, dowry (mahr), blood money (diyyah), and compensation are calculated using dinar and dirham as the standard. This further reinforces their normative role in Islamic jurisprudence. Scholars across different schools of Islamic law have generally agreed on the legitimacy and superiority of precious metals as currency due to their ethical compatibility and historical precedent. Furthermore, the nature of gold and silver discourages the expansion of money supply without real economic backing. In contrast to modern fiat systems that can generate money through debt-based instruments and central bank printing, a gold and silver-based system imposes natural limits, which can curb inflation and prevent excessive economic speculation. This is more consistent with the Islamic principle of avoiding gharar (uncertainty) and riba (usury), which are seen as root causes of economic injustice and instability.(Alim & Suryadi, 2021).

Comparison of Islamic and Conventional Monetary Systems

The monetary system plays a critical role in managing money supply, maintaining currency stability, and implementing monetary policies within an economy. Broadly, there are two fundamentally different frameworks: the Islamic monetary system and the conventional monetary system. These systems differ significantly in their principles, goals, and operational mechanisms. The conventional monetary system is rooted in capitalist economic theory. It primarily uses fiat money, which has no intrinsic value and is not backed by physical commodities like gold or silver. Its value is based on trust in the government or central authority that issues the currency. Central banks, such as the Federal Reserve or Bank Indonesia, control money supply, set interest rates, and use inflation targeting to stabilize the economy. One of the core tools in this system is the use of interest (riba), which is charged on loans and considered a return on capital.(Krichene & Ghassan, 2017).



In contrast, the Islamic monetary system is based on Islamic principles derived from the Qur'an and Sunnah. It prohibits interest (riba) in all forms, as it is considered exploitative and unjust. Instead of fiat money, the ideal Islamic system promotes the use of commodity-based currencies, especially gold (dinar) and silver (dirham), which have intrinsic value and are stable over time. The Islamic monetary framework also emphasizes risk-sharing, asset-backing, and ethical financial transactions. Investments and financing must be linked to real economic activity, ensuring that money is not created out of debt or speculation. Another major difference lies in monetary policy objectives. While the conventional system often targets inflation rates and economic growth using tools like open market operations, the Islamic system prioritizes economic justice, wealth circulation, and financial inclusion, especially through instruments like zakat, waqf, and profit-loss sharing mechanisms. Moreover, the Islamic system discourages hoarding (kanz) and speculative behavior (gharar), promoting productive use of capital. Financial contracts in Islamic economics must be transparent and based on mutual consent, ensuring fairness and reducing systemic risks. In conclusion, the Islamic and conventional monetary systems offer two distinct approaches. While the conventional system focuses on interest-based growth and monetary expansion, the Islamic system promotes stability, justice, and ethical financial practices rooted in Shariah. Implementing a pure Islamic monetary model requires comprehensive institutional frameworks, but it offers an alternative that aligns finance with moral and social values.(Huda, 2022).

The Relevance and Challenges of the Implementation of the Dinar Dirham in the Modern Era

The idea of reintroducing the dinar (gold coin) and dirham (silver coin) as part of the Islamic monetary system has gained interest in recent years. These currencies, used during the early Islamic caliphates, are considered stable, intrinsic in value, and free from inflationary manipulation, unlike modern fiat currencies. In an era marked by economic crises, currency devaluation, and rising debt, many scholars and Islamic economists see the dinar and dirham as a solution that aligns with Shariah principles and promotes financial justice. One of the main arguments for their relevance is the intrinsic value they carry, making them less susceptible to inflation or central bank policies. They encourage real asset-based transactions and limit speculative behavior, fostering a more stable and ethical financial environment.(Ibrahim, 2012). Furthermore, their implementation could support Islamic economic goals such as fair wealth distribution, prevention of usury (riba), and encouragement of trade backed by tangible assets. However, significant challenges hinder their practical implementation in the modern global economy. First, there is the lack of political will and legal framework in most countries to support a commodity-backed monetary system. Second, the volatility in gold and silver prices in global markets can affect purchasing power stability. Third, integration with existing banking systems and international trade frameworks poses complex technical and regulatory hurdles. Additionally, public unfamiliarity with using metallic currency in digital and cashless societies can limit acceptance.(Barakat & Haneef, 2006).

Contemporary Scholars and Economists' Views on the Dinar-Dirham System

The reintroduction of the dinar and dirham as part of the Islamic monetary system has sparked diverse opinions among contemporary scholars and economists. Many Islamic economists see it as a return to a just and stable financial order rooted in intrinsic value, while others consider it impractical within the global economic structure dominated by fiat currencies and digital transactions. Prominent scholars like Imran Hosein advocate strongly for the revival of the gold dinar and silver dirham. He argues that fiat money is inherently exploitative and inflationary, while dinar-dirham usage aligns with the Sunnah and ensures value preservation over time. According to him, the shift to fiat currencies has led to economic inequality and instability, and the Islamic world should return to real money backed by tangible assets to uphold justice and sovereignty. Similarly, Umar Ibrahim Vadillo, a key figure in the modern Islamic gold dinar movement, views dinar-dirham as tools to rebuild Islamic trade, free from interest (riba) and currency manipulation. He promotes localized economies using gold and silver to create self-reliant communities independent of Western financial systems.(Hafeez & Rashid, 2021).

However, not all economists support this view. Scholars such as Monzer Kahf and Muhammad Nejatullah Siddiqi acknowledge the philosophical appeal of dinar-dirham but highlight serious technical and practical barriers. They argue that a modern economy requires liquidity, scalability, and flexibilitytraits better served by fiat currencies. For them, the goal should be to Islamize existing monetary institutions rather than replace them with historical systems that may not meet current economic demands. Mainstream economists also caution that reintroducing commodity money could lead to deflation and inefficiency, given the limited supply of gold and silver. Additionally, global trade mechanisms and monetary policies are deeply integrated with fiat-based systems, making transition complex. In summary, while the dinar-dirham system remains symbolically and ethically powerful for many Islamic thinkers, its full implementation remains a contested issue. Most scholars agree that serious research, gradual application, and institutional reform would be necessary before it could serve as a viable alternative to modern monetary frameworks.(Rawi et al., 2024).
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5. CONCLUSION

Gold and silver have historically played a vital role in the Islamic monetary system, serving not only as mediums of exchange but also as stable measures of value grounded in intrinsic worth. The dinar (gold) and dirham (silver) were used during the Prophet Muhammad's time and the early caliphates, fostering a just and transparent economic system. Unlike fiat currencies, which are subject to inflation and manipulation, gold and silver maintain purchasing power and are consistent with Islamic principles of fairness and stability. Their physical nature also prevents excessive speculation and ensures wealth is based on tangible assets. In today's era of economic uncertainty, revisiting the gold and silver standard presents a potential solution aligned with Islamic economic teachings. It promotes trust, stability, and justice in financial transactions. Therefore, the revival and integration of gold and silver into modern Islamic finance could strengthen monetary integrity and support a more ethical, equitable economic framework consistent with Shariah principles.
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