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Dinar and Dirham As One Alternative Inflation Control Solution in Indonesia

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Abstract

The phenomenon of soaring inflation and the depreciation of a country's currency has become a factual discussion on several discussions of economic disciplines. In the context of the rupiah exchange rate, an empirical fact explains that in some periods, the currency of the Republic of Indonesia, the rupiah, continued to weaken against the currencies that became references such as USD and Euro. It becomes interesting when you notice that some countries have the same profile as Indonesia, a currency issue becomes a global issue. Especially when we notice that the weakening of a country's currency will correlate in line with the soaring increase in inflation in a country.

The economic growth of a country is influenced by several factors including the positive trade balance, significant GDP growth, and in some areas, a stable currency. It is common knowledge, that Indonesia as a country that has a high dependence on imports, always faces endless conditions when its import payments must be made using the dollar or euro. The amount issued by IDR to buy 1 USD is now almost reaching Rp. 15,000. Inevitably, the country's foreign exchange reserves as a barometer of a nation's economic strength when facing a crisis become a challenge. The need for a very high USD currency from large corporations and profit-seeking individuals from currency buying and selling transactions, adding to the burden of the IDR became even more severe which in turn also affected the soaring inflation.

Islamic economists have long learned that there was a practice carried out in ancient Roman and Persian times, which was later adopted by Muslims since the time of the Prophet Muhammad became Caliph and continued by his noble companions, namely the use of Dinar and Dirham currencies as legal state currency. It has become a common understanding, that the Dinar made of gold and dirham made of silver has real and intrinsic value that has reliability in resisting the surge in inflation given the increasing value of gold and silver commodities.

Some countries with quite large Muslims such as Malaysia in Asia and Turkey in Europe, are among the countries that are quite incentive to convey ideas and ideas to move to the Dinar and Dirham currencies. Reluctance to always depend on the economy of other countries and the desire to be able to create a stable currency and to suppress a surge in uncontrolled inflation has made the above countries increasingly challenged to immediately set Dinar and Dirham as a substitute for the current currency.

However, the motivation to establish Dinar and Dirham as a new currency must still be comprehensively explored whether it will have a positive impact, especially related to the ability of Dinar and Dirham to control the rate of inflation surge in a country. A study of systemic impacts also needs to be carried out which is likely to arise related to the process of transferring this currency. Respond provided by business people, their relevance to the state debt structure, market readiness in accepting new currencies and their impact on the rate of growth of the country should be anticipated. Indonesia as a developing country that is geographically and culturally similar to Malaysia also needs to

consider the idea of using Dinars and Dirhams as a rupiah currency. The Indonesian economy which is currently deteriorating with economic growth in the range of 5.2%, a deficit, and a depreciating trade balance is considered very necessary to consider the Dinar and Dirham to replace the rupiah.

Keyword: Dinar and Dirham, Alternative, Inflation Control Solution.

JELL Classification: B22, B26,E42

DISCUSSION

One of the most feared economic problems in Indonesia is inflation. Inflation is the process of declining currency values that are closely related to high commodity prices. Inflation is also interpreted as the increasing number of circulating currencies which are considered as the cause of rising prices. Indonesia had experienced hyperinflation during the Old Order government. It was recorded at that time that inflation had soared to reach 650% per year!

Hyperinflation during the old order occurred due to the uncontrolled circulation of more than one currency. At that time the Indonesian government temporarily declared three currencies in force in the Republic of Indonesia, namely the De Javashe Bank currency, then NICA and new banknotes, namely ORI (Oeang Republik Indonesia).

Besides, the poor condition of the national banking sector and a large amount of Indonesia's dependence on foreign capital, such as loans and imports, all made Indonesia hit by a major economic crisis that began with the crisis of the Rupiah against the US Dollar in mid-1997.

Inflation conditions in Indonesia are increasingly haunting when the country's monetary system is still referring to and oriented towards the US (US dollar). The use of paper money also contributes to the surge in inflation considering paper money has an intrinsic value that is far lower than its nominal value.

While in the Islamic economic system, the monetary concept was implemented since the time of the Prophet until the days of friends had their concept of currency even though the Dinar and Dirham were not genuine products of the Arab nation.

During the Abbasid Dynasty Islam had recorded glory in all sectors, including the economic sector. This achievement certainly does not escape the role of the ruling policy in controlling the monetary system properly. The peak of this dynastic glory occurred during the caliph of Hārūn al-Rashid. Revenues of the Abbasid state were recorded at 4.5 million dinars and 272 million dirhams per year.

The Islamic economy began to experience a decline during the reign of the Caliph hirhir al-Barqūq, one of the rulers of the Mamluk dynasty who stopped the use of Dinars and Dirhams. Instead, the government imposed the use of fulūs (currencies not pure gold or silver). As a result of this policy, inflation occurred at that time. The deterioration in the value of the currency and the increase in the price of goods inevitably and for the first time, high prices in the market began to occur.

The new banknotes system which lasted around 300 years, has proven to cause many disasters in various countries, especially capitalist countries. While the dinar and dirham currencies - which are made of pure gold and silver - which have lasted more than 3000 years in history have never caused a catastrophic monetary crisis, because the real value is the same as the intrinsic value, and this condition will not invite speculators to trade commodity currencies to expect margin trading from the transaction. In this regard,

the Islamic monetary system explicitly requires a link between money and the real sector and does not allow money to work alone (related to the usury process).

The description of the stability of the Dinar and Dirham can be illustrated by the fixed price of a goat purchased for 1 dinar about 14 centuries ago, which remains for 1 dinar in the present.

أَعْطَاهُ دِينَارًا يَشْتَرِي بِهِ شَاةً ، فَاشْتَرَى صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ — عَنْ عُرْوَةَ أَنَّ النَّبِيَّ لَهُ بِهِ شَاتَيْنِ ، فَبَاعَ إِحْدَاهُمَا بِدِينَارٍ وَجَاءَهُ بِدِينَارٍ وَشَاةٍ ، فَدَعَا لَهُ بِالْبَرَكَاتِ فِي بَيْعِهِ ، وَكَانَ لَوْ اشْتَرَى التُّرَابَ لَرَبِحَ فِيهِ

From 'Urwah that the Prophet. give him one dinar to buy a goat. Then he bought two goats with one dinar. Then he sold one of the goats for the price of one dinar. So he returned home with a dinar and a goat. The Prophet prayed for his blessing, "If he bought dust, surely he would be lucky." [H.R. Bukhārī]

At present, the value of one dinar is equivalent to Rp 2,550,000 (as of 2019) and is enough to buy one to two goats of reasonably good quality. On the other hand, the value of money of that size, a few years ago would be enough to buy more than 2 goats. This shows that paper money or money is very susceptible to depreciation and plays a major role in hoisting inflation. This is partly due to the intrinsic value of paper currencies which is much lower than the nominal value.

In the book *Iḥyā 'Ulūm al-Dīn*, Imam al-Ghazālī points out the important role of dinar and dirham for human life on earth. According to him, the main function of gold and silver is to be used as a currency. Because gold and silver have features that other metals do not have, including gold and silver that are durable, not easily corroded, are rare items, and their value continues to increase over time,

God created gold and silver not to be used as commodity items such as home furniture. Islam forbids and strictly forbids the Ummah to use gold and silver furniture. Rasulullah saw. said:

الَّذِي يَشْرَبُ فِي آيَةِ الْفِضَّةِ إِنَّمَا يُجْرَجُ فِي بَطْنِهِ نَارَ جَهَنَّمَ ۖ

"Whoever drinks from a vessel of gold and silver, it is as if he poured a hell of fire into his stomach." [HR. Bukhārī]

Instead, God has created iron and aluminum or something like that to be used as material for making home furniture such as glasses and plates. Allah also condemned people who made gold and silver as savings.

Allah SWT. said which means:

"O ye who believe most of the Jewish and Christian pastors eat the property of others by vanity and they obstruct (mankind) from the path of God. And those who keep gold and silver and spend them not in the way of God, then tell them (that they will get a painful punishment). On the day that silver gold was heated in hell, then they burned their foreheads, their stomachs and backs (then said) to them: "[QS At-Taubah: 34-35]

Based on this verse Imam al-Ghazālī states that the accumulation of gold and silver is a great crime that can cause harm or danger that is evenly distributed in various layers of society.

According to him this verse also implies that God's sole purpose in creating gold and silver is to be used as a currency. Gold and silver must always be circulating from one hand to another. Currency may not be hoarded and left in one hand.

Whereas in the time of Ibn Taymiyyah, the Mamluk Dynasty experienced economic inequality and instability of the monetary system. This is nothing but the result of the many fulūs circulating and the increasing amount of copper in the currency that replaces the dinars and dirhams.

During the Mamluk Dynasty (1263-1328.M) three types of money began to circulate: dinars, dirhams, and fulūs (copper). The circulation of the dinar continues to decline and eventually disappears. Whereas the widely circulated currency is fulūs. This phenomenon was formulated by Ibn Taymiyah that low-quality money (fulūs) would get rid of good quality money (dinars and dirhams).

In his *Fatāwā* book, Ibn Taymiyah explained that if two currencies have the same nominal value (for example, they are equal to 100), but not the same as their intrinsic value (for example one is printed from gold while the other is printed from copper) then money made from cheaper materials will get rid of other currencies in circulation. Better metals will be stockpiled, smelted or exported because they are considered more profitable.

Ibn Taymiyyah's theory (1263-1328.M) was later known as Gresham's law, namely "*bad money drives out good money*" which was initiated by Sir Thomas Gresham (1519-1579.M).

The ruler at that time stopped printing dinars and dirhams. They exported silver to Europe to make a profit. Instead, they imported copper from Europe to make it into a currency. Therefore, Ibn Taymiyyah criticized the authorities in the printing of excessive fulūs. He said "The authorities should print the fulūs by the proportional value of the transactions that apply in society without causing tyranny against them. And the authorities must not trade fulūs at all to reap huge profits from the people, such as buying copper to be printed as a currency. " The statement shows that he has several thoughts about the relationship between the amount of money, the total transaction volume and the price level. His statement about the volume of fulūs must be by the proportion of some transactions that occur to ensure the realization of fair prices

Although to use pure gold and silver as the official currency of the world is not easy, and the amount of pure gold is not sufficient enough to be the currency of all humanity on earth, it is not impossible to start trying to apply it in some countries especially first to be applied in other countries.

Indonesia itself as a country which is currently experiencing a downturn from various aspects both from low per capita income, trade balance deficit, currency value which continuously depreciates and high inflation spikes, should start trying to use this currency.

The crazy surge in government and private foreign debt that requires dollars when payment of maturing debt will continue to weigh on the rupiah which will continue to depreciate. Prices will soar and speculators playing derivative transactions will flourish. On the other hand, the real sector will slowly slow down, unemployment will increase and people's purchasing power will decline. The application of Islamic economic principles that are equitable and move the real sector will create a strong foundation for the nation's economic growth. And the use of the Dinar and Dirham currencies has been very absolute to start trying if you do not want the country's economy to move increasingly unpredictably. Indonesia must emulate Malaysia and Turkey who have

determined to start using this currency. Especially if you notice that the economies of those countries are already above Indonesia

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