

GOLD DINAR: THE IMPACTS ON THE ECONOMIC SOCIAL ORDER

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Abstract

During the 1997 currency crisis, Malaysia had opted to peg its currency against US Dollar, (an action that was claimed by many as an uninterestingly orthodox) which proved to pay off. On the other hand, contemporary scholars from vast fields have started to revisit the possible usefulness of the gold Dinar as a medium of exchange, payment of zakat and dowry. This theoretical paper will aim to explore the impacts of the Gold Dinar on the economic social order. The impacts would be portrayed by curbing greed and other negative elements, creation of a focused wealth accumulation, reducing dependency on debts, creation of discipline corporate society, which will result a new Malaysian society.

Keywords: Gold Dinar, Currency Crisis, and Society.

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A. Introduction

During the 1997 currency crisis, Malaysia had opted to peg its currency against US Dollar, (an action that was claimed by many as an uninterestingly orthodox) which proved to pay off. On the other hand, contemporary scholars from vast fields have started to revisit the possible usefulness of the gold Dinar as a medium of exchange, payment of zakat and dowry (Evans, 2003).

The financial crisis of 1997 left an indelible mark in the countries that it visited. The phenomenal pace and extent of the destructions resulted in many reasons being put forward to account for its occurrence, by as many commentators. Capital cronyism and lack of corporate governance etc were amongst the causes banded around. Awang Adik Husin, the former Chairman of the Malaysia Electricity Company, commented that the financial crisis was promulgated from the lacking of confidence of the foreign direct investors after several speculative attacks to the South East Asian countries. This in turn resulted in massive capital outflows from the affected country. However, these reasons, which perhaps on their own deserved merit, have not been able to provide a logical and coherent explanation on the speed and extent of the devastation.

The former Malaysian Prime Minister, Dr Mahathir Mohamad, while addressing his inaugural speech in the 2003 Gold Dinar Convention, supports the idea of Gold Dinar. The OIC countries are encouraged to use the Gold Dinar as an alternative international payment settlement through the Bilateral Payment

Arrangement Mechanism (BPA) with cooperation from central banks to avoid the currency crisis from recurring (Mohd Dali et al, 2003). Participations from private sectors are also encouraging and those companies that venture into the Gold Dinar business varying from minting to providing electronic saving and payment transfer services such as the Royal Mint of Malaysia, Dinar and Dirham Sdn. Bhd., Islamic Gold Dinar Exchange (IGD) and E-Dinar Ltd. All of these companies are promoting the usage of Gold Dinar as a medium of savings or payment settlement via electronic, and not as a currency since, legally, the Gold Dinar is not a currency of legal tender.

Even though the Gold Dinar is not a legal tender, the bimetallic gold and silver system has been used as a medium of currencies since the Byzantium era before it ended in the year 1875 when the fiat money was introduced to replace the gold and silver coins from the monetary system.

Gold was entirely taken out from the monetary system in 1971 when the Bretton Wood System was abandoned. Since then, the paper money was not backed with any commodities and merely pieces of paper without intrinsic value. Instead token value is given to the fiat money.

Malaysia, in finding the solution to the crisis, has formulated the mechanism of gold Dinar for international trade. There are two options that are available in implementing the gold Dinar instead of using fiat money as the current system.

The options are to use the Gold Dinar partially in the system, which is having the Gold Dinar as the international medium of exchange while maintaining the Malaysian Ringgit for domestic uses, or to wipe out the fiat money entirely in the economic system replacing it with Gold Dinar.

The latter is impractical since implementing the Gold Dinar entirely in the economic system is against the IMF regulations. Furthermore, Malaysia also has shown a proven success with the dual banking systems that are currently undertaken by the local and foreign bank. The success of the Islamic banking system that runs parallel with conventional banking system demonstrates that the Gold Dinar should also be implemented side by side with the fiat money.

B. The Impact on Social Order

I. Curbing Greed And Other Negative Elements

In the Gold Dinar economy, interest is strictly prohibited since the nature of Gold Dinar prevents itself from being compounded. One Gold Dinar could not be compounded because one Gold Dinar will only be one Gold. The reason is because gold could not be created at will as compared to fiat money. Therefore, Gold Dinar could only be increased from real gold production such as the exploration of new gold mining and production of gold.

Furthermore, Islamic economics prohibit taking and giving interest, as this will pulverize the economy as a whole and promote injustice between the rich

and the poor. This will be in line with Dinar economy where, ideally, the rich would be able to assist the poor in the economic system from the payment of zakat. In addition, the Dinar economy promotes Mudharaba (profit and loss sharing) and Musyarakah (partnership) concepts as the economic engine in the society.

Contradicts to the present fiat system, which depend heavily on interest and inflation, with profit and loss sharing and partnership system, the society will turn out to be less individualistic and be more helpful to each other, which in return reduce poverty problems.

In the current fiat money system, we could see a lot of problems arise due to poverty which led other societal negative elements such as incest, rape, murder and many more.

Another reason that could increase the negative elements in the fiat money system is the nature of the fiat money, which could be rented out i.e. usury or interest that promotes unemployment. This is true because in economy and finance, when businessman want to venture into business they will have to evaluate their opportunity cost of venturing into the business. If the business could only provide a 4 percent return as compare to interest given by the bank at 10 percent, the businessman will forgo the business and instead rent his money in the banking system (Vadillo, pg 46, 1991).

If the business vented out its money to the bank, which could have been used to provide 10 job opportunities to newly graduated students, those 10 graduates will find themselves unemployed. They will then end up wandering at shopping complexes, unable to avoid unemployment because to venture into business, capital constraints limited them from doing so (Vadillo, pg 46, 1991).

However this argument is not supported by empirical evidence. Empirical results from testing the correlation between the interest rates on savings, 6 months deposit, and 12 months deposits and unemployment rate do not show any relationship between those variables.

a) Correlation Between Savings Interest rate and Unemployment rate

Ho = There is no relationship between savings interest rate and unemployment rate

Hi = There is a relationship between savings interest rate and unemployment rate

Table 1: Correlation Between Savings Interest rate and Unemployment rate

		LNUNEMPL	LNRATE
LNUNEMPL	Pearson Correlation	1	.317
	Significance(2-tailed)	.	.200
	N	18	18
LNRATE	Pearson Correlation	.317	1
	Significance(2-tailed)	.200	.
	N	18	18

Yearly data collected from International Financial Statistics from 1982 to 1999.

Based on the above result we failed to reject H_0 at 0.05 significance level, therefore there is no relationship between savings interest rate and unemployment rate.

b) Correlation between 6 months interest rate and unemployment rate

H_0 = There is no relationship between 6 months interest rate and unemployment rate

H_i = There is a relationship between 6 months interest rate and unemployment rate

Table 2: Correlation between 6 months interest rate and unemployment rate

		LNUNEMP	
		L	LNMT6
LNUNEMPL	Pearson Correlation	1	-.272
	Significance(2-tailed)	.	.276
	N	18	18
LNMT6	Pearson Correlation	-.272	1
	Significance(2-tailed)	.276	.
	N	18	18

Yearly data collected from International Financial Statistics from 1982 to 1999.

Based on the above result we failed to reject H_0 at 0.05 significance level, therefore there is no relationship between 6 months interest rate and unemployment rate.

c) Correlation between 12 months interest rate and unemployment rate

H_0 = There is no relationship between 12 months interest rate and unemployment rate

H_1 = There is a relationship between 12 months interest rate and unemployment rate

Table 3: Correlation between 6 months interest rate and unemployment rate

		LNUNEMP	
		L	LNMT12
LNUNEMPL	Pearson Correlation	1	-.182
	Significance(2-tailed)	.	.469
	N	18	18
LNMT12	Pearson Correlation	-.182	1
	Significance(2-tailed)	.469	.
	N	18	18

Yearly data collected from International Financial Statistics from 1982 to 1999.

Based on the above result we failed to reject H_0 at 0.05 significance level, therefore there is no relationship between 12 months interest rate and unemployment rate.

Even though the result contradicts, the result might be different if monthly data is tested instead of yearly data especially during the currency crisis period.

II. Creation of a Focused Wealth Accumulation

In the context of the present system, wealth accumulation could be divided into two categories, the artificial wealth and real wealth.

The percentage of "real wealth" to "artificial wealth" is not exactly known, for example: when a bank issues a credit card, how much wealth is created before

the billing cycle? The fiat money is good because the government says it is good.

But like all empires, there will come a crisis of "confidence" which will cause a run on the currency. The holders of the new "electronic wealth" will want its full face value in paper, but the paper won't be there which will cause a migration from the paper to some "commodity". The artificial wealth will be discovered and the economy will collapse.

Appendix 2a shows that the composition of Mo or currency in circulation is only a small portion in M2, which comprises currency in circulation, demand deposit and quasi money. Appendix 2b shows that the percentage of Mo from 15 percent in 1982 to only 8 percent in 1999. The percentage of currency in circulation keeps on decreasing from year to year. The question is what will happen if banks run out occur.

III. Creation Of Discipline Corporate Society

Asian Crisis 1997 has seen the importance of a discipline corporate society, which is portrayed through corporate governance as one of the measures to prevent another financial crisis. As set out in the Finance Committee's Report, the definition of corporate governance is, "*the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective*

of realizing long term shareholder value, whilst taking into account the interest of other stakeholders” (Securities Commission, April 2001). Corporate governance as may be depicted from this definition is therefore not only about achieving business prosperity but also about ensuring accountability, a proposed theoretical framework for establishing corporate social reporting as a legitimate effort and it is said to enhance transparency of organizations and democracy in society (Gray et al 1996).

The implementation of Gold Dinar could have helped to improve company's corporate governance by improving its transparency especially in the investment area, one of main contributors for company's income. For instance, in the current international monetary system, arbitrage and speculation is made possible due to the different currencies and the cross exchange rate between them. However, through the use of Dinar as single currency, all these exchange rates are eliminated, which then would remove any attempt for speculation and arbitrage. Notice, however, even though this could further strengthen and stabilize the economy, it will only work if a group of countries such as OIC countries willing to replace their currency with Dinar for international trade purposes.

In addition, in the present monetary system, there are business transactions that involve something that is real (good and services) and virtual (binary bit of computers) (Ahamed & Hassanuddeen, 2002). This situation has widened the opportunity for corporate society to manipulate their operations that defeat

the purpose of corporate governance. Dinar, on the other hand, is real and therefore, each transaction is exchange only within the real sector. This will not only justify the point that the introduction of Dinar will create harmonization between money supply and real sector, but also enhance the creation of discipline corporate society.

IV. Reducing Dependency On Debts

The understanding of Gold Dinar as a viable solution to improve economic social order lies in understanding weaknesses of current monetary system. In the fiat money economy, the wealth that the society gained will lead to artificial wealth, as the wealth is not real as compared to the Gold Dinar, which has its own intrinsic value. Not only this artificial wealth will never last as compare to real wealth, it also has created lots of unnecessary debts.

Looking at the nature of human beings who has no discipline in fulfilling their needs and wants, paper money has encouraged society to spend more than what they are earning through creation of debt. The using of credit cards is one of the examples to illustrate this situation. This artificial transaction through credit cards has made it difficult for users to control their needs and hence causing them to keep on spending without realizing that their debt is increasing. Apart form this, when a card owner fails to settle his/her monthly account, the bank will then impose an interest, which then increases his/her

debt. This will also distort the development in social order as most of the benefit will go to the banking system that gains through the interest charged.

This dependency on debt could have been reduced by the introduction of Gold Dinar whereby all transactions is gold backed. In the dinar system, all transactions are instantaneous and take place with actual funds. There is no need for creation of intermediate credit like credit cards in the interest based monetary system (Ahamed & Hassanuddeen, 2002).

In addition, Dinar system could narrow the gap between the riches and the poor through the elimination of interest as Gold Dinar has made it possible to introduce a banking system that discourage debt and encourage Musyarakah or profit or loss sharing. This is due to the fact that each Dinar must be represented with actual money that contains a certain weight of gold and silver, which make it difficult to simply create or print or controlling its supply and demand through the use of interest, as what has been done with paper money through bank loans (Abdul Halim & Norizaton, 2002).

C. Creation Of New Malaysian Society

Earlier section has discussed the importance of Gold Dinar in tackling issues on curbing greed, wealth accumulation, discipline corporate society, and reducing debt dependency. Looking at the arguments given, it is fair to conclude that with Gold Dinar, money supply would have more harmonization with the real sector

and thus, should promote a just monetary system. This will preserve the chance to decrease the gap between lower income and higher-income society, which in turn improve economic social order. It may be too idealist to say that this will create a new Malaysian society but there is no doubt that the implementation of Gold Dinar could change the environment and behavior of Malaysian society as a whole.

There is, however, one limitation in this paper as the focus is mainly on the theoretical aspects of the impact of Gold Dinar's implementations on Malaysian economic social order and hence there is still lack of empirical evidence to support all arguments presented in here. Therefore, in the future, further research should be conducted focusing on the empirical aspects of Gold Dinar.

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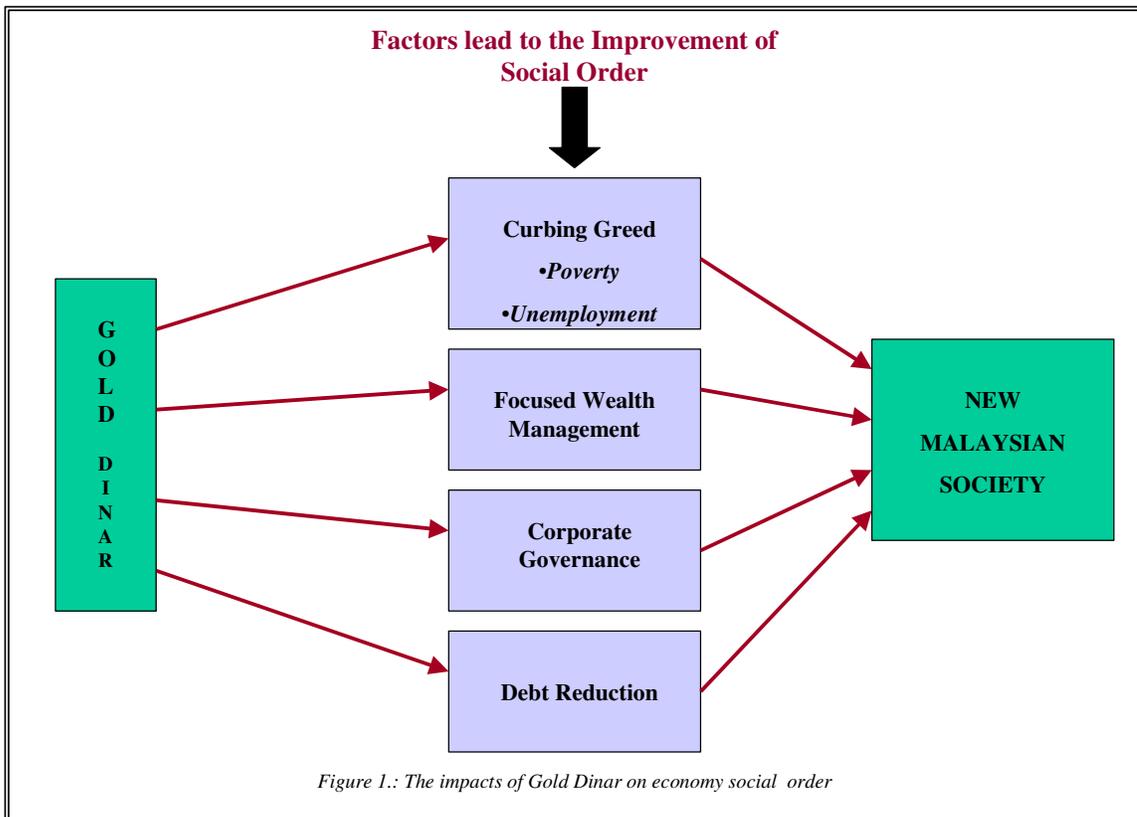
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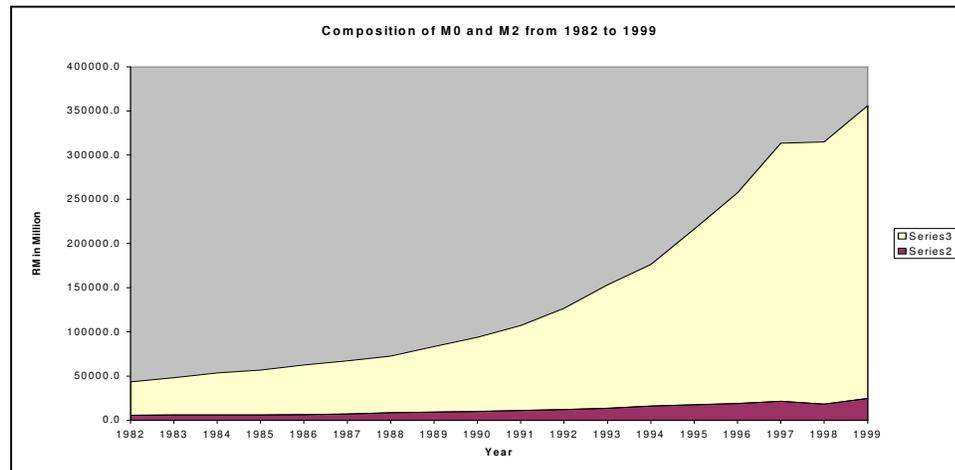
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Appendix 2a



Appendix 2b

