Islamic Monetary Tradition and Practice: A Historical Approach

Muhammad Afriansyah Hidayah1, Asyari Hasan2
1Program Studi Ekonomi Syariah, Fakultas Ekonomi dan Bisnis, UIN Syarif Hidayatullah, Indonesia
2Program Studi Ekonomi Syariah, Fakultas Ekonomi dan Bisnis, UIN Syarif Hidayatullah, Indonesia
E-mail: muhammad.afriansyahhidayah18@mhs.uinjkt.ac.id1, asyarihasan01@gmail.com2

ARTICLE INFO
Article History:
Received: 2021-06-24
Accepted: 2021-09-15
Published: 2022-01-31

Keywords:
Dinar, Dirham, Monetary, Money

ABSTRACT
This study aims to analyze monetary discourse from a historical perspective. This research focuses on how to monitor problems has been explored since the time of the Prophet until today. This study uses a historical research design. The technique used in analyzing the data is narrative through literature study. The finding in the study show that the dinar and dirham also allow speculation, but in the end, they do not because they have intrinsic value. From period to period, began to determine the size make design changes and quality improvements to achieve a reasonable goal of reducing counterfeiting money. Economic and political stability is the real goal to be completed to increase.

A. Introduction
Money also has an essential1 and strategic2 role in various kinds of economic circulation and is challenging to replace using other variables. Even money is an integrated part of a financial system.3 But definitively, money is difficult to define entirely and satisfactorily because its definitions and practical meanings constantly change dynamically by the dynamics of the people's

economic development. In other terms, the development of the description and understanding of money is a manifestation of the origin of human adjustment to the progress of life that he experiences. In a society whose economy is quite advanced, of course, the definition and understanding of money are broader and more complex than in a newly developing country. In simple terms, the purpose of money, according to Muhammad Zaki Shafi'i, is: "Everything that is accepted by the public to fulfill obligations" in various types of transactions.

Classical economists tend to interpret the money supply as currency because the money supply is a purchasing power that can be directly used and spent. That is why it directly affects the prices of goods. Meanwhile, what is included in the definition of currency as money in circulation is not all banknotes and coins. Banknotes and coins are in the hands of the general public outside banks and the state treasury. The reason is that only cash is spent on goods and services, while money stored in bank vaults or at state treasury offices is not directly related to the goods market.

Dinar and Dirham are some of the money used. When viewed from a monetary economic perspective, the use of dinars and dirhams allows speculation even though this situation can eventually be reduced because the two coins have intrinsic value. These dinars and dirhams have also evolved to suit their developmental conditions. The change of Dinar and Dirham includes setting a legal size that is acceptable to everyone and changes in shape and design to reduce counterfeiting. In this modern and sophisticated era, there is a need for efficient and effective payment instruments to make buying and selling transactions. People who want to shop can now be cashless or carry cash. Transactions are also made more accessible by simply bringing a plastic card (debit and credit card) or using applications such as Ovo, funds, links, etc. In this journal, the author will try to review the literature review on monetary traditions and practices in the period of the Prophet's time to get to know cryptocurrency.

Little is known about research on monetary from a historical perspective. A plethora of study examined financial issues from various perspectives. Amien Wahyu, in his study, reports that Islam has a monetary policy that is different from other economic systems and strives for equity with the principles of justice and brotherhood to create a fair distribution of wealth and income.7 Fitri Zaelina

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revealed that the transmission flow of sharia monetary policy with the final output goal shows a continuity of yield paths from the SBIS reference margin to output. Meanwhile, the transmission line for monetary policy from SBIS with the ultimate goal of inflation shows no continuity in the yield path from the margin with the reference Bank Indonesia Syariah Certificate to inflation. 

Daniar pointed out that the mechanism of sharia monetary policy instruments still needs to be redeveloped by using other contracts other than wad’iah in the Bank Indonesia Wadiah Certificate and ju'alah in Bank Indonesia Syariah Certificate. Abdul Rafay & Saqib Farid's research reveals the critical role of Islamic banks in transmitting monetary decisions to the real economy and implies that the functional part of Islamic banks is for the effective formulation, implementation, and evaluation of monetary policy. Nurul Syazwani Mohd Noor, et al. disclose the sources that lead to changes in circumstances that result in risk and highlight the application of risk in Islamic finance based on the arguments of the Qur'an from an Islamic perspective.

Respond to this problem, the study aims to analyze monetary discourse from a historical perspective. This research focuses on how the monetary crisis has been interpreted since the time of the Prophet until today. This research is expected to make a scientific contribution to the discourse of economic change and Islamic monetary policy from time to time. It confirms that Islam pays excellent attention to monetary policy for economic development.

**B. Method**

This study uses a historical research design. Antony Black reveals that historical design refers to this knowledge transforming upstream to downstream. In this case, monetary discourse is analyzed since the time of the Prophet, the Companions, the Umayyad caliphate, the Abbasid caliph, and modern times. Data collection is done by collecting historical literature. Data analysis was carried out using thematic analysis.

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C. Finding and Discussion

1. Traditions and Monetary Practices at the time of the Prophet Muhammad

Monetary policy has been established since the time of the Prophet Muhammad. The Arabs, as a trade route between Roman-Indian-Persian and Sam and Yemen, have made the Dinar and Dirham the official medium of exchange. So foreign exchange, checks and promissory notes, import-export activities, and factoring or factoring are well known and widely used in trade.\(^\text{13}\) The monetary policies implemented by the Prophet Muhammad included the prohibition of usury and the non-use of the interest system. So that economic stability is maintained and economic growth is pushed forward more quickly with the construction of real sector infrastructure. The Messenger of Allah also forbade non-cash transactions to rule out usury and shikar or hoarding. Where money is a barter medium which the Prophet approved as a monetary unit that bridges transactions to be balanced and fair, money is positioned only as a medium of exchange. It cannot play the role of an item worth trading.

As we all know, the currencies used by the Arabs, both before and after Islam, were dinars and dirhams. At that time, the people of Mecca only accepted gold as a medium of exchange, resulting in large sums of dirhams of various shapes and sizes, leading to rampant fraud in the registered native currencies. Both currencies have fixed values, so currency circulation has no problems. If the dirham is considered a unit of money, the dinar's value is the product of the dirham, and if the dinar is regarded as a unit of currency, its value is ten times the dirham. However, in later developments, the dirham was used more than the dinar. This matter is closely related to the fact that the Islamic armies had conquered almost the territory of Persian Empire. At the same time, not all areas of the Roman Empire were successfully controlled by Islamic troops.\(^\text{14}\)

After being appointed as a messenger of Allah, he ordered that the actual rules of the scales be obeyed because the Persian Dirham has several sizes, namely: size 20 carat, size 12 carat, size 10 carat. The Islamic Dirham was finally set to be 14 carats with these size differences. This size was derived from the average of the three sizes above.

During the reign of the Prophet Muhammad, both currencies were imported. Roman Dinar and Persian Dirham. The dinar and dirham and the


volume of commodity imports depend on the importance of commodities exported to these two countries and other areas under their influence. Generally, if the demand for currency in the internal market increases, the money will be imported; otherwise, goods will be imported if the demand for a currency decreases. Interestingly, there were no restrictions on currency imports because the internal Hanzhi demand for dinars and dirhams was small and had no effect on supply and demand for the Roman and Persian economies. However, during the reign of the Prophet Muhammad, the currency came from state finances and foreign trade. Since tariffs and duties are not imposed on imported goods, the amount of money imported is sufficient to meet domestic demand. On the other hand, the value of gold and silver in dinars and dirhams is equal to the face value of the currency, so both can be used as jewelry or decoration. Therefore, it can be concluded that the elasticity of the money supply to income was considerable at the beginning of the Islamic period.

Trade and service transactions often generate demand for currency, so the main driving force for currency demand today is transaction demand. At the same time, the hostility of the Quraysh towards the Muslims and the Muslim’s participation in 26 gazwah and 32 sariyyah, which means an average of 6 wars every day per year, which causes the needed money. As a preventive measure and community needs. Therefore, currency demand during this period is usually transactional and preventive. The prohibition of hoarding currency and commodities and talaqqi rukban does not provide an opportunity to use money other than these two motivations.

When the Arab population accepted Islam, the Muslim population multiplied. In addition, trophies (ghanimah) are distributed to all Muslims to improve their standard of living and income. Departing from it all, the Prophet Muhammad, through his particular policies, continuously increased Muslims' production and employment opportunities. These factors increased the demand for money transactions in the early Islamic period. In addition, the money supply remains flexible because there are no barriers to importing money as demand increases. On the other hand, the excess supply will easily be turned into silver or gold jewelry when the supply increases. As a result, there is no excess supply or demand for silver or gold currency, and equilibrium conditions will occur in the market to maintain the value of money.

2. Monetary Discourse During Khulafaur Rasyidin's Government

To boost the level of welfare of Muslims, Abu Bakr ash-Siddiq is very concerned about the accuracy of zakat calculation so as not to pay more or
The proceeds from the zakat collection are used as national income and stored in the *Baitul Mal*. Then all are directly distributed to Muslims until there is nothing left.

Abu Bakr Ash-Siddik did things that resembled the Prophet in carrying out his government, such as dividing the conquered lands that were partly handed over to Muslims. The rest was still the state's responsibility. In addition, he changed the ownership of the land of apostates and functioned for the common good of Muslims.

Abu Bakr applied the principle of equality, divided the amount companions of the Prophet Muhammad, and did not distinguish between the friends who initially believed and the friends who had just felt and some of them. Therefore, during Abu Bakr Ash-Sidik, the Baitulmal treasure never lingered in it for a long time because it was immediately distributed to all Muslims. Even when Abu Bakr Ash-Sidik died, there was only one dirham in the Baitul treasury mall. All Muslims have equal rights of national income. When income increases, all Muslims get a portion, so they don't fall into poverty. This policy has an impact on increasing aggregate demand and aggregate supply, which will increase gross national income and narrow the gap between the rich and the poor.

At this time, the Islamic dirham was finally printed in 18 H. Umar bin Khattab did essential things related to the money itself, including printing with Islamic characteristics on the writing on the dirham. The printing of this dirham itself is due to the broader area of Islamic rule; The standard determination of dirham and dinar levels is 1 dirham equivalent to 7/10 dinars, or 2.97 grams of dirhams is equal to 4.25 grams of gold. Then the standard applies according to shari'a standards.

In the reign of Uthman ibn Affan, the dinar and dirham were modified in design, with the inscription Allahu Akbar on it, and the word kufi on the edge of the coin, meaning "grace, in the name of Allah, in the mercy of my Lord," By Allah, Muhammad. At the beginning of the reign of Ali bin Talib, he minted coins that were characterized by an Islamic state. It indirectly proves that Muslims have mastered the technique of smelting iron and making

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coins. Ali followed the printing of money during the caliphate of Usman with the writing of the kufi script.

3. Traditions and Monetary Practices During the Umayyad Era (41-132 H / 661-750 AD)

Muawiyah bin Abi Sufyan was continuing the Sasanid model to print money. The period of Abdul Malik bin Marwan focused on printing money and printing dinars and dirhams without any Persian characteristics.

The opinion regarding why Abdul Malik printed money in the new Islamic model was that the previous design was engraved with the expression trinity. And because of the dispute between Abdul Malik and the Romans. Despite these various opinions, Abdul Malik has realized economic and political stability and reduced counterfeiting and currency manipulation. He was followed by Yazid bin Abdul Malik and Hisham Bin Abdul Malik to eradicate counterfeiting and tighten currency printing. At the end of the Umayyad dynasty, the Dinar is famous for being smooth, accurate, and pure.

4. Monetary Traditions and Practices During the Abbasid Period (132-656 H / 750-1258 AD)

In the current Abbasid dynasty, printing currency (dinar) continues the work carried out during the Umayyad dynasty. There is no noticeable difference because only minor changes were made during the reign of Al-Saffah (132 AD), namely, only the Umayyad dinar model was added, and the carving remains unchanged. The authority of al-Mansur was more focused on improving government management.

In terms of price control, Caliph al-Mansur ordered the head of the postal department to report the market prices of each food and other commodity. If the price rises sharply, he will call his guardian to lower the cost to its original level. In addition, Caliph Mansur was very frugal in spending Baitumal's wealth. At his death, the Treasury's wealth had reached 810 million dirhams.

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5. Monetary Traditions and Practices During the Ottoman Empire (1300 AD-1924 AD)

The policy of the Ottoman Empire in the economic field resembles the policy of the Abbasid dynasty. At that time, the Ottoman Turkish state treasury office was still centered on Baitul Mal.\(^\text{25}\) To run the wheels of the economy, the Ottoman Empire also made currency printing. The inclusion of the sultan's name in every currency in circulation is evidence of the sultan's power at that time. Sultan Murad IV was faced with inflationary conditions, so he issued a policy of increasing the exchange rate of silver and gold and making expenditure efficient.\(^\text{26}\) The Ottoman dynasty's financial system officially took effect in 955 H/1534 AD, at which time the ratio was 1:15 for gold and silver. Gaima currency was also issued during the Ottoman period, precisely in 1839 AD, but caused a decline in value due to distrust of the money.\(^\text{27}\)

6. Modern Monetary Traditions and Practices
   a. Islamic Monetary Instruments

   Islamic monetary policy tools can be divided into two categories, namely (a) quantitative control of the allocation of funds and (b) methods to ensure that the allocation of funds can be carried out correctly invaluable and productive sectors. Loan quantitative control can take the following forms: Mandatory backup requirements. This tool is essential in Islamic economics because discount rates and open market operations do not apply. Commercial banks must deposit part of the funds from demand deposits to the central bank as a statutory reverse. This reserve requirement only applies to current accounts, not to Mudalopa deposits, because Mudalopa deposits are depositors' equity in the bank and have the possibility of profit and loss risk. If there is good banking supervision support, the system will run well.

   Second, Ceiling Credit. The maximum credit score limit that a commercial bank can provide ensures that the total credit creation meets the monetary target. Relying solely on reserve requirements that make it easier for central banks to adjust high-energy currencies does not guarantee successful currency management, as credit expansion may exceed the targeted amount. This situation occurs because it can be estimated that the flow of funds into the banking system only comes from


exchanges between the central and commercial banks. The flow of funds into the banking system from other sources is difficult to determine accurately. Another influencing factor is the unclear relationship between the reserve ratio of commercial banks and credit expansion. In short, the behavior of the money supply reflects a complex interaction of various internal and external factors, so it is best to set a credit limit.

Third, Demand Deposits. The government reserves the right to transfer the central bank's government deposit requirements to or from commercial banks to influence commercial bank reserves. The function of this tool is similar to open market operations, and the central bank directly affects commercial banks.

Fourth, (Common Pool), the instrument requires commercial banks to set aside a part of the controlled deposits with a certain percentage to overcome mutual agreement liquidity problems. This tool has a similar function to the rediscounting facility in conventional central banks to solve liquidity problems.

Fifth, (Moral Situation) is a negotiation and meeting between the central and commercial banks to monitor business problems. With this instrument, the central bank can provide clear and accurate advice to overcome the difficulties banks face to encourage the realization of the bank's planned goals.

In addition, ways to ensure credit distribution can work well in valuable and productive sectors include Treating the Created Money as Fay. The central bank creates the core currency from privileged executors. Because of the costs incurred, the central bank's profits are made below par, called currency seigniorage. Therefore, with this kind of currency, of course, the central bank set aside some funds for fay or taxation, which is mainly used to fund projects that can improve the socio-economic conditions of the poor and reduce inequality in the distribution of income and wealth. The government can not use these funds only to benefit the rich group. With this tool, allocating funds can assign them to valuable and productive activities.

Second, Goal Oriented Allocation of Credit. The distribution of use-based bank financing will provide the best benefits for all business participants who will produce goods and services that can be used and distributed to all levels of society. It is difficult because the funds collected using the general banking business mainly come from small savers but are more concentrated in loans to prominent entrepreneurs. The reluctance of the credit banking industry for small businesses is due to the risk of increasing small business financing expenditures. The consequence of this
is that it is difficult for small businesses to obtain financing from banks, even if banks are willing to provide funds for small business financing, but with various difficult conditions for them, especially collateral requirements. In this condition, it can be estimated that the survival of small businesses is threatened even though small businesses have the potential to expand job opportunities. Generate production and can increase income distribution.

A solution is needed to provide guarantees for banks to participate in financing efforts that produce results that do not violate Islamic values. Banks do not need to ask to offer contracts to companies that apply for financing through this guarantee program. In this case, the bank faces financing carried out, namely a business company that fails in financing. If the failure is caused by moral deviation, the bank will get the funds back, but the bank must share the risk if the failure is due to economic crisis conditions.

b. Fiat Money

Money that applies today is called fiat money. Money can function as a medium of exchange and has purchasing power that is not motivated by gold, which is where the money used to be based on the gold standard. The government has determined paper money that paper money is the standard medium of exchange.

Many scholars have agreed that it is forbidden to exchange illat, gold, and silver unless similar. When paper money has become a legal tender without being influenced by gold, then its legal position is the same as that of the former commodities, gold, and silver, which existed at the time the Qur'an was revealed to be legal tender.28

c. Electronic Money

The growth of payment instruments has increased so rapidly that so has technology development. Thus, non-cash payment instruments have emerged, known as electronic money (e-money) and virtual money (virtual money). Electronic money is money that uses RFID (Radio Frequency Identification) chip technology connected to the internet. The emergence of money is the answer to the need for a payment process that is practical, fast, flexible, and safe.29

d. Virtual Money/Cryptocurrency


An account that holds money virtually used as a means of payment across regions or countries whose financial transactions are made on the Internet is called virtual money, such as online shopping, forex activities, online trading, and so on. This virtual money issuer comes from any country that can open a regional office in another country. After transferring money through a bank account, enter the virtual money into the virtual account according to the money entered.\(^{30}\)

A cryptocurrency is a commercial object without using cash. It can be used as an electronic transaction because it is digital. Cryptocurrency is digital money resulting from technology through a cryptographic system that aims to provide security to its users so that they are not easily imitated.

Cryptocurrency uses a peer-to-peer (P2P) network to be connected, making it easier to carry out transactions without any services from third parties. But behind it, all the development of Cryptocurrency can be a mode of crime, namely money landing. It is because these transactions can be carried out freely without the supervision of the authorities to regulate related regulations.

The Cryptocurrency system in Indonesia began to be looked at because there was a discourse from the Indonesian bank to realize a digital bank to stem the development of Cryptocurrency, which has Bitcoin commodities that are very attractive to the people of Indonesia. Indonesia is still behind compared to other countries familiar with using Bitcoin to do all kinds of transactions such as online shopping and so on.\(^{31}\)

From the Hadith, from 'Ubadah bin Shamit, the Prophet Sallallahu 'Alaihi Wasalaam said: "(Selling) gold for gold, silver for silver, bur wheat (refined wheat) and bur wheat, sya'ir (coarse wheat) with sya'ir, dates with dates, and salt with salt (provided they are of the same size) and similar, and from hand to hand in cash. If the type is different, if it is done in cash, sell as you please holding hands. "(Sunnah consists of Muslim, Abu Dawud, Tirmidhi, Nasa'i, and Ibn Majah). In the above hadith, it can be seen that the meaning is gold with silver, the law is usury because it is given the status of an instrument of exchange, the value of which is measured from other objects. So, in this case, it does not appear to have


intrinsic value (original value of gold and silver), but for its uses and benefits.32

Cryptocurrency transactions based on The National Sharia Council of the Indonesian Ulema Council Fatwa No. 28/DSN-MUI/III/2002 concerning currency trading (Sharf) classified into forward, swap, and option. It ahead is a purchase and sale transaction in a foreign currency whose value is determined and valid at this time for the future, from 2 x 24 hours to a year. The law is haraam because the price used is agreed upon (muwa'adah) and delivered later, even if the price at the time of delivery is not necessarily the same as the agreed value unless it is reached in the form of an unavoidable forward agreement (Lil hajah). Swaps are contract transactions to buy and sell foreign currencies at fixed spot prices combined with inter-sales purchases in the same foreign currency as forwards. The law is haram because it contains elements of maisir (speculation). Although options trading is a contract to get the right to buy or sell, it does not have to be exercised in a certain number of foreign exchange units for a specific price and period or end date.

D. Conclusion

Money is everything that is received by the public to fulfill obligations to carry out economic activities. Economic and political stability, reducing counterfeiting, and currency manipulation are the real goals to be achieved so that the economy will also improve. As we all know, the currencies used by the Arabs, both before and after Islam, were dinars and dirhams. Dinar and dirham also allow for speculation, but in the end, it can be reduced because the two coins do have their intrinsic value. Starting from determining the size, making design changes and quality improvements from period to period are carried out to reduce the counterfeiting of money. Until now, there have been many types of digital currencies in circulation that follow the current rapid technological developments intending to make everything practical, fast, flexible, and safe.

This research has not yet reached its apex. This article takes a historical approach to monetary discourse. Thus, this research might be conducted from a sociological, anthropological, or technological perspective in order to determine how monetary policy changes through time. Additionally, Islamic monetary policy is intrinsically linked to the growth of Islamic civilization.

Reference


