



The Management of Fiat Money or Gold Standard in the Financial System

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Abstract

In recent years, several prominent figures in Islamic Economics have called for a reform of the financial system from the concept of fiat money to return to the gold standard system (dinar dirham). The main reason for monetary system reform is the perspective that fiat money is considered not resistant to inflation. However, the gold standard system is deemed to behave various weaknesses; namely, physical size is relatively heavy, is not proven to be anti-inflation based on historical records, high production costs, inefficient utilization of production resources, only benefits certain groups, and is vulnerable to payment deficits. In theory, inflation is caused by the imbalance between supply and demand for money itself. If the money supply is greater than the market, it will cause inflation. Conversely, if the money supply is less than the demand, then the economic activity will not be smooth. Therefore, this article believes that inflation is not due to the physical form of money (paper or gold), but is caused by adequate money supply and demand management. Therefore, government policies are needed, including (a) deregulation of the banking system by nationalizing all banks, (b) playing an active role in intervening in the surge in prices of goods and services (c) promoting Ziswaf institutions.

Keywords: Fiat money, Gold, Financial system.

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Introduction

Money cannot be separated in the economy. It functions as the exchange tools and helps society in transactions and services (Luwihadi & Arka, 2017). The easier the transaction is, the more the economy can proliferate. Besides used as saving, money can function as the exchange tool (Manurung & Rahardja, 2004: 21). As it takes a vital role, capital raises the various conceptions from one era to era. During the period of prophet Muhammad PBUH, dinars and dirhams were used as trading tools (Amin, 2007: 96). It is used until the end of the day of the Turkish Ottoman period around centuries to 20. Besides, before the dinar and dirhams exist, Roman and Persian also used a coin denarius (Nabila & Arini, 2015). In the early 1900s, the gold still lived as the standard exchange medium. However, around the 1950s, the world gold stock was no longer sufficient to finance world trade, which affects the rapid growth resulting in liquidity problems (Pujiyono, 2004). Since then, the printed money became the last choice as a medium of exchange in order to maintain world trade liquidity. Another reason for the use of printed money is the difficulty of witnesses using the gold medal in a relatively large trading volume (Noviyanti, 2017).

By time to time, Money did not only formed as paper and metal only but also included as the demand deposits and quasi money. In Indonesia, capital can be formed as money demand, warranties, and money quasi (Solikin & Suseno, 2002: 12). These three conceptions are popular in the entire country. Each of them has the plus and minus.

From an Islamic economic perspective, these three types of currency (currency, demand deposits, and quasi) is called fiat money. Fiat money is defined as a kind of money that is not supported (backed) even with the gold (Amin, 2007: 32). Fiat money is valid due to its legalization from government authorities so that it is accepted by society (Haerisma, 2011). Nowadays, Fiat money is managed to a bit of computer and electronic impulses (Saidi, 2015: 89). The public figure like Umar Vadillo, Zaim Saidi, Riawan Amin stated that the concept of this money could be formed as Riba.

For example, Pak. Ahmad sells a house with Rp 100 million to Pak. Beni. Then, Pak Beni provides the Rp. 100.000 in 1.000 copies to Pak. Ahmad. There is injustice in this case. It is on the comparison of the cost of the house with the value of the intrinsic of the money that is given to Pak. Beni to Pak. Ahmad. The cost of the printing money of Rp 100 thousand as much as 1 .000 sheets are much smaller with the price of the house. Therefore, the difference in value in the process of sale and purchase (exchange) has occurred. This difference is then called with Riba.

Going back to the concept of system fiat money, which nowadays criticized, it has found many challenges. The failure of the agreement Bretton Woods, the crisis economies of Asia in 1998, and the crisis of American States in 2008 are the phenomena that indicate the problem of fiat money. From those issues, the indicator of the failure is on its inflation. The printing cost of fiat money, which is more inexpensive, compared to the dinar and dirham, sometimes triggers the authority of monetary "*latab*" in printing the money if it is urgent. The Consequences of "*latab*" results the amount of money in circulation will exceed the value of the ideal sector of the real. According to the view of the flow of monetarists in Karim (2012: 93), the proportion of the industry of monetary that exceed of the proportion of the sector of the real sector may lead to inflation ($M * V = P * Q$, where M is the money supply, V is denoted velocity of money, P stands for the price, and Q is quantity). The high inflation results in power purchasing power decreased, thus decreasing the wealth, then increasing the numbers of poverty.

Related to the issue, Many economic experts actively do the research to the system of fiat money. It starts from the basic research such as the form of money to the institution's finances that has the authority to the management of the money. The point is that the expert wants to reform the system. In this case, they want to reform it to the finance system based on the Qur'an. The system is based on the standard concept according to the nominal value or the so-called full-bodied money (Jamaluddin, 2013). However, this solution does not solve the problem yet. There are various

deficiencies in the use of the gold standard. Based on this background, this paper focuses on three studies, those are: 1) How is the study regarding the application of the fiat money system in the financial system? 2) How is the study regarding the application of the gold standard (dinar dirham) in the financial system?, 3) The policy which the government takes after weighing the study of the application of the system of financial fiat money or the gold standard?.

Research Method

This research is qualitative research, specifically using applied conceptual research. Conceptual research is often defined as research related to abstract ideas or theories (Jonker, 2011). The data of this study is from the literature or published empirical research results. Besides, the numerical supporting data, which serves to strengthen the research argument, becomes the second data source. In simple terms, this research flow begins with studies of existing literature or phenomena. Researchers focus on analyzing the advantages and disadvantages of implementing the *fiat money* system and the gold standard. Furthermore, the researcher provides an idea or ideas after considering the suggestions previously described.

Results and Discussion

1. Study on the Application of *Fiat Money* in the Financial System

The financial system in several countries is controlled by the authority of the monetary called the Central Bank. It gives the right to circulate the money (Solikin & Suseno, 2002: 18). The main objective of the central bank is controlling the circulation of money and maintain the stability of the value of money (Ascarya, 2002: 11). In running its function as an agency regulating the money supply, the central bank must obey the rules. The rules include the addition or reduction of the circulation of money that must be based on the balance of the monetary scales (see table 1). Through the report, the

balance of the money per periodic, Ascarya (2002: 2) said that the central bank could reduce the circulation of money by the policy monetary tight (contraction) or add the amount of money in circulation with the policy of monetary loose (expansion).

Table 1.
Monetary System Balance

Assets	Liability
The net assets outside the country	Money supply
Net bill on central government	1. MI
Claims on institutions and companies government	- Money in circulation
Bills on companies and individuals	- Check money
Others	2. Quasi money

Source: Solikin & Suseno (2002: 12)

The mechanism *fiat money* is direct can be done by the two institutions, namely Central Banks and Public Banks. Society has an indirect role in the creation of money. The Central Bank has the authority to print the main money and organize the circulation to the stable value (Rohaya and Wahid, 2014).

The main money consists of currency in circulation (paper and metal), which are outside from the Central Banks and deposits (giro) as well. The main money becomes the obligation of the Central Banks toward the sector of private domestic and public bank (Solikin & Suseno, 2002: 18). On the side, public banks are commonly instrumental in the creation of money demand deposits and quasi money (Solikin & Suseno, 2002: 21).

Through the mechanism of the reserve requirement/demand deposit required (GWM), the public bank can create the new money. A general bank can create optimal credit so that they can create money just in the form of money demand deposits (and quasi). Meanwhile, society has a role in the creation of money through cash.

The more the people need the cash, the more it affects the number of money multiplier (The folding money), which is getting smaller. In the other side, when people tend to take advantage of currency demand deposits (and quasi) then the number of money multiplier increasingly large, thus will affect on the circulation of money faster and faster (Boediono, 2013: 95)

The mechanism the money printing can be seen as follows: For example, Pak Ahmad deposits his money (currency) from the result of the sale of the house to the bank A amounting to IDR 100 million. Through the mechanism of GWM 5%, bank A can create the credit not more than Rp 95 million from 100 million. Then, Pak Badrodin proposes some credits to bank A for his project. Pak Badrodin takes credit worth Rp 95 million (above the maximum credit bank) from Bank A. Furthermore, (because the money is not directly used) Badrodin saves money to bank B. The balance of bank B increased Rp 95 million in third-party fund posts (DPK). Furthermore, by still referring to the 5% GWM, bank B can give the loans of Rp. 90,250,000. The funds' loans are given to all. The funds are stored in the Bank C. By the deposits amounted to Rp 90.25 million, the bank C can be linked back to the maximum credit of Rp 85.7375 million. It can be presented as follows:

$$100 \text{ million} + ((1-5\%) \times 1 + ((1-5\%) \times 1 + ((1-5\%) \times 1 + \dots = 2 \text{ billion}$$

The formula that can be simplified with the formula as follows :

$$S_n = A / r \quad (\text{Manurung \& Rahardja, 2004: 25})$$

in which;

S_n : the accumulated amount of additional deposits

A : initial deposit

r: reserves required (GWM)

In the case in the above calculation :

$$S_n = 100 \text{ million} / 0.05 \\ = 2 \text{ billion}$$

From the example above, it can be concluded that the enactment of the statutory reserve amounting to 5% with the addition of deposits amounting to Rp 100 million, the bank can create a money supply as much as 20 times as much as sed adi Rp 2 billion through the distribution of credit. It can be changed with the provisions of GWM different (seen in Table 2). If the reserve requirement is getting smaller, the number increments more quickly (much). Conversely, if the GWM is getting bigger, the number to the fold will be smaller. The phenomenon of this can happen if the "quota" credit on top of channel all. However, in the reality, of course, the bank does not distribute almost all the "quota" of credit to various reasons such as the consideration of credit jammed, tribal bung a market, fluctuations in the market, and the risk of another of his.

Table 2.
Changes in Statutory Reserves and Changes
in Money Supply with a Deposit of IDR 100 Million

GWM	Extra Total Money Supply
5%	IDR 2 billion (20 x)
10%	IDR 1 billion (10 x)
20%	IDR 500 million (5 x)
50%	IDR 200 million (2 x)
100%	IDR 0 (not multiple)

Through home visits to mention that the amount of use of the money of non- cash (demand deposits and quasi) by the community can increase the value of the money multiplier, or in other words, is getting smaller money outside banks that held society then figure the money multiplier will increasingly large (Boediono, 1988: 127). It can be seen in Table 3, which shows the proportion of the circulation of money in circulation, which is not more than 11% each year. This phenomenon is influenced by several factors, including the development of banking system technology. With the

facilities such as credit cards, debit cards, flashcards, people tend to make non-cash transactions through automated teller machines (ATMs) and electronic transfers, which are fully accommodated in electronic bytes (Saidi, 2011 : 21). The tendency of the behavior of the people against the transactions of non- cash is this that makes the numbers using the money multiplier is getting big, so per plant money supply more rapidly. Process per plant of money in circulation the which is very fast this is what is feared will happen bubble (hyperinflation) if not with the growth of the sector of real (Nguyen, 2015).

Table 3.
Money Supply (Billion Rupiah)

Year	2015	%	2016	%	2017	%	2018	%
money Kartal	469,534	10.32 %	508,124	10.15 %	586,576	10.82 %	583,395	10.1 3%
Money Giral	585,906	12.88 %	729,519	14.58 %	804,231	14.84 %	843,027	14.6 4%
Quasi- Money	3,479,961	76.50 %	3,753,809	75.00 %	4,009,996	74.00 %	4,282,364	74.3 5%
letter Securities	13,339	0.29%	13,525	0.27%	18,362	0.34%	20,533	0.36 %
M2 (total)	4,548,800		5,004,977		5,419,165		5,760,046	

Source: data processed from bps.go.id (2019)

2. Study on the Application of the Gold Standard in the Financial System

Various criticisms are given by some experts to criticize the system of fiat, which is much used in the various modern era. The criticism emerged from the group that is extremely refused fiat money (money paper), which is referred to as the dinars (Ibrahim, 2006). Mentioned in Karim (2012: 108), they include Umar, Zaim Saidi (PIRAC), Ismail Yusanto (SEM Institute), Abdul Razaq Lubis (PAID Malaysia), Riawan Amin. The groups reject the circulation of fiat money due to the fiat money is Riba.

Zaim Saidi (2011:15) stated that printed money is *riba*, so that it is forbidden. The *riba* is multiplied, *an-nasi'ah* and *al fadl*, and it is not in a small amount. *Riba an-nasi'ah* on printed money contained in the practices of credit that requires excess (interest) for the suspension of time. Meanwhile, *riba al fadl* on printed money contain in the discrepancy between the value of the intrinsic of the printed money with the stuff that can be exchanged. The printed money is considered to have no price but reflect the value or price of all goods (Kalsum, 2014).

By reflecting the example of a house buying and selling transactions between Pak. Ahmad and Pak Beni before, indeed, there is an injustice. The cost of the money-making by the Head of the Department of Indonesian Banks, Eko Yulianto in 2016 needed Rp 3.5 trillion to print money as much as 8.3 billion pieces. This means that the average cost of making money process is on the range of Rp 400 up to Rp 500 per piece (Kompasiana.com, 2015) as it is resulted on the purchasing process between Pak Ahmad and Pak Beni who require the printed money as much as 1,000 sheets of money 100 thousand. The printed money has an intrinsic value just as much as IDR 500 thousand (1,000 x RP 500). Even the making money process cost Rp. 100.000 was raised into on the average of Rp. 5 thousand per sheet, due to the use of technology security, the value of intrinsic become Rp. 5 million. The intrinsic value of IDR 5 million, even this is still not comparable with the price (cost) of the house of IDR 100 million.

The main reason for the groups who refused fiat money is that its value is not stable. Fiat money from time to time always gets the inflation or a decline in the value of money. The inflation is a reflection of the imbalance, in contrary, Islam has always stressed the balance (Chapra, 1997: 7). For example, the amount of money of Rp. Twenty thousand in the period before the crisis in 1997 to buy 10 kg

of eggs. However, at the moment it is with the money of Rp 20 thousand, can only buy 1 kg of eggs. It caused a decrease in the value of money as much as 900% are caused by inflation.

According to the quantity theory, inflation is caused to increase in the money supply, which is not matched by growth in the real sector. In other words, the money offer that is given to society is more than what the society itself asks for (Ningsih & Kristianti, 2018). As a result, the public began to feel the rise in prices from time to time. Habits rise in price is then affect the society psychologically. It increases in the prices of goods (Boediono, 1988: 168). However, inflation arises not merely just influenced by problems the economy alone, but also the problem of socio-economic-political (Boediono, 2013: 159).

Inflation does not only occur in the rupiah currency. Dollar as the currency of money internationally after the war world II never experienced a drop in value in the range of 1960 (Boediono, 1988: 181). The decrease of dollar forced terminated the yes agreement Bretton Woods (Hardiwinoto, 2008). Rupiah becomes "Maximum" in the application of the system of printed money never weakened against the dollar in the period of time, which is very fast in the range of crisis of 1997. Ringgit Malaysia, Bath Thailand, and Korean won are also depreciated against the dollar at the time. This incident was caused by the floating exchange rate policy in which the exchange rate was greatly influenced by speculators in the money market (Hadlori et al., 2002: 16). If the exchange rate weakens against the United States dollar, inflation will occur (Wulan, 2015). Furthermore, the most recent event is the Greek crisis in 2015 (Surahman, 2016). at the core of events that show how the vulnerability of the system of fiat money among the economy. At a certain point, there will be a bubble that will cause a massive crisis.

The public figures (Zaim Saidi et al.) were mentioned before, a very active fight against the implementation of returning the gold standard (dinar dirham) as the currency of money which is deemed the solution best or as a shield from inflation. In addition, dinar and dirhams are believed to reduce dependence on the United States Dollar (one of the fiat money), which is seen as the cause of the instability of the World Economy (Setiawan et al., 2010). This is shown in several empirical studies that the US dollar exchange rate has a significant effect on inflation (De Grawe et al., 2005). However, measures of extreme needs to be studied more advanced because still there is a gap in the application of the gold standard.

The weakness of the gold standard (dinar dirham), as stated by Zaiton & Nurshuhaida (2013) that is physically dinar and dirham, has a size that is more severe, so too troublesome for in-store or taken. For example, we want to buy a factory for Rp. 10 billion. Price of gold antam (15 July 2016) to Rp 550 thousand per gram, or Rp 550 million per 1 kg. With so, we need a gold weighing 18.2 kg to buy a factory worth IDR 10 billion. If it is paid in dinars (1 dinar = 4.25 grams), it takes 4,278 pieces of dinars or 2,139 dinars. This is, of course, very troublesome in buying and selling. Yet again, when doing transactions in the multiples are more substantial examples of trillion rupiah.

In addition, for a transaction of goods that have a relatively small price will be more difficult because the fractions in Rham most minor of 1 daniq (1/6 dirham) when converted rupiah are worth Rp 11,600 (July 2016). For example, to buy small goods such as candy worth Rp 100 of crackers worth Rp 500. Although it can still be paid with money (metallic copper), the site *wakala* parent archipelago (which actively fights dinar dirham) until the writing is made is not specified is the official conversion of the value of the rupiah.

Table 4.**Dinar and Dirham Units**

Dinar			Dirham		
Unit	Gold Weight	Rupiah	Unit	Silver Weight	Rupiah
$\frac{1}{2}$ dinar	2,215 grams	1.075000	$\frac{1}{6}$ dirham	0.496 grams	11,600
1 dinar	4.25 grams	2,150,000	$\frac{1}{2}$ dirham	1.4875 grams	35,000
2 dinars	8.5 grams	4,300,000	1 dirham	2,975 grams	70,000
			2 dirhams	5,950gram	140,000
			5 dirhams	14,875 grams	350,000

Source: The data is processed from wakala parentbintan.com

The other reason is the inflation is the main weakness of printed money. Printed money is not able to maintain the power of purchasing, continues to decrease in the value from time to time. It raises the question of whether the dinar and dirham maintain stability? The answer is no Dirham is declined during the Khalifah Umar bin Khattab. At that time (20 H), Abu Hurairah, who served as governor of Bahrain handed over the money from ghanimah, kharaj, and zakat to Umar at the center of the government of a Medina. Abu Hurairah handed over 500 dirhams, which then circulated on the market. Supply dirhams are rated too much so that the resulting value of the dirham slump and occurs inflation. Although at the moment, the government Umar is doing intervention by fixing the price of dirhams, so the price is back in the stable (Aljawi, 2012: 31).

How about the dinar? Saidi (2011: 64) pointed out the price of crude oil in 2004 amounted to 0.7 dinars gold/barrel. Then in 2005, the price increased to 0.89 gold dinar/barrel, then again fell to 0.76 gold dinar/barrel. At three years of next (2006-2008), Saidi compared that price of oil when measured by the dollars is the

increase of about 49%, while the price of oil crude when measured by dinar, so it does not occur the rise, then 0%. Regardless of the calculation Saidi regarding the price of oil, he does not pay attention to the causes of inflation. When we refer to the Umar case, inflation occurs because the supply of money is excessive. It measures the price of oil demonstrated at the moment it does not pay attention to supply between gold and the dollar. It is occurred due to the production (circulation). The limited size tends to stable toward the price of oil. Another assumption can be caused due to the rate of accretion of dollars are high (because not in back-up gold) so that the circulation of the excess. As a result, the value of the dollar follows prices on the market of oil.

The question is probably not the price of oil crude in the size of the dinar can be increased to two or three times as much, and so on, if the rate of increase of the supply of dinar is relatively high? for example, in some regions, the price of goat, originally 0.5 with 1 dinar, can be valued as 2 dinars, Because of supply dinar affluent? This question refers to Boediono's (2013: 161) quantity theory that inflation will only occur if there is an increase in the volume e of ground money. In other words, as mentioned by a symbol (2010) that inflation (weakening of the value of money) is influenced by the balance between the offer (supply) and demand (demand) money, not because of the form of physical (Paper or gold).

Third, to implement the dinar and dirham the government has to deliver the cost of making the coins of the dinar, which is quite expensive. The cost of a dinar in 2007 around Rp 30-40 thousand or approximately 3.5% of the gold price (Aljawi, 2012: 165). When this happens (in 2016), the price of one dinar coins is Rp 2,150,000, so the cost of the production of dinar coins is Rp 75.250 (3.5% x 2,150,000). Zaim Saidi (2011: 172) estimates that Indonesia needs 48 million dinar golds, or let's say 50 million dinar golds in

2016, then the cost is $50 \text{ million} \times 75 \text{ 250} = \text{Rp. } 3.76 \text{ trillion}$. This value is reasonable if we see the cost of the money (paper and metal) in 2016 Reached Rp 3.5 trillion. However, in the future, the fiat money system will save more on printing costs (currency) due to the trend in society that tends to use electronic money (non-cash).

Fourth, the government must divert some of its resources for gold production (Boediono: 1998, 183). Deployment of the source of power for the exploration of gold is certainly will distract the supply of resources to the industrial sector (such as manufacturing and agribusiness). As a result, the supply from the industrial sector could decrease so that people's needs cannot be fulfilled. Another possible impact is inflation in real sector products.

Fifth, The standard of gold only will benefit a certain group only. Those certain groups are the countries that have large gold reserves, such as America, Australia, Russia, China, and South Africa (US Geological Survey, 2016). It results in the instability of the supply of gold. Countries that have reserves of gold large tends to be monopolizing the country has reserves of gold small. This same course back to the era of colonization or oppressors.

Sixth, applying the gold standard means that the government must be responsible for the payment deficit. The deficit payment has an impact on the decline in GDP (Gross Domestic Product) the which means that unemployment increased (Boediono, 1998: 184). Production of gold Indonesia amounted to 75 tons in the year 2015 has not quite met the estimated needs of gold in Indonesia by Zaim Saidi (2011: 172) amounted to 204 tons. Moreover, if the need for gold in Indonesia is measured by the amount of money circulating in the year 2014 is around Rp 4,173 trillion. By assuming the price of gold in 2014, the amount is to IDR 500 thousand per gram. It is in need of 8.3 billion grams of gold ($4.173 \text{ trillion} / 500 \text{ thousand}$) or 8,300 tons of gold. Until the year 2015, Rizal Ramli revealed that

Bank Indonesia's reserves of gold were only around 100 tons (kompas.com, 2015). Meanwhile, in the data backup of gold that is owned by Indonesia is 3,000 tons (US Geological Survey, 2016). By doing so, it can be said to be the gold standard remains difficult for optimum transaction backup in Indonesia.

3. **The Possible Policy for the Government**

Applying the gold standard (dinars and dirhams) as the currency of money is too risky in the system of finance. If it is enforced, then it will matter on the psychological aspect, and it is not able to recover soon, even just aggravating. However, fiat money with a combination of technology is very helpful for society in carrying out economic activities. This is reinforced by the opinion of Haneef and Barakat (2006) that there is no obligation to use the physical form of money such as dinars or dirhams, but the substance is related to this case in the use of money itself.

The inflation, which is applied to fiat money is not solely due to the form of physical of fiat money, but it is because of a lack of maximum control of the supply of money (Bose et al., 1996). The function of the control is supposed to be able to run the government (and central banks) as a party that has the authorities. The government (and central banks) can apply a policy of deregulation of the system of financial and management of fiscal were very good. Not solely aimed at efficiency and growth, but also must pay attention to the standard of Islamic values. The forms of government efforts that can be done include:

a. **Deregulation of Banking System**

The banking system implements a low GWM, which causes the money to grow fast. Through GWM, which is low (fractional) banks creating credit, and with it creates money out of nothing (Saidi, 2015: 93). The government can apply a high statutory reserve requirement or even 100% (in table 2), so that

money is not multiplied excessively or real assets are guaranteed. Once the role of the bank was vital in influencing the money supply, this institution should have been fully controlled by the government (nationalized). Banks no longer be the institution of private are profit-oriented, but back into the institution, intermediary finance as a function essentially. Banks no longer apply interest pa da any funds disbursing.

In this way, how can a bank finance its operations? It was previously explained that banking institutions are fully controlled by the government. So, the real scheme in the field is that the central bank establishes branches in each region to facilitate services to the public. When the paradigm is *non-profit oriented*, bank operations can be fully financed by the government through the State Budget (APBN). One example of such operations is the cost of printing currency, as previously described. On the other hand, the central bank (and its branches) can also earn other income from banking services such as transfer services, administrative services, and *e-banking services*.

b. Active Role of Government

The government can play an active role in reducing inflation. Not only through monetary policy but also through a fiscal policy, which is seen as more effective. The government can do intervene in the market to the prices of materials staple. Besides, the intervention of government in the sector of property in modern era is rated the most vital. Opinions that can be seen from the role of sector properties that have the nature of nontradeable. The nature of the nontradeable mean sector property is dominated by a commodity such as cement, technicians, equipment weight, and so on (Hadlori & Bank Indonesia, 2002: 51). Therefore, in this sector are not a lot of

labor work that is absorbed. Unlike the case with the manufacturing sector and MSMEs (Micro, Small, and Medium Enterprises), which mostly still use human labor, causing a fairly large multiplier effect in the economy. Other sectors that can be intervened by the government are the education and health sectors, which are part of the basic needs of the community.

c. Implementing the ZISWAF foundation

The population of Indonesia, which is dominated by 90% Muslims, is an indicator that it is not difficult to develop a Ziswaf foundation. The government can focus on providing facilities for this social foundation. The Zakah potential of Indonesia is Disclosed Baznas in June 2016 Reached Rp 217 trillion (tempo.com, 2016) is Believed to assist the government in solving poverty and reduce inequality. Moreover, this number does not include infaq, sadaqah, and waqaf. The existence of this social assistance will help the government in increasing people's purchasing power. Increased purchasing power will have an effect on better people's productivity. Furthermore, with this productivity, the real sector will lead to an increase in the supply of goods and services. Increasing the supply of goods and services can maintain the stability of the value of money (reduce inflation) of the goods or services themselves.

Conclusion

The conclusion of the study can be concluded as follows; first, fiat money cannot simply be judged as Riba and haram. Although many experts stated that the money is haram, on the other hand, it is still a lot of advantages in fiat money. The combination of banking technology such as debit cards, e-banking, ATM facilities, and others is still considered very

helpful for the public in making transactions in economic activities. Second, most of the experts in Islamic Economics found that the solution of fiat money, dinar, and dirham, in this case, is too extreme in which they tend to have many weaknesses inapplicability. The weakness of the application dinar dirham (or standard gold) is that each one of it has more weight, so that becomes troublesome for storing. Third, the problem of finance is not only about the physical of gold or paper, but how to make stability in the regulation of money—the role of government needly, not only the monetary policy but also the policy of fiscal. The policies are (a) the deregulation system of banking with national banks, (b) the role of active government to intervene in the surge prices of goods and services that caused the inflation, c) promoting of ZISWAF institutions.

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