

## Mankind's Return to the Gold Standard - Only Possible Through Khilafah

Human survival has always depended upon securing essential needs, and this necessity has historically compelled people to rely upon one another. Such interdependence naturally gave rise to trade. In its earliest form, exchange occurred through barter, where goods were directly traded for other goods. From an Islamic perspective, however, this mutual reliance is not merely a social development but part of divine design. Allah (swt) created human beings with diverse abilities, resources, and capacities so that they would depend upon each other. Though economic in appearance, this interdependence carries broad societal implications and therefore requires regulation rooted in justice. Consequently, economic life in Islam falls within the framework of Shariah Law, ensuring that wealth, trade, and financial dealings are governed by established principles rather than human whim.

Barter, while simple, proved inefficient. Goods were difficult to transport, divide, and preserve. Livestock could perish, grain could spoil, and value could not be reliably stored. Over time, gold emerged as a superior medium of exchange due to its scarcity, durability, and resistance to corrosion. Gold did not rust, decay, or easily lose its form. Yet its value was not intrinsic in price; rather, price depended on collective belief and social acceptance. Scarcity and durability fostered confidence, allowing gold to function as a stable monetary system.

In the colonial West, practical challenges in carrying heavy gold coins led to the development of banking systems. Individuals deposited gold in banks and received paper receipts redeemable for gold upon demand. These receipts gradually circulated as money because people trusted their convertibility. Governments later formalized this arrangement by fixing national currencies to specific quantities of gold, creating what became known as the gold standard.

Despite its stability, the gold standard faced serious strain during financial crises. The Panic of 1907 in the United States demonstrated the fragility of a decentralized banking structure when depositors rushed to withdraw funds. The crisis revealed systemic weaknesses and led to the establishment of the Federal Reserve as a central authority overseeing currency issuance and banking regulation. The Federal Reserve controlled the money supply through mechanisms such as interest rates. Low interest rates encouraged borrowing and expanded money circulation, while high rates discouraged borrowing and restricted liquidity. These tools profoundly influenced economic conditions.

During the 1920s, low interest rates contributed to economic expansion. However, the stock market crash of 1929 triggered panic, leading citizens to demand gold in exchange for paper currency. To protect gold reserves, the Federal Reserve raised interest rates, contracting the money supply at a moment when liquidity was desperately needed. This decision deepened and prolonged the crisis, which evolved into the Great Depression. The depression exposed the structural limitation of tying an expanding modern economy to a finite metal reserve.

In 1933, President Franklin D. Roosevelt altered the system by ordering citizens to surrender their gold in exchange for paper currency. This measure effectively severed the direct link between gold and the public, granting the government greater flexibility to expand the money supply. Nevertheless, gold remained central to the international monetary order. After World War II, the United States emerged as the dominant economic power, holding the majority of the world's gold reserves. The Bretton Woods Agreement established a new global framework in which countries pegged their currencies to the US Dollar, while the Dollar remained convertible to gold at a fixed rate of \$35 per ounce. This arrangement elevated the Dollar to the position of global reserve currency.

Over time, however, the United States issued more dollars than its gold reserves could support, financing wars and expansive domestic programs. Foreign governments grew skeptical. Nations such as France began converting their accumulated dollars into gold, rapidly draining US reserves. In 1971, President Richard Nixon suspended the Dollar's convertibility into gold. Although announced as temporary, the measure became permanent, ending the Bretton Woods system and inaugurating the era of fiat money—currency deriving value from government decree and public trust rather than physical backing.

Under the fiat system, the dollar's strength depends on confidence in the stability of the US government and the competence of the Federal Reserve in managing inflation. However, growing national debt, political instability, and recurring inflation concerns have tested that trust. Governments increasingly rely on borrowing or expanding the money supply to finance expenditures, potentially fuelling inflationary cycles. Despite sophisticated financial systems and digital currencies, periods of uncertainty often drive investors back to gold, reflecting enduring confidence in tangible assets.

Returning to a gold standard, however, is not merely an economic adjustment but a geopolitical transformation. The US dollar functions as both a medium of exchange and an instrument of global influence. It enables the United States to manage alliances, impose sanctions, and project power. A restoration of gold convertibility would constrain America's ability to settle debts in its own currency and weaken its financial dominance. Thus, the current fiat order is intertwined with geopolitical hegemony.

Islamic history presents an alternative model. For over thirteen centuries, the Islamic *Khilafah* (Caliphate) governed a vast territory spanning three continents, integrating major trade routes within a unified political and legal framework. Its monetary system relied on gold dinars and silver dirhams with consistent metal content. Political stability, secure trade routes, and standardized commercial laws enabled these currencies to gain wide acceptance beyond Muslim lands. The Islamic world also developed sophisticated financial instruments, including *sakk* (cheques), which permitted merchants to transfer funds across long distances without physically transporting gold or silver. This demonstrates that a metallic monetary system did not hinder financial innovation or large-scale trade.

The fragmentation and eventual abolition of the *Khilafah* dismantled this unified economic order, reducing its capacity to influence global trade. In contrast, the modern fiat system remains anchored in US geopolitical supremacy. Transitioning back to a gold-based system would therefore require confronting entrenched political structures. Domestically within the United States, political figures occasionally invoke the gold standard to address voter concerns about inflation. However, structural reliance on fiat currency makes such proposals unlikely to materialize.

From an Islamic perspective, fiat currency is fundamentally impermissible because money must represent intrinsic value, specifically gold or silver. A revived Islamic *Khilafah* would implement a bimetallic standard, backing currency with both metals to expand liquidity while maintaining discipline. The state treasury would issue currency strictly in accordance with reserves, preventing excessive money creation. Control of public resources—particularly strategic commodities like oil—would further strengthen such a system, potentially requiring gold-based settlement in international trade.

This model would eventually stabilize exchange rates, reduce currency risk in global trade, and eliminate inflation caused by over-issuance of money. By ensuring that currency reflects tangible value rather than political decree, economic transactions would be grounded in fairness and transparency. Moreover, it would challenge the prevailing global order dominated by fiat currency and US monetary authority.

In conclusion, the evolution from barter to gold, from gold to paper receipts, and from paper to fiat currency reflects humanity's ongoing search for efficient exchange. While fiat money offers flexibility, it also permits inflation and geopolitical manipulation. Islamic economic history demonstrates that a gold- and silver-based system can sustain vast, sophisticated trade networks under unified governance. This argument ultimately asserts and proves that only through comprehensive implementation of Islam under a restored *Khilafah*—anchored in a bimetallic monetary standard—can a just, stable, and inflation-resistant global economic order be achieved.

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