

GOLD DINAR PERCEPTION AMONG BUSINESS COMMUNITY IN KUALA LUMPUR: AN ISLAMIC PERSPECTIVE

*Muhammad Ahmed**

*Ahmed Kameel B. Mydin Meera**

The world has experienced financial crises in the previous decades. These financial disasters have influenced almost every economy in different ways such as high unemployment, inflation as well as other socioeconomic and political problems. Countries are struggling hard to come out of this trap. Two states in Malaysia have introduced gold dinar with the fundamental purpose to promote trade and to protect hedging against inflation. The objective of this study is to know whether the idea of gold dinar can be expanded to Kuala Lumpur. For this purpose, it is essential to investigate first, gold dinar perception and the level of awareness among people living in Kuala Lumpur. Secondly, it is important to know whether gold dinar can be used as a measure of value. Questionnaire survey is used for collecting data from diverse business community which comprises of Muslims as well as non-Muslims. Statistical techniques such as ANOVA, correlation, regression analysis etc. are used for analyzing different dimensions. These dimensions i.e. Independent and dependent variables include Economic Perception, Social Perception, Political Perception, Religion Perception and Perception on Gold Dinar. Findings of this study reveal that Economic Perception is the most influencing variable among both Muslims and non-Muslims. Apart from Economic Perception, Muslims have given significant importance to gold dinar on religious grounds too.

Key Words: Gold Dinar, Unit of Account/Measure of Value, Economic Perception, Social Perception, Political Perception, Religion Perception, Kuala Lumpur

1. INTRODUCTION

Commodity money i.e. gold dinar and silver dirham has been part of established monetary system throughout Islamic history. Gold dinar and silver dirham were in use even before prophet Mohammad (S.A.W) and he continued to use them. These coins remained in use until the fall of the Ottoman Caliphate in 1924. Apart from the association that gold dinar and silver dirham had within Islamic era, Arshad &Nahar (2002) mention that the gold standard was in place since before World War I and interestingly, money at that time (1880-1914) was gold itself or backed by gold. However, during the World War I, extensive paper currency with no gold backing was issued which put an end to the gold standard.

* Assistant Professor, Dept. of Management Sciences, Bahria University, Lahore Campus, LHR.

* Z Consulting Group, Kuala Lumpur, Malaysia.

Later on, Bretton Woods system was introduced and the responsibility to maintain the gold price fixed at \$35 was given to the United States. Even this system could not work beyond 1971 due to the imbalance between extensive printing of dollars and non-equivalent gold reserves in hand. Thereafter, the world has been dependent on fiat money. Currencies were detached from gold and are on their own (Meera, 2002).

As a result, the world has suffered serious economic problems in the shape of financial crunches leading to recessions with high inflation and unemployment. Academicians and economists have been trying to figure out the root causes and the optimum solutions for this economic dilemma and most of them blame the flawed fiat monetary system itself. Malaysia being one of the leading countries in Islamic finance has tussled with this economic chaos too. The idea of reverting back to commodity money backed by gold has been proposed for international trade settlement and was indeed noted by the former Prime Minister of Malaysia, Dr. Mahathir Mohamad.

Several studies have been conducted before and after the introduction of gold dinar in Malaysia. For example, Arshad and Nahar (2002) did a comparison between gold dinar and the other two monetary systems i.e. Gold standard and Bretton Woods. Similarly, Meera (2002) emphasized on the historical importance of gold dinar and proposed it as the optimum solution for the current economic malice. Another research in relation to gold dinar perception has been conducted in Kelantan. Among several factors, the economic factor was found the most prominent factor that impacted on the gold dinar perception (Maheran, Nursuzila, & Jusoh, 2008).

Two states in Malaysia have already introduced gold dinar for investment and trade purposes. However, there is a need to expand this idea to other states also. This paper fills the gap by conducting an exploratory study regarding the perception on gold dinar in the city of Malaysia i.e. Kuala Lumpur. This city holds a marvelous economic as well as social significance with the business community.

Purpose of this research is to explore perception on gold dinar as a measure of value among business community in Kuala Lumpur. Intensity of economic, social, political and religion perception is observed in relation to their respective impact

towards the perception on gold dinar. The above variables constitute the domains of both fiat money¹ and gold dinar which is also reflected in the survey questionnaire administered on the respondents, both Muslims as well as non-Muslims.

This research is important in relation to the domino effect observed due to the global financial crisis (2007-08) and subsequently the euro crisis. Since business community has been highly affected by these financial crunches. Therefore, this research aims to investigate business community's perception about fiat money and gold dinar along with their willingness to use. Outcomes of this research may help policymakers in deciding on the implementation of the gold dinar in Kuala Lumpur in the future. Similarly, it will contribute to the gold dinar literature, assisting academicians with current perception of paper money as well as the potential of implementing gold dinar in the capital city of Malaysia.

2. LITERATURE REVIEW

2.1 FIAT MONEY OR PAPER CURRENCY

Today almost every financial transaction involves money. However, historically, man used different objects as consideration for the payment of goods and services he purchased. At that time, according to Lewis (2007), transactions were recorded in the human memory due to absence of computers etc. Later on barter system was introduced where goods and services were exchanged without any medium of exchange. People subsequently faced problems in barter system due to double coincidence of wants and especially divisibility.

Greco (2001, p.16) argues that money is a human invention and it can be reinvented in case it does not perform the way it was required to. With the passage of time, people felt the need to consider something as medium of exchange and for that they used available commodities such as shells, coins etc. Even cigarettes were used as medium of exchange among German citizens after the World War II when money was considered useless (Lewis, 2007, p.28). Rahn (2010) considers anything money or good money if it can perform three functions namely: a medium of exchange, a store of value and a unit of account or a measure of

¹It is type of money that does not have intrinsic (internal) value and not backed by gold/silver e.g. currency notes that we use today like dollars or ringgit

value. This paper focuses on the third function i.e. a unit of account.

Mankiw (2007) emphasizes that unit of account is an important consideration in any commercial agreement which involves debt. For money to function as a unit of account, few elements must be considered. These are divisibility (divisible into smaller units), homogeneity (quality of being capable to exchange), weightage (holds specific weight of units) and mobility (provides comfort in moving it to different places and can be used by different nations). Rahn (2010) has highlighted the need of a global unit of account, if formed with wide acceptance and high stability, can lead to the fulfillment of other money functions too. However, Rahn (2010) does not support gold as a unit of account.

Today on one hand, with the help of modern technology, money has been transformed into several shapes such as plastic money, e-business, e-money i.e. performing financial obligation with one click. On the other hand, the world is becoming aware of the internal hollowness of “the modern monetary system”. Greco (2001) elaborates the issues of paper currency in relation to inflation, deflation, unemployment, bankruptcies, homelessness and increased indebtedness. These issues have given birth to social problems such as increasing crime rate, suicide, theft, pollution of land, water and air. Meera (2006-a) considers fiat money having no intrinsic value but it is accepted in the market through legal tender law. Moreover, the concept of “Earning money out of nothing” has been elaborated in relation to the issue of seigniorage which means “free purchasing power produced by the new money, not backed by gold” (Meera, 2006-a). Creation of fiat money today is facilitated through FRB (Federal Reserve Banking) according to which a commercial bank is entitled to hold certain percentage of deposit where the rest can be lent out. This leads to the multiplier effect and the credit creation without involving real money which results in excessive supply risk of money and inflation (Meera, 2009).

Since the demise of the gold standard and Bretton Woods system, paper currency is floating without any gold backing. Proponents of the gold standard for instance Greensoan (1981) claims that gold based monetary system can lower down the exchange loss risk and help in decreasing budget deficits. Later on, Shelton (1997) supported Greenspan’s idea of moving towards sound money

based on gold convertibility and claimed that return to gold standard can diminish budgetary problems. Greco (2001) has also blamed paper currency as a major reason for inflation. Furthermore Rahn (2010) has expressed dissatisfaction with the US dollar as the global reserve currency. According to Meera (2006-a), fiat money/paper currency along with its roots in an interest based system is totally against the teachings of Islam and harmful for the society. Rahn (2010) argues that not only individuals, small businesses but also big economies such as China and Japan, all recognize the need of a stable unit of account for long term contractual relationships.

2.2 COMMODITY MONEY & GOLD DINAR

Commodity money is defined as “the money whose value comes out of which it is made” such as gold, silver or even shells, big stones and cigarettes etc. (O'Sullivan & Sheffrin, 2003, p. 246). Lediot and Lotz (2011) have differentiated real money from fiat money stating that “when commodity money plays its role as a medium of exchange, it is known as real money and when anything without intrinsic value becomes medium of exchange, it is called fiat money”. Greco (2001) supports the use of commodity money for trade. This is because commodity money provides storage of value as well as the exchange function due to its demand and usefulness. Meera (2009) maintains that the commodity money is real and physical. Moreover, unlike fiat money, the commodity money can't be created out of nothing which helps in maintaining the economic stability.

Historically, the commodity money i.e. gold and silver has been people's first choice as the medium of exchange. Greco (2001) explains that gold and silver have been widely used because of the convenience, durability and standard weight. The Roman gold coin named ‘Aureus’ was in use from the first century up to the fourth century. Another coin named “Solidus” was used as an official gold coin in 312 AD. Meera (2006-b) maintain that these Roman Byzantine gold coins were later named dinars among Arabs whereas silver coins were known to be dirhams in Persia.

Dinar and dirhams were in use even in the era of Prophet Muhammad (S.A.W) and he did not disallow their usage (Meera, 2011). Qur'an has also mentioned gold and silver in different verses. Two of them are as follows:

Qur'an says *"Among the People of the Book there are some who, if you entrust them with a pile of gold, will return it to you. But there are others among them who, if you entrust them with just a single dinar, will not return it to you, unless you stay standing over them"* (Qur'an, al-Imran: 74). On another occasion, Qur'an says *"They sold him for a pittance, a few dirhams, considering him to be of little worth"* (Quran, Yusuf: 20). Similarly, Muslim scholars namely; Ibn Khaldun, Al-Maqrizi, Al-Ghazali and Qudama Ibn Jaafar have supported the use of gold dinar as a measure of value (Lietaer, 2001; Meera, 2004). To conclude, gold dinar is not the new shape of money or the discovery of today. Gold dinar has been used throughout the Muslim era until the end of Ottoman caliphate. The economic problems started appearing only when gold was detached from the fiat money. For the last few decades, the world has gone through several back to back crises such as Mexican crisis (1994-95), Asian crisis (1997), Russian crisis (1998) and eventually the dollar crisis in the year 2007. Recently, Europe has suffered from 'euro crises'. Many scholars mentioned earlier agree to the point that the major cause behind all these crises is the fiat monetary system itself due to the detachment from the gold. Based on the discussion above, gold dinar has been proposed as an alternate currency and an optimum solution for current economic issues.

The solution is adequate based on the results of many studies reported. For example, a comparison of several commodities such as wheat, barley, salt, gold and silver was done due to the money-like characteristics they possess (Meera, 2006-b). All these commodities were evaluated with respect to their durability, homogeneity, divisibility, rarity and global acceptance. Results exhibit that gold and silver were found the best among them.

Gold dinar has also been proposed to be used as a complimentary currency i.e. the money which is used in addition to the national currency in order to provide the economic boost. It is important to note that complementary currencies are not created to attack national currencies. Instead, they complement existing monetary system (Lietaer, 2001). Similarly complementary currencies are not new as well. Until the year 2000, there were over 2500 complementary currencies existing in the world, for instance Local Exchange Trading System (LETS) in United Kingdom, Tauschring in Germany and Grains de sel in France. Lietaer (2001) further

elaborates the advantages of using complementary currencies such as decrease in unemployment while promoting trade and commerce yet these may not remain immune from political pressures and governmental sanctions. Despite these pressures and sanctions, scholars are still optimistic. For example Vadillo (1998) predicts that gold currency will take over the fiat money ultimately, no matter both initially work together.

Few questions have been raised regarding gold dinar especially when it comes to the issue of carrying gold coin due to its weight. In answer to this question, Meera (2002) states that the modern technology has almost entirely changed the shape of the financial system. Therefore, the use of gold dinar is possible. People can use any electronic payment system that is backed by gold. Plastic money can also be attached to gold payments system. Precisely, no matter gold dinar is in the shape of paper dinar or electronic dinar, transactions must be backed by gold. Apart from the above issues, some people mistakenly think of gold dinar as something developed for Muslims only. Actually, this monetary system is for both Muslims as well as non-Muslim. Any society from any part of the world can adopt this system.

Contrary to the proponents' views regarding gold currency or gold coins, some scholars have criticized it too. Pense (1992) has mentioned the fall of Roman denarius that initially contained pure silver up to 98 per cent which decreased down to two per cent after three centuries. As a result, it created instability and there is a possibility that history may repeat itself. Similarly, Hasan (2007) argues that gold dinar is not a Shariah requirement and Prophet Muhammad (S.A.W) used it only because it was common at that time. Moreover, a fiqh opinion states that gold and silver should not be considered the only medium of exchange. There must be flexibility in the monetary system (Haneef and Barkat, 2006). Murat (2010) is of the view that the interest rate cannot be reached down to zero simply by returning to the coinage. It is because every coin contains two different values i.e. face value and intrinsic value. The central banks may exercise control on face value but the control on intrinsic value is not possible.

Based on the above discussion on gold dinar, its historical usage and keeping in view the arguments of both proponents and opponents, this exploratory study aims to investigate the perception of business community regarding paper money and gold

dinar. Moreover, this research will help examine the awareness of people regarding paper money in terms of usage, convenience and satisfaction. Similarly the willingness to use gold dinar as an alternative or complimentary currency will also be explored.

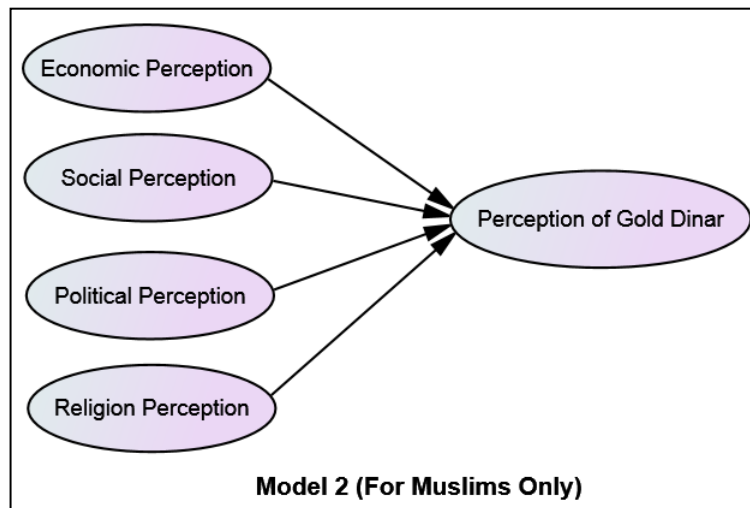
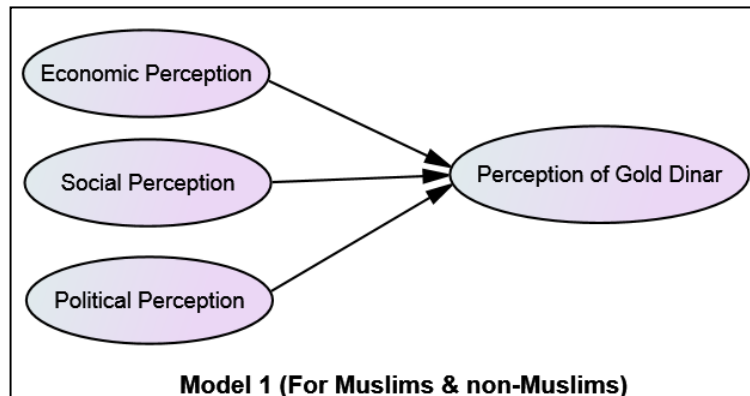
3. RESEARCH METHOD

Gold dinar has already been introduced in two states of Malaysia and there is a need to expand the gold dinar idea in other states too. The purpose of this research is to examine the perception of gold dinar as a measure of value among business community in Kuala Lumpur. The perception not only focuses on the gold dinar but also the fiat money in order to draw a clear picture. Reason for choosing Kuala Lumpur is due to its central importance as the capital of Malaysia. Population for this study is the diversified businesses because they are the major players of the economy. Diversified businesses include garment, IT, pharmacies and hotels etc. Sampling technique used to conduct this research was convenient sampling with an expected sample of 250 respondents. Self-administered questionnaires were circulated to the respondents. A total of 175 questionnaires were returned out of which 150 were selected during the screening process. Among the selected questionnaires, 100 belonged to the Muslim respondents whereas remaining 50 were obtained from the non-Muslim respondents.

The conceptual framework has been devised in such a way that the effect of independent variables i.e. Economic perception, Social perception, Political perception and Religion perception is examined on the Perception on Gold Dinar which is the dependent variable. Due to the presence of religion perception, two models (model 1 & model 2) were employed. Model 1 encompasses collective response from both the Muslims and the non-Muslims and it contains three independent variables namely; Economic perception, Social perception and Political perception. Model 2 constitutes response of the Muslim respondents only and contains religion perception in addition to other three independent variables mentioned above. Dependent variable i.e. Perception on gold dinar is the same for both models. Reason to exclude Religion perception in model 1 is to analyze combined perception of business community irrespective of the fact that they are Muslims or non-Muslims.

Following the above conceptual framework, two different questionnaires were developed for Muslim and non-Muslim respondents. Section A and B are similar in both the questionnaires, comprising demographic information and the questions regarding Economic, Political and Social perceptions respectively. However, for Muslim respondents, Section C is added to obtain Religion perception.

Statistical techniques, devised to analyze data are demographic statistics (sample characteristics), reliability test (internal consistency), descriptive statistics (mean, standard deviation and frequency distribution), correlation, analysis of variance (ANOVA) and regression analysis. SPSS version 19 has been used in order to conduct the above statistical tests.



4. FINDINGS AND DISCUSSION

As per the descriptive statistics, out of 150 respondents, 84 (56%) were males and 66(44%) were females. It clearly depicts the business culture of Malaysia where men as well as women collectively contribute to the economy. In terms of age, almost 51% of the respondents were above 30 years of age whereas remaining respondents were below 30 years. Malaysia is one of the countries with the population from different religions. Therefore, in order to avoid biasness, response of both Muslims as well as non-Muslims has been obtained. Out of 150 respondents, 100 (66.7%) were Muslims whereas 50 (33.3%) were non-Muslims. Moreover, the response obtained from both Muslims and non-Muslims contradicts the wrong perception that gold dinar is only applicable to the Muslims. Population of Malaysia comprises three major races namely; Malay, Chinese and Indian. Malay respondents in the survey were 68 (45.3%), Chinese were 33 (22%) and Indian respondents were 27 (18%). Remaining 22 (14.7%) were under the category of 'Others'. Regarding educational background, majority respondents i.e. 68 (45.3%) were bachelor degree holders whereas 52 respondents (34.7%) had Master's degree. The annual income bracket of majority respondents i.e. 108 (72%) was less than RM 50,000. Only 26 respondents (17.3%) had annual income between RM 50,000 and RM 74,999. The reason that majority respondents chose the lower annual income might be due to the sensitivity of the question.

It is important to test the reliability of data collected through survey questionnaire. Hair, Black, Babin, and Anderson (2010) note that reliability shows whether the variables are consistent in what they are supposed to measure. Reliability coefficient that is widely used, was applied on both Model 1 (both Muslims & non-Muslims) and Model 2 (Muslims only). Cronbach's alpha obtained from Model 1 was 0.777 whereas Cronbach's alpha obtained from Model 2 was 0.683. According to Hair et al. (2010), value of Cronbach's alpha for an exploratory research may drop down until .60, hence satisfactory.

Correlation coefficient shows how powerful the relationship is between two variables (Hair et al., 2010). Model 1 exhibits positive correlation found between Economic Perception and Perception on Gold Dinar which was .473 at $p < .01$. Similarly, positive correlation between Social Perception and Perception on Gold

dinar was .308 at $p < .01$ and lastly, positive correlation between Political Perception and Perception on Gold Dinar was .306 at $p < .01$. Similarly, Model 2 exhibits positive correlation between Economic perception and Perception on Gold Dinar which was .430 at $p < .01$. Additionally, the correlation between Political Perception and Perception on Gold Dinar was .222 at $p < .01$. Correlation between Social Perception and Perception on Gold Dinar was .144 whereas correlation between Religion Perception and Perception on Gold Dinar was .166. In both the models, Economic Perception has the highest correlation with Perception of Gold Dinar.

Analysis of Variance (ANOVA) has been applied on Model 1 only because it comprises of Economic, Social and Political perception in relation to perception of gold dinar. Model 1 does not include Religion perception. Therefore, response from both Muslims and non-Muslims has been analyzed. Result ($F=11.56$, $p < .05$) indicates that mean values of above variables for Muslims and non-Muslims are not equal. Hence, there is enough evidence to reject null hypothesis.

Regression was applied on both Model 1 and Model 2. In Model 1, three independent variables namely; Economic perception, Social perception and Political perception were regressed with one dependent variable i.e. Perception on Gold Dinar. R^2 statistic obtained from Model 1 was .298 meaning that 29.8% of the variability in dependent variable is accounted for by the regression. Moreover, Economic perception has the highest β weight i.e. .383.

Similarly, regression analysis was applied on Model 2, comprising four independent variables namely; Economic perception, Social perception, Political perception and Religion perception. These variables were regressed with one dependent variable i.e. Perception on Gold Dinar). R^2 statistic for model 2 was found to be .22 which means 22% of the variability in the dependent variable is accounted for by the regression. Economic perception in this model again holds the highest β weight which is .439. Highest impact of Economic perception on the Perception on Gold Dinar depicts that people with the sound understanding of economic activities will lead towards wider perception regarding gold dinar. It also reveals that the people are interested in gold

dinar due to their desire for more economic growth which may eventually help their businesses grow faster. Interestingly, the results obtained from Muslim respondents in Model 2 indicate that, after Economic perception, Religion perception holds the second place while have an influence on the Perception on Gold Dinar. In other words, Muslims have given importance to gold dinar based on the Religion perception too. It implies that the Muslims are concerned with fulfilling their worldly as well as religious obligations.

5. CONCLUSION

The main objective of this research was to investigate perception of gold dinar (awareness) among business community in Kuala Lumpur. Perception on gold dinar and fiat money (paper currency) was analyzed based on Economic, Political, Social and Religion perception. The impact of these predictors was examined in relation to the dependent variable i.e. Perception on Gold Dinar. Using statistical techniques such as descriptive statistics, ANOVA, correlation and regression, Economic perception was found the most significant in both Models 1&2. Interestingly, Economic perception in Model 2 (Muslims only) was followed by Religion perception affecting significantly the Perception on Gold Dinar.

This exploratory study contains few limitations as well as the suggestions for future research. Limitations are (i) use of convenience sampling rather than random sampling techniques (ii) limited number of respondents especially non-Muslims (iii) lack of awareness among people regarding finance-related terminologies used in the questionnaire. Suggestions for future research include (i) random sampling can be applied (ii) EFA and CFA techniques can be incorporated (iii) research in other prominent states for instance Johor Bahru can be considered.

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