

Muslim Scholars Views on Fiat Money

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Abstract

This paper critically examines the nature and implications of fiat money through the lens of contemporary Muslim scholars. The objective of this study is to evaluate the legitimacy, sustainability, and ethical dimensions of fiat money, which defined as currency without intrinsic value and upheld solely by government devree, in light of Islamic principles. The methodology employed in this study consists of unstructured interviews with five key figures in the field of Islamic economics and monetary thought, namely Dr. Ugi Suharto, Prof. Dr. Ahmed Razman Abdul Latiff, Prof. Dato' Dr. Ahamed Kameel Mydin Meera, Dr. Yahia Abdul-Rahman, and Ahmad Yani Ismail. The findings reveal a strong consensus that while fiat money functions as a medium of exchange, it is inherently unstable and incompatible with the Islamic principles of justice, transparency, and value rooted in real assets. Most of the scholars emphasize the dangers of money creation through fractional reserve banking, the systemic injustices embedded in fiat-based financial systems, and the inadequency of current Islamic legal rulings to address these challenges. The contribution of this study lies in highlighting the urgent need to re-examine the metaphysical foundations of money and to develop alternative systems grounded in real value and moral accountability. By situating fiat money as not merely a technical instrument but a moral construct with far-reaching societal consequences, the paper underlines the importance of cultivating deeper scholarly expertise in monetary theory within the Muslim world to navigate and reform contemporary financial monetary structures.

Keywords: Contemporary Scholars, Concept, Fiat Money, Federal Reserve Banking

1.0 INTRODUCTION

Each civilization and nation have its own history of money dating to the earliest written records of this particular human activity (Cribb, 2016). Since the advent of the barter system in the past, there have been many different forms of money, to several types of modern money during this present day. Nonetheless, the age-old and widely debated question remains, what exactly is money? Professor David Harvey (2008) mentioned that if this question were asked to anyone, nobody will have the idea of what it is. Despite being the most common subject, the lack understanding of its nature and role is still very much wide and common. This article aims to comprehend the root problem of the modern economy by looking at the basic concept of money and its impact within the modern economic system. This study humbly reassesses the prevailing concept of money in the modern economic system, which has inherent self-destructive values, contributing to significant chaos in human civilization. It is written in a clear and straightforward language to make it accessible to readers without any background in economics or finance.

In the past, money had been feathers, stones, and shells (Cribb, 2016). The earliest of forms of trading was barter, which is the exchange of one specific good or service for another specific good or service, such as an apple for a bag of beans. The main challenge as mentioned in the West,

with this system is when the barter parties could not agree on the value in exchange, or when one party disapprove of what the other person had to offer in return (Cribb, 2016). To solve this matter, commodity money was introduced. Due to their worth to local economies in the past, commodities including salt, tea, tobacco, livestock, and seeds have all been used as currency in the past. Money today predominantly takes form of paper notes and coins as well as accounting records created by banks which regarded as money through the Fractional Reserve Banking (FRB) (Meera & Larbani, 2009). Apart from these coins and bank notes and bills, credit cards are also considered as plastic money (Cribb, 2016). These are all considered as money as it is accepted and recognized as a means of payment. The now mobile centric lifestyle even able to promote digital money as gifts especially to those across distance (Probst & Kwon, 2021).

It is undeniable that money is widely seen as a vital part of life. Many of us people work to earn it and strive to save some in order to afford things that bring comfort and enjoyment (Abdul-Rahman, 2010). It is amazing to see the respect people have for a sheet of paper, regardless of its colour which might be green, red, blue, or even have an outstanding variety of hues and patterns. This piece of paper is only recognised and honoured in the place it was printed and issued. In relation to this, the major currencies such as the American Dollar, the Euro, the Japanese Yen, or the British pound represent important world currencies in great demand (Abdul-Rahman, 2010). Even the digital era we are in now made unseen money such as those stored in bank computer records are also considered as money (Cribb, 2016). Money has become essential that many people fight, love, or despise each other because of it (Abdul-Rahman, 2010). Regrettably, some people would even kill for it (Cameron, 2014).

2.0 BRIEF UNDERSTANDING ON MONEY AND FIAT MONEY

The term money was first used in the fourteen centuries. Money known in middle English as “*moneye*”, in Anglo-French as “*monieie*” and Latin as “*moneta*”. Money means something which is accepted as a medium of exchange, considered like a measure of value, or a means of payment. Moneta derived from the word “*monere*” in Latin which means to admonish or to call to mind (Morries, 1879). In Greek mythology, the term “Moneta” became associated with the place where coins were produced. Moneta, which was one of the names of Juno (the Roman goddess) whose temple (known as Temple of Juno Moneta) was use as a coinage minting place. This name is said to be from *monere* in Latin, which means to advise, warn, and admonish. There are numerous substitutes for the term “money” as stated by Merriam-Webster (n.d.) are cash, the means, legal tender, funds, capital, finances, currency, notes, change, banknotes, notes, paper money, coins, silver, copper, moolah, bucks, bills. However, for this article, the similar word we can use in this work is “currency” which means something which is in circulation as a medium of exchange. The West understood money from many perspectives including something that fulfil the four functions of medium of exchange which include unit of account, a store of value, a medium of exchange and a standard deferred payment (Semenova, 2007).

Before we delve into the discussion of the scholars, it is imperative to establish a framework for discussion, beginning with a definition of fiat money, as fiat money connotes both conceptual and practical significance. “Fiat” is a Latin word which means “let it be done”. This authoritative or arbitrary order by the government (by decree) reasons fiat to be known as legal tender (Goldberg, 2005). The term “fiat money” or “legal tender” may also be used interchangeably with the term “legal money”. This currency, which is imposed by law or a government, hold an important criterion whereby it can be used to pay taxes; although it may not bear any intrinsic value especially when it exists in paper or electronic form. Unlike commodity money which has

intrinsic value, fiat money's worth is based solely on public trust in the issuing authority. The concept of fiat money dates back to ancient China but its modern understanding developed during the 20th century with the abandonment of the gold standard by many countries. The transition to fiat money was accelerated by economic crisis such as the Great Depression and World War II, which strained gold reserves and necessitated flexible monetary policies (Hanhui & Jie, 2016). John Maynard Keynes argues for fiat money systems to enable governments to manage economic stability through monetary policy, including adjusting interest rates and money supply (Jahan, Mahmud & Papageorgiou, n.d.).

After the world war II, the Bretton Woods system pegged world currencies to the U.S dollar, which back then it was backed by gold. However, in 1971, U.S president Richard Nixon had ended the dollar's convertibility to gold where this is known as the Nixon Shock. Thus, making the true birth of modern fiat money which lasted until now. Most nation follows U.S in its monetary system due to its post-war economic dominance. This was due to the fact that the U.S had emerged as dominating economic power due to many reasons, such as the strongest economy post-world war II, largest holding of gold reserves while positioning as the holder of largest currency reserves in the world, the creation of World bank and International Monetary Fund as well as its military victory and power to name a few. Thus, most nations continued with the U.S led system as creating other new alternatives poses high challenges and risks (Batcha, 2025).

The usage of paper money as a sole medium of circulation did not commence until during the thirteenth century (1271-1368) in Yuan dynasty and it was not until year 1310 that the government change to fiat money (Gan, Palma & Wu, 2024). Nonetheless, fiat money's etymology encapsulates its essence or nature of a currency whose value rests on the authority's assurance rather than intrinsic worth. This term is integral to understanding contemporary monetary system and their advancement from commodity-backed currencies to the predominantly fiat-based systems seen today.

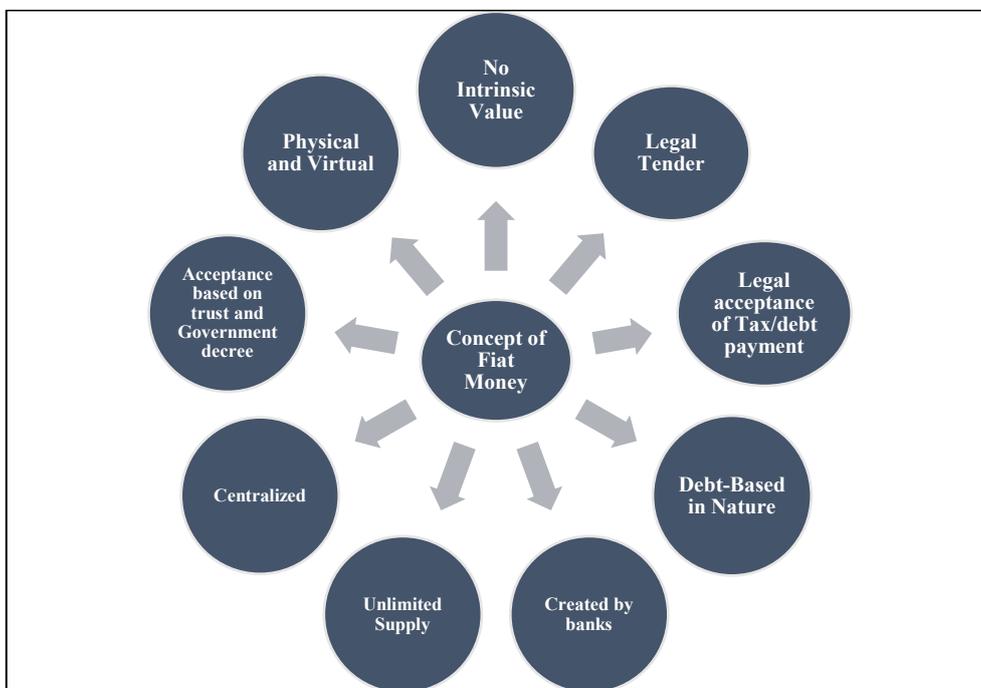


Figure 1 Concept of Fiat Money

Based on Figure 1 above, the concept of fiat money is a type of money which is accepted as government legal tender, has centralized control, can be used as a tax payment or debt payment,

the acceptance to use it is based on trust and government decree or authorized order, it is created by banks, debt-based in nature, could be unlimited in supply as it can be printed by those who controlled it, it has no inherent intrinsic value and consists of physical and virtual money.

Fiat money had replaced the previous money which was widely believed to have intrinsic value independent of state decrees (Shapiee & Zahid, 2014). Fiat money does not have any intrinsic value as it is not backed by any other precious commodities. However, fiat money is generally considered to have nominal value because they have been declared legal tender by a sovereign state. This principle of nominalism meant that being a legal tender at the time of payment, the money involves an obligatory to pay for material goods regardless of its intrinsic value. Governments also promote the demand for fiat money by accepting it as tax payment (Goldberg, 2009). This concept is rooted in chartalism, an economic theory that views money as a product of the relationship between the government and its people. When government spends money, it can be seen as borrowing from the public, as the money issued serves as a token that citizens can use to settle their tax obligations. From this viewpoint, money is seen inherently tied to the economy, rather than being separated from it (Fitzpatrick, 2002). Furthermore, fiat money carries a promise made by the issuing government to pay the bearer on demand the sum stipulated and the fact that it is a legal tender made it impossible to be rejected by a creditor (Fitzpatrick, 2002).

Bank's credit money (through debt and loans issuance) and fiat money (physical money) are the two main categories of modern money. Bank's credit money or also known as credit money is the basis for most contemporary money types, including electronic money and credit cards which also known as plastic money (Hasan, 2020; Shapiee & Zahid, 2014). Digital money which of the third category should also be considered. Most modern money, including credit and digital money is either fiat or fiat based. But not all forms of money are fiat in the strict sense, where it is either issued directly by the government or central bank as legal tender. On the other hand, money becomes debt-based due to its creation process by banks or by an entity acting as a bank whereas specified by Meera (2004); Aziz (2016) and Dietsch (2021), where new fiat money is created when banks issued out loans. This inconvertible paper currency system gives the centralized control to the central bank and commercial banks; therefore, it has the power to create and circulate this money. Moreover, the government backs the currency with its full faith and recognition so its citizens will accept it. The dependence on a third party that comes with fiat currencies is not something that many people find truly acceptable especially when it relates to wealth. However, although many will find themselves having no position to react, this also shows that giving trust and building a flourishing society on the requirement of faith in politicians seems rather a terrible strategy (Parker, 2018; Hilmola, 2021). Based on the explanation above, fiat money can also be of both physical and virtual form.

Credit (money) must not be confused with the money we often use as their nature and role in an economy differs. Fiat money is issued by the government, a legal tender and is a unit of account for payments which consists of notes and coins which are known as cash or currency. It is a liability to the bank (or government) and is an asset to the holding public. While credit is a liability of the borrowing public (or government) but an asset to the banks. A bank could multiply cash deposits (which are stored or deposited by customers in the bank) manifolds in their credit creation activities (Hasan, 2020). When a government stops allowing its money to be exchanged for something valuable like gold or silver, the original promise behind the money no longer applies. But people still use the money because it's accepted by law. The money still acts like a kind of IOU (I Owe You) although it is not the same as real IOU where the government gives it to people when buying things, and people use it to pay back what they owe the government mostly in taxes. Therefore, fiat money can be understood as a form of credit from this viewpoint, where the

government is borrowing value from the people, and the people are lending it by accepting and using the money (Fitzpatrick, 2002).

Fiat money, as mentioned in its narrowest sense, refers to currency issued by a central authority that is not backed by physical commodities like gold and silver but is declared legal tender by the state which include physical cash and central bank reserves. In contrast, bank money (or credit money) is created by commercial banks through lending; while not legal tender, it functions as money because it can be converted into fiat cash and is supported by trust in the banking system, making it like a “derivative” of fiat money. Digital money such as such as Central Bank Digital Currencies (CBDCs) represents a digital form of fiat issued by central banks, whereas e-wallet balances such as GrabPay or Touch ‘n Go are not legal tender but are backed by fiat reserves. While CBDCs may share some properties with virtual currency and cryptocurrencies, they differ in that which CBDC is issued by the state. CBDC offer a digital equivalent to hard currency, meaning it is made to cater fiat money in digital form and cryptocurrencies which are issued and controlled by central authorities. The idea of this creation is to provide a formal, legal alternative for consumers which they can trust and are safeguarded by central banks (Cambridge Dictionary, 2025). Nevertheless, fiat money serves as the foundation of today’s monetary system, with both bank and digital money operating within this framework. Due to its inherent link with various types of money or payment systems makes it inevitable to discuss it based on the mere idea of a medium of exchange.

Regarding the lifespan, one of the most frequent indicators that a fiat currency is about to fail is when hyperinflation occur (Rocheteau, 2023). It is important to note that hyperinflation and currency collapses are not exceptionally rare events, however, hyperinflation and high inflation has not been common or frequent after the World War II. There are conflicting opinions regarding fiat currencies average lifespan, which some felt it generally last for 50 years (Parker, 2018). While others feel it have a lifespan of one to fifteen years. When the life span reaches its end, the physical money will need to be destroyed and reproduced in another cost.

3.0 PROBLEM STATEMENT

Fiat money has faced widespread criticisms due to its inherent nature and the various consequences associated with it. Some of it other impacts are that the concept of fiat money opens the door to manipulation for potential misuse (Meera & Suharto, 2024). It also causes wages or income to devalue over time, and this forces individuals into constant rat-race just to keep up with the rising costs due to the inflation built up. Thus, people work harder but for less purchasing power, further trapping themselves in this system. The fiat monetary system also forces infinite economic growth, leading to resource depletion and climate collapse, which is due to unchecked economic expansion which drives overconsumption and environmental destruction (Daly, 1999). Meanwhile, the effect fiat money brings to economy are high national debt due to the way it is created (Frerking & Wolla, 2019). In the long run, money supply growth has significant impact on inflation, and this could escalate to hyperinflation if there are incessant fall of the purchasing power of money where in this case, the whole monetary system could collapse (Hasan, 2012). Inflation also causes food security to be jeopardized, since higher living cause also means high food prices. This reduces affordability and limit access to nutritious food for vulnerable populations. Furthermore, a nation may lose out further in terms of economy through foreign exchange (Anshu and Noah, n.d.), seigniorage (Meera, 2004), currency pegging (Stone, Anderson & Veyrune, 2008) as well as currency speculation and arbitrage within this fiat money system (Meera, 2004). Furthermore, it also causes shrinking population (Meera, n.d.) and promotes a higher crime rate

(Mai, 2016). Similarly, war is also inevitable in a fiat money system as war financing often relies on fiat money issuance (Rockoff, n.d.) and through increasing the money supply, the fund for military expenditures is obtained (Higgins, n.d.). Weapons and armaments are a billion-dollar industry and its manufacturing forces it to be use somewhere and urgently due to its short-term profit cycle (Thrall, Cohen, & Dorminey, 2020). Therefore, arms proliferation also becomes the domino effects of war financing (USCIS, n.d.). Other critical impact of fiat money is world hunger due to inflated food prices like what is seen in Egypt, sovereignty erosion of nations such which happened to Ottoman empire, and mental health crisis (Batcha, 2025) due to its structure which systematically steals wealth from individuals by eroding the value or their earnings and savings by design (Rothbard, 2008).

Despite its inherent weaknesses, fiat money remains the backbone of contemporary financial systems worldwide. From Islamic perspective, many studies have discussed and contributed to the discussions on rethinking fiat money and few pioneering works by others in the field of money, banking and monetary economics (Ahmed, Iqbal & Khan, 1983). The idea, proposals, discussion, and pursuit in altering the predominant United States (U.S) government fiat money has been here as early as 1986, limiting to a small set of people, namely among monetary economists and policymakers (Dorn, 2017). The evolution of money, demonstrated by the emergence of digitalization of banking and finance, necessitates a re-evaluation of its nature from an Islamic perspective.

Critiques often focus on how fiat money is created, which mainly through bank-issued debt. However, the whole system is flawed. As the global economy evolves, fiat money continues to be a key subject of debate among economists, policymakers, and the public. Its future trajectory will be shaped by shifting economic policies, global power dynamics, and historical developments that have redefined monetary systems and societal values. Ultimately, understanding these changes offers insights into how fiat money might continue to influence and reshape the global financial order. Hence, this study seeks to contribute to this discourse by gathering insights from contemporary Muslim scholars, practitioners, and researchers through unstructured interviews. The method used in this study is unstructured interviews. Unstructured interviews are defined as interviews in which neither the question nor the answer are predetermined. It is highly dependable on the social interaction between the researcher and the informant. In an ideal unstructured interview, the interviewer follows the participant's narration and generates questions spontaneously based on the interviewer's reflections (Zhang & Wildemuth, n.d.).

Through the Fed, the nature of fiat money allows it to be printed in an unlimited manner. The standard macro aggregate labels for fiat money or its monetary aggregates consists of monetary base or reserve money (M0), narrow money (M1), broad money (M2), extended broad money (M3), and broad liquidity (M4). All these monetary aggregates are categorized by its liquidity. M0 and M1 represents the most liquid assets, comprising physical currency and demand deposits, which are used for daily transactions. M2 extends M1 by including near-money assets such as savings accounts and small-time deposits, which are less liquid but easily convertible into cash. M3 further expands M2 by incorporating large time deposits, institutional money market funds, and other significant liquid assets. Finally, the M4 is the broadest measure, encompassing M3 along with additional long-term and near-liquid assets such as government and corporate securities. M1 is directly linked to fiat money creation as it represents the most liquid forms of money created by central banks (physical currency) and commercial banks (demand deposits). Meanwhile M2, M3, M4 reflect the multiplier effect of fiat money through the banking system, facilitated by credit creation and fractional reserve banking (O'Brien, 2006). Correspondingly, the FRS could influence fiat money through; (i) interest rates, (ii) money supply, (iii) reserve

requirement (RR), (iv) inflation targeting, (v) federal fund's rate, (vi) quantitative easing and quantitative tightening (Batcha, 2025).

The Fed is not resistant to any illegal doings since the U.S had accomplished a doctrine in allowing “sovereign immunity” whereby its federal government is non-suable without its consent which adds more to its hegemony and power (Pugh, 1953). This sovereign immunity is granted by its Congress and generally no country can sue the U.S in a U.S court unless the U.S consents it to be sued. Therefore, the U.S is immune to lawsuits unless it *waives* this immunity. This is allowed and done by its own legal system and constitution. However, there are other countries with the same immunity such as United Kingdom, Canada, Australia, Germany, France, Japan and India. However, not all sovereign countries choose to follow this principle, some might limit or modify it in order to balance government accountability and immunity (Batcha, 2025).

Moreover, contrary to traditional belief, fiat money stresses its potential benefits in terms of production costs compared to if they were to be backed by gold as it would be high cost and troublesome. However, it was debated that all fiat money governments such as the FRS, the Bank of Japan, The Euro System, and the Bank of England are belying it as they all operate under a relatively high cost and as a matter of fact, the operational cost exceeds the estimated generic cost of fractional-reserve gold standard (Israel, 2021).

The cost of manufacturing physical money, such as coins or bank notes, includes additional expenses that are deemed expensive in addition to the cost of manufacturing and printing due to the price of transferring actual cash from one place to another and the related security expenses have to be considered. It was reported that the expense of managing physical currency in general is also considered as a burden, due to its lifespan. In other related situation, Parker (2018) claimed that it is foolish to trust fiat money as fiat money requires one to depend on a third party for their wealth, which should not be an attribute of money which many would find attractive. He further state that the U.S dollar had lost its value since the day it was created by the Fed. Based on this understanding, he persuades people to start holding bitcoin, instead of being foolish to trust fiat money for another century to come.

4.0 METHODOLOGY

Fiat money is a modern invention. It has not been discussed by early scholars of Islam until the late 19th century. However, the nature and intrinsic problem of fiat money has been critically noticed by our contemporary Muslim scholars, therefore, this study acquires their view through interview on this problem. An unstructured interview was initiated to find out whether fiat money and its system structure is truly harmful as medium of exchange and monetary system, and also to gain insights regarding the legitimacy condition of fiat money. The interview was divided into five sections, namely: i) general information on fiat money, ii) perceptions on fiat money, iii) strategies and approaches towards fiat money, and iv) catalyst towards fiat money initiatives. The communication was done with five key figures in the field of Islamic economics, banking, and finance were selected among the scholars, academicians, practitioners, and researchers to gain their insights regarding fiat money.

Due to the hefty nature of this topic, not everything can be fully conveyed within the confines of this article. Primarily, these interviews are primarily conducted to build a strong understanding of the subject matter, especially regarding Western and Islamic monetary economics, with the support of field experts who can simplify complex issues. Additionally, the insights from the discussions with these experts include their thorough explanation on matters pertaining to money,

fiat money, and other related matters, guidance and support on relevant supporting documents and materials which have been integrated into the ongoing development of a doctoral thesis entitled rethinking the concept of fiat money with respect of Islamic worldview (Batcha, 2025).

This study employed a qualitative approach and is conceptual by design. The researcher had employed unstructured interviews with five key scholars in Islamic economics. This is done to gain insights, opinion, and validity from going off-track or deviating from the understanding of fiat money itself since it consists of complex and extensive background work from the researcher's point of view especially when it comes to the subject matter of its creation process and legal structure involving the Fed. The purpose of this unstructured interview was more to understand the Western concept of fiat money and concept of money in the past or in Islam from academics and practitioner point of view. The field experts chosen are based on their experience, expertise, or prominence in this field. Although this study did not involve a formal university ethics committee, ethical principles were strictly observed. Verbal and written consent were obtained prior to the interviews. The methodology is described below.

4.1 Sampling Frame and Participant Recruitment

The sampling frame consisted of Muslim scholars actively engaged in Islamic economic thought, particularly those who have written, lectured, or published on issues related to money, Islamic finance, or worldview of Islam. Participants were identified through academic publications, conference proceedings, or academic and professional networks. Recruitment was carried out via email or telephone contact, where the research purpose was clearly explained, and consent was sought before the interviews.

A total of five key scholars were interviewed. While the sample size is relatively small, it is methodologically sufficient given the qualitative and interpretive nature of this study, which aims to obtain in-depth and contextually grounded insights rather than numerical generalizations. The participants were selected based on their recognized expertise and intellectual engagement in Islamic economics and monetary thought, ensuring that the data collected reflect authoritative and conceptually rich perspectives within respective fields.

4.2 Inclusion and Exclusion Criteria

Participants were included based on the following criteria:

- (a) Recognized expertise in worldview of Islam, money and banking, fiat money, money creation, or fractional reserve banking;
- (b) Familiarity with philosophical or conceptual discussions on fiat money; and
- (c) Willingness to participate in this interview
- (d) Individual without academic or intellectual engagement with fiat monetary issues in Islam were excluded from this study.

4.3 Participants

A total of five key scholars participated in this study. The first unstructured interview was done twice with Dr. Ugi Suharto on Friday, 9th February 2024 at Raja Zarith-Sofiah Centre for Advanced Studies on Islam, Science and Civilisation (RZS-CASIS), University Technology of Malaysia (UTM), Kuala Lumpur at 5.00 p.m to 6.00 p.m, while the second unstructured interview with Dr. Ugi was done via phone call and google meet on Saturday, 28th June 2025 from 5.00 p.m

to 6.45 p.m. Dr. Ugi Suharto has over 20 years of experience in academia in the field of Islamic economics and finance. Dr. Ugi received his PhD (Islamic Civilization, majoring in Islamic Economics) from the International Institute of Islamic Thought and Civilization (ISTAC) during the leadership of Tan Sri Prof. Dr. Syed Naquib al-Attas. Whereas he obtained both his Master of Economics (M.Ec) in 1993 and Bachelor of Economics (B.Ec) in 1990, from the International Islamic University Malaysia (IIUM). He is the co-founder and former Executive Director of Institute for Studies of Islamic Thought and Civilization (INSISTS), Jakarta, Indonesia and currently a Professor Adjunct at RZS-CASIS, UTM, Kuala Lumpur and Director at the Center of Excellence in Islamic Finance for SDGs, Indonesian International Islamic University (IIU).

The second interview was with Professor Dr. Ahmed Razman Abdul Latiff on 7th March 2024 at Putra Business School, University of Putra Malaysia, Serdang, Selangor Darul Ehsan at 8.15 a.m to 10.30 a.m. Prof. Razman is the current Director of Coursework Programs (MBA & PGCert) of Putra Business School. He is a member of Malaysian Institute of Accountants (MIA) and an advocate and active speaker of just monetary system through Movement of Monetary Justice (MMJ) in Malaysia. He earned his Bachelor of Art (Honours) in Accounting & Finance from Lancaster University, UK, Master of Accountancy from Nanyang Technological University, Singapore and Master Research in Accounting & Financial Management from Lancaster University, UK. Prof. Razman has a PhD from Liverpool John Moores University, United Kingdom.

Third interview was done twice with Professor Dato' Dr. Ahamed Kameel Mydin Meera. The first meeting was on 8th March 2024 at 3.00 p.m to 4.00 p.m, while the second meeting was on 15th March 2024 at 8.30 a.m. to 9.30 a.m. Both was done online via Google meet. Professor Dato' Dr. Ahamed Kameel is currently the Deputy Vice Chancellor of Academic and Student Affairs, University Sultan Azlan Shah, Kuala Kangsar, Perak. He is an active speaker of finance and economics especially in the area of fiat money, interest, and banking through Movement of Monetary Justice (MMJ) in Malaysia and former Professor at Kulliyah of Economics and Management Sciences, International Islamic University Malaysia (IIUM). Prof. Ahamed Kameel obtained a magna cum laude Ph.D. degree (Finance) from the University of North Texas, Denton, Texas, U.S in year 1996. Whereas his Bachelor and Masters Degrees in Economics were from the International Islamic University Malaysia. He is one of the prominent figures in Malaysia to talk to regarding fiat money and has been advocating on just monetary system for over 20 years now.

The fourth interview is done online with Dr. Yahia Abdul Rahman. Dr. Yahia is the Chairman and CEO of the LARIBA Banking Group (LBG). He was a pioneer to the Ribā Free (RF) banking services in America which he founded in 1987. This banking group operates LARIBA American Finance House and the Bank of Whittier. The Bank of Whittier is the only community-owned and full-service RF National Bank in America with full online banking and smartphone app services which currently serves in all 50 states. He earned a Ph.D. from the University of Wisconsin, Madison in the U.S. After completing, he moved to Texas where he gain many years of experience in a large oil corporation. The experience he endured upon arriving in the U.S when there was no nearby mosques or Islamic centres, no nearby Jumaah prayers held during his early working years, and no ribā-free loan to seek in order to buy a building for the facilitate the Islamic community, became his motivation to establish a financial institution that would gather the savings of the community and would reinvest these savings back in the community.

The fifth interview was done on 24th August 2024 at Hotel Tenera, Bangi, Selangor at 4.00-5.00 pm with field researcher, Ahmad Yani Ismail who is currently a Senior Lecturer at Universiti Islam Selangor (UIS), Malaysia. He has over 10 years of experience in the field of risk management,

takaful and Islamic wealth management. Mr. Ismail was chosen as a participant because of his understanding and written works which relates to the money creation of fiat money and Islamic banking. Mr. Ismail has been involved in various programmes and roundtable discussions regarding money in general. Money creation is an area which many lack understanding and many misunderstood in, due to its seemingly viable structure. He is currently awaiting for his Ph.D viva voce examination. His thesis subject is about the understanding of fractional reserve banking, money creation and the understanding of shariah advisors relation to this.

4.4 Scope of Interviews

The interview with Dr. Ugi spans regarding the real problem of fiat money, *ijmā'* (consensus), *qiyās* (analogy), *'urf* (custom) and *ijtihad* of *Ulama'* regarding this matter, history of money in Islam, on the existence of money, money in respect to the worldview of Islam and other related matters pertaining to the worldview of Islam in the area of economics of Islam, the difference between Islamic economics and economics of Islam, fiat money through the lens of worldview of Islam, on Islamic finance being Islamic or otherwise, the limit of money in Islam, Federal reserve, central banks and role of the state, U.S hegemony, systemic injustices, the strength of money, and discussion on monetary framework and policies in Islam.

The discussions with Prof. Razman were focus on the available alternatives and proposed solution to fiat money or fiat monetary system. The discussion mainly revolves around de-dollarisation. Some other things were discussed are understanding how fiat money is created by the central banks and commercial banks, proof on money creation can be done through computerized system and out of thin air, sovereign money and sovereignty of the nation, BRICS (acronym for Brazil, Russia, India, China, and South Africa), Nixon shock, on the perfect monetary system, limit of money from accounting and economic perspective, petrodollar, U.S military advantage, agriculture, food security, and the future of money. Prof. Razman had shared with the researcher regarding the current solution which he proposed to the government of Malaysia regarding fiat currency.

Additionally, the gist of the meeting with Prof. Kameel spans around the topic regarding U.S as world dominant power, historical events that helped shaped fiat money system, the connection of war with fiat money creation, petrodollar, link between money creation and debt, effects and impact of fiat money, Fractional Reserve System (FRS), quantitative easing, quantitative tightening, on the perfect medium of exchange, money creation prior to unbacked fiat system, seigniorage and interest income, effects of fiat money towards individual, environments, economy and nations, limit of money, on Shariah scholars, on understanding the nature of money, sovereign money, fatwa on paper money, fiat money creation before it was created the way it was and before the financial crisis.

Meanwhile, Dr. Yahia Abdul-Rahman shared with the researcher his inputs regarding the truth of Islamic banking, on whether the same money creation method is practices in Islamic banks, the Federal Reserve (the Fed), limit of money, possible solution to fiat money, and the future of fiat money. Lastly, Mr. Ahmad Yani Ismail had shared with the researcher regarding some history of modern banking, money creation, shariah scholars and together with his works on money creation for the researcher to utilize.

4.5 Data Collection Procedures

Each interview lasted approximately 60 to 120 minutes, conducted either face-to-face or via online platforms such as Zoom or Google Meet, depending on the participant's availability. All

interviews were recorded and later transcribed verbatim to ensure accuracy and used solely for academic purposes. Notes were also taken during the interviews to capture contextual and non-verbal insights.

4.6 Data Analysis

This research employs thematic analysis to uncover recurring patterns embedded in the interview responses that are relevant to the study's objectives. The analysis followed Braun and Clarke (2006) six-step approach, beginning with familiarisation and coding, and culminating in the development of themes. Through this process, the analysis was organized around four central themes, namely money, fiat money, repercussions of fiat money and recommendation. These themes emerged and were identified from a close reading of the data and served as the analytical framework for discussing the conceptual and practical dimensions of fiat money within the study.

5.0 FINDINGS AND DISCUSSION

5.1 Money

Dr. Ugi's view on fiat money is really different where he had asserted that fiat money should not be taken or seen as a problem because money could be versatile and fiat money is just another medium for transaction. This is because money should be taken as one of God's blessings to human beings since money is mentioned in the *Ihya'* by al-Ghazālī in the book of patience and thankfulness. In the book, money is portrayed similar to a stone, signifying that it holds no real value in itself. Another reason for his opinion is that money is moving towards digitalisation. It is largely immaterial and does not matter what kind of money we are concerned with. Whether it is commodity, money, gold, coin, metal fiat money or simply fiat money without any intrinsic value. Even the economy was once functioned without money (through barter) but developed slowly as a result. Regarding the issue of whether the type of money used can affect pricing reformation, Dr. Ugi answered that money is just a tool and is not much of a significance in the issue of pricing since pricing is affected more by supply and demand. He stresses that the strength of a currency stems from the strength of its nation, which not necessarily determined only by economic power. Dr. Ugi had mentioned his opinion is also very different from the dinarist (supporters of gold, gold and silver, or gold dinars), since the dinarists usually focus more on the material side of the problem which will not necessarily solve the problem that fall upon the organization or structure of the monetary system. Instead, it is the monetary policy which deserves greater attention.

On the other hand, In discussing money, the FRS, credit creation in the banking system, prohibition of ribā and fiat money economy, Dr. Yahia suggested that we should rethink few things in relation to money. One which the concept of money as many has forgotten that there should only be one entity that makes money, which is the government. Apart from this, he stated that money can only be earned when one offers a service. This is because when money is earned after a product or services needed is offered, or when it is invested in a productive project, can make a big economic difference in our society by increasing production, generating job opportunities and promote economic prosperity. The logic behind this thinking is to train one to enjoy a lifestyle which is productive and less consumptive. Thus, makes one lives in frugality without any heavy burden of debt.

Additionally, based on the researcher's interview with Ahmad Yani Ismail, he mentioned that the way banks create money, as explained in textbooks differs from how banks create money in practice. In addition, the explanation is biased towards positive impact of the banking's

mechanism but falls short of discussing the negative impact. Modern money creation according to Ahmad Yani Ismail, has been reduced to a mere act of digital bookkeeping at the press of a button.

Based on all the responses received, the research area of worldview of Islam discussed within the realm of fiat money is still at its infancy. There had also been a number of studies that examine worldview of Islam within various context of money and the economy, such as by Saidatulakma Mohd Yunus and Zuraidah Kamarrudin's (2018) study of worldview of Islam on the concept of Islamic banking, Hamid Fahmy Zakarsyi (2013) study on worldview of Islam and capitalism, Masudul Alam Choudhury (2018) study on money, monetary policy and social wellbeing and his (2004) study on micro-money and reserve requirement monetary system, Muhammad Hanif (2020) study on fair currency system, Mohamed Aslam (1997), study on Islam, Islamic worldview and Islamic economics, Muhammad Abdullah and Muhammad Junaid Nadvi (2011), study on principles of Islamic worldview and Haithem Kader's (2021) study in human well-being, morality and economy. However, none truly study the nature of fiat money within the Islamic metaphysical issues especially based on contemporary philosopher thoughts. The lack of this integrated discussions helps explain why existing approaches to money are generally managed and adjusted rather than critically examined at a more fundamental level to answer the issue of responsibility, authority and social outcomes.

5.2 Fiat Money

Moving on towards the sharing the researcher had received from Professor Dr. Ahmed Razman Abdul Latiff, he argues that the core problem in the current economy is driven by debt, ribā, and credit created out of nothing. It is further worsened by a monetary system based on fiat currency.

When asked about the reality (*haqiqah*) of fiat money, Dr. Ugi state that its reality lies within its purchasing power. Regarding the limit of money, Dr. Ugi implies that money does not need to be tied to physical assets per se since it could be from anything and is a tool, rather what is more important the money is constrained by underlying productivity.

In discussing banking, Professor Dr. Dato' Kameel Mydin Meera mentioned that all the tools used by the Fed including quantitative easing and quantitative tightening have the same motive which is to increase the money supply. He asserted that historical events had proven that printing money is beneficial for war and military expense where it can be seen in the Vietnam War, which part of the broader U.S national debt which exceeds over \$34 trillion. The U.S citizen still paying for this debt up to now through the economic consequences embedded in this cost, where instead its government could spent on things like healthcare or education.

Prof. Kameel added that the nature of fiat money is always misunderstood by many. Based on his experience, he found that even many Shariah scholars were not aware or understand the true money creation process of banks and those who are involved in writing the fatwa refused to discuss about it, which in his sincere opinion shows that they too are not aware of danger of the current money creation process by banks. The process of creating money in banks are hidden and disguised from the public, since they maintain records of the money creation and serve as their own record keepers. Bankers even refuse to acknowledge this process because they are unaware of it. Based on his experience in meeting with bankers, some bankers do notice when banks loan money to others without having enough reserves to do so or, the amount of loan do not affect any reserves, but they were usually told off when they begin questioning it. Therefore, this strange method does not go unnoticed by many bank employees, but it does baffled them. According to

Prof. Kameel, it is imperative for Muslims to address the issue of seigniorage of fiat money and recognized it as *ribā* before an Islamic financial system can truly be restored.

Prof. Razman identifies the fiat-based monetary arrangements such as intensifying debt, interest and credit expansion suggests that the problem lies in the design of the monetary system itself. This however, contrasts with Dr. Ugi's position, which locates the reality of fiat money primarily in its purchasing power and productive capacity, thus treating fiat money as functionally constrained rather than inherently problematic. Prof. Kameel's observation regarding the limited understanding of bank-based money creation among practitioners points to a critical gap in Islamic finance discourse, causes the fiat monetary system to persist without adequate ethical or legal scrutiny. When money is created primarily through debt, concerns relating to *ribā* becomes systemic rather than incidental. Moreover, fiat money is further seen in broader political and institutional context when discussed in terms of central bank policies and historical war financing because it is evident that fiat monetary system enables large-scale monetary expansion without direct public consent but consequently shifting the economic costs to society. This also proves that it operates independently of power and governance.

Collectively, this frame fiat money as a central structural element shaping contemporary economic conditions rather than a neutral medium of exchange. These views suggest that fiat money should not be assessed solely at the level of transactional, instead it also requires evaluation at the structural level, such as its way of creation and governance. Without this, Islamic economic responses to fiat money risk remaining reactive and accommodative, rather than offering a better substantive alternative which grounded in Islamic principles of justice and responsibility.

5.3 Repercussions of Fiat Money

At the societal level, a lifestyle built on debt and corruption has become normalized and detached from the guidance of the Qur'ān and Sunnah. He explained that it is important to go back in history to understand the events or regulations that lead to the development of fiat money which we have today such as the Bretton Woods, Nixon shock and Basel III. The Bretton Woods system tied the world currencies to the U.S dollar, which was initially backed by gold. The Nixon shock in 1971 ended this gold backing, making all major currencies, including the dollar, purely fiat money. While Basel III strengthens the global banking regulations by requiring higher capital and liquidity, seen to stabilize the financial systems built on fiat money. It mitigates the risks posed by excessive credit creation inherent in fiat-based economies. Hence, giving more resilience to banks.

Prof. Razman detailed that in reality, banks generate new money each time they issue a loan. Essentially, they hold a near-monopoly controlling around 97% over domestic credit creation, giving them significant power in deciding how money is distributed throughout the economy. While only 3-5% of it is created by the central bank. Prof. Razman mentioned that there had been research done proving that in the event of money lending, the account of the borrower was credited almost immediately without any due diligence done beforehand by the bank staff involved to either check available deposits, consult others or even make any transfers. He disclosed that money creation process via accounting side, where it is multiplied by commercial banks.

Regarding the impact on nations, Prof. Kameel added that the security of a nation is also at stake with this type of interest-based monetary system. All these are crucial for to comprehend because it helps to identify what may be a nation's theft and what might be held or taken from us due to the invention and usage of fiat money. Disturbingly, the security of a nation is also affected when a country has monetary sovereignty issues in controlling its own currency and monetary

policy. This system also promotes greed through interest and selfish competition. He shared that he had written an article regarding fiat money effects on infertility matters. The shrinking population impact in relation to the Korean people due the effect of fiat money where the Koreans do not want to have more children was mainly due to the rising cost of living, despite them wanting to have more children.

The interview reveal that fiat money has a deep and wide-ranging consequences that go beyond its use as a medium of exchange. By approving commercial banks to control the vast majority of credit creation, the system concentrates financial power in the hands of a few institutions. At the societal and national level, fiat money produces serious repercussions. It encourages greed, selfish competition, and reliance on debt while weakening a nation's ability to control its own currency and monetary policy. Rising living costs can also influence personal and societal decisions such as family planning, by creating financial pressures that could limit one's choice. This structure could undermine social stability, ethical values, and national security which highlights the urgent need for critical evaluation and reform.

5.4 Recommendation

When discussing Islamic finance, Dr. Ugi is in the opinion that Islamic finance does have partial contribution at the moment but from the micro level. however, from the macro level, it is still very much influenced by Western philosophy. He mentioned that Islamic finance essence is still based on profits (which is not entirely wrong), however it is still at the “*maqāmi*” of Islam (focusing on *ḥalāl ḥarām* matters), instead of *iḥsān* since it still has correlation with ribāwi settings. Dr. Ugi added that this station of Islam is easily violated due to hypocrisy, however, the highest and most complete level is *iḥsān*. Islam is not just about *ḥalāl ḥarām* aspects, there are many other aspects when it comes to economics of Islam such as sustainability and environmental stewardship. Money is a tool, and wealth is considered a test for Muslims. But when money becomes the ultimate goal, then that would reflect a worldview. Therefore, Islam should not be restricted merely to matters of *ḥalāl ḥarām*, as the root issue lies in a deeper crisis of worldview. For example, the world is currently under a capitalistic worldview in its economy. Therefore, once the economic policy used is addressed through a properly guided worldview, everything else will follow suit. In other words, things will naturally fall into place. However, Dr. Ugi warned that it would be more detrimental to immediately abolish the entire fiat system as it would cause bigger harm due to its international financial settings.

Dr. Ugi maintain that the problem of worldview which underpins the economic system should be critically assessed based on the importance of worldview brought by Tan Sri Professor Dr. Syed Muhammad Naquib al-Attas' exposition on the worldview of Islam where al-Attas claimed that every civilization builds its own understanding of knowledge, science, and how to study things based on its own beliefs about the nature of reality, what is true, what is important, and what is real. These deep beliefs, called a metaphysical system, shape how a society sees the world, which is what al-Attas meant by worldview. Since different civilizations have different ideas about what is ultimately true, such as the meaning of life, God, truth, and existence, thus making them develop different ways of thinking, learning, and doing science. This is why Islamic science is different from Western science, because they are built on different worldviews (al-Attas, 2023). Explaining these matters is not a task that can be simplified or reduced to surface-level facts, especially when it involves the higher nature of *'ilm (ma'rifaḥ)*, which transcends mere data or information. This is especially true when the modern understanding of knowledge has been detached from metaphysical and spiritual significance.

In advocating against money creation by commercial banks, he proposed that the power to create money be taken away from financial institutions and given to the government under the authority of the Parliament. Prof. Razman is in the opinion that something must be done alternatively within nations in order to protect the sovereign of the country at the least. However, he too had mentioned that in order to take down fiat money entirely would cause a catastrophe as the U.S owns one of the largest militaries in the world and is known of executing wars as one of their economic strategies and hegemony. One of his proposals was for Malaysia to establish sovereign money under a Central Bank Digital Currency (CBDC) platform, backed by commodities. Nevertheless, the sovereign monetary solution which he had proposed to the government of Malaysia were not well received since it requires banks to have less authority on money creation and would cost them lesser profits.

He further mentioned that this system is not sustainable as it is impossible to pay back the nation's debt in this type of monetary settings where the debt keeps on mounting. He states that a monetary system chosen does not necessarily have to be an Islamic system as long as it justified as fair and uphold justice, however if a nation has mention Islam as the main religion in its constitution, therefore there should be an identical monetary system matched to it. When asked regarding what the limit to money should be, Prof. Kameel answered that it should be of an asset or assets. He also mentioned that gold would prevail as it is the best medium of exchange in the past civilization. Lastly, Prof. Kameel is a firm believer that things could change with education, therefore it should be accessible to all regardless of religion or race. Good education builds the nation, where the outcome can be seen from its people who are the real assets to their country.

Dr. Yahia proposes further rethink on the changes of the purchasing power of money over the years and whether the money we used currently is the same revealed in the original Judeo-Christian-Islamic value system. This bids a thrilling opportunity to proceed with this research as the current nature and how money was produced is truly different in the past, especially in terms of its spiritual values, which can be elaborated by some aspects of worldview of Islam which al-Attas had espoused in his works such as the forgotten promise made by human beings towards their creator. When asked about what is lacking among the Islamic scholars regarding fiat money since fiat money is still being used based on *'illah* and how is that still ok considering the effects which fiat money brings, Dr. Yahia mentioned that very few scholars specialize in monetary theory, and this is why most only concentrate on the side of contracts. He also added that in order to understand the issue of fiat money, one needs to invest the time to learn how money is created and managed by the Fed in the U.S. Dr. Yahia is also in the opinion that since money is a medium of exchange, it can be in a printed currency format, a digital currency or others. He felt that digital currencies are designed to more effectively execute sanctions by the push of a button. Another reason for this is that it is easier to digitize compared to shipping boxes of dollars from and to U.S with different countries. When asked regarding the limit of money in Islam, he answered that money in Islam can be any medium, what is more important is the value of it. Dr. Yahia felt that fiat money can be solve if we truly adopt a ribā-free central bank that focuses on gold, silver or other precious materials or food staples to value things with. Dr. Yahia added that in his opinion, the problem of ribā could be solved for the future generations through the teachings and nurturing by their mothers (Batcha, 2025).

Ahmad Yani Ismail advised that Islamic banking system should be Shariah compliant at all levels and stages, including its implications of banking activities and operations of its financing products at the socioeconomic level. Shariah compliance must not only concern the process of IBF, but it also relates to the implications of the financing activities on the welfare of society at large. Based on his analysis on Islamic banks, he had proposed an interim measure of Shariah

compliance framework for Islamic banks consisting various areas of focus such as product concept and structure, business operations and practices, distribution of wealth and purification of income and socio-economic implications. Regarding the solution to money creation, Ahmad Yani Ismail had suggested for 100% reserve banking requirement and accounting treatment to money creation to be done with substance.

He added that this topic (fiat money, the money creation process and its settings) is beyond uncomprehensible to its nature, that even the Government of Malaysia had supported and suggested for it to be researched on moving forward. Thus, Ahmad Yani Ismail further added that there are not many experts in this area in Malaysia since fiat money's studies is hefty in nature. Hence, potential university students who plan to study this topic are even told to forgo or changed topic by their potential academic mentors due to its hefty nature, especially when it comes to the Fed. He disagrees with these comments as research nevertheless benefits the *'Ummah* where the contribution can still be reaped even when the author has died.

Based on the development of his doctoral thesis, he stated that many Shariah scholars in this field do not fully understand the nature of the FRS and the way how money is created. Although the challenges faced by Shariah advisors and industry practitioners in Islamic banking and finance (IBF) are understandable, given that the industry operates within a non-Islamic friendly environment. Despite these obstacles, the progress achieved thus far is commendable, reflecting their unwavering dedication to aligning the industry with international standards while upholding Shariah principles. Nevertheless, as IBF is rooted in the religion of Islam, any compromise that undermines the religion's sanctity is non-negotiable since the Divine nature of Islam must always take precedence.

Recently, in Malaysia there have been positive developments where it can be seen from the support of Malaysian government and the current working paper by Ahmad Khairuddin et al. (2025) which published by Bank Negara Malaysia which marks a turning point indicating a growing number of Shariah scholars critically engaging with the fiat monetary system by discussing its true nature. The primary objective of this particular work is to understand modern money and the way it works within the current banking and economic system, as well as to explore Shariah views and *fiqh* adaptation (*takyif fiqhi*) which includes CBDC and its applicable Shariah rulings. This paper had proposed a new interpretation of modern money given modern money function as both means of payment and funding (credit), therefore it is claimed to take both rulings of *nuqud istilabiyyah* and *dayn*. According to the authors, any attempt to fit modern money into the classical *fiqh* taxonomy may lead to incoherence since a single adaptation of *nuqud istilabiyyah* may explain the payment mechanism but could not explain the credit nature of modern money and its funding mechanism. These recent efforts expose the limitations of existing epistemic frameworks and open the space for deeper questioning. Their reinterpretation of modern money remains within a conventional paradigm, but such work show that education and gradual refinement of understanding are essential in the long-term process of Islamic monetary reform.

6.0 CONCLUSION

Fiat money stands as a cornerstone of modern economies, embodying both resilience and controversy. Defined as currency without intrinsic value, it challenges traditional notions of money tied to physical commodities. Muslim scholars, as discussed, recognize the inherent flaws in fiat monetary system, where its legitimacy depends on government authority and public trust. Shaped by the influence of the U.S's FRS, fiat money dominates global financial systems but remains vulnerable to inflation, manipulation, and morally detachment from real value.

This study aimed to examine whether fiat money and its structure pose challenges as a medium of exchange and monetary system, and to explore the conditions under which fiat money is perceived as legitimate. Through unstructured interviews with five key figures in Islamic economics, banking, and finance, the study gathered insights on general perceptions, strategies, and future catalysts related to fiat money. This research contributes by clarifying the structural vulnerabilities and systemic risks inherent in fiat money, particularly in how it is created and managed, and by highlighting gaps in its regulation from an Islamic finance perspective. While the analysis is limited to qualitative interviews with a small number of experts, it underscored the need for more comprehensive investigation. Future research could include comparative jurisprudential analysis across various *fiqh* schools or textual examinations of classical *fiqh* positions on monetary instruments.

This research also calls for a reorientation of Islamic finance and monetary policy from adapting conventional systems to reconstructing money itself in accordance with the *maqasid al-shariah*. Policymakers should consider mechanisms that would connect money to real assets, moral accountability, and social justice, such as assets-backed or gold-based instrument and strict oversight to enhance stability, fairness, and trust in modern monetary systems.

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Conflicts of Interest

The author(s) declare(s) that there is no conflict of interest regarding the publication of this paper

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