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## Research Article

# Resolving the Crisis of Secular Monetary System Through Islamic Intellectual Revival

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**Abstract.** This paper explores the insights to the solution against secular monetary system by drawing on the philosophical thoughts of Syed Muhammad Naquib Al-Attas. This paper argues that the Muslim world's economic and civilizational decline is deeply rooted in a crisis of knowledge, marked by the loss of adab (right action and proper place), the erosion of authentic leadership, and the secularization of thought. Al-Attas identifies this as a vicious cycle caused by the confusion of

knowledge and the disconnection of metaphysical truths from worldly systems. He critiques secularization as a philosophical and scientific program that strips away the spiritual dimension from nature, politics, and morality, leading to a worldview where monetary systems like fiat money are legitimized without intrinsic value, relying instead on state authority and public trust. While fiat money serves as a central medium of exchange in modern economies, created through mechanisms such as central banking and fractional reserve lending, its detachment from any real commodity base raises profound concerns about inflation, instability, and systemic inequality. This paper contends that the real challenge for Muslims is not merely economic or political, but fundamentally intellectual and spiritual. Positive resistance must therefore begin with a reorientation of knowledge rooted in the Islamic worldview, reviving metaphysical consciousness and ethical clarity. Revisiting the concept of money is essential, especially when a secular system is globally enforced regardless of religious beliefs, posing a threat to moral order and the long-term sustainability of society.

**Keywords:** Fiat Money, Islamic worldview, Secularization, Adab, Intellectual revival.

## INTRODUCTION

Every civilization and nation have its own history of money reaching back to its earliest written records of this human activity.<sup>1</sup> 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, what is money?<sup>2</sup> This article aims to comprehend the root problem of the modern economy by looking at the basic concept of money and its impact on the modern economic system.

In the past, money had been feathers, stones, and shells.<sup>3</sup> The earliest forms of trading were 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 mentioned in the West, with this system, the barter parties could not agree on what something was worth in exchange, or when one party dislikes what the other person had.<sup>4</sup> To solve this matter, commodity money was introduced. Due to their value to local economies in the past, commodities including salt, tea, tobacco, livestock, and seeds have all been used as currency in the past.<sup>5</sup>

Money today predominantly takes form of paper notes and coins as well as accounting records created by banks which are regarded as money through the

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<sup>1</sup> Joe Cribb, *Money* (Great Britain: Penguin Random House, 2016), 6. Hereinafter cited as *Money*.

<sup>2</sup> David Harvey, "Reading Marx Capital Vol. 1", Lecture delivered at Graduate Center City of University of New York on 20<sup>th</sup> June 2008. Assessed: <https://davidharvey.org/2008/06/marxs-capital-class-03/>.

<sup>3</sup> *Money*, 8-9.

<sup>4</sup> *Ibid.*

<sup>5</sup> *Ibid.*

Fractional Reserve Banking (FRB).<sup>6</sup> Apart from these coins and bank notes (bills), plastic cards are also considered as money.<sup>7</sup> 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.<sup>8</sup> It is undeniable that many see money as an important factor in their lives. Many of us work to make money and try to save some to buy the things that would bring comfort and pleasure.<sup>9</sup> It is amazing to see the respect people have for a sheet of paper, regardless of its color which might be green, red, blue, or even have an outstanding variety of hues and patterns.<sup>10</sup> Even the digital era we are in now made unseen money such as those stored in bank computer records are also considered as money.<sup>11</sup> Money has become essential that many people fight, love, or despise each other because of it.<sup>12</sup> Regrettably, some people would even kill for it.<sup>13</sup>

The term money was first used in the fourteen centuries. Money known in middle English as "*moneye*", in Anglo-French as "*moneie*" and Latin as "*moneta*".<sup>14</sup> Money means something which is accepted as a medium of exchange, considered like a measure of value, or a means of payment.<sup>15</sup> Moneta derived from the word "*moneo*" in Latin which means to admonish or to call to mind.<sup>16</sup> In Greek<sup>17</sup> mythology, the term "Moneta" became associated with the place where coins were produced. Moneta,<sup>18</sup> which was one of the names of Juno (the Roman goddess)

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<sup>6</sup>Ahamed Kameel Mydin Meera, Moussa Larbani, "Ownership effects of fractional reserve banking: an Islamic perspective", *Humanomics*, Vol.25, No.2 (2009):106. Hereinafter cited as *Ownership effects*.

<sup>7</sup> *Money*, 6.

<sup>8</sup> Freya Probst, Hyoson Kwon, "Cess De Bont, Euros from the Heart: Exploring Digital Money Gifts in Intimate Relationships", *SpringerLink*, Vol. 13094 (2021).

Assessed: [https://doi.org/10.1007/978-3-030-90238-4\\_24](https://doi.org/10.1007/978-3-030-90238-4_24)

<sup>9</sup> Yahia Abdul-Rahman, *Art of Islamic Banking* (United States: John Wiley & Sons, 2009), 84-85.

<sup>10</sup> *Ibid.*, 85.

<sup>11</sup> *Money*, 6.

<sup>12</sup> Yahia Abdul-Rahman, *Art of Islamic Banking*, 85.

<sup>13</sup> Samuel Cameron, "Killing for Money and the Economic Theory of Crime", *Review of Social Economy*, 72(2014), 28-41.

<sup>14</sup> "Money" definition by *Merriam-Webster Online Dictionary*.

Assessed: <https://www.merriam-webster.com/dictionary/money#h1>

<sup>15</sup> *Ibid.*

<sup>16</sup> Robert Morris, "The Goddess Moneta", *American Journal of Numismatics, and Bulletin of the American Numismatic and Archaeological Society*, no. 4 (April 1879): 88.

<sup>17</sup> Wayne Homren, eds. "Juno Moneta the Goddess of Money", *The E-Sylum*, Vol. 15, No. 52 (2012).

Assessed: [https://www.coinbooks.org/esylum\\_v15n52a20.html](https://www.coinbooks.org/esylum_v15n52a20.html)

<sup>18</sup> William Smith, *A Dictionary of Greek and Roman biography and mythology* (London: John Murray, 1848). Assessed: <https://www.perseus.tufts.edu/hopper/text?doc=Perseus:text:1999.04.0104:entry=moneta-bio-1>.

whose temple (known as Temple of Juno Moneta) was use as a coinage minting place.<sup>19</sup> This name is said to be from *monere* in Latin, which means to advise, warn, and admonish.<sup>20</sup> There are numerous substitutes for the term "money"<sup>21</sup> and the West understood money from many perspectives including which something that fulfil the four functions of medium of exchange.<sup>22</sup>

Returning to the principal focus of this study, fiat money had received many criticisms due to its non-intrinsic value which means it is not backed by any physical commodity such as gold and silver. Furthermore, the concept of fiat money opens the door to manipulation for potential misuse.<sup>23</sup> Despite its inherent weaknesses, fiat money remains the backbone of contemporary financial systems worldwide. To better understand fiat money, subsequently we shall describe the overview of fiat money where it covers the meaning of fiat money, its concept, creation method, legal condition which influences the fiat money system, and its growing effect. It is within these aspects that the use of fiat money can be seen to permit banks to have greater control over the economy through the adjustment of the money supply and interest rates. Given its universal imposition across societies regardless of faith or tradition, the concept of fiat money warrants renewed critical attention. This article aims to comprehend the root problem of the modern economy by looking at the basic concept of money and its impact on the modern economic system.

### Definition Of Money

"Fiat" is a Latin word which means "let it be done".<sup>24</sup> This authoritative or arbitrary order by the government (by decree) reasons fiat to be known as legal tender.<sup>25</sup> The term "fiat money" or "legal tender" may also be used interchangeably with the term "legal money". This currency, which is imposed by the law or a government, holds 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

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<sup>19</sup> Meaning of "Money", *Oxford Dictionary of Accounting* (New York: Oxford University Press, 2005), 261.

<sup>20</sup> "Moneta" definition by *Online Etymology Dictionary*. Assessed: <https://www.etymonline.com/word/monetary>

<sup>21</sup> "Currency" by *Merriam-Webster Dictionary*. Assessed: <https://www.merriam-webster.com/dictionary/currency> .

<sup>22</sup> Marco Gross and Christoph Siebenbrunner, "Money Creation in Fiat and Digital Currency Systems", *International Monetary Fund Working Papers*, WP/19/285 (December 2019): 9. Hereinafter cited as *Fiat and Digital Currency Systems*.

<sup>23</sup> Ahamed Kameel Mydin Meera and Ugi Suharto, *Discussion: Money in Islām*, online webinar, available at <https://www.youtube.com/watch?v=3VMYCSdGT7M&t=1012s>.

<sup>24</sup> "Fiat" definition by *Merriam-Webster Online Dictionary*.

Assessed: <https://www.merriam-webster.com/dictionary/fiat#legalDictionary>

<sup>25</sup> Dror Goldberg, "Famous Myths of Fiat Money", *Journal of Money, Credit and Banking*, Vol. 37, No. 5, (2005): 958.

electronic form.<sup>26</sup> 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<sup>27</sup> but its modern understanding developed during the 20<sup>th</sup> 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.<sup>28</sup> 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.<sup>29</sup> However, 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.<sup>30</sup> Fiat money is also known as credit money within its creation process. 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 systems and their advancement from commodity-backed currencies to the predominantly fiat-based systems seen today.

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<sup>26</sup> *Fiat and Digital Currency Systems*, 9.

<sup>27</sup> Guan Hanhui and Mao Jie, "The Silver Standard, Warfare and Inflation: The Mechanism of Paper Money in Yuan China", (2016): 1. Hereinafter cited as *The Silver Standard*. Assessed <http://mx.nthu.edu.tw/~tkho/workshop/Paper3.pdf>

<sup>28</sup> Charles W. Calomiris and David C. Wheelock, *Was the Great Depression a Watershed for American Monetary Policy?* (National Bureau of Economic Research, 1998), 23.

<sup>29</sup> Sarwat Jahan, Ahmed Saber Mahmud, and Chris Papageorgiou, *Back to Basics: What is Keynesian Economics?* (International Monetary Fund), Assessed August 8, 2024, [https://www.imf.org/external/pubs/ft/fandd/basics/pdf/jahan\\_keynes.pdf](https://www.imf.org/external/pubs/ft/fandd/basics/pdf/jahan_keynes.pdf).

<sup>30</sup> Hanhui Gan, Nuno Palma, Meng Wu, "The Rise and Fall of Paper Money in Yuan China (1270-1368)", *The University of Manchester Economics Discussion Paper Series*, (2024), 16. Assessed on 8<sup>th</sup> August 2024, Available at: <https://hummedia.manchester.ac.uk/schools/soss/economics/discussionpapers/EDP-2207.pdf>

## The Concept Of Fiat Money



**Figure 1 The Concept of Fiat Money**

Based on the *figure 1* above, the concept of fiat money is a type of money which is being 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.<sup>31</sup> 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.<sup>32</sup> 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.<sup>33</sup> Governments also promote the demand for fiat money by accepting it as tax payment.<sup>34</sup> 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

<sup>31</sup> Rohimie Shapiee, Anowar Zahid, "Addressing Economic Meltdown: An Evaluation of Fiat and Credit Money from Islamic Perspective", *U.S-China Law Review*, Vol 11, No. 182 (2014):190. Hereinafter cited as *Fiat and Credit Money*.

<sup>32</sup> Rohimie & Anowar, *Fiat and Credit Money*, 190.

<sup>33</sup> Ibid.

<sup>34</sup> Dror Goldberg, The tax-foundation theory of fiat money, *Working Paper*, No. 2009-05, (2009): 1.

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.<sup>35</sup> 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.<sup>36</sup>

Bank credit money and fiat money are the two categories of modern money. Bank credit or also known as credit money<sup>37</sup> is the basis for most contemporary money types, including electronic money and credit card (plastic) money.<sup>38</sup> Money becomes debt-based due to its creation process by banks or by an entity acting as a bank whereas stated by Ahamed Kameel Mydin Meera,<sup>39</sup> Zahid Abdul Aziz<sup>40</sup> and Peter Dietsch,<sup>41</sup> where fiat money is created when banks issued out loans.<sup>42</sup> In addition, through the Federal Reserve, the supply of fiat money lacks any inherent limitation in quantity,<sup>43</sup> meaning there is an unlimited supply of money could be created.<sup>44</sup>

This inconvertible paper currency system gives centralized control to the central bank; therefore, it has the power to create and circulate this money. Moreover, the government add to its full faith and acknowledgement to the currency so its citizens and other governments in the world will accept it.<sup>45</sup> 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.<sup>46</sup> However, although many

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<sup>35</sup> Dan Fitzpatrick, *Economic Reality: The Ontology of Money and Other Economic Phenomena* (Doctoral thesis, London School of Economics and Political Science, 2002), 100. Hereinafter cited as *Ontology of Money*.

<sup>36</sup> *Fiat and Credit Money*, 190.

<sup>37</sup> Zubair Hasan, "Credit Creation and Control: An unresolved issue in Islamic Banking, *Munich Personal RePec Archive*", MPRA Paper No. 8130 (2020), 274.

<sup>38</sup> Rohimie & Anowar, *Fiat and Credit Money*, 188.

<sup>39</sup> Ahamed Kameel Mydin Meera, *Theft of Nations: Returning to Gold*, (Selangor: Pelanduk Publications, 2004), 4.

<sup>40</sup> Zahid Abdul Aziz, *The Foams of the Waves of the Sea: The Case for an Islamic Monetary System* (Selangor: Naga Global Printing, 2016), 46. Hereinafter cited as *The Foams of the Waves of the Sea*.

<sup>41</sup> Peter Dietsch, "Money Creation, Debt and Justice", *Politics, Philosophy and Economics*, Vol. 20, No.2(2021): 152. Hereinafter cited as *Debt and Justice*.

<sup>42</sup> Meera, *Theft of Nations*, 4.

<sup>43</sup> Fitzpatrick, *Ontology of Money*, 204.

<sup>44</sup> Larry Randall Wray, *Modern Money Theory: A Primer on Macroeconomics for Sovereign Monetary Systems*. (New York: Palgrave MacMillan, 2015), 75. Hereinafter cited as *MMT Primer*.

<sup>45</sup> Abdul-Rahman, *Art of Islamic Banking*, 88.

<sup>46</sup> Olli-Pekka Hilmola, "Inflation and Hyperinflation Countries in 2018–2020: Risks of Different Assets and Foreign Trade", *Journal of Risk and Financial Management*, 2. Hereinafter cited as *Risks Assets*. Hereinafter cited as *Risk Assets*, 13.

will find themselves having no position to react, this also shows that giving trust<sup>47</sup> and building a flourishing society on the requirement of faith in politicians seems rather a terrible strategy.<sup>48</sup> Fiat money also can be consists of both physical and virtual form.<sup>49</sup>

Regarding the lifespan, one of the most frequent indicators that a fiat currency is about to fail is when hyperinflation occur.<sup>50</sup> 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.<sup>51</sup> There are conflicting opinions regarding fiat currencies average lifespan, which some felt it generally last for 50 years.<sup>52</sup> 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.<sup>53</sup> However, 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 Federal Reserve System, the Bank of Japan, The Euro System, and the Bank of England are belying it as they all operate under relatively high cost and as a matter of fact, the operational cost exceeds the estimated generic cost of fractional-reserve gold standard.<sup>54</sup>

The price of 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 must be considered. It was reported that the expense

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<sup>47</sup> Moira Mikolajczak, Nicolas Pinonb, Anthony Lanea, Phillipe de Timary, Olivier Luminet, Oxytocin not only increases trust when money is at stake, but also when confidential information is in the balance, *Biological Psychology*, No. 85 (2010), 183. Hereinafter cited as *Oxytoxin., Biological Psychology*, 85 (2010), 182-183.

<sup>48</sup> *Risk Assets*, 13. A. G, Parker, "Blockchain, Bitcoin and the Rise of New Money", *ITNOW*, Vol. 60, No.4 (2018): 13.

<sup>49</sup> FXEmpire, *The Differences between Fiat Money and Cryptocurrencies*. Assessed on: 14<sup>th</sup> September 2024. Available at: <https://www.fxempire.com/education/article/the-difference-between-fiat-money-and-cryptocurrencies-520616>

<sup>50</sup> Guillaume Rocheteau, "When Money Dies: The Dynamis of Speculative Hyperinflations", *Working Paper Department Economics University of California*, (2023): 1-50. Hereinafter cited as *Hyperinflations*.

<sup>51</sup> *Risks Assets*, 2.

<sup>52</sup> *Rise of New Money*, 13.

<sup>53</sup> Ahmed Said, "The Economic Impact of Digital Fiat Currency (DFC): Opportunities and Challenges", *Proceeding of 2<sup>nd</sup> Europe-Middle East-North African Regional Conference of the International Telecommunications Society (ITS) on Leveraging Technologies for Growth*, 18<sup>th</sup>-21<sup>st</sup> February 2019. Aswan, Egypt, 9. Hereinafter cited as *Digital Fiat Currency*.

<sup>54</sup> Karl-Friedrich Israel, "The fiat money illusion: On the cost-efficiency of modern central banking", *The World Economy*, Volume 44, Issue 6, (2021): 1701 – 1719.



of managing physical currency in general is also considered as a burden, due to its lifespan.<sup>55</sup> In other related situation, Parker 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 states that the U.S dollar had lost its value since it was created by the Federal Reserve. Based on this understanding, he persuades people to start holding bitcoin, instead of being foolish to trust fiat money for another century to come.<sup>56</sup>

### **Characteristic Of Fiat Money**

The main characteristic of fiat money is its ability to be created out of nothing. McLeay<sup>57</sup> claims that how bank's deposits are created are often misunderstood. They revealed that the two things that are often misunderstood concerning money creation are that the public think that banks act simply as intermediaries, lending out the deposits which a customer had placed with the bank; and the central banks determine the quantity of loans and deposits in the economy by controlling the quantity of the central bank's money in the alleged 'money-multiplier approach'.<sup>58</sup>

Rahman in explaining the creation of credit and the money multiplier in the U.S banking system, shows a "T" account abstracted from a bank's balance sheet that shows the changes in the bank's assets and liabilities. In his given example, it is assume that all deposits created by banks stay in the banking system, the demand deposits are the only form in which newly created funds are held and banks lend out every available dollar.<sup>59</sup> According to him, these assumptions do not by any means reflect reality as some deposits created by banks leak out of the banking system into non-bank financial institutions and money market instruments. In addition, banks do not usually lend (or invest) every available dollar not because they do not want to, but due to the pace with which deposits flow in and out of banks on any given day is often so rapid and in large volume which only the banks would know just how much net funds they have in order to support new loans.<sup>60</sup>

Based on his given accounting illustration of the "T" account or the balance sheet account of bank A, B and C, the explanations are as follows. Assuming bank A

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<sup>55</sup> Ahmed, *Digital Fiat Currency*, 9.

<sup>56</sup> Parker, *Rise of New Money*, 13.

<sup>57</sup> Michael McLeay, Amar Radia and Ryland Thomas, "Money Creation in The Modern Economy", *Bank of England Quarterly Bulletin*, 2014, 1-14.

Assessed:<https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/2014/money-creation-in-the-modern-economy.pdf>.

<sup>58</sup> Brett Scott, *CloudMoney: Cash, Cards, Crypto and the War for our Wallets*. (United Kingdom: Harper Business, 2022), 66. Hereinafter cited as *CloudMoney*.

<sup>59</sup> Yahia Abdul-Rahman, *Interest Free Islamic Banking: Lariba Bank Foundation for a United & Prosperous Community*. (United States: Al-Hilal Publishing, 1994), 52. Hereinafter cited as *Lariba*.

<sup>60</sup> Ibid., 53.

receives a cash deposit of \$10,000 (the example here given in U.S dollars) from a customer for credit to the customer's transaction account. Under the Fed requirements, the bank must hold certain number of reserves whether in its vault or deposit balances at a Federal Reserve bank, where this reserve must equal to a fixed percentage of its deposits received. In this example, the assumed reserve is ten percent. Therefore, from the \$10,000 deposits, \$1,000 must be hold In the required reserves and has \$9,000 in excess reserves. The excess reserves will later support the new \$9,000 loan as well as support the creation of \$9,000 in demand deposits which are necessitated by such a loan.<sup>61</sup>

BANK A			
Assets		Liabilities	
Cash Assets	\$ 10,000*	Demand Deposits	\$ 10,000*
New Loans	\$ 9,000	Demand Deposits created for borrowing	\$ 9,000
** Required reserves \$1,000 (10% of deposits)			

**Figure 2 Money creation illustrations of the balance sheet record for Bank A**

BANK A		BANK B	
Assets	Liabilities	Assets	Liabilities
Cash Assets \$1,000	Demand Deposit \$10,000	Cash Assets \$9,000a	Demand Deposit \$9,000
Loan \$9,000			
		a. Required reserves \$ 900 Excess reserves \$ 8,100	

**Figure 3 Money Creation Illustrations of The Balance Sheet Record For Bank A and Bank B**

<sup>61</sup> Ibid., 53.

BANK B		BANK C	
Assets	Liabilities	Assets	Liabilities
Cash Assets \$900 Loan \$8,100	Demand Deposit \$9,000	Cash Assets \$8,100 <sup>a</sup>	Demand Deposit \$8,100
		a. Required reserves \$ 810 Excess reserves \$ 7,290	

**Figure 4 Money Creation Illustrations Of The Balance Sheet Record For Bank B And Bank C**

Upon granting the loan as illustrated in *figure 2*, bank A's assets and liabilities will temporarily rise to \$19,000, as the loan will be included in its portfolio of earning assets and the newly established demand deposits will be added to its total liabilities. But as soon as the borrower uses the newly created funds, the check (or cheque) collection process will inevitably cause bank A's assets and liabilities to drop back to where they were before, as the pre-loan level.<sup>62</sup>

Considering that this borrower writes a check of the loan amount (\$9,000) to a manufacturing company that has an account at bank B as shown in *figure 3*. As this borrower's check clears, it means that bank A has transferred this \$9,000 amount from its cash assets in payment to the presenting bank, which is bank B. Bank A will also obtain the \$9,000 demand deposit liability carried for the borrower from its books. Thus, after the check clearance, bank A now has \$10,000 in assets and \$10,000 in liabilities following the clearance of the check. Rahman mentioned that it is important to note that the composition of its assets has changed whereby before the loan, bank A had \$10,000 in cash assets, now it has \$1,000 in cash assets and \$9,000 in loan assets. This \$1,000 cash asset is the assumed ten percent reserve requirement ratio against transaction account liabilities.<sup>63</sup> The \$9,000 in deposit created by bank A is now a demand deposit on the books of bank B, which causes bank B liabilities to increase. However, when bank B received payment for the check that the manufacturing company had placed, it also received a transfer of \$9,000 in cash assets. Bank B must retain \$900 against its deposits and can utilize the

<sup>62</sup> Ibid., 54.

<sup>63</sup> Ibid., 54.

remaining \$8,100 to fund a new loan from the formation of a new \$8,100 deposit. Bank B is subject to the same reserve requirement as bank A.<sup>64</sup>

In reacting to the borrower's check being collected by bank B in *figure 4*, its assets and liabilities will increase initially after it extends this \$8,100 as loan which later decline to their pre-loan level in response to the collection of the borrower's check. Assume that the borrower writes a check and deposit in bank C to cover the cost of the corporate service, and this corporation deposits the check it received in its account in bank C. Along with the \$8,100 in cash assets that bank B had to transfer to cover the check, bank C will now hold bank B newly created \$8,100 as a liability.<sup>65</sup> Bank C, in turn will be able to create demand deposits equal to ninety percent of its new cash assets. Thus, if it does so, it will still give another bank the ability to create new deposits, where in theory this process of bank deposit creation can continue through hundreds of banks whereby from the examples given, a total amount of deposits on all bank books ten times greater than the initial \$10,000 in cash deposits that started in this process. The multiplier or expansion factor is the reciprocal of the reserve requirement ratio, which given in this scenario is ten.<sup>66</sup>

### **The Process Of Creating Money**

In the case of Malaysia, ninety-five percent of the money is created by commercial banks, while another five percent is created by the central bank (government). The money created by the commercial banks are in the form of 'numbers' in bank account, while money created by the government are in the form of bills and coins.<sup>67</sup> Commercial banks possess the authority to create credit under the conditions laid out by the central bank, namely Bank Negara Malaysia. In advocating against money creation by commercial banks, it was proposed that the power to create money be taken away from financial institutions and given to the government under the authority of the Parliament. Nonetheless, commercial banks were also able to create deposits to lend out more than the actual amount of cash deposits.<sup>68</sup> This was exactly how banks gained the right to create credit without accepting additional cash deposits, which is through the temporary customer deposits accounts each time the banks approve loans.<sup>69</sup>

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<sup>64</sup> Ibid., 55.

<sup>65</sup> Ibid., 55.

<sup>66</sup> Ibid., 56.

<sup>67</sup> Ahmad Mustakim Zulkifli, "Remove power to create money from banks, govt urged", *MalaysiaNow*, September 15, 2022. Hereinafter cited as *Remove power from banks*.

Available at: <https://www.malaysianow.com/news/2022/09/15/remove-power-to-create-money-from-banks-govt-urged>. Hereinafter cited as *Remove Power to Create Money*.

<sup>68</sup> *Remove Power to Create Money*.

<sup>69</sup> *Remove Power to Create Money*.

Ahmad Yani Ismail<sup>70</sup> attest to this by stating when new money is created, there is no physical money was printed, no reserve money of the bank's was used, no transfer of money from other sources was involved, but just by the stroke of the computer button. He gave an example of that if an approved loan amount was RM50,000 (the example here given in Malaysian Ringgit), then the officer will simply key-in RM50,000 in the borrower's account. There is a need to understand that this amount of RM50,000 is created out of nothing (ex-nihilo) and circulated within the economy. This process<sup>71</sup> is identical for many countries as most central banks in the world are member countries that operate similarly under the same umbrella of the World Bank.<sup>72</sup> In addition, Asad Zaman claimed that the bigger the loan, the more money is generated in return.<sup>73</sup> It is also important to note that this authority given to commercial banks were valid as mandated by the Bank of England and European Central Bank.<sup>74</sup>

Banks have been able to get away with this kind of business because neither governments nor consumers have called them out on it over the years.<sup>75</sup> Jakab and Kumhof had challenged the widely accepted intermediation of loanable funds model during the World Economic Forum in June 2015, which sees banks acting as middlemen between savers and borrowers. In reality, there were no pre-existing loanable funds, and intermediation of the alleged loanable funds institutions does not exist. Instead, the banks just perform accounting bookkeeping transactions without any real resources and get away with such action.<sup>76</sup> This was made feasible by the regular acceptance of bank deposits as the portion of the economy's money

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<sup>70</sup>Ahmad Ismail Yani, "Money Creation by Banking Industry", *Maqasid al-Shariah and Ar-Rawaj, Journal of Muwafaqat*, Vol. 2, No.1(2019): 33-40.

<sup>71</sup> Ahmad Yani, "The Role of Islamic Finance in Economic Development: A Maqasid Al-Shariah Perspective", in *Proceedings of the 7<sup>th</sup> International Conference on Management and Muamalah (ICoMM 2022)*, Universiti Islam Selangor, 2022, 65, [https://conference.uis.edu.my/icommm/7th/images/eprosiding/8\\_Ahmad\\_Yani.pdf](https://conference.uis.edu.my/icommm/7th/images/eprosiding/8_Ahmad_Yani.pdf). Hereinafter cited as *Skeleton in the Same Closet*.

<sup>72</sup>The World Bank, "Member Countries". Assessed on 20<sup>th</sup> May 2024. Available at: <https://www.worldbank.org/en/about/leadership/members#:~:text=The%20organizations%20that%20make%20up,policy%2C%20financial%20or%20membership%20issues.The list of member countries worldwide can be seen here.>

<sup>73</sup> Asad Zaman, "On the Nature of Modern Money," in *Islamic Economic Perspectives and Theoretical Models*, ed. Tariqullah Khan and Salman Syed Ali (forthcoming; Islamic Research and Training Institute, Islamic Development Bank, and Qatar Faculty of Islamic Studies, Hamad Bin Khalifa University, 2015), 8. Hereinafter cited as *Nature of Modern Money*.

<sup>74</sup> *Remove power from banks*.

<sup>75</sup> The U.S was also mandated with the known "sovereign immunity" which allow them to be non-suable.

<sup>76</sup> Arfah Salleh, Willian G. Borges, "Accounting Treatment for Bank Credit Creation an Impersonation Reality", *Accountants Today*, January/February 2016 Issue, 55. Hereinafter cited as *Accounting Treatment*.

supply. Jakab and Kumhof further argue that the generation of bank credit will continue to generate gross bookkeeping positions on bank balance sheets which will falsely continue to represent the real resource flow via banks.<sup>77</sup> Nevertheless, it must be known that banks did not theoretically hide or lie on this matter, they have actually unfold all these information directly in their websites, or in the reports which they produce.<sup>78</sup> As such, the representatives of the Fed would even tell it straightforward when asked. Ben Bernanke,<sup>79</sup> when interviewed by Scott Pelley<sup>80</sup> on the accusations of whether the Fed have been printing money, where Bernanke answered "well, effectively, and we needed to do that because the economy was very weak, and the inflation was very low. When the economy begins to recover, that will be the time that we need to unwind those programs, raise interest rates, reduce the money supply, and make sure that we have a recovery that does not involve inflation".<sup>81</sup>

Another reason that possibly allows this, was due to the trust we place in the system. Additionally, this trust even can be shown by the unquestioning acceptance, not just of or based on unrealistic debts, but of a whole range of other unrealistic monetary data.<sup>82</sup> Rowbotham claimed that this situation is accepted because we assumed that any monetary statements which we were given are valid.<sup>83</sup> While in discussing Islamic banks, it is not a simple matter either. Islamic banks are known to create money the same way as conventional banks do since they operate under

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<sup>77</sup>Accounting Treatment, 56.

<sup>78</sup> For example, see: European Central Bank, *How Money is Created*. Assessed on 14<sup>th</sup> September 2024. Available at: [https://www.ecb.europa.eu/ecb-and-you/explainers/tell-me-more/html/what\\_is\\_money.en.html](https://www.ecb.europa.eu/ecb-and-you/explainers/tell-me-more/html/what_is_money.en.html),

Bank of England, "Money Creation in the Modern Economy", *Quarterly Bulletin*, 2014 Q1, 14-27. Assessed on: 14<sup>th</sup> September 2024. Available at: <https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/2014/money-creation-in-the-modern-economy>, and Federal Reserve Bank of St. Louis, *Benefits of a Fiat Money System*. Assessed on: 14<sup>th</sup> September 2024. Available at: <https://www.stlouisfed.org/timely-topics/the-gold-standard/videos/part-4-benefits-of-a-fiat-money-system>.

<sup>79</sup>The Brookings, *The Expert: Ben S. Bernanke*. Assessed on 15<sup>th</sup> September 2024. Available at: <https://www.brookings.edu/people/ben-s-bernanke/>.

<sup>80</sup> Scott Pelley has over 31 years experienced as an American author and journalist. His impressive biography can be found here, CBS News, "Scott Pelley," *CBS News*, assessed April 11, 2025, Available at: <https://www.cbsnews.com/team/scott-pelley/>.

<sup>81</sup> Ben Bernanke's Greatest Challenge, 60 Minutes CBS News, March 12<sup>th</sup>, 2009. Assessed on: 15<sup>th</sup> September 2024. Available at: <https://www.cbsnews.com/news/ben-bernankes-greatest-challenge/>.

<sup>82</sup> Michael Rowbotham, *The Grip of Death: A study of Modern Money, Debt, Slavery and Destructive Economies*. (England: The Cromwell Press Group, 2009), 2. Hereinafter cited as *Grip of Death*.

<sup>83</sup>*Grip of Death*, 3-4.

identical fractional reserve banking.<sup>84</sup> Regardless of whether the creation of fiat money is done by Islamic or conventional banks, the shared outcome of the monetary effect is the creation process of fiat money which causes money in circulation to increase exponentially without any real economic growth. In addition, through devaluation of currency, causing lower buying power as the cost of living was raised higher.<sup>85</sup>

Ismail had made the following views regarding the prevalent contribution to ignorance and confusion about how banks create money; (1) the widespread belief that money exclusively pertains to actual printed notes and coins, (2) the ignorance of the fact that money can take on other forms other than printed notes and coins, (3) the method by which banks produce money outlined in basic economic textbooks differs from the actual world practice, (4) all banking theories have contradictory explanations on how banks create money and (5) not many empirical evidence regarding the process of money creation in reality. Ismail argues that it is imperative to understand the implication of a bank's money creation because the Islamic Banking and Finance (IBF) was founded using the same foundation as conventional banking, with the exception to its *Shari'ah* governance policy.<sup>86</sup>

Due to its way of creation, fiat money is known to be 'created as credit' because most of it enters circulation through the loans issued by banks as illustrated above. When a bank approves a loan, it credits the related account with the loan amount, thus expanding the money supply. This creation of money follows a mathematical process rooted in fractional reserve banking where the bank supposedly retains a portion of deposits of reserves while lending the remainder.

Regarding a nation's money supply, it consists of M1, M2, M3, and M4 where these monetary aggregates are categorized by their liquidity. M1 represents the most liquid assets, comprising physical currency and demand deposits, which we 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 to cash. M3 further expands M2 by incorporating large time deposits, institutional money market funds, and other substantial liquid assets. Finally, the M4 is the broadest measure, encompasses M3 along with additional long-term assets such as securities. M1 is directly linked to fiat money creation as it represents the most liquid

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<sup>84</sup> *Skeleton in the Same Closet*, 63, 68. Islamic banks do create money the same way as conventional bank does whenever financing is disbursed. *The Islamic Currency*, 255. K. Ben Jedidia and H. Hamza, "Does PLS in Islamic Banking Limit Excessive Money Creation?" *Journal of Islamic Accounting and Business Research* 15, no. 3 (2024): 422.

<sup>85</sup> Ainul Mohsein Abdul Mohsin, Fauziah Md Taib, Sani Saidu Alhaji, "Rising cost of Living: The Role of Fiat Money and Money Creation", *International Journal of Accounting, Finance and Business*, Vol. 4, Issue 4 (2019):124. Hereinafter cited as *Role of FM*.

<sup>86</sup> Ahmad Yani Ismail, "Bank's Money Creation 101", in *Proceedings of the 8<sup>th</sup> International Conference on Management and Muamalah (ICoMM 2021)* (Universiti Islam Selangor, 2021), 58.

forms of money created by central banks (physical currency) and commercial banks (demand deposits). While M2, M3, M4 reflect multiplication effect of fiat money through the banking system, facilitated by credit creation and fractional reserve banking.<sup>87</sup>

In terms of the profit made known as seigniorage, issuing money previously in history had been a royal privilege, and the resulting purchasing power would accrue to the seigneur or ruler. It increases the spending power of the sovereign in the same way as an increase in taxation does.<sup>88</sup> However, in discussing seigniorage, most economists still assume that the state has a monopoly on the creation of money. This concept of seigniorage is no longer adequate to explain the modern monetary system as money is not just created by central banks or any other state body, but it is created by private commercial banks.<sup>89</sup> As commercial banks create money in the act of lending, the profits generated from money creation are different from the traditional notion of seigniorage. The seigniorage instead relates to the interest profits which banks make, due to their ability to issue debt which will then be used as money,<sup>90</sup> where we now recognize as fiat.

In essence, it is crucial to understand that both central banks and commercial banks play their own roles in creating fiat money where central banks would create the base money (or high-powered money) such as physical currency and reserves held by commercial banks. This would later form the foundation of the money supply. While the commercial banks create most of the money supply through fractional reserve banking. This is where when banks issue loans, they credit the borrower's account with new deposits, effectively creating money. Inherently, central banks create the "raw material" of money, while commercial banks expand it through lending. Fiat money is not considered fake despite being created "out of thin air" because its legitimacy and value are derived from trust in the issuing government and its legal mandate, rather than from intrinsic or commodity-based value. Therefore, fiat money is a legitimate and functional construct within a regulated monetary system, not a counterfeit or "fake" entity. This is also true since it is understood to fulfil the characteristics of the medium of exchange. The creation of

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<sup>87</sup> Yeah-Yun C. O'Brien, *Measurement of Monetary Aggregates Across Countries*, *Finance and Economics Discussion Series*, Divisions of Research & Statistics and Monetary Affairs, Federal Reserve Board (Washington, 2006), 1–35.

<sup>88</sup> Laurie, M., Josh Ryan-Collins, Ole Bjerg, Rasmus Hougaard Nielsen, and Duncan McCann, "Making Money from Making Money: Seigniorage in the Modern Economy", *New Economics Foundation and Copenhagen Business School*, 2016, 4. Assessed: [https://neweconomics.org/uploads/files/NEF\\_MAKING-MONEY-OUT-OF-MONEY\\_amendment\\_E.pdf](https://neweconomics.org/uploads/files/NEF_MAKING-MONEY-OUT-OF-MONEY_amendment_E.pdf)

<sup>89</sup> Ibid.

<sup>90</sup> Ibid.



fiat money is not inherently problematic, rather most prime issues being focused on the productive capacity of the economy, leading to inflation.

## **DISCUSSION AND ANALYSIS**

Under the current monetary system, great civilizations have been reduced to perpetual state of being a developing nation. Provided with limited international reserve as the American dollar is being use for international trade, most developing nations, including most Muslim nations, are currently in distressing conditions.<sup>91</sup> The Muslim '*Ummah* remains entrapped in structural poverty and global economic subjugation, driven by fiat monetary system engineered to perpetuate debt, inequality, and dependence. This man-made system in violation with the core Islamic principles of *tawhīd*, justice and trust by betraying the ethical foundation of Islamic economic principles.

Muslims had now become increasingly divided and vulnerable, that even glorious civilizations associated with them once endowed with abundance of wealth, knowledge, and power has inflicted with poverty, high illiteracy, impotence, and backwardness, which subject to wide oppression.<sup>92</sup> Al-Attas profoundly asserts that the problems afflicting the Muslims stemmed from the loss of dignity, lack of knowledge in Islām and faith.<sup>93</sup> He also states that the problem of understanding human identity and destiny is the root cause of all other problems hampering modern society.<sup>94</sup>

Hence, the critical decline of Muslims can be traced to their loss of alignment with the worldview of Islām, where in brief this worldview is an embodiment and manifestation of *tawhīd*. The function of the worldview of Islām is to guide human actions in line with the concept of *fiṭrah*, ensuring that their behaviour aligns with what is meaningful, true, correct, and proper, while avoiding what is false, wrong and erroneous<sup>95</sup> In addition, Jelani mentioned the important prerequisites and requirement for man for them to return to their state of *fiṭrah*. *Fiṭrah* can be

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<sup>91</sup> Meera, A. K. M. (2004). *Theft of nations: Returning to gold*. Selangor: Pelanduk Publications, Prologue. Hereinafter cited as *Theft of Nations*.

<sup>92</sup> Ibid.

<sup>93</sup> Al-Attas, S. M. N. (2001). *Risalah untuk kaum Muslimin*. ISTAC, 5. Hereinafter cited as *Risalah*.

<sup>94</sup> Al-Attas, S. M. N. (2014). *Prolegomena to the metaphysics of Islām: An exposition of the fundamental elements of the worldview of Islām* (2nd ed.). Universiti Teknologi Malaysia (UTM) Press, 84. Hereinafter cited as *Prolegomena*.

<sup>95</sup> Wan Daud, W. M. N. (1998). *The educational philosophy and practice of Syed Muhammad Naquib al-Attas*. ISTAC, 256. Hereinafter cited as *Educational Philosophy*. Jelani, R. A. (2019). A brief overview of the Islamic worldview as the manifestation of al-Tawhīd. *Dirasat: Jurnal Studi Islam & Peradaban*, 14(1), 17.

understood as the original pattern of creation, which created by God and seen in all His creation.<sup>96</sup>

In similar discussion, the belief on one true God helps Muslims see life as a complete whole, connecting both the physical world and the spiritual side. It is an embodiment that real knowledge, and good behaviour comes from God's decree and mercy. While this life is only temporary, Islamic worldview establishes the foundation that leads people towards true happiness in this life and the next. This happiness has to do with certainty (*yaqīn*) of the ultimate Truth and fulfilment of action in conformity with this certainty.<sup>97</sup>

The secularizing values and events happening to Muslims which now had unfold itself with tremendous momentum contributed by the Muslim's lack of understanding of the true nature and implications of secularization. Al-Attas remind that his argument on secularism is intended towards secularization as a philosophical program where it comprises philosophical and scientific process, involving stripping away the spiritual meaning from the world of nature, removing the sense of the sacred from politics, and disconnecting moral values from the human mind and conduct. Despite this difficult challenge, is not an option for Muslims to lose hope and confidence while passing through this current challenge without any positive resistance. Thus, the real challenge is intellectual in nature and positive resistance is not necessarily be of political power, but power initiated upon the right knowledge.<sup>98</sup>

The three main dilemmas facing the Muslims which had been put comprehensively by al-Attas in proper order. Al-Attas warned that these dilemmas faced by the Muslims are interconnected and operate in a vicious cycle. The first dilemma is caused by confusion and error in knowledge where second, it then creates the condition for the loss of adab within the community. The outcome of these two dilemmas then creates the third dilemma which is the rise of leaders who are not qualified for valid leadership of the Muslim community. These leaders do not possess any high moral, intellectual and spiritual standards required for Islamic leadership. This perpetuates the condition for the first dilemma mentioned previously and subsequently ensures continuous control of the affairs of the community with domination of such leaders in all fields where this can be seen from the outcome of the current state as well as the basis and effect of adoption of the fiat monetary system.<sup>99</sup>

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<sup>96</sup> Ibid., 17.

<sup>97</sup> *Prolegomena*, 35-36.

<sup>98</sup> Al-Attas, S. M. N. (1993). *Islām and secularism* (2nd impression). ABIM, xv- xvi. Hereinafter cited as *Secularism*.

<sup>99</sup> *Secularism*, 106. *Educational Philosophy*, 74.

## **The Confusion In Error In Knowledge**

The problem of confusion in knowledge disclosed a deeper civilizational problem where this affects all spheres of life, including economic thought and practice. Moreover, since the current Muslims understood worldview only from the physical point of view rather confirms the evidence where the Muslims are now greatly influenced by the secular thinking of Western modern science. Furthermore, modern philosophy too had become the interpreter of science, and *worldview* is the aftermath of organized natural and social sciences. In contrast, Islamic worldview maintain that knowledge comes from God and is acquired based on the channels of sound senses, true report based on authority, sound reason and intuition.<sup>100</sup>

Al-Attas warned that the Muslims should be made conscious of secularization due to the problems arising from it have created much confusion. This is vital as Muslims seems to be unaware of what the secularizing process implies. Therefore, placing an importance to obtain the understanding of it from those who know and are conscious of it, along hand in hand understanding who believe and embrace it, as well as who teach and advocate it to the world. Likewise, the decline of Muslims caused by ignorance of knowledge, is either contributed from the lack of knowledge or due to confusion in understanding the concept and responsibility of the knowledge itself. Furthermore, the flow and philosophical approach of Western education that emphasizes more on the "professionalism" side of an individual rather than the individual formation of good and "civilized" scholars, further worsens the situation.<sup>101</sup> critical issue peculiar to the Muslim scholarly tradition is when there is a dichotomy in Muslim educational institutions where it focuses on traditional Islamic sciences in their curriculum or only the modern sciences as well as the issue of integrating the curriculum and Islamisation of knowledge.<sup>102</sup> These create imbalances which led to the decline of Muslim civilisation.

Regarding fiat monetary system and practices, this system stemmed from the Western worldview where it is a man-made construct upheld by the state authority and formed through interest-based debt issuance, reflecting a secular and materialist ontology that denies religion. Its validity rests on social consensus and legal enforcement, rather than on any metaphysical foundation. This sharply contrast with the Islamic worldview, where knowledge and systems including economic ones must be rooted in Revelation to be able to act in concord with the pursuit of justice. This misalignment causes Muslims to adopt and operate within a

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<sup>100</sup> *Prolegomena*, 118.

<sup>101</sup> *Prolegomena*, 24. Syed Muhammad Naquib al-Attas, *Tinjauan Ringkas Peri Ilmu dan Pandangan Alam* (Kuala Lumpur: Ta'dib International, 2019), 10. See also *Educational Philosophy*, 166.

<sup>102</sup> Hashim, R., & Hattori, M. (Eds.). (2015). *Critical issues and reform in Muslim higher education*. IIUM Press, 5-20.

monetary system built on principles alien to Islam, often without realizing the deep philosophical contradictions it entails.

### **Loss Of Adab**

Loss of *adab* had attributed the subsequent reason of declining of the Muslim world. *Adab* means to discipline the mind and soul, acquiring the good qualities and attributes of mind and soul. At the same time, to perform the correct against any erroneous action, and of right against wrong as well as preserving from disgrace. *Adab* is a manifestation of putting something at its proper place.<sup>103</sup> The term *adab* have been described in various perspectives,<sup>104</sup> while there is further emphasis on the loss of *adab*, which is a prevailing condition that Al-Attas observed many years ago still had not shown any sign of retreat.<sup>105</sup>

Fiat money system embodies a profound crisis of knowledge, where money is severed from real value, making it possible to foster inequality and injustice. This secular worldview, adopted uncritically by many Muslim societies, revealing a critical error in failing to anchor economic policies based on the metaphysical foundations of Islām. The way currency is created through interest-based debt was also overlooked or disregarded. Through the fatwa that legitimized paper money, Muslims acceptance of it made them complicit in its expansion, out of the necessity justification. This system is inherently tied to *ribā*, thus by embracing fiat money, Muslims unknowingly sustain an unjust system that contradicts their own Islamic economic principles. Fiat money and its system is closely linked to world poverty, hunger, war, hegemony, and inequality. Thus, from al-Attas interpretations, would identify this as a loss of *adab*, a condition where things are no longer in their proper place and knowledge is no longer guided by wisdom.

### **False Scholars And Leaders**

Al-Ghazālī criticized the false '*Ulamā*' who have narrowed the Islamic knowledge to mere jurisprudence (*fiqh*), abandoning its broader spiritual purpose and creating endless debates over trivial matters. Although the false '*Umarā*' such as leaders, administrators and nobles were among the Muslims contributed to this chaos given by their mistakes in mismanagement, misadministration, inefficiency, illegal threats, high handedness, and vainglorious arrogance in their leadership. However, the most severe was those rulers whose focus were more on struggles and warfare. With this, al-Attas cites Timur Lenk as a notable but destructive governance

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<sup>103</sup> *Secularism*, 25.

<sup>104</sup> Ardiansyah, M., Wibowo, A., & Drajat, N. (2019). The concept of *adâb* by Syed Muhammad Naquib al-Attas and its relevance to education in Indonesia. *Ibn Khaldun Journal of Social Science*, 1(1), 52–63. *Prologomena*, 16–31.

<sup>105</sup> *Educational Philosophy*, viii.

despite his military advantages and potential to influence Eurasian history. Timur's improper focus led to immense suffering and devastation. It must be known that the chaos caused by false 'Ulamā' and false Umara' points to the absence of a balanced education in both *fardu kifayah* knowledge and *fardu 'ayn* knowledge at all levels of education which have compounded the Muslim world's problems.<sup>106</sup>

In the case of debt-based monetary system, the acceptance of fiat money by Muslim leaders and governments illustrates this loss when policies are frame not by Divine guidance but by Western secular models, leading to a spiritual and systemic bias. When *tawhīd* is not reflected within a nation's public monetary policy, it is with no surprise that governance becomes detached from spiritual and ethical responsibility.

### **The Problem With Fiat Monetary System**

This authoritative or arbitrary order by the government (by decree) reasons fiat to be known as legal tender.<sup>107</sup> Fiat money is a type of money which is being 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.<sup>108</sup>

Fiat money, unlike commodity-backed currencies, derives its value from government decree and public trust, not from inherent worth. From an Islamic perspective, this detachment from real assets raises multiple concerns. The ease with which fiat money can be created leads to inflation, devaluing savings and disproportionately affecting the poor. Furthermore, fiat monetary system is

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<sup>106</sup> Badron, M. S. (2008, September 9). *Ulama and politicians must take heed of history*. Institut Kefahaman Islām Malaysia (IKIM). <https://www.ikim.gov.my/ulama-and-politicians-must-take-heed-of-history/>.

<sup>107</sup> Dror Goldberg, "Famous Myths of Fiat Money," *Journal of Money, Credit and Banking* 37, no. 5 (2005): 958. Dror Goldberg, *The Tax-Foundation Theory of Fiat Money* (Working Paper No. 2009-05, Department of Economics, Bar-Ilan University, 2009), 1, <https://ideas.repec.org/p/biu/wpaper/2009-05.html>.

<sup>108</sup> FXEmpire, "The Differences between Fiat Money and Cryptocurrencies," *FXEmpire*, accessed September 14, 2024, <https://www.fxempire.com/education/article/the-difference-between-fiat-moneyand-cryptocurrencies-520616>. Olli-Pekka Hilmola, "Inflation and Hyperinflation Countries in 2018–2020: Risks of Different Assets and Foreign Trade," *Journal of Risk and Financial Management* 14, no. 12 (2021): 2. Dan Fitzpatrick, *Economic Reality: The Ontology of Money and Other Economic Phenomena* (Doctoral thesis, London School of Economics and Political Science, 2002), 100. Rohimie Shapiee and Anowar Zahid, "Addressing Economic Meltdown: An Evaluation of Fiat and Credit Money from Islamic Perspective," *U.S.–China Law Review* 11, no. 2 (2014): 190. Larry Randall Wray, *Modern Money Theory: A Primer on Macroeconomics for Sovereign Monetary Systems*, 2nd ed. (New York: Palgrave Macmillan, 2015), 75.

inextricably linked to interest-based debt (*ribā*), its vulnerability to manipulation and detachment from real value is prohibited in Islam.<sup>109</sup> Thus, fiat money exemplifies a critical error of the Muslim *'ummah* in adopting Western economic constructs and its unbacked nature contradicts Islamic principles of just value, leading to systemic injustice and moral issues.

## **SENSIBLE SOLUTION**

In order to put an end to these three interconnected dilemmas faced by the Muslims operating in a vicious cycle, apart from a balanced education in both *fardu kifayah* knowledge and *fardu 'ayn* knowledge at all levels of education, al-Attas's methodology also suggest a synthesis of ideas from the greatest intellectuals in the Islamic tradition, offering a comprehensive blend and deeply rooted framework of those we recognized and acknowledged as our greatest thinkers in the Islamic tradition. Thus, creating an intellectual and spiritual renewal of the Muslim world.<sup>110</sup>

Al-Attas emphasizes that true intellectual revival must begin with *ta'dib* where the installation of *adab* (right action, right knowledge, right place). He insists on the *Islamization of contemporary knowledge* to realign it with the Islamic worldview. Without restoring the intellect's function under Divine guidance, revival remains superficial and fragmented.

This renewal must also include the restoration of *adab* in leadership and decision-making processes, the development of alternative economic models grounded in intrinsic-backed currency and profit-sharing systems, and a reformed educational vision that integrates the spiritual and practical where this consists of *fardu 'ayn* and *fardu kifayah* as a unified foundation for meaningful societal transformation.

However, al-Attas reminded Muslims on original, great ideas and works appropriated without due acknowledgement cannot be meaningfully implemented and be praiseworthy since it also arises out of the act of loss of *adab*. The value and validity of ideas are best developed and clarified by adhering to the logical framework of their original sources where authentic and creative intellectual efforts are preserved. This approach also helps prevent the distortion of knowledge and curb the rise of extremists who thrive on ignorance because one of the ways which knowledge gets ruin and destroyed is through ideas that is taken without any due acknowledgement since it caused serious intellectual distortion and dilution of original ideas.<sup>111</sup>

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<sup>109</sup> *Theft of Nations*, 26-27., .

<sup>110</sup> *Educational Philosophy*, 18.

<sup>111</sup> *Secularism*, xii-xiii.

## CONCLUSION

The critical errors of the Muslim *'ummah* in the field of economic thought and practice can be seen from the current adoption of monetary system by Muslim societies as it reflects a deeper ontological conflict between two worldviews, namely the Islamic worldview and the secular Western framework.

As al-Attas emphasized, the current state of economic, intellectual, and spiritual decline within the Muslim world stems not merely from external pressures, but from internal disarray, where he had categorized the three main reasons particularly the confusion in knowledge, loss of *adab*, and unqualified leadership through the rise of false leaders and scholars. It is crucial to know that these dilemmas operate in a continuing vicious cycle. Addressing these crises requires more than policy reform; where it calls for a revival of Islamic thought grounded in spiritual wisdom. Al-Attas's works and thoughts serve as a guide towards this revival, urging Muslims to re-establish rightful knowledge, and reorientate societies toward a civilization rooted in Divine Truth and ethical governance.

Al-Attas had understood this subtle and fundamental causes underlying the complex problems besetting contemporary Muslims and of their true solution<sup>112</sup> Within the context of Islamic discourse, he offers the solution for the *'ummah* by emphasizing the role of metaphysics of Islām in the casting of the Islamic worldview.<sup>113</sup> These are imperative to the revivification of the Islamic sciences that Al-Ghazālī strive to achieve nine hundred years ago.<sup>114</sup> As within this era, every solution must be conceived as practical, where in turn one is required to produce something tangible in nature for it to be considered as practical and effective. One must produce a result which is sensible and measurable in outcome. In relation to Islām, the impact of this idea of practicality in this era had made many to accuse and question the idea of practicality of Islām without even having any proper knowledge on Islām. This further causes few conditions where people would in turn reject Islām, re-interpret Islām, replace the notions of words and meaning by doing the reverse of what al-Attas's advocate, when the words are secularized and westernized.<sup>115</sup> Moreover, it is certainly erroneous to assume that a fresher version of similar Western mould needed to solve all the problems which modern secular Western

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<sup>112</sup> *Educational Philosophy*, 18.

<sup>113</sup> Khalina Normaiza binti Mohammed Khalili, *The Philosophy of Science in Islam from the Perspectives of Syed Muhammad Naquib al-Attas and Seyyed Hossein Nasr* (PhD diss., Universiti Teknologi Malaysia, 2021), 77.

<sup>114</sup> *Educational Philosophy*, 17.

<sup>115</sup> Wan Suhaimi Wan Abdullah, *The Practical Aspects of Tasawwuf* (seminar presentation, Majlis Haul Al-Haddad: Path to Wisdom and Happiness, Auditorium Dewan Bahasa dan Pustaka, Kuala Lumpur, Malaysia, July 21, 2018).

civilization had caused (Daud, 1998). Instead, what is needed is the restoration of fundamentally different civilization based on genuine and true religious principles.

In sum, secularization is a process where the world is made to seem purely physical and without any spiritual or deeper meaning. Nature of things are no longer seen as a sign of God, while politics is treated like a game of power with no connection or consequences to religion or moral responsibility, and people's actions and decisions are no longer guided by ethics or a sense of right and wrong from a Divine source. Everything had become disconnected from God, and life is reduced to material goals, power struggles, and lustful desires. This, al-Attas warns, lead to confusion in knowledge, loss of purpose and the breakdown of true civilization.

Therefore, the real challenge for Muslims is intellectual, and the resistance must begin with a return to true knowledge where this knowledge is rooted in Divine guidance and reflect the spiritual realities of life. Only with the possession of the right and true knowledge can Muslims resist this confusion and rebuild a civilization grounded in truthfulness. While this paper serves only as a brief summary of thoughts from the works of al-Attas and although this is a positive sign to broaden the reader's perspectives, it must be reminded that to teach or learn proper worldview of Islām require one to connect themselves with al-Attas's works, and this should not be taken lightly since it is intricately extensive and best learned from himself and his disciples (*murīd*).

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