Inflation and Monetary Dynamics between International Influence and Alternatives from the Islamic System

(Translated)

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Economic inflation is considered one of the phenomena that most preoccupy policymakers and societies alike; it is not merely a statistical figure announced in news bulletins, but rather a hidden force that reshapes wealth, controls the purchasing power of individuals, and directly impacts social stability. In this research, we examine inflation through a deep analytical approach to understand its essence, its causes, and the international mechanisms that control it, ultimately reaching the impact of the current monetary system and the structural solutions offered by the Islamic economy.

Cost-Push Inflation: This results from an increase in the costs of production inputs, such as energy prices, of oil and gas, raw materials, or labor wages, which forces producers to raise final prices in order to maintain their profit margins.

Built-In Inflation: This is linked to future expectations, where workers demand higher salaries to cope with the rising cost of living, leading employers to increase prices to cover these higher wages, thereby plunging the economy into a "wage-price spiral."

Secondly: Measuring Inflation and its Levels

Measurement Tools

Consumer Price Index (CPI): This measures the change in the cost of a hypothetical "basket" of basic goods and services consumed by an average family, including food, housing, transportation, and healthcare.

Producer Price Index (PPI): This tracks changes in the prices of raw materials and intermediate goods in the early stages of production, serving as an early indicator of inflation before it reaches the consumer.

Levels of Inflation

Inflation ranges from "moderate or creeping" —1%–3% annually, which serves as a healthy stimulus for growth— to "galloping" —which jumps into double digits and undermines stability— up to "hyperinflation," whose rate exceeds 50% per month, the threshold at which the currency collapses entirely and loses its function as a medium of exchange.

Thirdly: Geopolitics and Currency. The US Dollar as a Tool for Recirculating and Exporting Inflation

Modern inflation cannot be understood in isolation from the dominant international monetary system, at the apex of which sits the US Dollar as the primary reserve currency for global trade, especially oil and strategic commodities.

The Dilemma of "Dollar Printing" and its Export

When the US Federal Reserve prints massive amounts of dollars –whether through quantitative easing programs or stimulus packages during crises– the global money supply increases at a rate out of step with real production growth. Since states worldwide require dollars to conduct trade and build reserves, any drop in the dollar's purchasing power translates directly into rising prices for globally priced commodities. Economically, this phenomenon is known as “exporting inflation,” whereby populations on the global periphery bear the cost of America’s expansionary monetary policies.

The Influence of Capitalist States and Imported Inflation. Contemporary Market Realities

Capitalist states and international financial institutions control inflation levels in other countries through the mechanism of “interest rates and currency imbalances.” This is clearly manifested in the current dynamics of global markets, where speculators place massive bets, recently exceeding $34 billion, on the strength of the dollar based on how aggressively the US Federal Reserve fights domestic inflation.

This excessive strength of the dollar leads to violent shocks in the currencies of other nations; for instance, the Japanese yen recorded its lowest level in forty years as a result of the interest rate differential. This sharp decline in the currencies of America’s trading partners translates immediately into “imported inflation” within those countries because the cost of importing goods denominated in dollars becomes exceedingly burdensome for their domestic economies.

Are Oil-Producing Nations Immune to Inflation?

The answer is no. Despite the financial surpluses that oil-producing countries reap from high oil prices, they remain vulnerable to inflation through two avenues:

Imported Inflation: Due to their heavy reliance on importing food, technological products, and services from capitalist countries, goods enter their markets carrying original inflation with them.

Dutch Disease: Massive monetary inflows from the oil sector lead to an extraordinary surge in domestic demand for non-tradable sectors such as real estate and services, driving prices up sharply at home.

Fourthly: The Nixon Shock, the Decoupling Gold from Currency

The year 1971 witnessed the most prominent monetary shift in contemporary history, when US President Richard Nixon announced the suspension of the dollar's convertibility into gold, which had been established under the 1944 Bretton Woods Agreement at $35 per ounce, an event historically known as the “Nixon Shock.”

Why Did the Decoupling Occur?

The United States printed enormous quantities of dollars to finance the Vietnam War and domestic projects, causing the volume of dollars in global circulation to far exceed the gold reserves held in its vaults. When countries, such as France, demanded the conversion of their dollars into physical gold, America faced the risk of depleting its reserves and decided to unilaterally sever the link.

The Impact on Inflation

With the world shifting to a system of fiat money—currencies that derive their value from political decisions and fragile public trust in governments, rather than an underlying real asset—all constraints on central banks were removed. Consequently, states gained the ability to print money without needing a physical reserve backing, making inflation a permanent and inherent feature of the modern global economy, whereas under the gold standard, it was an anomaly that resolved once its causes vanished.

Fifthly: Remedial Mechanisms in Man-Made Economic Thought and the Islamic Economy

Man-Made Remedial Approach: Contractionary Monetary Policy and Its Limitations

When inflation spreads, central banks resort to contractionary monetary policy aimed at “draining liquidity” and slowing down economic activity through:

Raising Interest Rates: To encourage saving and reduce borrowing for consumption and investment purposes, which lowers aggregate demand and cools prices.

Increasing Reserve Requirements: To curtail the ability of commercial banks to extend loans.

The Capitalist Cure Dilemma

As contemporary market reports demonstrate, this contractionary policy walks a tightrope; as soon as a central bank overreaches in raising interest rates, employment rates and the job market slow down, as seen in recent US employment data, triggering fears of a severe economic recession. At this point, markets press for a “more accommodative approach,” lowering or freezing interest rates, which reignites inflation. This volatility confirms that man-made monetary tools merely treat the symptom rather than curing the underlying structural disease.

Treatment and Prevention in the Islamic Economic System

The Islamic economy possesses a preventive and remedial legislative system that prevents structural distortions leading to inflation, built upon rules of comprehensive justice and the revitalization of the real economy:

A Monetary System Based on Real Assets with Intrinsic Value: The fundamental principle in Islam is anchoring money to two real assets: gold and silver, as the Dinar and Dirham.

Prohibition of Riba (Interest) and Decoupling Credit from Speculation: Prohibiting the sale of debt for debt and speculative trade ensures that every monetary movement is matched by a real flow of goods or services, preventing price bubbles from forming.

Combating Monopoly (Balancing Supply): Islam prohibits monopoly in all its forms to guarantee the natural flow of goods, preventing artificial “cost-push inflation” engineered by traders.

Prohibition of Hoarding Wealth and Imposition of Zakat: The prohibition of hoarding wealth and the mandate of Zakat (2.5%) on assets compel wealth owners to channel funds into real investment and productive sectors —manufacturing, agriculture and trade— to prevent wealth erosion, thereby expanding the supply of goods and services and automatically lowering prices.

Fair Distribution of Public Treasury Funds (Bayt al-Mal) and the Eradication of Poverty

Here, the structural genius of the Islamic economy shines through its management of public funds in the state treasury (Bayt al-Mal). The contemporary capitalist system fails to address poverty because it relies on the mechanism of “trickle-down economics,” which concentrates wealth in the hands of a few while exacerbating inflation and poverty. In contrast, Islam establishes a mandatory and definitive distribution plan outlined precisely in the Quranic verse, ﴿إِنَّمَا الصَّدَقَاتُ لِلْفُقَرَاءِ وَالْمَسَاكِينِ وَالْعَامِلِينَ عَلَيْهَا وَالْمُؤَلَّفَةِ قُلُوبُهُمْ وَفِي الرِّقَابِ وَالْغَارِمِينَ وَفِي سَبِيلِ اللَّهِ وَابْنِ السَّبِيلِ ۖ فَرِيضَةً مِّنَ اللَّهِ﴾ **“Zakat expenditures are only for the poor and for the needy and for those employed to collect zakat and for bringing hearts together for Islam and for freeing captives or slaves and for those in debt and for the cause of Allah and for the stranded traveler - an obligation imposed by Allah.”** [TMQ Surah At-Tawbah :60]**,** and His saying, ﴿مَّا أَفَاءَ اللَّهُ عَلَىٰ رَسُولِهِ مِنْ أَهْلِ الْقُرَىٰ فَلِلَّهِ وَلِلرَّسُولِ وَلِذِي الْقُرْبَىٰ وَالْيَتَامَىٰ وَالْمَسَاكِينِ وَابْنِ السَّبِيلِ كَيْ لَا يَكُونَ دُولَةً بَيْنَ الْأَغْنِيَاءِ مِنكُمْ﴾ **“And whatever Allah restored to His Messenger from the people of the towns - it is for Allah and for the**

Messenger and for [his] near relatives and orphans and the needy and the stranded traveler - so that it will not be a perpetual distribution solely among the rich from among you.” [TMQ Surah Al-Hashr:7].

This specific distribution across the eight designated categories, preventing funds from remaining confined to a wealthy few, tackles poverty and inflation through several economic dimensions:

Recirculating the Money Supply; Stimulating Circulation: Inflation and poverty intensify when money accumulates among the wealthy as monetary stagnation. Distributing Zakat and state treasury funds to the poor and needy transfers capital from a class that hoards it to a class that spends it immediately to satisfy basic needs. This rapid injection of liquidity stimulates markets and revives real demand, prompting factories and farms to boost production to meet this demand—and increased production is the genuine remedy for inflation. Allah (swt) said, ﴿مَّا أَفَاء اللَّهُ عَلَى رَسُولِهِ مِنْ أَهْلِ الْقُرَى فَلِلَّهِ وَلِلرَّسُولِ وَلِذِي الْقُرْبَى وَالْيَتَامَى وَالْمَسَاكِينِ وَابْنِ السَّبِيلِ كَيْ لَا يَكُونَ دُولَةً بَيْنَ الْأَغْنِيَاء مِنكُم﴾ **“And whatever Allah restored to His Messenger from the people of the towns - it is for Allah and for the Messenger and for [his] near relatives and orphans and the needy and the stranded traveler - so that it will not be a perpetual distribution solely among the rich from among you.”** [TMQ Surah Al-Hashr:7].

Self-Sufficiency, not Bare Subsistence; Transforming the Poor into Producers: In distributive Shariah jurisprudence, a poor person is not merely provided with enough to survive for a single day at subsistence level, but is given sufficient resources to achieve full self-sufficiency. If an individual is skilled in a trade, they are granted funds from the public treasury to purchase tools and equipment; if a they are a farmer, they are provided with land and seeds; if they are a merchant, they are provided with working capital. This approach roots out poverty by transforming unemployed consumers into productive forces that expand the supply of goods, leading to a gradual decline in price levels.

Relieving the Debts of the Debt-Ridden; Preventing Financial Collapse: Islam allocated an entire share of Zakat to the debt-ridden (al-gharimin—those unable to pay off their debts). Settling their debts through the state treasury shields them from financial ruin and reintegrates them into the economic cycle. Furthermore, it protects creditors, business owners, from losing their capital, thereby ensuring business continuity and the stability of commodity supplies.

Providing a Security and Economic Safety Net for Society (The Stranded Traveler, Freeing Captives, and in the Cause of Allah): Extending assistance to stranded travelers *(*ibn al-sabil*)* emancipating slaves *(*fi al-riqab*)* and safeguarding state borders and infrastructure *(*fi sabil Allah*)* together foster a stable and secure environment. Stability serves as the fertile ground for genuine investment and capital flows, free from market volatility and speculative bubbles that cause inflation.

Conclusion

Inflation and poverty in the contemporary world are not accidental occurrences; rather, they are the natural product of a global monetary system founded on fiat paper currencies, wealth accumulation, and debt expansion. A systemic comparison demonstrates that returning to a commodity-backed currency anchored in real assets, coupled with implementing the equitable distribution of state treasury funds among citizens, constitutes a comprehensive economic model. This alternative does not merely curb price spikes through harsh mechanisms that harm the poor and the labor market, such as capitalist interest rate hikes that threaten recession, but cures the structural flaw by converting idle labor into productive forces. This achieves genuine, sustainable equilibrium between the money supply and the volume of goods and services, safeguarding societies against the erosion of their wealth and efforts.