

Inflation is from the Stem of Capitalism

News:

“How skyrocketing inflation has hit Pakistan’s most vulnerable”

With Ramadan approaching, millions of Pakistanis are struggling to put food on the table amid one of country’s worst economic crises. (aljazeera.com)

Comment:

For the past eight months, people have been dealing with rising prices, increased cost of living, reduced savings, and an impending recession. Experts predict that the upcoming recession will be different from past ones, as policymakers will not be able to support markets as much as they did in the past, leading to more market turbulence.

In the capitalist system, the government’s ability to print currency can lead to inflation, and interest rates play a significant role in economic instability. Additionally, the financial sector’s volatility and debt-fueled push to increase GDP ignore income and wealth distribution among the population. Inflation is currently at a 40-year high, leading to difficulty for average people to meet their needs and to an increase in wealth concentration.

Islam offers a unique paradigm for the economic problem and its solutions, which differs from capitalism. One such example is the Islamic monetary system, which is based on a bimetallic gold and silver standard. This is evidenced by the fact that Islam has linked gold and silver with fixed Shari’ah rules such as Zakat, blood money, theft, currency exchange, and other such principles.

The bimetallic gold and silver standard has an intrinsic value and hence eliminates credit creation, minting/printing of currency out of thin air and eliminates significant inflationary cycles. The money supply in the market is controlled and is directly tied to the amount of gold and silver held by Khilafah (Caliphate) in reserves. Any inflation that may occur would be due to the supply and demand mechanisms and not due to monetary policies, as we see today. The Islamic economic model focuses on the distribution of wealth rather than mere production. The emphasis is on the real economy. The prohibition of Riba (interest) eliminates the current financial sectors that are built on debt and disastrous financial instruments. Moreover, prohibition of Riba helps eliminate the concentration of wealth. Zakat as well as prohibition of hoarding and monopolization all play a factor in redistribution of capital and thereby encourage economic growth. Allah (swt) states: **﴿مَّا أَقَاءَ اللَّهُ عَلَى رَسُولِهِ مِنْ أَهْلِ الْقُرَىٰ فَلِلَّهِ وَلِلرَّسُولِ وَلِذِي الْقُرْبَىٰ وَالْيَتَامَىٰ وَالْمَسَاكِينِ وَابْنِ السَّبِيلِ كَيْ لَا يَكُونَ دُولَةً بَيْنَ الْأَغْنِيَاءِ مِنْكُمْ﴾** **“As for gains granted by Allah to His Messenger from the people of ‘other’ lands, they are for Allah and the Messenger, his close relatives, orphans, the poor, and needy travelers so that wealth may not merely circulate among your rich.”** [Al-Hashr: 7].

Bimetallic standards and the prohibition of Riba are just a part of a complete Islamic economic model and the actual realization is not possible until a complete Islamic state i.e. Khilafah is established, as a try to implement the Islamic economic model in isolation is not possible until it is supported by the Islamic social, justice, education and foreign policy systems, and this is only possible under the shade of Khilafah upon the method of the Prophethood.

Written for the Central Media Office of Hizb ut Tahrir by

Mohammed Adel