

## Conference Paper

# Equitable International Monetary: An Anti-hegemony Idea

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## Abstract

A currency manufacturer obtains a tremendous advantage of the creation process called seigniorage and from the process of distributing money in the form of interest profits. Dollar is the most widely used instrument in the world, both in international transactions and foreign exchange. This phenomenon provides tremendous benefits to the United States unilaterally, both economic and political stability. While the countries of the world have a tremendous monetary dependence on the US with all its advantages, this is considered unfair and disadvantageous. A fair monetary system needs to be initiated so that all nations can benefit equally and reduce the hegemony of a particular country.

**Keywords:** hegemony, domination, single currency, world power, Bretton Woods, dollarization, seigniorage, discount rate, fiat money

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## 1. Introductory

The dominance of large capital group interests against the world's underdeveloped countries in development conflicts and economic growth is a virus that undermines the ideal work of democracy and economic justice. In that position, political alignments to abolish the dominance of the interests of a particular state are inexorable interests (Susan: 2013). It takes an agency to limit the power or political authority to make the market function smoothly and create the right environment in realizing the equitable economic development. In international markets, a person or institution must play the role in preventing rich people and powerful countries from tinkering with poor countries (Khaldu > n; 1987, 303, Chapra: 2001, 8), for developed countries with their economic power use every possible means to deceive the underdeveloped countries by controlling the fragile world economy, monetary and fiat money systems into the perfect means of facilitating speculation, manipulation and economic colonization (Meera: 2010, xxxii).

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Most developing and small countries (underdeveloped countries) peg their currency to developed countries or their trading partners. This is performed so that fluctuations in import and export prices can be reduced, resulting in greater stability in output and employment in the export and import sectors. The pegging of a single currency is generally carried out by a small country whose trade and financial relationships are centered on one partner only (Kotler et al., 1998, 270) in addition to historical reasons such as former colonies, since the history of the currency is inseparable from the history of independence. US dollar (\$) is the reserve currency of several countries such as Hong Kong and Argentina, Pound sterling (£) is in Wales, Scotland and in its former colonies, French Franc (₣) is in its former colonies in Africa such as Cote d'Ivoire and Syria, while Mark Germany (DM) is the reserve currency in Estonia and Bulgaria (Soros: 2001, 251). The key currency-holding countries have maximum advantage of the economic and political mastery that they use to suppress the weak to stay on under power and subject to their interests. This is the so-called hegemony, in which they want to mobilize the whole nation (Henry: 199, 26) and refuse to be separated from the colonization, even though the state is already independent by *de jure* but by *de facto* they still want to colonize it in new and more incoming ways, resourceful and packed enchanting like economic colonization.

Politically, hegemony is the ability of a country to control or influence the behavior of other countries that refers to reward and punishment. Wallertsein (1984) says that hegemony comes to dominate productivity, commercial and financial, in the world economy. While Modelski (1978) says that hegemony or 'world power' is also a unit of market monopoly so that all global layers remain dependent (Dunn: 1998,167-170). For example, when there was a monetary crisis in 1998 in Asian countries, with only few dollar tapering off, some countries faced difficulties because their currency was eroded continuously against the dollar (\$) in international transactions such as Indonesia (al-Asmadi, 2013, 29).

## 2. The Politics of Money Hegemony

Dollar (\$) is the most widely used instrument in the international trading system and is stored officially in the form of an official foreign exchange reserve by a country (Gilpin: 1987: 207). The 1944 Bretton Woods meeting made Dollar (\$) dominate the means of world trade transactions, although in essence the meeting aimed to create a stable international monetary order after the war. To achieve this goal, United States is based on the price of gold before the World War I of 35\$ per ounce established under

the Gold Reserve Act of 1934. Gold is made an anchor of the international currency booster (Grant: 2013; 1). Dollar (\$) and Pound sterling (£) is based on gold, while other currencies are based on the two currencies.

As part of the Bretton Woods treaty, the World Bank was established with the primary objective of providing funds for developing countries with subsidized interest rates to foster economic development. While the IMF is positioned to maintain gold and foreign currency reserves that include the contribution of IMF member countries, these reserves can be lent at the request of those countries with the consideration of IMF and are used to maintain the exchange rate between the countries concerned (el-Diwany: 2003, 113). But the establishment of World Bank and IMF is considered as part of the United States' veiled goal to centralize the world economy through the process of dollarization. All world currencies must be converted into Dollar (\$). Proven from every loan of IMF and World Bank always use dollar (\$) benchmark. In this way, world economic activity is practically under US dominance.

In 1971, the Federal Reserve attempted to expand the US economy by pouring a lot of dollars (\$), but some countries in the world came to demand gold, which could not be met by the United States. Therefore, on August 15, 1971, President Richard Nixon ordered unilaterally the annulment of the Bretton Woods treaty of 1944 (surviving only 27 years) (Rahman: 2010, 96). Nixon does not allow the convertibility of Dollar (\$) with gold, it means that Dollar (\$) does not need to be supported by and backed up by gold. Thus, began the era of global float exchange rate (Lewis; 2007, 15).

Since then, the dollarization and demand for the Dollar (\$) has increased. With the Dollar (\$) being able to control the monetary and financial world and make the tailing countries dependent, this is what causes the United States to have super power and hegemony in the international monetary system. The United States had a 50 percent world GDP during the hegemony of the Dollar (\$) in the early post-war era. Between 40 and 50 percent of international financial transactions were performed in dollars (\$), even in 1996, the Dollar (\$) was estimated to dominate two-thirds of the world's foreign currency reserves. The ups and downs of the Dollar (\$) are very detrimental to the countries that manifest their assets in Dollar (\$). But the growth of its \$1 trillion international debt has weakened the world's confidence in Dollar (\$) as the world's reserve currency. Dollar Hegemony (\$) is receding and since then Dollar (\$) is sharing with Euro (€) (Robert and Gilpin: 2003, 132 and 241). Under the dollarization system, a country has abandoned an independent monetary policy, one of its aspects harming a central bank of a country that serves as a lender. In addition, relying on exchange rates

to foreign money may result in a real exchange rate appreciation when a competitor lowers the value of its currency (Kurasawa and Marty: 2007, 263).

### 3. Shifting Paradigm: The World of Islam

None of the world's Muslim countries had resulted a legal decision (fatwas) when 1977 Nixon annulled the Bretton Wood system, and therefore rejected the legality of fiat money and demanded returns to the currency supported by gold and silver standards (Ayinde: 2012, 5). In fact, from experiences, the fiat money system produces disasters, such as the French Assignat in the eighteenth century, continental revolutionary wars, the Greenbacks civil war and the Zimbabwean case. Until 1976, when the first Islamic economic conference was held in Jeddah, the papers presented rejected the monetary system of fiat money such as az-Zarqa>, Uzair, Abu> Saud, al-Jurhi, Chapra and Kahf. They recognize that the fiat money monetary system is untenable and must be replaced by new systems such as gold and silver (Ayinde: 2015, 53-57). Monetary monopoly can make the United States do as they please with the Dollar (\$), and monopoly is contrary to the values of justice and equity. The Qur'an says *منكم الاغنياء بين دولة يكون لا كي* meaning 'that the wealth should not only be circulated among the rich among you' (QS: 59; 7). Wealth must be distributed fairly and equitably to all groups of society and should not circulate among the rich alone.

By *de facto*, most of Islamic countries are economically dependent on Western countries in many ways, starting from the imports of food ingredients, industry, technology and exports of primary products. Others still suffer from the prolonged influence of the heritage of the cloned economic relations which emerged as a prototype of the 'center periphery relationship' pattern (Khurshid Ahmad, 2004: 3). An example is the borrowing of money to the capitalist countries to finance development in their country. The debts are paid at high interest rates and become a heavy burden for borrowing countries, such as Indonesia in 2017 having foreign debt reaching Rp 3.672,33 trillion.

Generally, Muslim societies still adhere to the Western capitalist and socialist systems, including in monetary policy. Most of the Islamic countries are not able to run their own engines of economic growth independently. Saudi Arabia, Kuwait, Turkey and the United Arab Emirates very clearly embrace the capitalistic economic system, while Iraq and Libya are closer to socialism, and Indonesia tries to use a mixed economy system. While countries who firmly tried to conduct experiments of 'Islamic economy' are only Malaysia and Iran. Economic backwardness is widespread, although collectively Muslim countries are very rich in financial, natural and human resources.

Monetary problems in the form of financial dependence, inflation and speculation are major contributors to economic backwardness in contemporary Muslim countries. The unity of Muslim countries is the right way to escape from dependence and submission, to reject humiliation and dictatorship, to uphold self-esteem, prestige and dignity and independence in politics, economics and culture, such as forming a currency or a single currency, as the Euro (€) in Europe (Anwar: 2003, 1).

During the nineteenth and twentieth centuries, the Muslim world is contrary to the concept of Islamic finance; Islamic finance principles tend to be ignored in practice and the interest-based banking system is increasingly inherent (Yousri Ahmad: 201, 13). Whereas the most Muslim countries incorporated in the Organization of Islamic Conference (OIC) consist of 56 member countries with a total population of over 1.5 billion people or 22.3 percent of the world population. Economically, it controls nearly 67 percent of world oil production. This should be a bargain for the progress of Islamic countries. Oil is the overwhelming power of Islamic countries, as the developed countries as well as the world's key currency suppliers have a tremendous supply of oil to some Islamic countries, especially the Arab countries. If the Arab countries in oil transactions fix the use of the standard of money agreed by the OIC to the buyer country, would certainly reduce the hegemony and dominance of Dollar (\$). But the problem is politics, the difficulty of uniting political differences is exacerbated by differences in interests between countries. Arab countries are often involved in conflicts of interest and cannot be united. In fact, the total GDP of OIC countries is only 7.25 percent of the total GDP of the world. Even the OIC consists of some of the poorest countries in the world. About 50 percent of OIC countries have per capita GDP of below \$2500 per year and only a quarter have income per capita above 10,000 (\$) (Lee: 2011, 573).

Muslim countries must dare to break through the vicious hegemonic circle of the world economy by engaging in productive ways in promoting the development of the Islamic world, acting effectively through the development of innovations in the capacity building of Muslims to become active players in various lives including the economy. The implementation of Islamic economic system is a solution that needs to be developed and experimented so that it can help the Muslim community as a whole out of the dependence of hegemony into economic independence, development of power and power gradually. Kuran (1995: 156) mentions that the true Islamic economy emerged as part of the resurrection of Islam to break the chain of political, social, economic and cultural heritage imposed by Western colonials on Muslim countries. Chapra (1998: 49) calls on Islamic countries that are bound by ideological similarities

to show greater solidarity and cooperation in all spheres of life to promote the unity and glory of Islam.

Sachs and Shabsigh (2004: 9) argue that Muslim societies need to organize themselves well to respond to the challenges presented by the environment. Including community organizations in managing and using good resources. Islam should use the role of institutions, macroeconomic and financial stability to show how social organizations impact on economic development in the face of environmental challenges compared with geographical and ecological limitations. This happens because by macro, most Islamic countries do not have an economic strategy that is completely based on Islamic principles.

#### 4. International Monetary Format—An Idea

Besides being a counting tool, money is also an attribute of power (Hu and Guan: 2010, 120). For Carlyle (1954: 45), 'whoever owns a cent, is sovereign as one cent above all mankind, ordering the chef to serve his meal, to command the wise men and scholars to teach him lessons and to command the kings to protect him as far as one cent'. This means that the greater a person has the money, the greater the power and the influence of a country toward money, the stronger and bigger the power. Like when the French occupied Syria. To strengthen the hegemony and dominance of the Syria, French pulled the Egyptian Pound from circulation and made Syrian Lira currency based on Franc until April 8, 1947.

The current international monetary system is deemed not to represent the interests of the world's nations. The profits from the manufacture (seigniorage) of money and its distribution (discount rate) of world key currencies are only enjoyed by the manufacturing countries. The huge revenue from seigniorage and interest makes the manufacturing countries richer and can do anything economically. On the other hand, politically, the world's key currency producers can influence a country that pegs its money to them either directly or indirectly. Obviously, this is unfair and discriminatory. Economically, Islam views the system of money contrary to shari'at because its production system and its distribution are vulnerable to usury and injustice, systemically dominated by capitalist countries with unlimited advantages.

The world's monetary design needs to be revolutionized in reference to the interests of the whole country, the creation of currencies for international transactions between countries. Methodologically there are two approaches to the adoption of an equitable international monetary economic system:

1. Back to gold, the Islamic economy in particular wants a *back-to-gold* approach back to the application of the gold standard or the so-called 'dinar', on the grounds that gold is considered to be the most referential in terms of: (a) theology, because it is shari'at, fair and not usury, (b) historic, because gold in the history of the world is applied by various dynasties and governments, including in the time of the Prophet and the Islamic dynasties, (c) stability, gold has resistance to inflation and exchange rates because of its nominal, intrinsic, extrinsic value and (d) politics, gold will not be dominated by a particular country and many countries own it and there is no need for state legality to guarantee gold as an official transaction tool, as the value of gold represents itself.

However, the authors assume that the application of gold as a monetary tool in international transaction has the main obstacle, that is, (a) limited gold holdings, not all countries have gold mines in the world such as Korea and Kuwait. If the monetary standard using gold is enforced, countries that do not have gold resources will depend on countries that have gold resources and will find it difficult to meet their country's needs. And this may bring a new economic and monetary injustice and (b) flexibility, gold is less simple to carry because it is heavy and hard to measure its content whether it is pure gold or a mixture. This phenomenon will lead to manipulation if gold is printed by unofficial institutions.

2. The common single currency, having the concept of 'from and for the whole country', while still refers to fiat money but its form and structure is reformed and is manifestly built for the benefit of the whole country in a pattern: (a) triple co-system is a **co-ownership**, participation in having institutions both before and after establishment, all countries in the world that are participated and involved have established monetary institution. **Co-determination**, all countries participate in determining and adopting policies, having the equal right to speak and the right to vote in the determination of something related to the organization. By participating in owning and becoming a real investor, formally make the countries become inseparable in the system. **Co-responsibility** is all countries take responsibility for its sustainability. With the participation of all countries, the profit and loss of the organization will be divided equally according to the quality of its participation. This means that the risk of loss and total profit by a single investor will not be experienced. The size of the country's right to the organization in the profit-sharing calculation is set by a ratio number or fair and equitable part quantity (Hasan, 2014 7-9, (b) independent from the hegemony of political power, authority and symbol of a particular country. Whatever the monetary system is

and whatever the name of the currency comes from the agreement of all countries and (c) using a single central bank with elastic supply as a means of payment between countries. Institutions, substantially, should be able to empower the world economy and oriented prosperity.

A single common currency will eliminate transaction costs and exchange rate risk through price transparency, increase trade and competition, thus contributing to lower price differences after adjusting for transportation costs. Price convergence in turn further strengthens trade and competition by mutually reinforcing each other (Allington And Others: 2005, 77). A single common currency will at least meet the stated objectives of efficiency, transparency and market-shaking activities as exchange rate and transaction and information costs will be eliminated (el-Diwany: 2003, 92).

But this system will also experience an obstacle that is not easy, although according to the opinion of the author, the single currency system is the most realistic to bridge many interests today, namely, (a) politics, the world's key currency-manufacturing countries are likely to reject because their influence and income will decrease and will strive in various ways to maintain the status quo and (b) Islamic countries that embrace Islamic economy consider this system will only reduce the injustice rather than eliminate it. Because it still refers to the use of fiat money with seigniorage system and considered robbery and tyranny, while the distribution can be tolerated with reference to the system of profit sharing.

## 5. Closing

Countries that are in the economic colonies of developed countries need to consider to be independent and think hard to get out of the colonization. For developed countries, generally, always speak economic prosperity, but in fact oppress and exploit weak countries, including in the case of money hegemony and monetary. Hence, it is a necessity for all the underdeveloped countries, including the Islamic countries to rise up and revive economics in various fields so that no one will be exploited and oppressed. It takes courage to revolutionize the monetary and financial system of the world as well as European Union with its Euro, which despite experiencing obstacles is bound to show progress and balance.

Politically, the idea of monetary and single currency shared among the world's countries is very difficult, both back on gold as well as fiat money with new models. But for OIC countries, it is a new and very interesting phenomenon, although some people consider it an emotional and dichotomist strategy. Creating a currency union with a

new currency and making a legal currency for all member countries is undoubtedly required because there will be one monetary policy and only one exchange rate.

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