TOWARD A MAQASID AL-SHARIAH-BASED MONETARY SYSTEM: A CONCEPTUAL CRITIQUE OF FIAT MONEY

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Abstract

This study examines the structural weaknesses of the fiat money-based monetary system and evaluates its compatibility with the objectives of maqasid al-shariah. *Employing a qualitative library research approach, the study applies thematic content analysis to classical and contemporary literature on monetary economics, Islamic economics, and* maqasid al-shariah. *The analysis focuses on four major themes: monetary expansion, financial instability, distributive inequality, and social welfare. These themes are subsequently evaluated using the* maqasid al-shariah *framework, particularly the dimensions of wealth protection (*hifz al-mal*) and human well-being (*hifz al-nafs*). The findings indicate that the fiat money system structurally encourages debt-based monetary expansion, excessive financialization, and unequal distribution of seigniorage benefits. These conditions contribute to inflationary pressures, recurrent financial crises, and widening wealth inequality, thereby weakening the linkage between the monetary and real sectors. From a* maqasid al-shariah *perspective, such outcomes have the potential to undermine wealth preservation, distributive justice, and broader social welfare. This study argues that a monetary system more consistent with* maqasid al-shariah *requires institutional reconstruction rather than merely changing the form of money. Accordingly, it proposes a conceptual framework based on four interrelated pillars: asset-backed monetary arrangements, stronger integration between monetary and real sectors, controlled credit expansion through risk-sharing finance, and maqasid-oriented monetary governance. The main contribution of this study lies in integrating the critique of fiat money with a comprehensive* maqasid al-shariah *evaluation framework and providing a conceptual roadmap for developing a more stable, equitable, and welfare-oriented monetary system.*

Keywords: *Fiat Money; Maqasid Al-Shariah; Asset-Backed Money; Islamic Monetary System; Seigniorage; Financial Stability.*

Abstrak

Penelitian ini mengkaji kelemahan struktural sistem moneter berbasis *fiat money* serta mengevaluasi kesesuaiannya dengan tujuan *maqasid syariah*. Penelitian menggunakan pendekatan kualitatif melalui studi kepustakaan dengan teknik *thematic content analysis* terhadap literatur klasik dan kontemporer mengenai ekonomi moneter, ekonomi Islam, dan *maqasid syariah*. Analisis difokuskan pada empat tema utama, yaitu ekspansi moneter, instabilitas keuangan, ketimpangan distribusi, dan kesejahteraan sosial. Tema-tema tersebut kemudian dievaluasi menggunakan kerangka *maqasid syariah*, khususnya dimensi perlindungan harta (*hifz al-mal*) dan perlindungan kesejahteraan manusia (*hifz al-nafs*). Hasil penelitian menunjukkan bahwa sistem *fiat money* secara struktural mendorong ekspansi moneter berbasis utang, finansialisasi yang berlebihan, serta distribusi manfaat *seigniorage* yang tidak merata. Kondisi tersebut berkontribusi terhadap tekanan inflasi, krisis keuangan yang berulang, dan meningkatnya ketimpangan kekayaan, sekaligus memperlemah keterkaitan antara sektor moneter dan sektor riil. Dalam perspektif *maqasid syariah*, dampak tersebut berpotensi mengganggu perlindungan harta, keadilan distributif, dan kesejahteraan sosial yang lebih luas. Penelitian ini berargumen bahwa sistem moneter yang lebih selaras dengan *maqasid syariah* memerlukan rekonstruksi kelembagaan, bukan sekadar perubahan bentuk uang. Oleh karena itu, penelitian ini menawarkan kerangka konseptual yang dibangun atas empat pilar yang saling terintegrasi, yaitu pengembangan sistem moneter berbasis aset (*asset-backed monetary arrangements*), penguatan keterkaitan sektor moneter dan sektor riil, pengendalian ekspansi kredit melalui pembiayaan berbasis berbagi risiko (*risk-sharing finance*), serta tata kelola moneter yang berorientasi pada *maqasid syariah*. Kontribusi utama penelitian ini terletak pada integrasi kritik terhadap *fiat money* dengan kerangka evaluasi *maqasid syariah* yang komprehensif serta penyusunan peta jalan konseptual bagi pengembangan sistem moneter yang lebih stabil, adil, dan berorientasi pada kemaslahatan.

Kata kunci: *Fiat Money; Maqasid Syariah; Asset-Backed Money; Sistem Moneter Islam; Seigniorage; Stabilitas Keuangan.*

INTRODUCTION

The modern monetary system based on fiat money has served as the foundation of the global economy since the collapse of the Bretton Woods system in 1971. Under this system, money derives its value primarily from government authority and public confidence rather than from direct backing by commodities such as gold or silver (Mises, 1953; Goodhart, 1988). Although fiat money provides flexibility for monetary policy management, its implementation has also been associated with recurring economic problems, including inflation, financial instability, speculative activities, and repeated financial crises.

Historical evidence demonstrates that the global economy has experienced a series of major crises during the fiat money era, including the Latin American debt crisis in the 1980s, the Asian financial crisis of 1997-1998, and the global financial crisis of 2008 (Reinhart & Rogoff, 2009; Krugman, 2009). These crises indicate that modern financial systems remain vulnerable to instability driven by excessive credit expansion, financial speculation, and imbalances between the monetary and real sectors. The consequences extend beyond macroeconomic disruption, affecting employment, income distribution, and social welfare (Stiglitz, 2002).

One of the fundamental characteristics of the fiat money system is its reliance on debt-based money creation through the banking sector. In contemporary financial systems, most money is created through bank lending rather than direct issuance by monetary authorities (McLeay, Radia, & Thomas, 2014). While this mechanism supports economic expansion, it also encourages excessive credit growth, asset price inflation, and financialization. As a result, the expansion of the monetary sector frequently exceeds the growth of the real sector, creating structural imbalances that increase economic vulnerability.

From an Islamic economic perspective, economic stability is an essential component of public welfare (*maslahah*). Islamic economics emphasizes a monetary system that supports justice, productive economic activities, and equitable wealth distribution. Consequently, economic arrangements that generate persistent instability, inequality, and social harm may conflict with the objectives of *maqasid al-shariah*, particularly the protection of wealth (*hifz al-mal*) and human well-being (*hifz al-nafs*) (Chapra, 2000; Auda, 2008). Within this framework, the evaluation of a monetary system extends beyond economic efficiency to include its broader implications for justice, welfare, and social sustainability.

Previous studies have extensively discussed the weaknesses of the fiat money system. Conventional economic scholars have highlighted its tendency to generate financial instability through excessive credit creation and speculative cycles (Minsky, 1986; Reinhart & Rogoff, 2009). Meanwhile, scholars in Islamic economics have criticized fiat money due to its lack of intrinsic value, inflationary tendencies, seigniorage effects, and weak linkage with the real sector (Chapra, 2000; Meera, 2002; Mirakhor & Krichene, 2014). These studies have significantly contributed to understanding the limitations of the contemporary monetary system, yet their analyses are generally focused on technical, historical, or policy-related dimensions.

Despite the growing body of literature, several important gaps remain. First, previous studies generally examine fiat money from the perspectives of economic efficiency and financial stability, while limited attention has been given to its evaluation through a comprehensive *maqasid al-shariah* framework. Second, existing studies often discuss the consequences of fiat money separately, such as inflation, financial crises, or wealth inequality, without integrating these issues into a unified normative assessment based on the objectives of Islamic law. Third, proposals for monetary reform are predominantly centered on the restoration of gold-based currencies or other specific instruments, whereas relatively few studies seek to formulate a broader conceptual framework for reconstructing a monetary system grounded in the principles of *maqasid al-shariah*.

Based on these gaps, this study is directed to examine three interrelated issues. First, it analyzes the fundamental structural weaknesses of the fiat money system from an economic perspective. Second, it evaluates the compatibility of fiat money with the objectives of *maqasid al-shariah*, particularly in relation to the protection of wealth (*hifz al-mal*) and human well-being (*hifz al-nafs*). Third, it formulates a conceptual framework for reconstructing a monetary system that is more consistent with the principles of stability, distributive justice, and public welfare as envisioned in Islamic economics.

Accordingly, this study employs a qualitative library research approach to critically assess the fiat money system and its implications within the *maqasid al-shariah* framework. By integrating critiques of fiat money with the normative objectives of Islamic economics, this article contributes to the literature in two ways. First, it provides a systematic *maqasid*-based evaluation of the contemporary monetary system. Second, it proposes a conceptual framework for monetary system reconstruction that emphasizes asset-backed monetary arrangements, stronger integration between monetary and real sectors, distributive justice, and long-term economic stability. Through these contributions, this study seeks to enrich contemporary discussions on Islamic political economy and alternative monetary systems oriented toward *maslahah* and sustainable development.

LITERATURE REVIEW

1. Concept and Characteristics of Fiat Money

Fiat money is a monetary system in which money has no intrinsic value and is not backed by real commodities such as gold or silver, but instead relies on trust in state authority and prevailing monetary policy (Mises, 1953; Goodhart, 1988). Unlike commodity-based systems (commodity money), fiat money derives its legitimacy from its status as legal tender established by the government. In practice, this system provides flexibility for monetary authorities to regulate the money supply according to economic needs.

However, this flexibility also becomes a major source of problems in the modern monetary system. In contemporary banking systems, most money is created through credit mechanisms by commercial banks (fractional reserve banking), where new money emerges as a consequence of lending activities (McLeay, Radia, & Thomas, 2014). This results in the growth of the money supply not always being aligned with the growth of the real sector, thereby creating potential inflation, economic imbalances, and volatility within the financial system.

2. Criticism of Fiat Money from the Conventional Economic Perspective

In conventional economic literature, criticism of the fiat money system has developed extensively, particularly from the perspective of financial stability. Minsky (1986), through the financial instability hypothesis, argues that modern financial systems are inherently unstable due to the tendency for excessive credit expansion, which ultimately leads to crises. Boom and bust cycles are considered natural consequences of a debt-based monetary system.

Empirical studies by Reinhart and Rogoff (2009) also show that financial crises are recurring phenomena in global economic history, especially in systems characterized by financial liberalization and aggressive monetary expansion. This is reinforced by Krugman (2009), who argues that modern financial crises cannot be separated from the failure of monetary systems to control speculation and economic imbalances.

Furthermore, Stiglitz (2002) criticizes the global financial system based on fiat money for its tendency to exacerbate distributional inequality and create structural injustice, particularly for developing countries. This system not only affects economic instability but also has political dimensions that reinforce the dominance of certain countries in the global economic order.

3. Criticism of Fiat Money in Islamic Economic Literature

From the perspective of Islamic economics, criticism of fiat money is not only based on technical-economic aspects but also on normative and ethical dimensions. Chapra (2000) argues that a modern monetary system not based on real value has the potential to encourage inflation and wealth inequality, thus contradicting the principle of justice in Islam. The disconnection between the monetary sector and the real sector in a fiat money system leads to distortions in economic activities and reduces the efficiency of resource allocation.

Meera (2002) further emphasizes that the fiat money system is one of the main causes of global economic instability due to its nature, which allows unlimited credit expansion. This triggers the formation of economic bubbles (asset bubbles) and financial crises that have broad impacts on public welfare. Additionally, Kahf (2006) criticizes the dominance of the financial sector in the modern economy, which leads to financialization—where economic activities are more dominated by financial transactions than productive activities.

Other studies highlight that the fiat money system also strengthens global economic dependence and widens the gap between developed and developing countries (Chapra, 2008; Mirakhor & Krichene, 2014). This condition is considered contrary to the principle of distributive justice, which is one of the fundamental values in Islamic economics.

4. Maqasid al-Shariah as a Framework for Economic System Analysis

Maqasid al-shariah is a concept that explains the primary objectives of Islamic law, namely to achieve public welfare (*maslahah*) and prevent harm in human life. In classical literature, maqasid is formulated into five main objectives (*al-kulliyat al-khams*): the protection of religion, life, intellect, lineage, and wealth (Al-Shatibi, 1997; Ibn 'Ashur, 2006). Over time, this concept has expanded to include dimensions such as social justice, economic welfare, and systemic stability as part of the objectives of shariah.

Auda (2008) develops the maqasid approach using a systems perspective, enabling a more comprehensive analysis of modern economic policies. Within this framework, an economic system is evaluated not only based on its efficiency but also based on its impact on social balance, justice, and sustainability. Therefore, maqasid al-shariah can be used as a normative evaluation tool for monetary systems, including assessing whether such systems are capable of maintaining stability and protecting the broader interests of society.

In this context, economic stability can be viewed as part of essential needs (*dharuriyyat*), as it is directly related to the protection of wealth and human life. Economic instability caused by financial crises can be categorized as *mafsadah* (harm), as it has the potential to disrupt social balance and increase societal suffering. Therefore, a monetary system that fails to maintain stability and justice can be considered inconsistent with the objectives of maqasid al-shariah.

RESEARCH METHODOLOGY

This study employs a qualitative approach with a library research design to critically examine the fiat money system and evaluate its implications from the perspective of *maqasid al-shariah*. A library research approach is considered appropriate because the object of the study is conceptual and normative in nature, focusing on ideas, theories, and scholarly debates surrounding monetary systems rather than on empirical observations or quantitative measurements (Creswell, 2014). This approach enables a comprehensive understanding of the structural characteristics of fiat money and its compatibility with the objectives of Islamic economics.

The study adopts both normative and conceptual approaches. The normative approach is used to assess the fiat money system based on the principles of *maqasid al-shariah*, particularly the protection of wealth (*hifz al-mal*) and human well-being (*hifz al-nafs*) as developed in classical and contemporary Islamic scholarship (Al-Shatibi, 1997; Ibn ‘Ashur, 2006; Auda, 2008). Meanwhile, the conceptual approach is employed to analyze the characteristics, mechanisms, and consequences of fiat money within contemporary monetary systems, including money creation, credit expansion, inflation, financialization, and economic instability.

The data used in this research consist of primary and secondary sources. Primary sources include seminal works related to monetary theory, fiat money, Islamic economics, and *maqasid al-shariah*, such as Mises (1953), Minsky (1986), Chapra (2000), Meera (2002), Auda (2008), and Ibn ‘Ashur (2006). Secondary sources consist of peer-reviewed journal articles, academic books, institutional reports, and scholarly publications discussing monetary instability, financial crises, seigniorage, and alternative monetary systems. To ensure relevance and academic quality, the literature selection was based on three criteria: (1) direct relevance to fiat money, monetary systems, Islamic economics, or *maqasid al-shariah*; (2) academic credibility, including publications from reputable journals, academic publishers, and recognized institutions; and (3) theoretical or empirical contribution to the analysis of monetary stability, justice, and welfare.

Data collection was conducted through systematic documentation and literature review. Relevant sources were identified, classified, and organized according to major analytical themes. The collected literature was then grouped into four categories: (1) the concept and mechanism of fiat money; (2) economic consequences of fiat money, including inflation, financial crises, and wealth inequality; (3) critiques of fiat money in Islamic economic thought; and (4) the theoretical framework of *maqasid al-shariah*. This thematic categorization facilitated a more structured and comprehensive examination of the literature.

The study applies thematic content analysis as its primary analytical technique (Krippendorff, 2013). The analysis was conducted through four stages. First, relevant texts were read and coded to identify key concepts and recurring arguments regarding fiat money and monetary instability. Second, these codes were organized into broader themes, including monetary expansion, inflation, financial instability, seigniorage, distributive justice, and public welfare. Third, the identified themes were interpreted critically by comparing perspectives from conventional monetary economics and Islamic economics. Fourth, the findings were evaluated using the *maqasid al-shariah* framework to assess whether the characteristics and consequences of fiat money support or undermine the objectives of wealth protection, social justice, and human welfare.

To enhance the credibility of the analysis, this study employed source triangulation by comparing arguments from different schools of thought, including conventional monetary economics, Austrian economics, and Islamic economics. In addition, theoretical triangulation was applied by integrating monetary theory with the *maqasid al-shariah* framework. This procedure was intended to reduce interpretive bias and strengthen the robustness of the conclusions.

The final stage involved synthesis and conceptual reconstruction. The results of the thematic, critical, and normative analyses were integrated to formulate a conceptual framework for monetary system reconstruction based on *maqasid al-shariah*. The proposed framework emphasizes four key principles: asset-backed monetary arrangements, stronger linkage between the monetary and real sectors, distributive justice, and long-term economic stability. Through this process, the study not only critiques the fiat money system but also offers a conceptual contribution in the form of an alternative monetary framework oriented toward *maslahah* (public welfare) and sustainable economic development.

DISCUSSION

1. Problematics of the Fiat Money System: Instability and Economic Crises

The analysis shows that the fiat money system has a high tendency toward economic instability. This is evident from the frequent occurrence of global financial crises in recent decades, such as the Asian financial crisis of 1997–1998 and the global financial crisis of 2008 (Reinhart & Rogoff, 2009). This phenomenon indicates that the structure of the modern monetary system contains fundamental weaknesses that are unable to guarantee long-term stability.

According to Minsky (1986), modern financial systems are inherently unstable due to the tendency for excessive credit expansion. In the early phase, credit expansion drives economic growth (boom), but in the long run, it creates asset bubbles that eventually lead to crises (bust). In this context, fiat money reinforces this cycle because it lacks material constraints such as those found in gold-based systems.

In addition, the fiat money system also encourages structural inflation due to an increase in the money supply that is not matched by real production. This inflation ultimately reduces purchasing power and contributes to declining welfare, particularly for low-income groups (Chapra, 2000). On a global scale, the dominance of certain currencies as international reserves also creates economic inequality between countries and reinforces global economic hegemony (Stiglitz, 2002).

The fiat money system has faced strong criticism due to the absence of intrinsic value, where money no longer represents real commodities such as gold or silver, but instead depends solely on state legitimacy and public trust. According to Rothbard (2007), this condition marks a fundamental shift from a value-based monetary system to one that is abstract and prone to distortion risks. When money no longer has a real-value foundation, its stability becomes highly dependent on monetary authorities, whose policies are often fluctuating and influenced by various interests.

Furthermore, Rothbard emphasizes that one of the main consequences of the fiat money system is the opening of space for uncontrolled monetary expansion. Through modern banking mechanisms, particularly the fractional reserve banking system, banks are able to create large amounts of new money through lending activities. This process leads to growth in the money supply that is not always proportional to growth in the real sector. As a result, an imbalance occurs between money and goods, which becomes a primary driver of inflation.

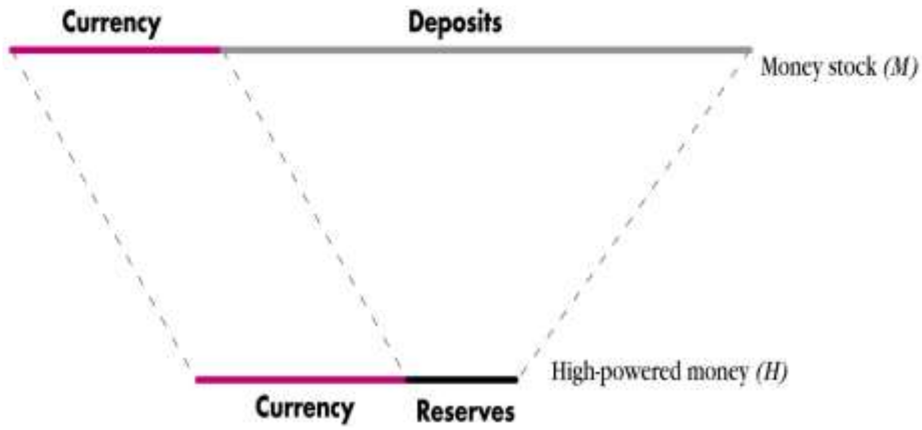

Figure 1: Relationship between High-Powered Money and Money Supply

Inflation, in Rothbard’s perspective, is not merely a rise in prices but rather a form of “hidden tax” that indirectly reduces people’s purchasing power. The most disadvantaged group is those with fixed incomes, as the value of their money continuously declines. In this context, inflation is not only an economic issue but also a matter of distributive justice, as wealth redistribution occurs disproportionately and tends to benefit those who have access to money creation, such as the financial sector.

Moreover, uncontrolled monetary expansion also encourages the formation of asset bubbles in various sectors of the economy, such as real estate and financial markets. The increase in asset prices that is not supported by economic fundamentals will eventually reach a saturation point and undergo a sharp correction, leading to economic crises. This cycle demonstrates that the fiat money system has an inherent tendency to create instability, as evidenced by recurring global financial crises.

From a broader perspective, Rothbard's critique of fiat money extends beyond technical monetary aspects to encompass structural power dimensions within the economic system. The ability of the state and central banks to control the money supply grants them a dominant position in the economy, which in many cases can be misused for particular interests. This situation makes the fiat money system not only vulnerable to economic distortions but also to institutional injustice.

Thus, the absence of intrinsic value in the fiat money system, along with the potential for uncontrolled monetary expansion as criticized by Rothbard (2007), indicates that this system possesses serious structural weaknesses. These weaknesses affect not only economic stability but also the distribution of welfare and social justice, thereby creating room for recurring crises in the modern monetary system.

3. Analysis of Fiat Money from the Maqasid al-Shariah Perspective

From the perspective of *maqasid al-shariah*, the findings of this study indicate that the fiat money system has the potential to contradict the primary objectives of shariah, particularly in safeguarding public welfare. The economic instability generated by this system directly impacts the protection of wealth (*hifz al-mal*), as inflation and financial crises can significantly reduce the value of people's assets.

Furthermore, the economic crises caused by the fiat money system also affect the protection of life (*hifz al-nafs*). Increased unemployment, poverty, and social inequality as a result of economic crises demonstrate that this system not only generates economic losses but also has implications for societal well-being (Chapra, 2000). Within the maqasid framework, such conditions can be categorized as *mafsadah* (harm) because they lead to damage that contradicts the objectives of shariah.

The maqasid al-shariah approach developed by Auda (2008) offers a more comprehensive perspective in evaluating monetary systems. It not only considers efficiency but also emphasizes impacts on justice, stability, and social welfare. In this regard, economic stability can be seen as part of essential needs (*dharuriyyat*), as it is directly related to human survival.

In addition, the fiat money system creates an unequal distribution of economic power. Those who hold authority in money creation—whether central banks or financial institutions—gain benefits known as seigniorage, which refers to the economic advantage derived from the ability to create new money. This benefit is not distributed evenly but tends to accumulate among certain groups, thereby reinforcing wealth concentration and widening economic inequality. In this context, the monetary system no longer functions as a neutral mechanism, but rather as an instrument that can strengthen the dominance of particular groups within the global economic structure.

Furthermore, the interest-based system inherent in fiat money exacerbates these imbalances. An interest-based system requires the continuous creation of new money to meet interest payment obligations, thereby creating a structural need for ongoing monetary expansion. Consequently, this system not only generates economic instability but also encourages wealth accumulation among capital owners, thus narrowing the space for fair economic distribution (Meera & Larbani, 2006).

From the perspective of the functions of money, the fiat money system also demonstrates weaknesses as a store of value. The value of money tends to erode over time due to inflation, resulting in a continuous decline in purchasing power. This condition indicates that money in the modern system fails to fulfill one of its fundamental functions, namely maintaining stable value. As a result, society indirectly experiences a "systemic loss" due to the depreciation of money that is not proportional to income growth.

The broader implication of these weaknesses is the emergence of economic instability that affects social life. When crises occur due to the bursting of economic bubbles, the impact is felt not only in the financial sector but also in rising unemployment, declining economic activity, and increasing poverty. Even during recessions, the process of "money destruction" through debt repayment or defaults can lead to sharp economic contractions, thereby worsening socio-economic conditions.

Therefore, the fiat money system not only contains weaknesses from a technical monetary perspective but also has multidimensional implications, including economic stability, distributive justice, and social welfare. Criticism of this system indicates that the absence of intrinsic value and excessive flexibility in money creation are key sources of instability and inequality in the modern economy. Consequently, the analysis of fiat money should not stop at the economic dimension alone but must also be extended to normative evaluation, including within the *maqasid al-shariah* framework, in order to assess the extent to which the system promotes public welfare (*maslahah*) or instead generates *mafsadah* (harm) in human life.

4. Reconstruction of the Monetary System Based on Maqasid al-Shariah

a. *Asset-Backed Monetary Framework*

The first pillar of reconstruction is the establishment of an asset-backed monetary framework. Unlike fiat money, whose value depends predominantly on legal authority and public confidence, asset-backed money derives support from tangible assets, thereby imposing greater discipline on monetary expansion. Meera and Larbani (2006) argue that a monetary system linked to real assets is more consistent with *maqasid al-shariah* because it preserves purchasing power and reduces inflationary distortions. This argument remains relevant in contemporary Islamic finance literature. Habibullah et al. (2023) emphasize that financial arrangements grounded in real economic assets better support the objectives of Shariah by encouraging fair wealth circulation, limiting harmful speculation, and promoting sustainable economic activities. Consequently, linking money creation to underlying assets can strengthen monetary credibility while reducing the likelihood of excessive liquidity expansion and speculative bubbles.

However, the reconstruction proposed in this study does not necessarily imply a return to the classical gold standard. Rather, it supports monetary arrangements in which money issuance is partially supported by productive and verifiable assets, including strategic commodities, sovereign assets, or productive sectors of the economy. Such a framework would function as a mechanism of monetary discipline while remaining adaptable to contemporary economic conditions. From the perspective of *maqasid al-shariah*, this approach contributes directly to *hifz al-mal* through the preservation of purchasing power and protection against inflation-induced wealth erosion.

b. ***Strengthening the Linkage Between Monetary and Real Sectors***

The second pillar involves strengthening the relationship between monetary activities and the real economy. One of the primary criticisms of fiat money is that monetary expansion often grows faster than real economic activity. As a result, substantial financial resources are directed toward speculative transactions, asset trading, and financial instruments rather than productive investments that generate employment and economic value.

Within Islamic economics, monetary activities should be closely connected to real-sector transactions. Habibullah et al. (2023) note that the objectives of Shariah in economic activities include continuous wealth circulation, productive investment, and the achievement of widespread prosperity. Similarly, recent studies on Islamic finance resilience highlight that asset-backed transactions and real-sector financing contribute to stronger economic stability because financial growth is linked to tangible economic activities rather than speculative gains (Ridzwan et al., 2025).

Therefore, a reconstructed monetary system should channel monetary expansion toward productive sectors such as agriculture, manufacturing, infrastructure, renewable energy, and small and medium enterprises. Under this framework, the success of monetary policy is measured not only by liquidity growth but also by its ability to generate real output, employment opportunities, and sustainable development.

c. ***Reforming Credit Creation and Promoting Risk-Sharing Finance***

The third pillar concerns reforming the mechanism of money creation through the banking system. In the contemporary fractional reserve banking model, most money is created through lending activities. Although this process supports economic expansion, it also encourages excessive leverage and systemic vulnerability, particularly during periods of financial stress.

A maqasid-oriented monetary system should gradually reduce dependence on debt-driven expansion and promote risk-sharing mechanisms. Islamic financing instruments such as *musharakah* and *mudharabah* provide an alternative framework by distributing risk and returns more equitably among economic actors. Chapra (2008) argues that a financial system built upon risk-sharing principles is more closely aligned with justice and economic stability than one predominantly dependent on debt accumulation.

Recent developments in Islamic finance also support this direction. The Islamic Financial Services Board (IFSB, 2024) reports that Islamic financial institutions generally display greater resilience when financing activities are linked to underlying assets and real-sector transactions. This suggests that risk-sharing and asset-backed finance can contribute not only to Shariah compliance but also to greater financial stability and crisis resistance.

d. ***Reforming Seigniorage Distribution and Promoting Economic Justice***

The fourth pillar concerns the distribution of seigniorage benefits. In conventional fiat monetary systems, institutions with privileged access to newly created money often enjoy disproportionate economic advantages. Such a mechanism contributes to wealth concentration and reinforces distributive inequality.

Meera and Larbani (2006) argue that the seigniorage structure embedded within fiat money systems is difficult to reconcile with the objectives of *maqasid al-shariah* because the economic benefits generated from money creation are distributed unevenly across society. In contrast, Islamic economics emphasizes distributive justice and the prevention of excessive wealth concentration among certain groups.

Accordingly, a reconstructed monetary framework should ensure that benefits derived from money creation contribute directly to public welfare. Monetary gains can be allocated to social protection programs, poverty alleviation initiatives, education, healthcare services, infrastructure provision, and financial inclusion policies. By redirecting seigniorage toward social development, monetary policy can function as an instrument of welfare enhancement rather than a source of structural inequality.

e. ***Maqasid-Oriented Monetary Governance***

The final pillar concerns monetary governance. Contemporary monetary authorities generally evaluate policy success through indicators such as inflation targets, exchange rate stability, and economic growth. Although these indicators remain important, they do not fully represent the broader objectives emphasized within *maqasid al-shariah*.

Güney (2024) argues that contemporary applications of *maqasid al-shariah* require economic institutions to consider broader dimensions of welfare, justice, and human development rather than relying exclusively on technical economic indicators. Likewise, Habibullah et al. (2023) emphasize that economic policies should ultimately be directed toward equitable wealth distribution, social well-being, and the reduction of socio-economic harm.

Therefore, a maqasid-oriented monetary system should incorporate additional performance indicators such as poverty reduction, employment generation, financial inclusion, income distribution, and overall social welfare. Such an approach broadens the objective of monetary policy beyond price stability and enables monetary institutions to contribute more directly to the realization of *maslahah*.

CONCLUSION

This study concludes that the fiat money-based monetary system possesses fundamental structural weaknesses that contribute to economic instability, distributive inequality, and recurring financial crises.

The principal contribution of this study lies in integrating the critique of fiat money with the analytical framework of *maqasid al-shariah* and in proposing a conceptual framework for monetary system reconstruction. The proposed framework is built upon four interrelated pillars: (1) the development of asset-backed monetary arrangements to strengthen monetary discipline and preserve purchasing power; (2) stronger integration between the monetary and real sectors to ensure that money creation supports productive economic activities; (3) reform of credit creation mechanisms through greater adoption of risk-sharing finance and controlled monetary expansion; and (4) maqasid-oriented monetary governance that emphasizes distributive justice, social welfare, and sustainable development. These pillars provide a normative and conceptual foundation for developing a more stable, equitable, and welfare-oriented monetary system.

Nevertheless, this study is subject to several limitations. As a library-based conceptual study, the analysis relies primarily on theoretical and normative arguments drawn from existing literature. Consequently, the proposed reconstruction framework has not yet been tested empirically at either the national or international level. In addition, the study does not examine the institutional, regulatory, and political challenges that may arise during the implementation of a maqasid-oriented monetary reform agenda.

Therefore, future research is encouraged to develop empirical assessments of the relationship between monetary stability and *maqasid al-shariah* indicators, as well as to evaluate the feasibility of asset-backed and risk-sharing monetary arrangements in contemporary financial systems. Comparative studies involving countries with advanced Islamic financial sectors may also provide valuable insights into the practical implementation of a monetary system that is more closely aligned with the objectives of *maqasid al-shariah*. Through such efforts, the conceptual framework proposed in this study can be further refined into a more operational model for achieving economic stability, justice, and sustainable public welfare.

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