Chapter 11
The Future of Monetary Reform and the Real Economy: The Ethics of 100 Percent Reserve Requirement Monetary System

ABSTRACT

The further analytical result derived from the previous chapters on the money and real economy relationship with financial bridging in a gold-standard system is now further extended to the requirement of the 100% Reserve Requirement Monetary System with the Gold-Standard. The formal model in this regard is developed in order to bring out the power of unity of the ethical worldview of avoiding interest rates and its replacement by trade instruments. The relationship between the Central Bank, commercial banks, and the real economy with the interest-replacing trade instruments is explained. The resulting configuration of the financial and banking system in this regard under the episteme of unity of knowledge is made to explain how stabilization is attained in this same kind of epistemic worldview and its monetary and real economy interrelationship. Thus, the socio-cybernetic worldview of pervasive complementarities, equivalently participation, representing unity of knowledge in the good things of life, is once again expounded.
INTRODUCTION

The prologue is our starting premise.

The Qur’an (2: 275) declares, “As for those who devour interest, they behave as the one whom Satan has confounded with his touch. Seized in this state they say: ‘Trade is but a kind of interest’, even though Allah has made trade lawful, and interest unlawful.”

Keynes (1930, p. 368) picked up such wisdom of the inverse relationship between trade and interest and wrote, “The strenuous purposeful money-makers may carry all of us along with them into the lap of economic abundance. But it will be those peoples, who can keep alive, and cultivate into a fuller perfection, the art of life itself and do not sell themselves for the means of life, who will be able to enjoy the abundance when it comes.”

Such are the messages of moral highness and wisdom picked up in this chapter.

The fundamental point here is to establish the fact that the only way of phasing out interest rate from Islamic activities is to understand and implement the formalism of the inverse relationship that permanently exists between trade in the good things of life and the rate of interest as the impediment to the free flow of resources into such tradable activities.

The central bank and commercial banks and financial intermediaries as practitioners must understand this organic relational concept of intellection in relation to money and the real economy. The monetary system and the real economy with the financial instruments between would thus be shown to formalize the intellection paradigm – which indeed is a truly scientific revolution. The result is replacement of the fractional reserve requirement monetary system by the 100 percent reserve requirement monetary system backed by the gold standard. Likewise, the organic relationships of such a monetary arrangement including its monetary policy and transmission mechanism would structurally change the nature of markets and its institutional relations and individual preferences. The result at the end will be a phased down interest rate regime into a trade-related one by the rise of the tradable relationships that are generated. The change is a truly of the social cybernetic nature.

The foundational methodology that enters this kind of organically relational worldview with the episteme of unity of knowledge (the divine law in Islam) provides the functional ontology of the socially and morally constructed money, production and real economy circular causation relationship. It models the legitimacy of trade as the resource mobilization instrument, while rejecting interest as the permanent impediment of resource mobilization.
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