

THE ROLE OF ISLAMIC ECONOMIC SYSTEM IN TACKLING VARIOUS ECONOMIC ISSUES

Telsy Fratama Dewi Samad

Fakultas Ekonomi dan Bisnis Islam, Institut Agama Islam Negeri Manado

E-mail: telsy.samad@iain-manado.ac.id

ABSTRACT

As a religion, Islam is not solely taught muslims how to worship Allah, perform Hajj, fulfill sunnah and Ramadhan fasting, etcetera. However, it also provides guidance through Al-Qur'an and sunnah how to deal with the life activity, in discourse, particularly economic matters. Nowadays, Islamic economic becomes one of economic systems in entire sphere, this paper aims to reveal the essential things concerning the role of Islamic economic system in fetching the goals of welfare economy. This paper used a qualitative method with a descriptive approach. The result found that by implementing the Islamic economic principles, accordingly the natural resources management will be far better than management nowadays, create equilibrium, boosting the empowerment economy nationally by the implementation of distributive just, prevent inequality and can be integrated in comprehensive economic system because each things regarding to the life of human being as well as to the science has been elucidated in Al-Qur'an and Sunnah which performed by Prophet Muhammad, as the foundation of Islamic economic thought that possess boarder insight encompass all economic aspects. It can be concluded that by the implementation of Islamic economic principles in managing the economy of society, accordingly will lead to welfare to humanity.

Keywords: *Islamic economic system welfare, islamic economics, economic system*

INTRODUCTION

The economic system refers to a unified decision-making mechanism and institution that implements these decisions on production, consumption and distribution of income. Therefore, the economic system is something that is important for the economy of a country. The economic system is formed due to various complex factors, such as ideology and belief systems, views of life, geographical environment, politics, socio-culture, and so on (Gregory & Stuart, 2004).

At this time there are various kinds of economic systems in countries in entire sphere (Zadjuli, 2007). However, generally the economic system can be divided into two poles, namely capitalism and socialism. Other systems such as the welfare state, capitalism, market socialism, democratic socialism basically work in the framework of capitalism and socialism. Yet, since the fall down of Soviet Union, the system of socialism is considered to have slumped in the time of Soviet Union collapse. Thus, for this purpose, the conventional economy is a capitalist economic system which is still the world's strongest economic system.

Conventional economics, which dominates the thought of modern economics, has now become a very advanced and even leading scientific discipline, through a long and robust development process over the last century. This rapid progress is proven by the publication of many scientific journals, books, and research reports around the sphere. Many individuals, universities, research organizations, and governments have been very active in participating in this development. A good instance in the Western world is the number of research activities that are very intense and it is not surprising that every creative invention gets prestigious awards as well as very large prizes, thus researchers are encouraged to work even harder (Chapra, 2001).

However, it turns out that these economic systems have not been able to find solutions to the crises and problems of the world economy, including inflation, international monetary crises, food problems, debt problems of developing countries, and so on. At the same time, third world countries experience the problem of retarded and slowdown in all aspects, where the main cause is that the country uses a western country development model that is not always in accordance with the economic, social and political conditions of third world countries so that it will never be able to solve the problem exists (Michael, 1994). With the world's issues that keep occurring, there follows a great desire to find an economic system that can prosper the world community on the basis of justice and equal rights.

The economy based on Islamic economics perspective, which is now better known as Islamic economics, has only been in its revival period in the last three or four decades, after experiencing a long sleep in the past few centuries (Chapra, 2001). Where Islamic economics was once in a golden age in the second period (decade) in the years 450-850 H/ 1058-1446 AD which is well known for a brilliant period because it left a very rich intellectual heritage. Muslim scholars today are able to formulate a concept of how the people carry out economic activities that should be based on the Qur'an and Sunnah (Shiddiqi, 1992). Although at the same time, they faced various political realities which were marked by: *first*, the

disintegration of the Abbasid reign and the division of the kingdom into several regional powers, which the consideration is mostly based on authority rather than the people; *second*, the spread of corruption among the sovereigns is accompanied by moral decadence among the people which results in a widening inequality between the rich and the poor (A. A. Karim, 2006). So that in that period by reflecting on the reality and the problems that occurred, Islamic economic intellectuals at that time such as al-Ghazali, Ibn Taimiyah, Ibn Khaldun, Ibn Hazm, Nizam al-Mulk, Nasirudin Tusi, contributed to solving the inequality problem according to their concept of economy thinking.

There are ample previous studies regarding to Islamic economic system, among others firstly, a research of Islamic economic system which focus to Islamic financial system and banking institutions, conducted by Syed Magfur Ahmad and Abdullah Muhammad Zaved Rakib entitled *Islamic Economy: Can It be an Alternative to Socialism and Capitalism?* The result of this paper elaborated that the history of human civilization has testified the age of rise and fall of numerous systems. After complete analysing the comparative discussion concerning economic systems, it found that the fall of Soviet model of socialism as well as exploitation of capitalism into the market. Capitalism always focuses on self-interest that pointed economic system to greed, caprice, and corruption. Moreover, socialism and their system of the market fall down from the capital market. Otherwise, Islamic economic has been showing their excellent performance by maintaining proper contractual dealings into the market. Where Islamic finance system keep a useful contribution to the entire life of human being and the society around the world beginning to witness that the principle of Islamic banking are sometimes more attractive than conventional financial services or products. The system of Islamic banking which is free from usury, indeed assist people to be free from usury burden. People fancy to get rid of conventional economic system and look for the new economic system which can sustain the dimensional framework that lead to economic freedom without impropriety as well as inequality. Hence, Islamic economy indeed capable to be satisfactory alternative as economic system to keep away from exploitation of capitalism and socialism which occur on developing countries (Ahmad & Rakib, 2019).

Secondly, Zamir Iqbal and Abbas Mirakhor wrote a paper concerning Islamic economic system that focus on firms or companies. The paper discusses the optimal and efficient corporate governance structure of a firm by implementing Islamic economic system. The paper explained that the governance in Islamic economic system is a stakeholder-oriented model where the governance structure as well as process at system and firm level protect rights of stakeholders who are exposed to any risk as a result of firm's activities. The paper also concerns to the discussion of the implication of a stakeholder model on depositors, Islamic financial institutions, and regulators (Iqbal & Mirakhor, 2004). Thus, Islamic economic system in this case was implemented to produce effective policies of governance and emphasize on protecting the right which indeed this things prioritize the praxis of Islamic economic principles.

Thirdly, Mehmet Asutay, A Professor as well as lecturer in Political Economy, Durham University, in his paper concerning Islamic economic system

that possess a focus on Islamic instruments and institutions, entitled A Political Economy Approach to Islamic Economics, uttered that Islamic instruments and institutions aims at escalating the human well-being which constitute to the operational dimension of Islamic economic system. The successful operation and existence of these institutions becomes the evidence that Islamic economic is a system encloses its axioms, values, foundation principles, working under the Islamic framework (Asutay, 2007). This founding describe that Islamic economic system whether in Institution or the instrument is implemented based on its own values, principles as well as axioms which under Islamic frameworks according to the source of Islam namely Al-Qur'an and Sunnah. Fourthly, As for another research concerning this matter was conducted by Mohd Mahyudi that give a focus on explaining the importance of implementing the term of *homo Islamicus* with the title Reviving the Islamic economic system through shariah-based public policy. It concluded that Islamic economic system is a valid test to demonstrate the praxis expression of the theory of Islamic economics in the real economic life. Hence, it is crucial to possess *homo Islamicus* operating in the present muslim countries. It elaborated the essential thing concerning the *homo Islamicus* well-being which will ease the implementation of Islamic economic system. *Homo Islamicus* who is imbued with the Tauhid worldview. The escalating presence of *homo Islamicus* within the society would impact trigger the required institutional reforms, provide operational vitality and ensure science-led sustainability over the long-term horizon (Mahyudi, 2015). Therefore, the *homo Islamicus* is most required to establish a universally-aspired moral economy as the role of Islamic economic system.

Lastly, The last discourse regarding to Islamic economic system was reviewed from the implementation of the system in financial Institution carried out by government. This work was conducted by Frederic Pryor entitled Islamic Economic System, his paper elucidates that the Islamic economic system is a form of theoretical construct of industrial economy whose elements follow the Islamic faith. The essay observes the component of Islamic economic system, particularly focus to the order which in opposition to interest payment as well as the requirement of paying the wealth taxes with the regard to aggregate saving. This study is more likely discuss about the Islamic economic system implemented the sphere of financial institution concerning to tax (Pryor, 1985). It can be conclude that there are various studies that have been conducted by researchers regarding to Islamic economic system, yet the studies mostly discuss the topic specifically focus on the implementation of Islamic economic system in financial and banking institutions, firms or companies, instruments, *homo islamicus* behaviour, etcetra. Therefore, this paper will explain about Islamic economic system that focus on elaborating the on tackling economic issue to attain economic welfare of society. Hence, this is the novelty of this paper compared to previous studies which possess the same topic in Islamic economic system.

In accordance with the issues explained above concerning to the phenomenon of economic systems that possess no solutions to the crises and problems of the world economy which keep occurring either in developed or developing countries. It can be conclude that it is essential to find a solution to this economic issues. This paper aims discuss the direction of Islamic Economics,

particularly concerning the contribution of Islamic economics in overcoming various economic problems that until now, even the existing economic system possess no fully capability in prospering the life of society in each countries and not entirely equal justice has been created or provided. So that the sub-topic of the problem, in this case, is how the role of the Islamic economic system in achieving the goals of the economic welfare of society, departing from the discussion of economic issues that is still not fully resolved under the command of the conventional economic system.

METHOD

This paper uses library research method. The collecting the entire sources of this paper is divided in two types, primary and secondary. Primary sources was obtained from the theses, scientific writings, and journals and any other scientific publication (Atabik, 2015; Ezziti, 2020; Hanoatubun, 2020; Kadir et al., 2020; Rizal & Mukaromah, 2021), and the secondary sources was obtained from books. The analysis technique used is descriptive analysis which has been done by reviewing as well as studying the whole primary and secondary resources mentioned above.

RESULT AND DISCUSSION

A Viewpoint of Maqasid Ash-Shariah

In one of his prayers the Prophet *sallallahu 'alayhi wa sallam*, asked Allah for protection from the knowledge that was not useful. In accordance with this prayer, a way for assessing the success or failure of each branch of knowledge is the extent to which it contributes directly or indirectly to the realization of human welfare, this is clearly the goal of Maqashid ash-Shari'ah. Islamic economics may still concentrate on the allocation and distribution of resources, as conventional economics does, however its main goal is the actualization of the *maqashid*. As in the management of natural resources, both management and allocation must be carried out properly with the aim of benefiting (Sholahuddin, 2007). As revealed in one of the verses of the Qur'an: "And we have not sent you (O Muhammad), except as a mercy to the worlds". From the verses of the Qur'an, it can be seen that the main purpose of Islam is to actualize the welfare of mankind, both in this world and in the hereafter. In accordance with the mission of Islam as a whole which is a *rahmatan lil'alamin*.

Islamic economics can be defined as a branch of science that assists to actualize human well-being through the allocation and distribution of scarce resources in accordance with *Maqashid* without excessively restricting individual freedoms, so that causing macroeconomic and ecological imbalances, or weakening family and social solidarity and social fabrics of the community (Mansur, 2009). According to Imam Al-Ghazali, the main purpose of Islamic sharia (*Maqashid Syariah*) is to create human welfare, which lies in the protection of religion (*dien*), soul (*nafs*), intellect (*aqal*), offspring (*nasl*), and wealth (*maal*). So that whatever guarantees the protection of these five things means protecting the public interest (*maslahah*) that is desired.

Maqashid Syariah comes from the Arabic word, *Maqashid* which is the plural of *Maqshud* (goals and targets). So that in terminology, *Maqashid* al-Shariah can be interpreted as the purpose of sharia. For some scholars, *maqashid* can also be interpreted as “*Mashlahah*” (Auda, 2008). *Maqashid* explains the wisdom behind the rules of Islamic law. *Maqashid al-Shariah* is also a number of purpose that are pursued by Islamic sharia by following or prohibiting, etcetera. *Maqashid* al-Shariah can also be considered as a number of aims to Ilahi and the moral concept underlie the process of at-Tasyri ‘al-Islamiy, such as the principles of justice, human dignity, freedom of will, purity, convenience, solidarity, etcetera (Auda, 2013).

Principles of Islamic Economic

The principles of Islamic economics, are as follows: (Chapra, 2001)

1. The Principle of Monotheism: Is the foundation of the Islamic faith. This means that everything in this universe is designed and created intentionally by Allah SWT, not by chance and everything must have a purpose. This goal is what gives significance and meaning to the existence of the universe, including humans who are one of the inhabitants in it.
2. The Principle of Caliph: Humans are the caliphs of Allah SWT on earth. He is equipped with both physical and spiritual tools to be able to play an effective role as His caliph. The implications of this principle are: (1) universal brotherhood, (2) resources are a trust, (3) a simple lifestyle, (4) human freedom.
3. The Principle of Justice: Justice is one of the main missions of Islamic teachings. The implications of this principle are (1) fulfilment of basic human needs, (2) halal and thayyib sources of income, (3) equitable distribution of income and wealth, (4) growth and stability.

By looking at the existing reality, the management of natural resources so far seems to have prioritized achieving maximum economic benefits without paying attention to social aspects and environmental damage. The one who own the natural resource management authority is the state, which is controlled by the central government, while the regions are nothing more than spectators. Various policies issued are more sectoral in nature, so that sometimes they become overlapping policies, and ignore the protection of human rights (Sukanto, 1998).

Problems arising from the management of natural resources that occur, for example in Indonesia, include the continued decline in the condition of Indonesia's forests. Where forests are one of the important resources, not only in supporting the national economy but also in maintaining the environmental carrying capacity of the balance of the world's ecosystems. This is due to several factors such as timber theft, forest fires, etc. Other things that cause negative impacts due to imbalances in natural resources are; Environmentally destructive mining, High level of threat to biodiversity, Increasing water pollution, and Air quality in big cities is getting worse.

By witnessing the evidences, it contrast to one verses of the Qur'an which should become the foundation and the aims in each action of individuals in making good and correct use of natural resources provide by Allah SWT, so that there is no loss or damage for each individuals as well as community groups. As revealed in

QS. Al-Baqarah: 60 one of the verses of the Qur'an: "Eat and drink of the sustenance provided by Allah, and do not go about acting wickedly on earth, spreading mischief". One of these verses of the Qur'an should be the basis for any natural resource management, where the content of existing natural resources is processed as well as possible for the welfare of all creatures, not otherwise damaging the natural environment itself.

Distribution is one of the human economic activities, in addition to production and consumption. As seen in several developing countries, there is still a stark contrast to poverty, which is caused by an imbalance in the management of natural resources and an unequal distribution. In fact, the encouragement of the Qur'an in the distribution sector has been explicitly explained. Islamic teachings lead people to spread their wealth so that wealth does not accumulate in a small group of people. An unfair and equitable distribution of wealth will make the rich get richer, while the poor get poorer. This is not only related to mere economic aspects but also social and political aspects so that it becomes a concern for the current flow of economic thinkers. The following is one of the verses of the Qur'an regarding fair distribution:

"That which Allah giveth as spoil unto His messenger from the people of the townships, it is for Allah and His messenger and for the near of kin and the orphans and the needy and the wayfarer, that it become not a commodity between the rich among you. And whatsoever the messenger giveth you, take it. And whatsoever he forbids, abstain (from it). And keep your duty to Allah. Lo! Allah is stern in reprisal".

By looking at and understanding the principles of Islamic economics as well as some of the verses of the Qur'an that exist, where the principle of monotheism is the first guideline, if a person has monotheism, then whether he is a servant of Allah SWT or as a Caliph on earth he will be able and try to carry out every their duties both vertically (*habluminallah*) and horizontally (*habluminannas*). As a Caliph, he will utilize the natural resources that Allah has provided for the welfare of Allah's creatures, will create equitable justice throughout society such as fulfilling basic needs, equitable distribution of sources of income and wealth, as well as creating growth and stability.

The Qur'an has given instructions in organizing, processing, and distributing existing natural resources, if a ruler (*al-mulk*) and the people in a country really understand their obligations as caliphs on earth, based on the principles which are in Islamic economics, and understand the content and meaning of a verse of the Qur'an, then at least they the caliphs will try to carry out their duties to create benefits, and avoid things that can cause harm, at least will make prosperity for its people as well as maintaining the sustainability of the natural environment due to some individuals who do not understand and know about the meaning of the principles of economic resource management, as well as in the equitable distribution of wealth. It can be taken for example in the time of Umar ibn al-Khattab where the society at that time was very prosperous so that among them were all the muzakki (A. Karim, 2011).

Ibn Khaldun contributed his thoughts in this matter which was summarized into a formulation as follows:

“The power of the ruler (al-mulk) cannot be realized except by the implementation of sharia; sharia cannot be implemented except by the ruler (al-mulk); the ruler cannot obtain power except from the people (ar-rijal); society cannot be supported except by wealth (al-maal); wealth cannot be obtained except from development (al-imarah); development cannot be achieved except through justice (al-adl)”. Justice is a standard (al-mizan) that Allah will evaluate in His people and the rulers are charged with the responsibility to realize justice (Chapra, 2001).

Furthermore, in encouraging national economic empowerment, the principles of Islamic economics have an important role in achieving this. After the principle of monotheism and caliphate, then there is the principle of justice, if the meaning and purpose of this principle of justice are truly understood and implemented properly it will stimulate overall economic empowerment.

Empowerment in the economic field through the principle of justice in an effort to build community power in encouraging, motivating, and raising awareness of its economic potential and seeking to develop it. Community empowerment is the basic element that allows a society to survive. In a dynamic sense, it is self-balance and progress. Community empowerment is the source of what is known as national resilience (Mubyarto, 2000). So that it can be narrowed here that holding on to the mandate of the principle of justice in empowering the economy of the people here includes trying to increase the wealth and dignity of the Islamic community from underprivileged conditions, as well as escape from poverty and economic backwardness. As an effort to build people's independence in the economic field. In the following verse of the Qur'an Allah has explained that he has perfected our religion. “This day have I perfect for you your religion and completed My favour on you and chosen for you Islam as a religion; but whoever is compelled by hunger, not inclining wilfully to sin, then surely Allah is Forgiving, Merciful” (QS. Al-Maidah: 3) Then this religion will not be lacking forever and require not to be added forever. This verse is text (*nasha* clear), that the religion of Islam does not leave anything that is needed by humans in this world and in the hereafter unless this religion has explained it and explained what it is. One of them is an economic problem. Allah says: “Believers! Do not devour one another's possessions wrongfully; rather than that, let there be trading by mutual consent” (QS. An-Nissa: 29)

As some of the verses of the Qur'an above, we all know that Islam is a perfect religion, which gives mercy to all nature, it is written in the holy book of the Qur'an all news, laws, promises, threats, complete with knowledge of the system of human life, both socio-political and economic sessions. In fact, there are many verses of the Qur'an on economics which are very broad in scope so that it is a comprehensive insight. So, of course, the point of view of Islamic economics can be integrated into a comprehensive and comprehensive economic system.

CONCLUSION

From the description above, by looking at the reality of the current world economic phenomenon with its various economic systems, it turns out that there are still several economic problems in a country, especially in economic

empowerment activities and natural resource management which have not been fully implemented as they should be in accordance with the objectives of the government of a country, namely to prosper the lives of all levels of society, by maintaining and balancing the management of the environment (nature) so that there is no natural damage and equitable distribution of economic resources. (1.) As stated in the verses of the Qur'an on economics, that all utilization and management of economic resources has been regulated in such a way for the welfare of the whole world, by implementing it in accordance with Islamic economic principles, namely the principle of monotheism, caliphate and the principle of justice, the management of natural resources should be much better than the reality of resource management today. At least there are no various environmental pollutions because every individual feels himself and acts as khalifatullah on Allah's earth, and a country leader who holds the principle of justice always carries out his duties with an equitable distribution of income and wealth, thereby reducing social inequality. (2.) Furthermore, by applying the principles of Islamic economics can encourage economic empowerment nationally. Through the implementation of the principle of distributive justice and stability growth, it will build community power in encouraging, motivating, and raising awareness of its economic potential and seeking to develop it. (3.) By looking at one verse of the Qur'an QS. Al-Maidah: 3, it has been explained by Allah that he has perfected our religion for us, as a perfect closing religion, this verse istext (*nasha* clear), that the religion of Islam does not leave anything that is needed by humans in this world and in the world. Hereafter, unless this religion has explained it and explained what it is. Including in the economic field, all natural resource and capital management activities from the production, distribution and consumption processes have rules and measures in their implementation so that there is no inequality. So of course the Islamic economic perspective can be integrated into a comprehensive economic system, because everything to science has been explained in the holy book al-Qur'an as the basis of Islamic economic thought which has a very broad perspective and covers all aspects of economic life.

REFERENCES

- Ahmad, S. M., & Rakib, M. Z. A. (2019). Islamic Economy: Can it be an Alternative to Socialism and Capitalism? *International Journal of Social and Humanities Sciences (IJSHS)*, 3(3), 11–32.
- Asutay, M. (2007). A Political Economy Approach to Islamic Economics: Systemic Understanding for an Alternative Economic System. *Kyoto Bulletin of Islamic Area Studies*, 1(2), 3–18.
- Atabik, A. (2015). Peranan Zakat dalam Pengentasan Kemiskinan. *ZISWAF*, 2(2), 339–361.
- Auda, J. (2008). *Maqasid asy-Shariah as Philosophy of Islamic Law: A System Approach*. The International Institute of Islamic Thought.
- Auda, J. (2013). *Al-Maqasid Untuk Pemula*, di Terjemahkan oleh Ali' Abdelmonim. Suka Press.

- Chapra, U. (2001). *The Future Of Economic An Islamic Perspective*. Shari'ah Economic and Banking Institute Publication.
- Ezziti, B. (2020). Zakat as a Means of Social Welfare: Exploring a Recent Fatwa From The Moroccan 'Ulama' on The Permisibility of Paying Zakat in Advance to Help The Poor of The Covid-19. *AZKA: International Journal of Zakat & Social Finance*, 1(1), 94–101.
- Gregory, P. R., & Stuart, R. C. (2004). *Comparative Economic System*. Houghton Mifflin Company.
- Hanoatubun, S. (2020). Dampak Covid-19 Terhadap Perekonomian Indonesia. *EduPsyCouns Journal*, 2(1), 146–153.
- Iqbal, Z., & Mirakhor, A. (2004). Stakeholders Model of Governance in Islamic Economic System. 11(2), 45–63.
- Kadir, A., Hakim, M. R., Syam, F., & Karim, M. S. (2020). Penggunaan Dana Zakat pada Korban Covid-19 Perspektif Maqashid Syariah. *Al-Tafaquh: Journal of Islamic Law*, 1(2), 107–116.
- Karim, A. (2011). *Sejarah Pemikiran dan Peradaban Islam*. Bagaskara.
- Karim, A. A. (2006). *Sejarah Pemikiran Ekonomi Islam*. Raja Grafindo Persada.
- Mahyudi, M. (2015). Reviving the Islamic Economic System Through Shariah-Based Public Policy. *Humanomics*, 31(4), 415–429. <https://doi.org/10.1108/H-06-2015-0037>
- Mansur. (2009). *Seluk Beluk Ekonomi Islam*. STAIN Press Salatiga.
- Michael, T. (1994). *Pembangunan Ekonomi*. PT. Bumi Aksara.
- Mubyarto. (2000). *Membangun Sistem Ekonomi*. BPFE.
- Pryor, F. L. (1985). The Islamic Economic System. *Journal of Comparative Economics*, 9, 197–223.
- Rizal, F., & Mukaromah, H. (2021). Filantropi Islam Solusi atas Masalah Kemiskinan Akibat Pandemi Covid-19. *Al-Manhaj: Jurnal Hukum Dan Pranata Sosial Islam*, 3(1), 35–66.
- Shiddiqi, M. N. (1992). *Islamic Economic Thought: Fondation, Evolution and Needed direction*. Longman.
- Sholahuddin. (2007). *Asas-Asas Ekonomi Islam*. PT. Raja Grafindo Persada.
- Sukanto, R. (1998). *Ekonomi Sumber Daya Alam dan Energi*. Pustaka Pelajar.
- Zadjuli, S. I. (2007). *Makalah Reformasi Ilmu Pengetahuan dan Pembangunan Masyarakat Madani di Indonesia*.