

# Capitalism and Islamic Economics:

## A viewpoint

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**Abstract**—This paper is a viewpoint paper, which offers a discussion on capitalism and Islamic economics. Through discussions about economic value and profit-sharing, there are enough reasons to make Islamic economics as an answer to various social and economic problems. Islamic economics have spiritual values, ethics and social norms while capitalism ignores this. This paper reaffirms that Islamic economics is the answer to social and economic problems.

**Keywords**—Islamic economics; capitalism; economic value of time; profit-loss sharing; usury

### I. INTRODUCTION

It is a fact that the collapse of communism has made capitalism even stronger. The rapid flow of capitalism encourages globalisation by Singh characterised by five things, namely the rapid growth of international financial transactions, massive trading activities (implemented by multinational companies), fluctuating foreign investment, a sophistication of communication, information and transportation technologies and the emergence of global markets [1].

In the global economy, capital goes so fast through global financial networks in real-time. With the support of information technology, money can be invested in many global financial systems from one choice to another quickly and relentlessly. There is a correlation between capital inflows and capital outflows in both developed and developing countries [2,3].

One fantastic example is the process of financial globalisation that has enormous significance and strength. If in earlier times financial flows were more associated with real source flows and long-term productive investment, in recent years more financial flows have been dominated by speculative motives - whose value has far exceeded the volume of real trade and investment itself. In other words, the process of financial globalisation is no longer complementary to international trade and investment but has its own space. Money has become a commodity itself [4].

The innovations carried out in the financial sector generated a lot of other relatively new financial products such as bonds, mutual funds, global deposits of receipts and derivatives. This is why the financial market becomes the most innovative market in the world. But in reality, capitalism was not able to

answer various problems that occurred. The large-scale movement of funds (massive volume of capital flows) in the global market that triggered a prolonged economic crisis became one of the witnesses of the failure of capitalism [5].

There are many stories about how capitalism failed to carry out its function. One of them, the phenomenon in the 90s that showed economic destruction occurred in the countries which in international financial institutions literature were named as 'economic models'. Starting from Mexico, the financial crisis later caused a domino effect that hit several Asian countries that previously considered as the Newly Industrialized Countries (NECs) or Asian Tigers [6,7].

In *The Death of Economics*, Paul Ormerod stated that economists had been trapped in a mechanistic capitalist ideology that did not have the power to help and overcome the world economic recession [8]. Market mechanisms make a concentration of wealth in certain groups of people. Not different from Ormerod, Umar Vadillo in *The Ends of Economics* even stated that capitalism has carried out a 'robbery' of developing countries wealth through a monetary system that is usury [9].

Stiglitz in *Globalization and Discontents* which explores the impact of globalisation and the role of the International Monetary Fund (IMF) in overcoming the global and local economic crisis is also interesting to observe [10]. Globalisation did not have a positive impact on emerging countries because people's income has not increased in various parts of the world. The recipe recommended by the IMF in treating "sick" countries is the application of open markets, free markets and privatisation rather than making "patients" better. Joseph Schumpeter also doubted that capitalism could not survive [11].

In the perspective of Islamic economics, the leading causes of the crisis are the 'devil triumvirate', namely usury, *maysir* and *gharar*. This form of a trinity is evident in the application of interest in financial transactions, currency speculation and derivative transactions. Speculation and transactions carried out without underlying assets other than creating a bubble also further separate the real and financial sectors. According to N. Alam, *riba* (interest), *gharar* (uncertainty) and *maysir* (gambling) is a fundamental principle in Islamic banking that differentiates it from conventional banking [12].

Monzer Kahf, an Islamic economist from the USA, has an opinion on how usury gives a contribution to the crisis [13]. According to him, usury has significantly contributed to the crisis even though he acknowledged that usury is not the only element causing the crisis. Usury contribution is channelled through derivative and speculative transactions in financial institution institutions. George Soros even dubbed derivative transactions as "hydrogen bombs", and Warren Buffett called them "financial weapons of mass destruction".

Capitalist economics has ignored ethical and social values. Although no one doubts the role of the capitalist system in streamlining production and the role of the socialist system in economic equality, both systems have neglected the fulfilment of spiritual needs that are needed by humans [14]. Ironically, the economic system that negates the spiritual value still dominates social and economic life. There is a system that can provide justice for the people, namely the Islamic economic system. Islamic economics is a solution to solving economic problems [15].

It does not mean that Islamic economics negates market forces and economics. Islamic economics does not aim to replace the conventional financial system but can be used to reform the system [16]. Profit motives are acceptable in the broadest sense, and private ownership is not eliminated. The fundamental difference between capitalism and Islamic economics is that in a secular economy, profit motive and private property have unlimited power to make decisions. Their ability is not influenced by divinity [17]. It becomes clear that Islam is not only a religion that is related to worship rituals but also deals with the economy, business, investment, and so on. Borrowing the opinion of Umar Chapra, Islam is not a religion for ascetics and does not aim to alienate people from pleasure and prosperity in the world.

## II. METHOD

This paper is a general discussion using secondary data from journal articles and books. Discuss the material about the failure of capitalism, Islamic economics values, economic value of time, and the prohibition on usury as a solution.

## III. RESULTS AND DISCUSSION

### A. Islamic Economics Value

As caliph, humans carry out the duty to realise prosperity and prosperity in life and life (*al-An'aam: 165*) and devotion or worship (*adz-Dzaariyaat: 56*). To carry out the mandate, Allah gave instructions to both the faith, morals and sharia to humans given through the apostles.

Islamic economic system as one manifestation of the caliphate must be realised because it has values with the following characteristics [14]:

- The economy will be good if it uses Islamic norms. Islam encourages everyone to seek fortune in a halal way, right and not forgetting social responsibility. Anyone will agree if the way to find a property that is done by cheating, tyrannising, usury, obscurity (*gharar*), gambling (*masyir*), bribing (*risywah*) and

manipulating offers or requests (*ihthikar* and *bai 'najas*) will not give proper and blessing.

- Overall justice. Islam is a religion that upholds justice. Every human being is equal, equal and brother regardless of skin colour, possessions, and so on. Also, Islam also requires everyone to get their rights and not take the rights of others.
- Fairness of income distribution. The wide disparity between rich and poor is not a desired condition because it is contrary to the spirit of justice. Everyone has the right to get rewards according to their rights. Even so, income inequality remains permissible because everyone makes a different contribution. However, such income and wealth are not obtained by lawful and correct means and do not forget what their obligation is.
- Individual freedom in the context of social welfare. As long as it does not conflict with social interests and does not take the rights of others, Islam gives individuals the freedom to use their freedom. In the Qur'an and hadith, it can be seen that the economic system developed by Islam aims to realise the economic growth of the people to prosper the people.

### B. Economic Value of Time

At first, the function of money is as an exchange medium. In line with human civilisation, the role of money also changes. The problem in conventional economics is that money has become a commodity.

There are many phenomena which show that the motive for using money as a commodity to speculate has caused a lot of losses to both individuals, companies and even the state. Ibn Taymiyyah in his book *Majmu' Fatwa Syaikhul Islam* has conveyed the impact of the use of money as a commodity, namely triggering inflation, loss of people's confidence in the stability of currency values, decreasing trade and international trade and the flow of precious metals (gold & silver) abroad.

The function of money in Islam is different from conventional economics because, in Islam, money is the medium of exchange and the unit of account. Money is not capital - money is money because money is not a commodity.

Long before Adam Smith wrote *The Wealth of Nations* (1766), Islam had used money as a means of exchanging and measuring value - even the Al Quran explicitly stated that the measurement means was in gold or silver. Money is a medium used to change goods from one form to another. Money can also function as a unit of account so that it can be used to assess the price equality of products when barter occurs.

In *Ihya Ulumuddin* written in the early 11th century, Abu Hamid al-Ghazali also discussed the function of money in the economy. He explained that in a barter economy, money was needed as a measure of value. He likens money as a mirror that has no colour but can reflect all colours. In other words, money does not have a price but demonstrates the cost of all goods. Abu Hamid al-Ghazali's opinion is based on the value of barter transactions that are sometimes unclear which triggers

*gharar* and speculation. Therefore, money is needed as a unit of account.

Islam prohibits the use of money as capital or capital for trading. Islam also does not justify taking profits (usury) from the use of money lent or leased. Money is public goods that must revolve in the economy which will ultimately increase the income and welfare of the people. In Islamic economics, there is always a close relationship between financial flows and productivity [18].

In the concept of time value of money, the amount of money that exists today will be more valuable than the same amount of money in the future because money has value over time. The application of the time value of money manifests in the use of future values, annuity future values, present value and present value annuity.

Von Böhm-Bawerk in his book *Positive Theory of Capital* suggested several reasons why the value of goods in the future would be less, namely [19]:

- Present profits are certain, while profits in the future are uncertain.
- Present satisfaction is more valuable than future satisfaction.
- Present goods are more important and useful than in the future.

How does Islam view the concept of time value of money? Time value of money is a concept based on the theory of interest. Smith and Ricardo for example, argued that interest is the compensation paid by the borrower to the lender as remuneration for the benefits obtained from borrowing the money. In financial interest theory, interest payments are considered as an opportunity to benefit from lending money which Keynes calls a motive of speculation from the demand for money.

The concept of time value of money in Islamic economics is something that is forbidden because there is an element of exploitation in it. There is already a certainty of time and the amount to be received up front. Business or investment can suffer losses. Nevertheless, the formula in the time value of money does not mean that it is not at all in Islamic finance. This formula is still used in determining the level of profit intended by Islamic banks.

Value of money cannot be based on increasing time - because money itself does not have time value - but time has economic value (economic value of time). This situation is rejected by Islamic economics, namely justice *al qhumu bi qhurmi* (getting without risking) and *al kharaj bi la dhama* (obtaining without spending money).

Imam Razi gave the following reasons why Islam prohibits the system of interest:

- Depriving others of wealth. Transactions involving interest are the same as taking someone else's property. A dollar that is exchanged for four dollars either by credit or cash means that there is one party that receives

the excess without doing anything. The excess of money obtained from interest is prohibited.

- Damaging morality. Results obtained from the effects of lending or lending money can make someone become a treasure crazy.
- Give birth to seeds of hatred and hostility. Unilateral deprivation of borrowers' property will eventually give rise to seeds of hatred and resentment.
- Rich people get richer; poor people get poorer. Only by lending money the rich have, the wealth that can be increased without having to work. On the other hand, the poor cannot do anything and must work harder to survive. It becomes clear that there is a difference between saving money and investing. Investment is an activity in which there is an element of risk due to uncertainty so that there is uncertainty in obtaining returns, while saving money is usury activity which can be said to be minimal risk but there is certainty of the amount to be received.

### C. Prohibition of Riba

Usury comes from Arabic which means *al-ziyadah*, *an-numuw*, *al-irtifa'* and *al-uluw*. The grip of jurists in making the provisions of usury is a verse in the Qur'an that is *Al-Baqarah* (278 and 279).

The verse shows that the excess of authorized capital is usury. In other words, any excess from the original capital that was previously determined because solely the time reward is usury. That usury is forbidden is very clear: "...Allah justifies buying and selling and prohibiting usury ..." (*al-Baqarah*: 275)

The concept of usury is not limited to interest. Usury is classified into usury debts (*riba al-qarud*) and usury selling and buying (*riba al-buyu*). Usury debt consists of *riba qardh* and *riba jahiliya*, while usury is selling and buying consists of *riba fadhl* and *riba nasi'ah*.

*Riba qardh* is a certain addition or excess that is required of the debtor. For example, someone who lent a sum of money provided they took advantage of both material and services upon return. Retrieving profits in accounts payable is considered usury because the debt is a form of help. That way, if there is a requirement for additional debt repayments, then it is deemed out of the primary purpose of repaying that is to help.

*Riba jahiliyah* occurs when the debt paid exceeds the principal due to the inability of the borrower to pay the debt at the given period. For example, credit card holders who have not or do not pay off loan funds will be charged interest. Judging from the delay in the time of surrender, *riba jahiliyah* can be classified as *riba nasi'ah*, but if seen from the similarity of the object exchanged, usury is classified as *riba fadl*.

*Riba fadhl* is usury due to the exchange of similar *ribawi* items with different levels or doses. Such exchanges contain *gharar* (uncertainty) for both parties about the value of each item exchanged.

*Riba Nasi'ah* is riba that occurs because of the suspension of the delivery or receipt of *ribawi* items which are exchanged for other types of *ribawi* goods. On goods delivered today with goods delivered then there are differences, changes or additions. So, there are advantages (*al ghunmu*) which appear without risk (*al ghurmi*) or the results of business (*al kharaj*) which appear without any cost (*dhaman*), but occur only because of time.

Types of *ribawi* items can be grouped into two, namely gold and silver (first group) and dates, wheat, *sya'ir* and salt (second group). The exchange of two types of the same commodity (for example silver with silver) must meet two conditions, namely cash and the scales must be the same. If not, then including usury *fadhl*. If there is an exchange of commodities of different types but still in one group (for example gold with silver or dates with salt), then one condition must be fulfilled, namely cash, while the scales or quantities may be different. For example, 5 grams of gold is exchanged for 10 grams of silver. And if the commodity is exchanged for different types of groups (e.g. silver with wheat), then there are no conditions in the sense that it may not be cash and may be different scales or doses.

#### D. Profit-Loss Sharing

Islam is not an anti-investment religion even though it does not explicitly provide a specific understanding or definition of investment. Indeed, Islam is a pro-investment religion. Islam wants that the existing resources are not only stored but produced so that they can provide benefits. Regarding the use of capital to be used productively, Umar once told the Muslims to say that anyone who has money, should invest it and whoever owns the land should plant it.

In Islam, business and investment activities are highly recommended. Even so, investing in Islam does not mean that every individual is free to take action to enrich themselves or hoard wealth improperly. Business ethics must be based on prevailing norms and morality in Islamic economics sourced from the Qur'an and hadith.

The four normative foundations in Islamic ethics are monotheism, justice and equality, free will and accountability [20]. In the context of Islamic ethics, *tauhid* can be interpreted as full and pure belief in the oneness of Allah. That belief causes people to believe that everything belongs to God, which in turn affects how he must balance material and spiritual needs.

Although Islam does not prohibit the ownership of wealth by individuals, justice in the distribution of benefits to those involved in economic activities must also remain. Disparity or income gap due to the concentration of wealth only in a handful of people must also be avoided as mentioned in the Qur'an.

The freedom given to every human being is also very relative because absolute freedom is a right and belongs to Allah. That way, the principle of individual liberty must also be based on and guided by the Qur'an and the Sunna of the Prophet. Meanwhile, the foundation of accountability means

that everything that humans do must be accountable to God, themselves, society and their environment.

That way, investment as one of the economic activities will have a spiritual nuance when including Islamic norms in its implementation. Islam prohibits usury because in usury there is an injustice. Exploitation can not only make a person become rich without trying but also can make someone more miserable due to a lot of debt.

Islam forbids this because there are definite advantages. Even though it should be, it will be much fairer when the benefits and losses are shared. Lenders can get benefits that are commensurate with risk. Profit is not obtained from (certainty) the amount of gain from borrowed capital but is determined based on the profit-sharing ratio of the agreed benefits. So, what is avoided is the interest rate guaranteed by the acquisition, namely the profit or the exact amount agreed upon for the use of money [21].

*Mudharabah* and *musyarakah* are two preferred profit-sharing models in Islamic law where *mudharabah* is the most commonly used method of profit and loss sharing (PLS). If the PLS principles cannot be used, other methods that can be used include mark-up (*murabahah*), instalments (*bai bi-tsamin ajil*), deferred payments (*bai 'muajjal*), down payment (*bai' salam*), fabrication (*istishna*), leasing (*ijarah*) and lease purchase (*ijarah wa iqtina*) and short-term loans without interest (*qardh hasan*) [21].

#### IV. CONCLUSION

As part of God's blessing, Islam encourages its people not to silence or accumulate their assets unproductively, but to use it productively through various means and transactions that are justified in sharia. The more investment option of products offered more ways to grow the money.

The problem is, the number of product variants along with the facilities provided are not necessarily by sharia. Although many investment products have the opportunity to offer high returns, it must be remembered that the profits derived from the wealth are not merely practical benefits but also heavenly benefits. That way, every investor who chooses to breed his money by investing in sharia should consider not only material benefits but also other dimensions, namely the rules described in the Qur'an and hadith.

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