

# Morality and Justice in the Islamic Economics

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**Abstract**— Economic crises are always resulted from greed, fraud, corruption, avarice, manipulating information, and creating financial assets without real economic activity. The main point is carrying out economic activities without moral and justice considerations. The Islamic economy is an economy that comes from the basis of Islamic teachings that emphasizes morality and justice. It is proven that Islamic banking is more stable compared to conventional banks in facing various economic and financial crises. Islam strictly forbids economic practices that are based on *riba* (usury), *gharar* (uncertainty), and *maisir* (gambling). The prohibition will ensure investment flows into the real sector for productive purposes. Islamic teachings see justice upholding and exploitation elimination as very important thing. Justice is the main element of upholding moral teachings that are based on Islamic values. Justice in the economic field has a principle that the property must not be centered on the rich, but must be equally spread over those who are weak.

**Keywords**— *Economic Crisis, Moral, Justice, Economy, Islamic Economics*

## I. INTRODUCTION

The causes of the economic crisis are basically fraud, corruption, and greed. Extreme economic greed ignores basic ethical considerations in investing. Enchanting savers through misleading claims about investment strategies, manipulating information, and creating financial assets without real economic activity are only some signs of the financial crisis [1-2]. Moral failure leads to exploitation and corruption characterized by excessive inflation, product complexity, and speculation through diversification [3-4].

The good news is; Emmanuel Volland, an analyst at the Standard & Poor's rating agency, explained, "Islamic banks are not trapped by toxic assets because Sharia law forbids interest" [4]. The Islamic banking system is more stable compared to conventional banks. The Islamic financial system that applies no interest makes Islamic banks able to withstand interest rate fluctuations caused by the decline in the value of the rupiah due to the dollars shortage in the market. In addition, the comparison of financial performance of Islamic banks with conventional banks shows a consistent and efficient financial condition [5]. This is in line with Hasan and Dridi's study, 2010, in the IMF Working Paper, that Islamic Banks fared differently than Conventional Banks during the global financial crisis. Some factors related to the business model in Islamic Banks help to reduce the adverse impact on profitability [6].

Study on Islamic economics that are more resilient to the effects of the economic crisis becomes more interesting to study further. Islamic economic system enhances market discipline and inspires excessive derivative transactions. In essence, the Islamic economic system works well because it is based on moral or ethical elements that are according to spiritual values [7]. Therefore, this paper will examine further on the moral and justice elements in the Islamic economics.

## II. STUDY OF MORALITY AND EQUITY ON ECONOMY

Studies of moral and justice in the Islamic economy have been conducted a lot. However, they are still partial, moral and justice are studied separately, the focus of the studies is different. Some of special studies on moral in Islamic economics [8-17] concluded that the conventional economic paradigm and the economy of Islam are very different, or even contradictory. Conventional economics adheres to logical positivism or rational economic philosophy, the presence of religion in the Marxist view, for example, is considered a weakness and symbol of ignorance. Nowadays, it is proven that globalization has made the economy develop rapidly but social values have been damaged so that ethics and economics do not support each other. It is natural that various economic crises often hit the world.

In addition to a few of studies on economic morals above, several studies concerning justice in the economic sphere [18-21] concluded that one of the meanings of economic justice refers to the theory of Simon (1995), which is trust and justice within the organization. In the context of the organization, fair distribution is related to fair allocation of resources among members. The owners in the conventional economy of capital become economic rulers that have implicated social problems. On the other hand, in Islam, investors must be accountable to weak communities, with the obligation of *zakah* (obligatory charity), *infaq* (disbursement), *sadaqah* (voluntary charity), and so on.

## III. MORALE OF ECONOMY IN ISLAM

In Islamic economy, moral damage in the economy comes from injustice, dishonesty or fraud, and speculation, which are economic practices that based on *riba* (usury), *gharar* (uncertainty), and *maisir* (gambling). Prohibiting *maisir*, *gharar*, and physical matters will ensure that investment flows into the real sector for productive purposes, which will increase aggregate supply [22]. *Riba*, in general, is defined as overestimating profits (assets) of one party against another party in a sale and purchase transaction or exchanging similar

goods without giving a reward for the excess [23]. In another expression, Riba is known as the payment of debt that must be repaid by the person who owes more than the amount of the loan in return for the time that has passed [24].

The concept of Riba's prohibition in Islam can be explained by its economical superiority compared to conventional economic concepts. Riba, economically, is more than an effort to optimize the flow of investment by maximizing the possibility of investment through the prohibition of interest (interest). The higher the interest rate, the more likely the investment flow will be. This can be likened to a dam. The higher the wall of the dam, the greater the flow of water is blocked [22]. The prohibition of riba is explicitly mentioned in 4 (four) different revelations in the Quran, i.e. surah al-Baqarah (2): 275-281, surah Ali Imran (3): 129-130, surah an-Nisa (4): 161, and surah ar-Rum (30): 39, all the verses explain the following main idea: although there seems to be a similarity between the benefits of trade and profits from riba, only profit from trade results is permitted; when lending money, a Muslim is asked to take it back to the extent of the money lent, and give it away if the debtor is unable to pay; riba can erase Allah's pleasure towards his wealth; riba can be equated with taking other people's property; a Muslim should stay away from riba for their welfare [25].

Then the prohibition of gharar practices is defined as 'uncertainty', risk or speculation'. Gharar should not be interpreted the same as the concept of risk generally. The practice of gharar is prohibited, but it is not a prohibition against risk. Islam does not encourage someone to avoid risk. In fact, dealing with risks in trade is recognized and supported by Islam, because the risks are shared equally. In other words, gharar refers to unclear transaction, that is transactions that are conditioned on uncertain situations or conditions [26]. Then, the prohibition of maisir practices. The word 'Al-Maisir' means to make it easy, that is a method of distribution based on agreement as done in gambling [27], that is, all forms of losing form, the losing party gives an agreed amount of money or goods as a bet to the winning party or any game that contains chances [28], or games where the winning person receives all bets that have been determined in the game [29].

According to the ulema Ibn Hajar al-Makki rahimahullah, al-Maisir is any kind of bet/gambling [30]. Also, according to the ulema Al-Mahalli Rahimahullah, gambling is forbidden for its possibility of getting good luck or loss [31]. According to Bank Indonesia regulations No.7 / 46 / PBI / 2005 explained that maisir is a transaction that contains gambling, chancy or high speculative [32]. There are three verses in the Quran which prohibit gambling (maysir), which includes all the games of chancy (speculation) (al-Baqarah (2): 219, al-Maidah (5): 90, and al-Maidah (5): 91) [33]. The word of Allah which means; *"O you who have believed, indeed, intoxicants, gambling, [sacrificing on] stone alters [to other than Allah], and divining arrows are but defilement from the work of Satan, so avoid it that you may be successful."* (al-Maidah: 90). Also in al-Baqarah, Allah says:

*"They ask you about wine and gambling. Say, "In them is great sin and [yet, some] benefit for people. But their sin is greater than their benefit." And they ask you what they should spend. Say, "The excess [beyond needs]." Thus Allah makes clear to you the verses [of revelation] that you might give thought."* (Al-Baqarah: 219).

#### IV. ECONOMIC JUSTICE IN ISLAM

In economic context, many verses of the Quran explain the spirit of upholding justice in social reality. Justice is not a similarity in income and wealth but a condition that is far from the gap of ownership and equality in obtaining economic opportunities (Quran Surah 28:76,77,43;32,49:13,1-4,57:20./24:37.107:1-7,11:87,39:49). The concept of economic justice gets important attention along with the straightening of aqidah (tauhid), by Fazlur Rahman referred to as the basis of the Quran. This can be seen from a number of verses of the Quran which were revealed in the Mecca period (Makkiyah) which denounced the attitude of the ignorant people who wrongfully applied them in the economic field in various forms and manifestations [34].

In the relationship with economic justice, that justice in the economic field has principle that the property should not be centered on the aghniya group (the rich group) (Quran surah al-Hasyr: 7). If there is wealth concentration, there will be social inequality, poverty and impoverishment will occur. Islam considers that the decline of Muslims does not only lay in ignorance of Islamic law, but also in the imbalance of economic and social structures. This is illustrated by the Quran (Surah al-Fajr: 17-20) when explains that poverty is not solely caused by individual laziness, but due to the lack of a joint effort to help weak groups, the existence of groups that take natural resources greedily and love wealth excessively [35]. This is the importance of justice distribution. The basic principle of distributive justice is equitable economic distribution, or that is considered fair for all citizens. In other words, distributive justice concerns the distribution of economic wealth or the results of development [36].

Islam does not demand an equal distribution of wealth in the true sense, because the distribution of wealth depends on the ability of each individual to be unequal. Thus, justice, in an absolute sense, requires that the rewards to be equally different for anyone. Moreover, some of them get greater rewards than others, as long as justice in the sense of humanity is maintained by providing equal opportunities for everyone [37]. The mechanism of the Islamic economic distribution system can be divided into two (2) which are the non-economic mechanism and economic mechanism. Non-economic mechanism is a mechanism that does not go through productive economic activities but through non-productive activities, such as *hibah, sadaqah, zakah* and inheritance. Non-economic mechanism is intended to complement the economic mechanism, that is to overcome the distribution of wealth that does not work perfectly, if only relying on economic mechanism itself.

Some example of non-economic mechanisms are: Giving state assets to citizens who need, giving assets of zakat paid by muzakki to mustahiq, Giving infaq (disbursement), sadaqah (voluntary charity), waqf (endowment), grants and gifts from people who have more to those who need, Distribution inheritance to heirs, etc. Whereas the economic mechanism includes productive economic activities, in the form of various property development activities in mu'amalah contracts, such as opening the widest opportunity for the ongoing causes of individual ownership and property development through investment, prohibition to hoard property, overcome circulation and concentration wealth in a few groups, prohibitions on monopoly activities, and various frauds and bans on gambling, riba, corruption and granting bribes [38].

The main concept of the economic mechanism is through risk sharing. Stakeholders share profits and losses (PLS), while riba is prohibited [6]. The PLS theory is built as a new offer beside the interest system which does not tend to reflect justice (injustice / dzalim) because it provides discrimination against the risk sharing and profit for economic actors. The principle of Islamic finance is built on the prohibition of riba, the prohibition of gharar, halal business guidance, shared business risk, and economic transactions based on the consideration of fulfilling a sense of justice. PLS means profits and / or losses that may arise from economic activities bear together. In the attribute of nisbet there is no fixed and certain return as interest, but PLS is based on the real productivity of the product [39].

In the PLS system, the price of capital is determined together with the role of entrepreneurship. Price of capital and entrepreneurship are integrative units which must be counted together in determining the cost of factor of production. In the view of sharia, money can be developed only with a real productivity. There is no addition to the principal of money which does not produce productivity. In agreed agreement the profit sharing is the proportion of profit sharing (called the profit sharing nisbet) in the percentage measure of the possibility of tangible productivity results. The nominal value for the results that are clearly received, can only be known after the results of the utilization of the funds really exist (ex post phenomenon, not your ex). Profit sharing nisbet is determined based on the agreement of the parties working together. The amount of the nisbet will usually be influenced by consideration of the contribution of each party in working together (share and partnership) and the prospect of the expected return and expected risk [40]. Fair cooperation in economic development is often known as the Mudharabah (Trust financing) model and the Musyarakah (partnership) model [41].

## V. CONCLUSIONS

Morally, Islam strictly prohibits economic practices which are based on riba, gharar, and maisir. The prohibition will ensure investment flow into the real sector for productive purposes. Islamic economics teaches that other people who carry out economic activities are not opponent but as business partners. The concept built by Islam is shared welfare, not

individual welfare. So that there is no mutual oppression, cheating, cheating and persecuting others. Islamic teachings see that it is very important to uphold justice and eliminate exploitation. Justice is the main element of upholding moral teachings. Justice refers to divine justice, that is justice that is not separate from morality, based on absolute values revealed by God. Justice in the economic field, in principle, should not be centered on the rich, but must be evenly distributed to those who are economically disadvantaged. Poverty is not solely caused by individual laziness, but is caused by the lack of a joint effort to help weak groups, groups that eat natural resources greedily, and excessively love wealth. This is the importance of justice distribution, which is an equitable economy or that is considered fair for all citizens concerning the distribution of economic wealth.

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