

# The Impact of Government Policies and Regulations on the Development Islamic Economics Distribution

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## ABSTRACT

The application implementation of Islamic distribution requires government policies and regulations in order to support the smoothness, effectiveness and achievement of the goals of the distribution of the Islamic economy. This paper aims to provide a basis for a scientific discussion on the impact of government policies that contribute to promoting the development of equitable distribution according to Islamic values and principles. The findings show that the role of the government through its policies by implementing regulations imposed on Islamic social institutions has an impact on the creation of synergy between these institutions to implement a distribution with full of the values of justice and morality.

**Keywords:** *Islamic Economics Distribution, Social Institutions, Government Regulation and Policies*

## 1. INTRODUCTION

The development of Islamic finance, especially in Indonesia, has progressed quite rapidly in the last period. The latest various financial products have been launched to meet the needs of society in line with the fast digital development in the world financial sector. On the other hand, social problems such as poverty and unemployment are still interesting issues to discuss as challenges and social economic responsibilities of Islam [1]. Various problems that arise include the inadequacy of the vision and strategy of contemporary Muslim scholars in ignoring the material-spiritual definition of poverty, thus becoming one of the obstacles to formulating a poverty alleviation strategy using an exogenous, top-down approach [2] adopted from western scientists.

Regarding the problems mentioned above, basically Islam has provided solutions, including through the distribution justice model in Islam [3]. Distribution in an Islamic economy is an alternative in supporting government programs and sustainable economic goals

[4]. Through Islamic economic distribution instruments such as *zakat*, *waqf*, inheritance, *infaq* and *shadaqah* will be able to create comprehensive social security for all levels of society. If Islamic social security can be fully implemented, it will establish a quality community will be created, resulting from educational institutions, training centers, hospitals and others, which is also the result of empowering distribution instruments in the Islamic economy [5]. More than that, if all of these instruments can be implemented and developed, it will create prosperity in society. The creation of welfare society will ease the burden on the government in overcoming the problems of poverty and unemployment which have been the homework of Indonesia's economic development.

However, applying fair distribution is very much influenced by local government policies. In order to achieve prosperity in a society that is in accordance with the values and principles in Islam, sometimes the application in the field it gets faces obstacles due to government regulations that are contrary to the objectives

of the distribution of the Islamic economy itself. Based on this phenomenon, the distribution policy that is fair and evenly offered in Islam absolutely must get support from the government. In fact, government policies also tend to side with the economic prioritize elite class, so that in the end the allocation of economic distribution is largely absorbed by certain groups. Although initially it was hoped expected that it could to trickle down to the economy of the poor, as predicted by the trickle-down effect concept [6], however, in reality this policy has not been able to improve the economic capacity of the poor, so that economic inequality has become sharper and has resulted in higher levels of poverty which is still an obstacle to date. This paper describes how government policies and regulations can have an impact on the development of the distribution of the Islamic economy.

## **2. DISTRIBUTION OF INSTITUTIONS IN ISLAMIC ECONOMICS**

### ***2.1. The Role of Government in the Distribution Process***

The government has a very important potential in creating equitable distribution, because creating welfare in society is the obligation of all economic agents [7], the government, as the holder of Allah mandate, is no exception, having a common duty to create prosperity and justice, because one of the important elements in creating prosperity is creating a just government. In order for the welfare in society to be realized, the government plays a role in fulfilling the needs of the community, both basic / the primary (*daruri*), secondary/the need/*haji*), and tertiary (the commendable/*tahsini*) and complementary (the luxury/*kamili*). Due to this, the government is prohibited from stopping at meeting people's primary needs and services only, but must try to meet all the other complementary needs, as long as it does not conflict with *shari'ah*, so that a prosperous community life is created established.

The government is required to intervene to in ensuring the creation of conditions that support the market mechanism to run fairly [8]. This can be done by making binding and strict rules. As well as enforcing obligations that must be carried out by each individual and imposing sanctions for violations committed based on the regulations made, so that the task of government is to turn theory into reality, turn norms into law and move the beauty of ethics into daily actions.

### ***2.2. Distribution Policy in the Islamic Economic System***

The Islamic economic system is an economic system that was born from the Islamic social system [9] which are is expected to provide solutions to various existing problems, with policies that are pro-benefit and create justice in the economy of the Ummah. Likewise, distribution policies in Islamic economics uphold the value of justice [10], so that the concept of distribution is an important basis that is used as a reference, namely so that the condition in which the wealth does not accumulate in just one group, as stated in Al Qur'an surah al.Hasyr (59): 7, which means "*So that these treasures do not only circulate among the rich among you*".

The verse intends to emphasize that property should not only belong to and power be seized by a group of human's society. However, property must be circulated in all over society, so that it can be enjoyed by all members of society while still recognizing ownership rights and prohibiting monopoly, because since the beginning of Islam, property has a social function [11]. Based on the above verse, Islamic economics does not justify the accumulation of wealth only in certain people. In fact, it outlines the principles of justice and brotherhood (compassion) in the concept of distribution. It does not justify the management of wealth only to a certain group or group of people but spread throughout society. Conversely, Islam does not force all individuals to be put on the same economic level.

The distribution policy taught by Islam is closely related to property so that it does not accumulate in certain groups in society [12], as well as encourages the creation of distribution justice, so that hence the government is required not to take side with one particular group or group, so that in order for the distribution process can run fairly. This can be ensured by the existence of a certainty system (economic, legal, and social) which ensures that the assets can be widely distributed in the community. Creating justice can be done by providing equal opportunities for everyone to get wealth, obliging those who get assets, obliging those who get excess assets to pay zakat as compensation for purifying and clearing property of upon the rights of others. Islam also recommends everyone who owns assets to donate their assets, as well as to donate and give alms as social charities (*sunnah*) for the benefit of the wider community.

Creating a fair distribution is one of the means to achieve economic justice. Islam requires equality for everyone in obtaining the opportunity to obtain wealth regardless of differences in caste or skin color. Everyone can get property freely based on their business ability, so that everyone can get property even though in different amounts. From the different

acquisition of assets, those who are more fortunate are obliged to spend part of their assets for their less fortunate siblings, so that the redistribution of wealth can take place, and will create an even distribution of income in the community.

### **3. DISTRIBUTION INSTRUMENTS IN ISLAMIC ECONOMICS**

#### **3.1. Zakat**

Zakat is the most effective and essential instrument that is not found in the capitalist or socialist systems. Economically, zakat has a distributive function, namely: redistribution of income from *muzakki* (people who are obliged to pay zakat) to *mustahik* (people who are entitled to receive zakat) and non-economic mechanism zakat is needed, whether due to natural or non-natural causes. Natural causes, such as barren natural conditions or natural disasters. All of this will lead to economic inequality and hamper the distribution of wealth to people who have this situation.

Zakat is a potential source of funds that can be used to advance general welfare for the entire community [13]. Zakat is closely related to social, moral and economic dimensions. In the social dimension, zakat is a social obligation that is religious in nature; because zakat is imposed on individual assets that is aimed at for the community so that needs are met and alleviate poverty. On the moral dimension, zakat erodes the greed and the greedy of the rich. Meanwhile, in the economic dimension, zakat prevents the accumulation of wealth in a certain number of people. Therefore, zakat is a financial instrument in the context of income distribution and poverty alleviation which aims to create a more equitable economic development.

#### **3.2. Waqf**

The use of waqf funds for the benefit of people or people is seen from the existence of *waqf* assets which are used for education, economics and social activities as is often done in Muslim countries such as Egypt, Turkey, Saudi Arabia, Qatar, Malaysia and many more. Real examples of the use of waqf assets are seen around the Prophet's Mosque and the Grand Mosque, which are namely waqf lands, then the Islamic University of Indonesia which was also originally a waqf land. In addition to some of the examples above, economically empowerment of waqf assets can also be done to improve the skills of the people [14]. This can be done by

establishing microfinance institutions, educational institutions, hospital institutions and so on, which are fully aimed at increasing the ability of the people to compete in employment and get out rid of poverty.

#### **3.3. Inheritance**

The law of inheritance is a very important rule in reducing the injustice of wealth distribution. The law of inheritance is a very powerful and effective weighing tool to prevent the accumulation of wealth and its growth among certain and its development in large groups in large in society. In the field of inheritance distribution in Islamic law, it includes the means of distributing property to many people, namely the transfer of property from one's property to several people [15]. Islam allows the centralization of inheritance to one or two people. On the other hand, Islam distributes it to those who are entitled to receive it, either the first heir or ashobah (a male relative of his father). As for the relatives who did not get an inheritance and the poor who needed the assets that were present when the inheritance was distributed, they could get this part.

### **4. DISCUSSION**

Islam clearly defines the principles of social security clearly which are applied in the forms, namely of: guarantee between among individuals and themselves; between individuals and their immediate family; and between individuals and communities. Even social security in Islam also determines security between fellow Muslims, reciprocally. Government policies and regulations directed at Islamic social institutions such as *zakat*, *infaq*, alms, *waqf* and inheritance institutions to manage funds from the community by focusing on improving welfare [16]. The discussion in this discussion paper is limited to the policy instruments of zakat, waqf and inheritance. The authors focus on these three instruments because these instruments already have official institutions which have ties subject to the government policies and regulations, in this case under the Ministry of Religion in Indonesia.

The government in this case as a policy maker can issue regulations to strengthen the position of these institutions in implementing the distribution of the Islamic economy which is directly targeted at increasing the welfare of the recipients of distribution funds. The distribution of government policies and regulations imposed to each institution is detailed in the following table:

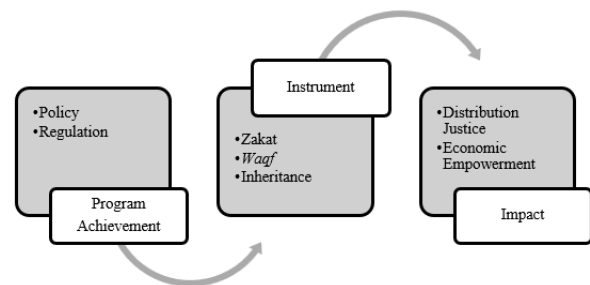
**Table 1.** Forms of Policies and Regulations on Islamic Economics Distribution Institutions

Instrument Institute Distribution of Islamic Economics	Forms of Policy and Regulation
Zakat Institution	<ul style="list-style-type: none"> <li>• Obliging zakat for those who meet sharia requirements to become <i>muzakki</i></li> <li>• Regulations in the procedure for utilizing the results of collecting zakat for productive business are stipulated as follows: (1) conducting a feasibility study; (2) determining the type of productive business; (3) providing guidance and counseling; (4) monitoring, controlling and supervising; (5) conducting evaluations and (6) making reports.</li> </ul>
Waqf Institution	<ul style="list-style-type: none"> <li>• Issued policies to direct waqf to the problems of society, especially poverty alleviation, education, unemployment, and weak-economic empowerment.</li> <li>• Political government regulation with waqf law regulations so that waqf can function productively according to these laws and regulations has an urgency, namely in addition to the interests of <i>mahdhah</i> worship, it also emphasizes the need to empower productive waqf for the social (people welfare).</li> </ul>
Inheritance Management Institution	<ul style="list-style-type: none"> <li>• Government policies in the form of control and protection of distribution of inheritance to heirs in order to create a fair distribution of wealth and help reduce disparities of distribution in society</li> <li>• Regulation of the management system of inheritance management as (Allah or public right) governed by the government with the stipulation of the legislation for assisting economic development goals and the welfare of future generations.</li> </ul>

The distribution policy taught by Islam is closely related to property so that it does not accumulate in certain groups in society and encourages the creation of distribution justice. In this context, the government is required not to side with a certain group or group so that the distribution process can run fairly. The effort that must be made by the government as a distribution policy maker is to remove the interest system (*ribawi*) which only benefits those with capital which results in leading to the accumulation of assets for certain groups. In addition, the flower traditional banking system (*ribawi*) has slowed down the efforts to alleviate poverty. On the other hand, the government must also ensure the creation of justice in

distribution through the instruments of zakat, waqf and inheritance, etc. for the benefit of the wider community.

**Figure 1.** Islamic Economic Distribution Policy Process and Its Impact



When policies in creating equitable distribution can be realized, it will create just social conditions and economic empowerment for the community. Social conditions that prioritize equality in the midst of society which are marked by the level of equality level of income (wealth) and welfare which can be seen from the absolute reduction insignificant decrease in the poverty level, equal opportunity for everyone in doing business, and the realization of rules that ensure everyone gets their rights based on his productive efforts. For that, the role of institutions such as government and society is needed. The roles of the two institutions (government and society) are very much needed demanded, because distribution policies will be well applied when the two existing institutions work in harmony. However, in terms of increasing the impact of Islamic economic distribution instruments, the role of government takes precedence. This effort is intended to impose so that the government with its legal force against together with the institutions involved can be more binding so that and the ultimate goal which is the mission of the distribution of the Islamic economy can be achieved.

**5. CONCLUSION**

The impact of government policies in implementing welfare distribution in accordance with Islamic economic principles and values can be more effective if it involves existing Islamic social institutions. This will certainly have a better impact in countries that adhere to the Islamic system as a whole. The model offered in this paper is only an example of the implementation of government policies by countries that have Islamic social institutions such as zakat, waqf and inheritance institutions. In addition, distribution policy in creating economic justice will be difficult to operationalize if it does not involve the role of existing institutions such as government and society. Therefore, the role of government and society is urgently needed, because distribution policies will be well applied in achieving the goals of equitable distribution and community economic empowerment when

the two existing institutions work together. When these institutions work, justice will be created and have an impact on the distribution of property fairly in society.

## AUTHORS' CONTRIBUTIONS

All the authors in this article have contributed equally in building research logic, language improvements and template customization.

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