COMPARATIVE STUDY OF ISLAMIC ECONOMIC LAW AND THE CAPITALIST

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ABSTRACT

The implementation of the capitalist system has eliminated the Islamic values in economic practice. After the financial crisis hit the world, the capitalist system reaped many questions and its greatness begins to be doubted. The capitalist system implementation precisely creates new problems in the economy. The concept of individualism which is the main key in capitalist practice only creates economic injustice and misery of the poor. The only economic theory that is expected as a light in dealing with economic problems is an economic system that is able to create justice, the welfare of all parties and blessings both the world and the hereafter. The theory is the Islamic economics which in practice is inseparable from Islamic economic law. Islamic economic law that underlies the Islamic economic system is totally different from the capitalist economic system.

Keywords: Islamic Economic Law; Islamic Economics; Capitalist Economy

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INTRODUCTION

The theory of the capitalist economy is the strongest system in the world since the destruction of the socialist system. Most countries around the world apply the theory of capitalism, which only affects economic injustice (Amalia, 2005). The capitalist system principles have succeeded in eliminating Islamic values in economic activity. The economic activities, such as maghrīb, iktikar, ba‘īnajasy and tādīs, cheating in scales, exploitation of natural resources, waste, greed which are contrary to Islamic values are always practiced and seemed to be a must to implement gaining a profit of human needs fulfillment (Itang, 2014). This case unconsciously impacts on economic ruin and misery of the people, since the main purpose of the economic system implementation is to reorganize and to resolve problems of economy of a country. Now, capitalist economic theory has begun to be questioned because of the emergence of various crises during the 20th century in the financial sector (Muslim, 2012),

Regarding the situation above, the alternative economic theory is considered as a substitute of the capitalist economic theory which is considerably began to dim and unable to grow. The only dreamed theory is a theory that can create justice, the welfare of all parties, and the blessing of both the world and hereafter. It is Islamic economic which is recognized as Sharia economic that can bring all mankind into the frame of justice and welfare (Mashudi, 2013). In the implementation, the theory is related to the Islamic economic law that is contrary to capitalist system (Itang, 2014). The following discussion will compare the two systems, both in characteristic and economic aspect.

RESEARCH METHODS

The research used qualitative methods with a descriptive analytic. It is intended to describe and analyze the comparisons between Islamic economic law and the capitalist.

DISCUSSION

THE SOURCES OF ISLAMIC ECONOMIC LAW

Al-Qur'an

Al Qur'an is the primary source of Islamic economics, in which described the law or the rules relating to how humans should undertake economic activities (Mardani, 2015), for example, forbidden the interest and allowance the buy/sell transactions as in the following verse: "Those who consume interest can not stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, "Trade is [just] like interest." But Allah has permitted trade and has forbidden interest. So whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to [dealing in interest or usury] - those are the companions of the Fire; they will abide eternally therein.” (QS. Al-Baqarah: 275).
Sunnah

As-Sunnah is the second source after the Quran in Islamic law. The basic principle of Sunnah as the source of law has been described in the following words of God: "O you who have believed, obey Allah and obey the Messenger and those in authority among you. And if you disagree over anything, refer it to Allah and the Messenger, if you should believe in Allah and the Last Day. That is the best [way] and best in result.” Sunnah explains the verses in Al Qur’an that are unclear or need more explanation.

Ijtihad

Ijtihad can be defined as the ability to get the syara’ laws and detail argument to get a conclusion. The legal basis is: "And those who have responded to their lord and established prayer and whose affair is [determined by] consultation among themselves, and from what we have provided them, they spend"(Qur'an, Ash-Shuraa:38).

Ijtihad only occurs if there are problems whether they are legal or not in Al Qur'an and As-Sunnah. Furthermore, all the rules that have been clearly legal in both required to be obeyed and implemented (Itang, 2014).

BASIC VALUES OF ISLAMIC ECONOMICS

Islamic economic law is the law of Islamic economics which is derived from the Islamic economic system in society. It can be understood by the basic values inspiring the Islamic economy. These following values become Islamic economic characteristic, such as:

Divining (Ilahiyah) Value

Islamic economic is Ilahiyah economics coming from Allah, in which in doing an economic activity, such as production, consumption, distribution as a whole relating to ilahiyah that is inseparable to shari'ah because the end goal is to get bless from Allah (Manan, 2012).

Moral Values

The moralis a differentiator between the Islamic system with other systems. It is an integral part of Islam, as the Prophet Muhammad SAW: "I have only been sent to the perfect good moral character"

Humanity Values

A prosperous life is one of the main goals of Islam. The good life will be felt by every individual when living with Robbani and humane. Hence, people can do their obligations, for example, religious obligations, themselves, their families and the public in general (Arwani, 2012).
Middle Value

Islam explicitly forbids its adherents to step beyond into dangerous things. Islam recognizes personal rights limited by sharia'ah in order to determine the balance of individual and community interests. The Muslims called in Qu'ran is a mid-race. Therefore, the principle of the mid implies an important meaning, especially in economic activity. Although Muslims have a good welfare, Islam does not allow Muslims to be materialistic. Humans should control their passions in gaining wealth to meet their needs lawfully. Similarly, the consumption and the use of property, a Muslim must be able to moderate between stingy and excessive. Islam hates both stinginess and extravagance. Al Qur'an only respects for those who are moderate in spending their wealth by declaring: "And [they are] those who, when they spend, do so not excessively or sparingly but are ever, between that, [justly] moderate" (QS. Al-Furqaan: 67)

THE PILLARS OF CAPITALIST ECONOMY

The pillars of the capitalist economic system are:

Private property

The characteristic of capitalism is the private ownership or individualism. Private ownership of the means of production, distribution and utilization activities to get maximum profit is preferred (Tho'in, 2015). In capitalist principles, wealth is a natural right that regardless of state power. The capitalist economic system guarantees every individual right in obtaining economic goods and desired resources.

The invisible hand

Every individual in the scope of a capitalistic society is motivated by economic forces, therefore they will act to achieve the highest profit with the lowest cost or less effort.

Laissez-faire

Individualism is the keyword in the capitalist economic activity. It means that the absence of government intervention will lead to the emergence of economic individualism and economic freedom. In this principle, government intervention is very limited.

Free Market Competition

The market mechanism formed leads to competition, both among sellers who want to attract the buyers and among buyers who want to obtain goods they want, in addition, the competition also occurs among workers for jobs, or among employers to get helpers. The characteristic shown in free market perfectly is a large number of buyers and sellers so it does not affect the price of goods, then the freedom of the buyers and sellers are not hampered by any economic restrictions on demand and supply.
The characteristics of the capitalist economic system

Some of the characteristics of capitalism are:

1. Absolute recognition of the personal right
2. Ownership of the means of production is in every individual
3. Individuals’ freedom in selecting or determining the desired job (Koerniawan, 2012),
4. The economy is regulated by market mechanisms
5. Invisible hand controls the economy
6. Human beings are always homo-economicus who always pursue a personal interest
7. Individualism is based on materialism

THE DIFFERENCE BETWEEN ISLAMIC ECONOMIC AND THE CAPITALIST

The Aspect of Philosophy (epistemology)

One of the fundamental differences between Islam and the capitalist economy is on the aspects of philosophy. Islam is based on the absolute source Al Qur’an and Sunnah (Muslim, 2012). The sources are universal to all dimensions of human life and not only for economic principles. Although, the capitalist economy is not derived from revelation because the capitalist economy is only from the human mind which can change at any time (Edwin, 2006).

Islamic economics coming from the revelation is devotion to Allah SWT. It is completely different from the economic activity in the capitalist system formed by human thought.

In practice, a capitalist theory is preferred individualism, rationalism, and materialism, its basis is to give an unlimited absolute freedom for human in their actions. Thus, capitalist success is determined by themselves or called anthropocentrism individualism, while in the Islamic economic theory, human will have great success and the effort is inseparable to human will. Human as caliph, of course, in achieving the final result cannot be separated from the rule which makes them caliph in the earth (Muslim, 2012).

Aspects of Purpose

Considering the aspect of purpose, Islamic economics aims to achieve *falah* or the glory of the afterlife, while the secular economy is only to worldly satisfaction. Furthermore, the capitalist system is more emphasized on the technical aspects of the economy which its orientation is the capital that can grow the economy rapidly with ignoring economic justice. Instead, the Islamic economic system is more oriented towards the creation aspects of economic justice or welfare distribution achievement despite economic growth and development are not as fast as capitalist (Hidayat, 2014).
Aspects of Financial Management

The capitalist system has preferred the application of interest, while the Islamic system introduces a system of profit sharing or *mudharabah* and do not apply the interest in financial management. Islam strongly opposes the application of interest, considering the application of interest will only create bad economic conditions, such as inflation and unemployment. The increase of interest will raise prices, reduce production and increase unemployment. In addition, the system can aggravate the social circumstances due to economic injustice. Unemployment and poverty population are getting worse (Sudarsono, 2009).

The economy in the world will continue to experience a crisis by a system of interest. The usurious system always results in destruction on the economy, but charity will enrich the economy. The Islamic economic system with its profit sharing (*mudaraba*) is the best and is able to promote the development towards a better economy condition according to Islamic financial objectives (Aedy, 2011).

Aspect of Ownership

The capitalist economy was established based on individual property rights. Every individual has the full authority to have the goods in obtaining, using, developing and exploiting their wealth (Mohammed, 2004). The basis of the capitalist theory is that every person has an absolute right of what they have earned in their works (Rozalinda, 2014).

In Islam, all individual activities in gaining something is restricted. The freedom individually is not as absolute as given by the capitalist economic system, but it is based on *syariat* values. Moreover, Muslims feel free to do economic activity both in having and using what they have earned.

On the other hand, Islam gives regulation explicitly, such as forbidding the exploitation of production. Furthermore, Islam teaches moral so the wealth is not for one party and all parties have the same portion, for instance, the obligation to pay *zakah* for the rich to the poor. Therefore, the ownership freedom in Islam is “restrictive economic freedom” in which the freedom is not absolute but the freedom is restricted by Islamic values (Muhammad, 2004).

Regarding the principle above, the Islamic economic system is completely different from the capitalist giving absolute freedom for everyone in gaining, having, using, and utilizing their wealth.

Concept of Money

Money is functioned as a medium of exchange and unit of account in Islamic economy (Nurlaili, 2006). The money does not provide usability but its function does. Money is useful if it is used to pay the service or to buy. Thus, money does not mean as a trading commodity. It is different with the
capitalist considering money as a not only medium of exchange but commodity as well (Ilyas, 2016).

According to the capitalist, money can be bought and sold like goods with cost-plus both on the spot and gradually, money can be even rented. In Islam, whatever that is functioned as money, it is just for a medium of exchange. It is not a commodity that can be whether bought or sold on the spot or gradually.

An important phenomenon of the characteristic of money is that money is not used to be consumed or to itself, but to buy goods to fulfilling the human needs. As stated by Imam Ghazali, gold and silver are just metal which its substance has no function and purpose. Both are like a mirror, they have no, however, they represent all colors (Edwin, 2006).

The aspect of Development Targets

The primary economic development target in the economic capitalist system is to develop the economy. The development concept of the capitalist only pays attention to the physical area.

In the Islamic economic system, the purpose of development is not only limited for achieving economic development but also to have equity and justice. The economic development is the act in economic aspect, moreover, it involves humans activity as caliph of the world both in material and spiritual aspect (Muslim, 2012).

The capitalist development theory is influenced by secularism and liberalism values. While in Islam, religion is the primary variable in economic development. Islam puts the primary needs as a priority to maintain five main benefits, such as religion, soul, mind, generation, and wealth, so people can do their main role as caliph of the world. On the other hand, Islam perspective puts human as development center who acts as subject and object of the development (Asmuni, 2014).

The difference between Islamic Economy and the capitalist is briefly provided into this following table:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Capitalism</th>
<th>Islam</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source</td>
<td>Human thought</td>
<td>Al-Qur’an</td>
</tr>
<tr>
<td>The philosophy</td>
<td>Berasas laissez faire</td>
<td>Tauhid concept, Allah is</td>
</tr>
<tr>
<td>of economics</td>
<td></td>
<td>as the center of all the</td>
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<tr>
<td>Motive</td>
<td>Rational Materialism</td>
<td>Worship</td>
</tr>
<tr>
<td>Paradigm</td>
<td>Market</td>
<td>Sharia</td>
</tr>
<tr>
<td>Wealth</td>
<td>Asset</td>
<td>The principal of life</td>
</tr>
<tr>
<td>Investation</td>
<td>Interest</td>
<td>Profit Sharing</td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>Property</th>
<th>Taxes and benefits</th>
<th>Zakah, infaq, sadaqah, hibah, gift, waqaf and heritage</th>
</tr>
</thead>
<tbody>
<tr>
<td>distribution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumption</td>
<td>Selfishness and</td>
<td>Maslahah, needs, and obligations</td>
</tr>
<tr>
<td>production</td>
<td>materialism</td>
<td></td>
</tr>
<tr>
<td>Ownership</td>
<td>Self-ownership</td>
<td>Allah is the absolute owner, humans have restricted ownership right</td>
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<td></td>
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<tr>
<td>Utilization</td>
<td>Humans are free to use everything they have been obtained</td>
<td>It is followed by Allah’s will</td>
</tr>
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<tr>
<td>The economic</td>
<td>The sectoral dichotomy that is parallel to the real and monetary economy</td>
<td>Tend to the real economy</td>
</tr>
<tr>
<td>development</td>
<td></td>
<td></td>
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<tr>
<td>Responsibility</td>
<td>Self-responsibility</td>
<td>Self-responsibility, to the public, and to Allah both in the world and afterlife</td>
</tr>
</tbody>
</table>


CONCLUSION

It is clear that Islamic economic law which underlies to Islamic economic system is totally different with the capitalist. Islam admits self-ownership in sharia restriction, while in the capitalist, the ownership is absolute which everyone has unlimited power.

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