Market Mechanism and Systematics in the Frame of Islamic Economics

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ABSTRACT

The purpose of this study is to examine mechanisms and systematics from an Islamic economic perspective. This study uses a descriptive research design with four features: direct reading, library data, and secondary sources, and is not limited by space or time. The results of the analysis explained that Malikiyah scholars limit profit-taking to a maximum of one-third of capital, while Wahbah al-Zuhaili and al-Ghazal agree that proper profits should not exceed one-third of capital. Islamic economics emphasizes the importance of spiritualism and prohibits hoarding money and consuming other people’s riches for vanity. Indonesia’s government intervenes in price control to protect consumers, communities, and producers. Keynesian theory suggests that government intervention is necessary to lift a country out of recession and manage social and environmental impacts. Policies for government engagement are evolving and reacting to market realities.

How to Reference:

1. INTRODUCTION

Islam is an ideal religion. This is due to extensive discussions about values, ethics, and standards of living. Islam is also a religion that complements past religions and regulates all elements of human life, both religious and secular. In terms of muamalah, Islam regulates human contact with other people to meet daily needs, including instructions on how to handle markets and all kinds of other processes (Alang, 2018).

The role of Islamic economics in the market mechanism makes a very important contribution amid the messy economic conditions of the Indonesian nation. True market practices must display values that are in accordance with the norms and values that are justified. The two economic notions that have been the world’s reference and barometer, namely the capitalist economy and the socialist economy, are in fact unable to regulate the current mechanism of market activity, which is completely erratic and unclear; instead, it makes the situation even worse (Hejazziey, 2019).

According to capitalist (classical) economics, the market plays a very important role in the economic system. A capitalist economy wants a free market for solving economic problems, starting from production, consumption, and distribution. The capitalist motto is laissez faire et laissez le monde va de lui meme (let it do and let it run; the world will take care of itself). That is, just let the economy run normally without government intervention; later, there will be an invisible hand that will bring the economy towards
equilibrium. If there is a lot of government intervention, then the market will experience distortion, which will lead the economy to inefficiency and imbalance (Darma, 2022).

In Indonesia's chaotic economic conditions, the function of Islamic economics in the market mechanism makes a significant contribution. Real market procedures must demonstrate a value that follows the norm and can be justified. Based on existing trading regulations, the market price subject to the maximum price is not allowed to increase beyond the full amount that has been set. The full price strategy is usually applied to market prices that do not experience large increases in a short time while market demand for the product increases. This will force producers to increase their prices (Zubaidi, 2022).

Factors affecting demand and supply include the intensity and magnitude of demand, scarcity or abundance of goods, states of trust, and cash payment discounts. Demand for goods fluctuates frequently (Syaidah, 2021). This variation is determined by the amount offered, the number of individuals who want it, the strengths and weaknesses of the item, and the size of the demand. Because the market is very important, especially in a free or liberal economic system, it is the market that brings producers and consumers together. Customers significantly influence market position because they affect the flow of products and services (Indra, 2018).

As a result, there is dependence between producers and consumers. Producers will try to use existing production components to make various kinds of goods needed by customers (Rahmi, 2015). Producers of these essential goods anticipate that customers will buy the goods they make for more than they cost to produce (including promotion and marketing). Producers control consumers in such a way that only a few individuals, such as owners of large corporations such as oil companies, car companies, and so on, control them. Furthermore, price manipulation often occurs in the market, namely by hiding the true price, namely by way of producers intercepting sellers from the village and buying merchandise at low prices and then selling at high prices, and there is a simulation move (naajasy) where someone pretends to bid on merchandise at a high price in the presence of potential buyers to buy it (Putra et al., 2019).

Based on the information presented above, it appears that prices are controlled more by producers than by consumers, so consumers are the losers. In Islam, fair pricing means that prices must provide equal benefits to buyers and sellers, i.e., sellers receive regular profits and customers receive profits based on the price paid.

2. THEORETICAL REVIEW

Islam, Systematics, and Market Mechanisms

Market mechanisms are often associated with the topic of balancing market activity. Conditions of balance or equilibrium define a condition in which supply and demand factors are in balance. This scenario will result in price and quantity variables that remain constant in the market. Prices and quantities balance, and transactions occur as a result of these conditions. Adjustments to the market price balance can occur in three forms: buyer requests, seller offers, and offers and requests from both parties (Pratomo & Taufik, 2018).

In market competition, there are instances when unjust actors are involved in economic activities. This gives the impression that prices do not represent market price competitiveness. Some of them are: 1) manipulation of information to increase profits (Tadlis); This includes deception techniques. Tadlis can develop due to 1) differences in information between sellers and buyers in terms of quality, quantity, size, dosage, or price. Utilizing the customer's ignorance of the goods offered (ghaban faa hisy) and collusion between sellers and buyers who are actually colleagues to manipulate market prices (Abd Ghafur, 2019).

Jumhur Ulama also reminded the government that in an emergency, the government can implement a price intervention program that is based on justice. In a general emergency, scenarios where a very large and unreasonable price increase resulted in the non-realization of people's purchasing power and, concerning commodities that are important to the community, there is exploitation and injustice between economic actors, such as the food industry (Dedi, 2018).

Prices and Perfect Competition in Markets

Market Structure The term "market structure has the meaning of classifying producers into several market forms based on the characteristics of the types of products produced, the number of companies in the industry, whether it is easy to enter or leave the industry, and the role of advertising in industrial activities (Zubaidi, 2022). Abd Ghafur (2019) and Juliati Nasution (2018) distinguishes the market structure into 4, namely:

a. A perfectly competitive market is a form of interaction between demand and supply in which the number of buyers and sellers is unlimited (Ainul Imronah, 2022). Perfect competition arises because of the principle that no single seller has enough sources to influence the price in the market. Furthermore, the principle of variable sources has high mobility for various market prices, and its use is relatively flexible (Abd Ghafur, 2019; Ainul Imronah, 2022; Goodwin et al., 2022; Juliati Nasution, 2018).

b. A monopoly market occurs when there is only one seller in the market with no direct, indirect, real, or potential competitors. The characteristics of a monopoly market are; there is one seller and many buyers, the price is determined by the seller,
there are no other goods that can replace the goods being traded, there are hurdles for new sellers wanting to enter (Abd Ghafur, 2019; Bresnahan & Reiss, 1990; Coşar et al., 2019; Juliati Nasution, 2018).

c. An oligopoly market, namely a situation where there are only a few companies that control the market either independently (single) or secretly working together. The characteristics of an oligopoly market are; there are several producers with relatively many consumers and each producer has an influence on prices, there is a barrier to entry for other producers, so the number of companies will tend to be constant, domination of market share is indicated by the problem of sales concentration, which is calculated based on the amount or percentage of company assets to total market assets, a price war is something that is highly avoided because it will cause massive damage in an oligopoly market, one of the producers is a price leader (namely a seller who has a large market share), companies that are unable to compete will merge with strong companies, innovation and mastery of technology are important elements in the progress of the company, improved product quality will expand share and lower production costs, which will not be quickly imitated by competitors, the number of strong competitors will force the company to maximize efficiency in terms of costs (Abd Ghafur, 2019; Juliati Nasution, 2018; Mazzeo, 2002; Mohammadi & Javanmardi, 2019).

d. A monopolistic market is a form of interaction between demand and supply where there are a large number of sellers offering the same goods (Admati & Pfeiderer, 1986; Janda, 2000; Vasigh et al., 2018). The characteristics of a monopolistic market are; there are many sellers and producers involved in the market, the goods being traded are differentiated products, all sellers have monopoly power over their own products, winning the competition, every active seller conducts promotions and advertisements, exiting the market for goods or products is relatively cheaper (Abd Ghafur, 2019; Juliati Nasution, 2018).

3. RESEARCH METHOD

This study uses a descriptive research design, with the technique chosen being a review of the literature. There will be at least four features in this literature study. The first is that the researcher will read the text or data directly, not with field expertise. Second, library data will be directly usable by researchers even if they do not go into the field; third, "library data is generally a secondary source" (Bungin, 2010), in which case researchers obtain it from previous research; and fourth, "library data is not limited by space and time" (Sugiyono, 2017). This form of library study is commonly known as "library research.

4. FINDINGS AND DISCUSSION

Price maximization in Islam

Some of the Malikiyah scholars limit profit-taking to a maximum of one-third of the capital. They equate it with will, even though Sharia limits it to one-third. Because exceeding this limit will harm other successors. Excessive spending will also harm customers. Therefore, the highest profit should not exceed one-third. The view of Malikiyah scholars is similar to a will, namely one-third so as not to burden consumers. Nonetheless, in today's culture, the majority is more than a third (Ropiah, 2018).

According to Wahbah al-Zuhaili, Islam does not set limits or norms regarding acquisition or profit. As a result, traders are free to determine the desired profit from an item. It's just that, according to him, profit (goods) does not exceed a third of the price of capital. The norm for settling profits in Islam is not specified, but Wahbah al-Zuhaili agrees with Malikiyah scholars that proper profits should not exceed one-third of capital (Shifa & Mutho'am, 2021).

However, al-Ghazali was strongly against excessive profits. If the buyer offers a higher price than the current price, the seller must refuse because the profit will be very high, even if this is unusual and there is no fraud. In this case, he claims that a reasonable profit should be between 5 and 10% of the purchase price. In addition, he is the opposite of the seller, who is motivated by the profits to be derived from the original market, namely the hereafter. In this context, al-Ghazali focuses on the benefit of profit-taking according to sharia, which occurs when a person trades back to his ultimate goal, namely the good of the hereafter (Ghazanfar & Islahi, 1990).

According to Hasan (1983), "Islam is aware of the insatiable invention of human beings for material gain; therefore, Islam prohibits people from being humble in seeking profits in trade, behaving in a prescribed manner, and taking only what is permitted." Islam emphasizes avoiding taking profits in trade, following a predetermined path in trade, and taking acceptable income. Islam emphasizes the importance of being good in this world and the hereafter, especially in trade, where halal profit is the main goal (Ropiah, 2018).

Moral Factors as Endogenous in Competition in the Market

Moral characteristics are important things that can influence attitudes towards market competition, they determine the sustainability of market trading operations. Islam also regulates every activity, especially in terms of trade and competition in the
market, to keep commercial operations from doing bad things and for the common good (Nurani et al., 2022). The rules are as follows:

1. Spirituality of Trade Transactions in Islam

   Islam emphasizes the importance of spiritualism, which every human being should possess. People cannot have total freedom in conducting economic transactions if rules are not observed. In Islamic economics, all goods belong to Allah, and everything we have is a deposit from Allah (Nawawi, 2022). Furthermore, it is banned in Islam to hoard money and consume other people's riches for vanity. According to Islamic beliefs, market activity is forbidden during Friday prayers. This is mentioned in Al-Jumuah verses 9-10, which explain the requirement to labor while still prioritizing worship of Allah SWT. Trading or dealing must be done with the objective of becoming closer to Allah or for the purpose of worship, not to alienate oneself from Allah SWT.

2. Legal aspects of the trade transaction mechanism

   According to Islamic economic principles, a transaction is carried out on the basis of an agreement or mutual agreement (Maharani & Yusuf, 2020). As a result, every transaction must be free of compulsion and may not infringe on the rights of others. Of course, in Islamic economics, the items transferred must be legal under Islamic law. The obligation to use halal commodities and the ban on the use of illegal goods are carried out to achieve Allah SWT's pleasure, so that trade benefits as well (Shofiyah & Ghozali, 2021). Other people can profit from this as well. Justice is always suppressed in Islam, and all forms of injustice are forbidden. Prohibitions in Islamic commerce include the following: Usury, gharar, and maysir are prohibited, and a profit-sharing system is permitted. Talakqi rukban is outlawed because traders waiting on the outskirts of the city profit from the rural dealers' ignorance of the city's rates. Preventing rural traders from accessing town (creating an entry barrier) will result in an uncompetitive market. Scales are being purchased. Using wet dates instead of dry dates, or swapping one measure of wet dates for two measures of dry dates, ikhtikar, or collecting gains above and above conventional earnings by selling fewer things at higher prices, there is an An-Najasy transaction, which is an agreement with a third party to make a fictitious offer in order to influence the buyer, Al-Ghaban Transactions, namely buying and selling transactions carried out below or above the actual price, Al-Ma'dun transactions, namely transactions where the goods are not owned directly by the seller (Abd Ghafur, 2019).

The Government's Role in Market Control

In a country's economic activities, there is no government that does not interfere, one of which is Indonesia. In general, payment of prices in Indonesia is fully left to the supply and demand mechanism, but under certain circumstances, the government sometimes intervenes in controlling prices. This is done with the aim of protecting the interests of consumers, communities, and producers so that they are not harmed (Arifin, 2021). Forms of government intervention in price control are carried out in the following ways (Juliati Nasution, 2018):

1. Directly, meaning that the government determines or changes tariff prices directly or through government policies. Ways to do this include:
   a) prohibited tariffs such as electricity, drinking water, and fuel.
   b) minimum price controller and maximum price
      1) The minimum price or floor price, which aims to protect producers from losses, such as the floor price of grain.
      2) The maximum price or benchmark price that aims to protect consumers so that prices remain affordable to the public, for example, the benchmark price of cement.
      3) Market operations mean increasing the direct supply of unstable products; for example, rice prices are disrupted, so the government, through designated institutions, reduces the supply of rice to the market.

2. Indirectly, which means changing the relationship between supply and demand. Changes in supply are made through changes in production and imports (Juliati Nasution, 2018). Adjusting the balance of demand and supply will ensure price stability and prevent inflation. The way of administering government is manifested, among other things, by implementing production policies aimed at controlling the number of products offered. If domestic products are not sufficient, then the government will import goods/products from other countries. The next policy is monetary, which aims to control the money supply. Because the amount monetary, exceeds the need, it will affect price changes. Subsidy policy is essentially government assistance to entrepreneurs in the form of capital or equipment. It is hoped that by providing subsidies to each producer, the purchase price will be more competitive and affordable for the public (Wicaksono & Maunah, 2021).

   Prices are determined by the meeting of demand and supply between sellers and buyers after the bidding process. The price that occurs is called the equilibrium price. The number of certain items to be sold (offered) at various possible prices within a certain period of time is called supply, while the amount of a particular item that one wants to buy (ask for) at various possible prices within a certain period of time is called demand (Budi Solihin, 2019).

   According to Keynes, the best method for lifting a country out of a recession (a state in which supply and demand are below optimal capacity) is to use government spending and investment plans to drive demand and supply back into the market.
Islamic Solutions for Dealing with Imperfect Market Operations

- Prohibition of Ikhtikar
  Rasulullah SAW strictly prohibited the practice of hoarding and cutting goods on purpose, which is also called ikhtikar. This technique will result in a shortage of stored commodities. This scarcity is projected to push up the selling price of stored goods in the future. Due to the difficulty of finding these items, this situation can result in losses for the wider community. To return to the original price, the government must take steps to eliminate this effort. However, the condition of a company does not contain criteria for hoarding goods in large quantities (Edi et al., 2022).

- Access to Open Information
  The prohibition of fraudulent practices is an attempt to collect data. Some fraud laws are essentially an attempt to share information so that transactions can be made fairly and honestly. Talaqis rukhban (buying products by intercepting merchants before they reach their point of sale), bay najasyi (collusion techniques between sellers and their partners to deceive other buyers), and ghaban fahisyi are all prohibited in this respect (attempts to exploit the information of ignorant consumers) (Edi et al., 2022).

Profit Price Control
If markets are not perfect, there is no room for price-level intervention. Pricing interventions distort prices and, in turn, overburden the market system. Therefore, price specifications can only be used in necessary or emergency circumstances. This is also done for the benefit of society. The government can only control prices if there are signs of an unbalanced market and an emergency. There must be a fair cost for all parties if they interfere

5. CONCLUSIONS AND RECOMMENDATIONS

Malikiyah scholars limit profit-taking to a maximum of one-third of the capital, while Wahbah al-Zuhaili and al-Ghazali agree that proper profits should not exceed one-third of capital. Islamic economics emphasizes the importance of spiritualism and prohibits hoarding money and consuming other people's riches for vanity. Indonesia's government intervenes in price control to protect consumers, communities, and producers. Forms of government intervention include prohibiting tariffs, minimum price controllers, market operations, and indirect changes in supply and demand. Keynesian theory suggests that government intervention in the economy is necessary to lift a country out of recession and manage social and environmental impacts. Policies for government engagement are evolving and reacting to market realities.

BIBLIOGRAPHY


