

# Comparative Study Of Market Mechanism In The View Of Islamic Economics And Conventional Economics

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## Abstract :

The market is a place for economic activity where economic activity takes place naturally so that the rules of the game also occur naturally. So according to Islamic economics the market mechanism can occur naturally from the supply and demand side as it should. Furthermore, in terms of market mechanisms, the perspective of Islamic economics in principle rejects the existence of a price intervention if price changes occur due to a fair market mechanism. However, the market here requires morality, including: fair competition, honesty, transparency and justice. If these values have been upheld, then there is no reason to refuse market prices. And if deviations occur, it is the duty of the state to regulate them for the benefit of the people.

**Keywords:** Market Mechanism, Islamic Economics, Conventional Economics

## INTRODUCTION

The activity of every individual or group who learns how to fulfill their needs is called Economics which is currently experiencing polarity due to the two forces of the conventional economic system. The conventional economic system is the dominating economic system in the world that has a capitalist and socialist system. 1 Each economic system has different principles and each system has advantages and disadvantages. The capitalist economic system was first coined by Adam Smith who was a teacher in philosophy at the University of Edinburgh. In his book entitled "The Wealth of Nation: An Inquiry Into the Nature and Causes" (1776) that every individual is a judge who really knows for himself because every individual knows better what they need and want. Countries that

adhere to a conventional economic system, namely the United States and countries in western Europe (Aripin, Febrianto, and Jadid 2022).

Conventional economics has the view that the science of using limited resources to meet unlimited human needs is the definition of economics. The background of the emergence of a capitalist economy could be due to the enthusiasm to achieve large profits by utilizing limited resources. In contrast to the socialist economy which prioritizes shared welfare because it sees the consequences of the actions of people who adhere to the capitalist economic school.

The Soviet Union and Eastern Europe is a country that adheres to a socialist economy initiated by Karl Mark. The term socialism arose as a result of the chaos that occurred in the 19th century which occurred to industrial workers and farm workers which gave rise to the principle of solidarity.

## **FINDINGS AND DISCUSSION**

Islamic economics begins with the appointment of Muhammad as an Apostle. Rasulullah SAW made various rules so that his companions followed them. Al-Qur'an and Sunnah are sources and guidelines used by Islamic economics. During the period of the Prophet, which became the main point in regulations regarding financial income and expenses, was the wartime period and the welfare of the people, Caliph Umar bin Khattab replaced the caliph Abu Bakhar. At that time, Umar formed an Islamic Diwan institution and made optimal use of BMT. (Achmad Febrianto, Jadid, and Probolinggo 2022) The economic system in its implementation holds a basic principle, including:

### **1. Principles of Capitalist Economy**

- a. Freedom to own property individually. In the understanding of capitalism does not apply the term property rights have a social function. The granting of property rights absolutely will create individual behavior to use as much as possible the resources they have and have an impact on the distribution

of people's income(A Febrianto, Widad, and Aini 2022).

- b. Free competition/ free competition Competition can occur between producers in producing products, competition can occur between product distributors, competition can occur between employees to get a job, competition can occur between capital owners and so on.
- c. Complete freedom Capitalism is synonymous with freedom (liberalism/laissez faire), which is considered the most suitable climate for capitalism. Liberalism is an ideology that believes and aspires that humans are born into the world and have the right to be free as they wish.(Syahrin 2018)

- a) Selfish

It is believed that individual activity will not bring chaos, on the contrary it will bring prosperity to nations. Adam Smith said, "It is not through the generosity of the butchers, brewers and bakers that we have lunch, but because they look out for their own interests. We are not talking about their humanity but their love for themselves."

- b) Price as a determinant / Price system

Free radicalism (laissez faire) will create a new balance that can bring prosperity to society. If there is an excess of production factors, they will not be absorbed by the market so that there will be a reduction in these factors of production due to market mechanisms and vice versa. This kind of condition will be able to bring up a high level of effectiveness and efficiency.

- c) Minimum government interference

The laissez faire doctrine of the economic system is a natural order which is subject to natural law. Government intervention in the

economic sector will hinder the process of self-regulation (self-regulation).

## **2. Principles of Socialist Economy**

### a) Property Owners by State

The socialist economic system prohibits individual ownership. Where, every resource in the country belongs to the state. So that it can be said that all wealth or means of production is shared ownership.

### b) Economic equality

In a socialist economy everyone in the economic field has the same principles.

### c) Political Discipline

Every society must have political discipline so that what is aspired to can be achieved. (Susana, Pembiayaan, and Bank 2011)

## **3. Principles of Islamic Economics**

### a) Universal Values

The values that form the basis for building Islamic economic theories, namely:

#### 1) monotheism

In this case everything that is on earth belongs to Allah SWT.

#### 2) 'Adl (justice)

In Islamic economics, a person is required to act fairly, not to exceed or reduce the measure. Islam forbids committing injustice to someone just to get more profit.

#### 3) Nubuwwah (prophecy)

The best role model or role model is Rasulullah SAW, all his behavior is a good example.

#### 4) Caliph (Government)

The Qur'an explains that Allah created humans to be caliphs who guard the earth they created.

5) Ma'ad (Results)

Every human being is responsible for what they have done. So that ma'ad can be interpreted as a reward or reward that will be obtained in the hereafter for actions carried out in the world. (Eko-syariah and Mufid n.d.)

#### 4. Derivative Principles

a) Multitype Ownership

Allah gives wealth to man and He is the owner of everything. Allah SWT says:

*Meaning: To Him belongs all that is in the heavens, all that is on earth, all that is between them and all that is under the ground. (Taha: 6)*

1) Freedom to act

The market mechanism in Islam requires the absence of usury, gharar, tadbis, masysir or those that result in tyranny that damages the market which is called mafsadah (everything that destroys).

2) Social Justice

Islam views justice as consensual and no one party wrongs another

Economic developments in the world have given rise to economic philosophers, both Islamic and conventional economic philosophers, who raise knowledge about market mechanisms. In Islamic and conventional economics, the market has a privilege in creating justice and social welfare. The thoughts of Muslim scholars regarding Islamic economics are very monumental, because in

their work there are arguments that are religious in nature which are very intellectual.(Achmad Febrianto et al. 2021)

which is supported by facts. Islamic economics in fulfilling all its needs must be in a way that is lawful and pleasing to Allah. Islamic economics can also be said to study the phenomenon of human behavior in making decisions in every unit of economic activity based on morals and religious law. The goal of Islamic economics is to achieve happiness in this world and the hereafter (falah). Realizing lasting prosperity is the goal of Islamic religious law.

Abdurrahman Abu Zaid or better known as Ibn Khaldun who was born in 732 H and died in 808 H who studied economic problems empirically in his book Muqaddimah. He argues that the market has something special, namely freedom. A free market is able to create fair prices, create jobs and the welfare of the general public. 6 Likewise the figure of the capitalist economy, namely Adam Smith, is a classical economic thinker who applies the basics of capitalist economics. He upholds the value of freedom in the market. Adherents of the classical school of Adam Smith believe that in order to create an effective market, the government should not take a role and let the private sector work. 7 In contrast to Karl Heindrich Marx as the originator of the socialist economic system. (Hasanah 2017)

Adam Smith is one of the most well-known figures in economics, especially liberal economics. In theory, Adam Smith believed that the free market is an absolute requirement for economic growth. In contrast to the socialist economic system, there is interference by the government in its economic activities. Smith briefly revealed that even though everyone does something based on personal interests, the results will be more effective and aligned with the goals of society. The impact of each individual's activities in pursuing their respective interests on the progress of society is actually better than that of each person trying to advance society. The government's good intentions for the welfare of society are often inversely proportional to the reality that occurs. Adam Smith's philosophy became

the root of the development of conventional economics including the field of market mechanism studies.(Pursetyo and Tjahjaningsih 2013)

However, almost all the ups and downs of this conventional economic paradigm are always unable to offer an order that is truly just and upholds noble economic ethical values so that everything is partial. given its worldly orientation. When the capitalist economy has been a hegemony for so long, and has become the colonizer of the world economy including Muslim countries, then at one point it has collapsed. The collapse of capitalism does not necessarily make this system disappear or no longer be used, considering that this system has inspired a complex world system so that it is not easy for the Islamic economic system to change it and it is important to determine its strategic stages.(Syahrin 2018)

In the context of market mechanisms, ideally Islam can be referred to from what was explained by Ibn Taimiyah. Ibn Taimiyah said:

*"The rise and fall of prices is not always related to tyranny (zulm) committed by someone. Occasionally, the reason is a shortage in production or a decrease in imports of the goods requested. So, if you need an increase in the number of goods, while the ability to decrease, the price by itself will rise. On the other hand, if the ability to supply a good increases and the demand for it decreases, the price will fall. Scarcity and abundance are not necessarily the result of one's actions. It could be related to causes that do not involve injustice. Or, occasionally, it could also be due to injustice. Great is Allah, who creates will in the human heart..." (Ibn Taimiyah, Majmu' fatawa).*

This expression shows that there was a custom prevailing at the time of Ibn Taimiyah that price increases were often caused by injustice among market participants. This view was rejected by Ibn Taimiyah by revealing that price increases are not always caused by zulm (injustice). There are other factors that influence it, namely market strength between supply and demand.(A Febrianto, Widad, and Aini 2022)

The same application applies to someone who borrows or rents. Any additional costs will result in price changes. Renting land when there are many robbers or wild animals will add to the burden on the tenants, so the rental price is lower than land that does not require additional costs.

Then regarding the fixing (regulation) of prices known in the world of fiqh with the term *tas'ir* which means, setting a certain price on the goods being traded which does not tyrannize the owner of the goods and the buyer.

In the concept of Islamic economics, price determination is carried out by market forces, namely the forces of demand and supply. In the Islamic concept, the meeting of demand with supply must occur voluntarily and willingly, in the sense that no party is forced to make transactions at a certain price level. The condition of being willing and willing is the opposite of a state of persecution, namely a situation in which one happy party over the other party's sadness. In terms of price, fiqh experts formulate it as the price of the equivalent (*Tsamanul Mitsly*). (Syahrin 2018)

Furthermore, what if the Islamic system is implemented but there is a deviation from normal conditions? According to Islam, the state has the right to intervene in economic activities, be it in the form of supervision, regulation or implementation of economic activities that the community cannot afford. Price intervention by the government can be due to natural or non-natural factors. Interventions by making policies that can affect both the demand and supply sides (market intervention) are usually due to market distortions due to natural factors. If market distortions occur due to non-natural factors, then one of the policies adopted is by intervening in market prices. With all its policies to regulate, the state is very authorized to regulate with an orientation for the benefit of the people. (Yunitasari, Khatimah, and Somaji 2020)



This is the explanation of how the Islamic economic system has an order regarding market mechanisms. It is a hope that this system can run ideally so that economic disparities can be minimized.

## **RESULTS**

In terms of the market economy, it has an important role in creating the success of a nation's economy, because the market is one of the most effective wheels of the economy and transactions often occur in it at any time. That is, a market mechanism run by the principles of freedom and fairness is one of the characteristics of a country that has a good economy. (Susana, Pembiayaan, and Bank 2011)

In a conventional market economy, there is intense competition against existing mechanisms. As mentioned above that an active market is a free market and has rights in price fixing. Capitalism is synonymous with freedom (liberalism/*laissez faire*), which is considered the most suitable climate for capitalism. Liberalism is an ideology that believes and aspires that humans are born into the world and have the right to be free as they wish. However, Islam came as a basic philosophy as a complement to religion and a guide for social behavior to overcome a sense of entitlement to oneself. The market mechanism is one of the important things in the movement of a country's economy to stabilize a country. Therefore, the need for an assessment of the market mechanism.

Views of the state of the two systems consider the need for the role of government. Because the government as a pioneer of the state has the authority and responsibility to provide access to the running of a state economy. Islamic economics assumes that the state, individuals and markets are in balance. So the need for the role of government in upholding justice in the market. Conventional and Islamic economic systems view that the government can intervene on condition that there are problems in the market that result in market failure. The government is also responsible for efficiency in the market.

## CONCLUSION

The market is a place for economic activity where economic activity takes place naturally so that the rules of the game also occur naturally. So according to Islamic economics the market mechanism can occur naturally from the supply and demand side as it should. Furthermore, in terms of market mechanisms, the perspective of Islamic economics in principle rejects the existence of a price intervention if price changes occur due to a fair market mechanism. However, the market here requires morality, including: fair competition, honesty, transparency and justice. If these values have been established, then there is no reason to reject market prices. And if there is a deviation, it is the duty of the state to regulate it for the benefit of the people.

The views of Islamic economics and conventional economics regarding prices, supply and demand, and the state can be described as follows: Conventional economics and Islamic economics have the same view regarding prices, that is, prices are scientific. Conventional economics assumes that market freedom will create natural prices. Meanwhile, Islamic economics holds that the price level is God's will. Conventional economics and Islamic economics also view that prices depend on the availability of goods or services in a market.

Supply and demand for Islamic and conventional economics have the same law where prices will affect the level of demand and supply for goods and services. If Islamic economics has a view that the level of demand and supply will affect the substances contained in goods or services, namely, halal and haram. Then conventional economics assumes that all goods are the same so that the substances contained in goods or services do not affect demand and supply. Islam also explains that it is not permissible to exaggerate something different from conventional economics which has no limit in fulfilling its satisfaction.

Lastly, the views on the state of the two systems consider the need for the role of the government. Islamic economics assumes that the state, individuals and

markets are in balance. So the need for the role of government in upholding justice in the market. Conventional and Islamic economic systems view that the government can intervene on condition that there are problems in the market that result in market failure. government is also responsible for efficiency in the market. Each Islamic economic system and conventional economics has advantages and disadvantages including:

The advantage of the conventional economic system is that the conventional economy upholds the value of absolute freedom where each individual can do what they want to maximize their level of satisfaction. By fixing the price according to what they want by looking at various instruments, namely, rent, wages, and profit. The advantages possessed by conventional economic market mechanisms are also shared by Islamic economics which upholds the value of freedom in market activities. Islam has another advantage, namely, that traders are not allowed to set high prices or seek high profits for goods or services that are needed by many people. So that people who have low capital can meet their needs. Final,

Weaknesses in the conventional economic market mechanism are too free space for movement in the market which can lead to inequality between large and small capital owners. Where this will make one party suffer losses, namely people who have relatively small capital. The infrequent application of the Islamic market mechanism is due to the well-known conventional economic system which has materialism in nature.

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