The Point of Intersection and Synergy of Islamic Economics and People's Economy

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Abstract

In fact Islamic economics and people’s economy have the same purposes, economic welfare and justice for everyone. Based on Islam, justice and welfare in economics should be based on Islamic norms and ethics, so all of economic systems are running in accordance with Islamic Shari’a. People’s economy in Indonesia has been run for a long time by planned institution, which is cooperative. Cooperative is the spearhead which is expected by founding fathers of this state as a tool for economic equity and justice. In the concept and implementation, cooperative institution has much conformity with institutions of economic empowerment expected by Islam.

Keywords: Islamic economics, people’s economy, Shari’a cooperative.

Introduction

Failure of an economic system includes socialist economic system pivoted on the great role of government on people’s lives, then it collapsed due to the fall of communist regime of Soviet Union, as well as capitalist economic, which caused wealthy was focused on few people or countries, and caused the larger inequality between rich and poor and it made many people thought to keep finding alternative of economic systems which could solve the problems caused by the failure of the two systems.

Indonesia, as a country which embraces capitalist economic system, has had the same experience with prolonged crisis until now and there is no expert who ensures that Indonesia has been out of crisis. Currently, millions of people are unemployed; millions of people are below the poverty line, monetary sector is far away from real sector so it is potentially blowing up the bubble economic which has been formed, and various problems including life of Indonesian economy. The birth of a number of big businessmen (conglomerates) who were not a result of derivation from good business management ability caused national economic foundation had fragile structure on market competition. They were unreliable to sustain national economy in market economic system. Whereas market economy is needed to determine price right and determine balance position of bargain.

Islamic economics has been around for thousand years ago (since the time of Rasulullah Saw.) and it slowly revives and appears. Several of reviews about Islamic economics have been appeared. Institutions of Islamic economics such as Islamic bank, Islamic cooperative, Baitulma’alWa’Tamwil (BMT), and Shari’a BPR thrive. Institutions of educations which dig Islamic economics are also appeared and keep growing.
People’s economy as the treasure of Indonesian economists’ thought begins to be discussed by people, and then it is strengthened by TAP MPR No. XVI/1998. The term of people’s economy is consolidated by many TAP MPRs including Law No. 25/2000 on Prepenas.

Economic democracy consists of very strong partiality on small medium enterprises and cooperatives are the core of people’s economy. This political judgment marks a new stage of national economic development with a new perspective, where the economic development dominates national economic structure and it gets its own place. Commitment of government is to reduce gap of economic asset governance between most of economic agents in people levels and less people of big businessmen (conglomerates). The expected result is there is balance economic structure between economic agents in the country, to secure achievement target of growth. Failure of economic development policy in the new with over partiality toward the group of big businessmen is needed to be changed. It is the time and it is quite fair if businessmen of small medium enterprises and cooperative have the chance economically to develop and chase the lag which all this time is coloring bad view of national economic structure.

**Literature Review**

**People’s Economy**

People’s economy is not a new economic sect, but it is only a construction of understanding from common economic reality in developing countries. An economic reality besides formal sector which is commonly dominated by businesses and conglomerates there is also informal sector where most of members live. Therefore, people’s economy develops based on the condition of community in certain region.

There are a lot of definitions about people’s economy, but one that has been the basic of people’s economy is economy from people, by people, and for people. Economy moved by people’s businesses, and then the result will be back to them. Due to its nature that is equity, good distribution of capital, and economic system which moves in real sector, people’s economy has equity effect on good income and it is able to move real sector effectively. In business world, people’s economy is small medium enterprises run by people.

In develop countries such as USA, for example, the creation of employment created by small business is dominant. In Germany, companies categorized as small business create 2/3 of Gross Domestic Product. In USA, 87.5% employees work in small enterprises (business with the number of employees is less than 20 people). They realize that small enterprises are development supports so government’s intervention on capitalist countries such as USA is remain doing even with high intensity to help small enterprises. In Indonesia, when big companies and banks collapsed by economic crisis, small enterprises were relatively able to survive and face the crisis. It is proved that, after crisis, businesses which sometimes called informal businesses remain exist and even they appear everywhere.

According to BPS, the number of small medium enterprises and cooperatives in Indonesia is approximately 36 million. The highest number, that is 34 million, is micro enterprises, followed by small medium enterprises and cooperatives. These sectors in 2000 could absorb 99.6% Indonesian employees.

Based on the statement, it seems that the press point of people’s economy is how to empower people in economy and government’s partiality on people in term of economy, and ensure that there is no economic injustice due to unequal treatment between owners of large capital and people so economic inequality occurs. The first is people’s economy characteristics. As an economic identity which the cover is
significant and broad, characteristic of people’s economy is various, depends on the type of activity. Nevertheless, some characteristics can be described as informality, mobility, familial, independence, and related to formal sector.

Informality in term of people’s economy is mostly moving outside of existing legal framework and present setting. Weaknesses in economic regulations or government’s inability to make system and then uses the existing system (it is often considered as impartial with small enterprises and people), make this people’s economy thrives. However, it also negatively implicates, for example with its nature, which is informal, causes capital access to formal financial institutions such as bank and government’s assistances becomes very limited. As a result, sometimes informal sector has to deal with non-formal financial institutions which have high interest. This fact is often found in fields, such as fishermen and farmers who have to borrow money on loan sharks and finally they are entangled with debt.

Independence of people’s economy is implication from developing perception in community, government or other economic agents, so it limits interaction with people’s economy. People’s economy is still considered as sector at high risk and it is not bankable, so it does not have access to banking and investment. For government, people’s economy is still considered as poverty alleviation and small medium enterprises empowerment sector, so it is still not being done seriously. This treatment enhances people’s economy to be independent.

The second is philosophy and history of people’s economy. People’s economy cannot be apart from Indonesia’s experiment which experienced long colonialism. By Dutch colonists, indigenous people were being dairy cows and treated badly haphazardly in all sectors, including economic sector.

The third is base value of people’s economy. It is social justice and economic equity. Development of economy in Indonesia must be relied on social justice. All of the activities of people’s economy must reflect justice. In the context of economic doctrine, it can be seen on Article 33 of the 1945 Constitution of the Republic of Indonesia: (1) The economy shall be organized as a common endeavor based upon the principles of the family system. (2) Sectors of production which are important for the country and affect the life of the people shall be under the powers of the State. (3) The land, the waters and the natural resources within shall be under the powers of the State and shall be used to the greatest benefit of the people.

The fourth is economic equity. Economic equity does not mean that all of the people must get the same result in business, but economic equity is equity of opportunity in running business or economy. The same treatment for each citizen is without discrimination. In Article 27 of the 1945 Constitution of the Republic of Indonesia is stated that all citizens shall have the right to work and to earn a humane livelihood. It means that each citizen have the right to get economic asses in justice and equality based on his talent and ability. Power of the income resource by a group will contradict to the spirit of social justice. Social justice and economic equality have strong correlation and they cannot be apart. Creating social justice will guarantee economic equality.

**Islamic Economics**

As for terminology, economists gave so many definitions about economy, including Adam Smith that is known as “The Father of Economics”, he defined economics as science of wealth or science which studies facilities of wealth of a state by specially focusing on the causal of material from wealthy, such as industry, agriculture, and so on.
Whereas in Arabic the word economy is termed *mu'amalah maddiyah*, that is management of association and relation of humans about their needs. More precisely it is termed as *iqtišad*, that is manages humane livelihood sparingly and accurately. Looking at the definitions above, it can be concluded that in general economy is defined as a review of human behavior related to utilization of rare productive resources to produce goods and services and to distribute them for consumption, thus, field of economics is one of the sectors in human behavior related to production, distribution and consumption.

However according to Dr. Yusuf Qardhawi Islamic economics is economy based on study on economic problems and related institutions or the science which studies order of community life in meeting their demands to receive Allah's blessing. From this definition there are three main coverage in Islamic economics; order of life, meeting the needs and Allah's blessing that all of them is inspired by values of Islam sourced from Al-Qur'an and As-Sunnah, which ultimately show the consistency between intention for Allah, kaifat or the ways and ghayah and purposes from each individual.

It does not mean that Islamic economics is only projected for Muslims, because Islam allows its people to do economic transaction with non-Muslims. In other words, Islamic economics emphasizes urgency of its economic system that will be constructed and developed more than just constructs and develops the agents who must be Muslims. But, of course Islam wants that Muslims can be pioneers and guards of Islamic economics itself.

There are also madhhab within Islamic economics. Adiwarman Karim, one of the Islamic economics experts in Indonesia, and the originator of The International Institute of Islamic Thought (IIIT) in Indonesia, writes that there are 3 madhabs of Islamic economics. *First*, Baqir al-Shadr madhhab. This madhhab is pioneered by Baqir al-Shadr with his book ”iqtishasuna”, this madhhab suggests that economic problems appear due to uneven and injustice distribution as a result of economic system that allows exploitation of weak parties. Economics cannot be in line with Islam. Economy is economy, and Islam is Islam. Both of them can never be united because they come from contradictive philosophy. Therefore, al-Shadr rejects the statement that economic problems appear due to unlimited of human's desires, whereas the existing resources to meet the desires are limited. It is not relevant because the words of Allah SWT in surah QS. Al-Qamar (54: 49) states that:

"Indeed, all things We created with predestination. (QS. Al-Qamar (54: 49))"

*Second*, mainstream madhhab that consists of M. Umer Chapra, M. Abdul Mannan, M. Nejatullah Sddiqi and many world Islamic economics thinkers are in this group. Several of opinions from mainstream madhhab are not too different with conventional opinions, but the difference is the method of problem solving. T is different with priority scale determination in conventional economics which depends on individual or without religion approach, but by "maintaining lust and material", whereas this madhhab suggests in Islamic economics, a decision cannot be done as it is. Human behavior in each aspect of his life, including economy, should refer to teachings of Allah through Al-Qur'an and As-Sunnah. This madhhab also agrees with the appearance of economic problems due to limited resources faced to unlimited human's desires. However, the limited resources only occur in certain places and times, as the words of Allah SWT in surah QS. al-Baqarah (2:155): “And We will surely test you with something of fear and hunger and a loss of wealth and lives and fruits, but give good tidings to the patient. (QS. al-Baqarah (2:155))"
From literatures and developments of Islamic economics in the world, mainstream madhhab seems to be more flexible and dominant as it is written by Muhammad Meslehuddin that indeed the essential of Islamic economics is behavior and economic system established and enforced based on Shari’a, and it may receive other economic elements as long as they do not contradict. Therefore, for the next discussion of Islamic economics, that covers basic values of Islamic economics, instrumental values of Islamic economics and the purposes of Islamic economics.

**Basic Values of Islamic Economics**

Basic values of Islamic economics are:

1. **Base value of Ownership**
   In Islamic economics view if there are sectors of production which contain livelihood of the people powered by personal, the State have the right to seize them. It is relied on a history, that the Prophet seized a plot of land in Medina “al-naqi land” which was for Muslims to shepherd their horses, it means that the land is a public land and cannot be owned personally.

2. **Balance**
   Balance is a basic value which influences various aspects of economic behavior of a Muslim. This balance is reflected by modesty, thrifty, and stay away from the waste (QS. Al-Furqan: 67, Ar-Rahman: 9). This basic value of balance should be keep not only between the interests of the world and the hereafter in economics, but also the balance between the interests of personal and public. Besides that it also keeps balance of right and obligation.

3. **Justice**
   The third basic value of Islamic economics is justice. The word justice is the most word stated in Al-Qur’an (more than one thousand times), after the word Allah and science. Therefore, in Islam, justice is the starting point as well as process and purpose of all human performances. It means that the value of the word is very important in Islamic teaching particularly in law, social, politic and economy. In this connection, it needs to be developed that justice should be applied in all of field in economy. In production and consumption process, for example, justice should be the proper assessment, production factors and pricing policy, in order to get a result which is proper with common pressure and the actual levels. Therefore, in Islam icycle system is prohibited and not only icycle system, Islam also prohibits selling fake goods and suggests the use of right measurement and scale, it can be seen at: “And do not consume one another’s wealth unjustly or send it (in bribery) to the rulers in order that (they might aid) you (to) consume a portion of the wealth of the people in sin. While you know (it is unlawful). (QS. Al-Baqarah: 188)”.

Justice in economics is also used in determining wages of workers. In Islamic economics, wage given by employers to his employee should be proper and decent. Islam does not want worker exploitation which applied by capitalist people and in Islamic economics, wage of worker is determined justly and fairly where the fair wage is adjusted by work position of the worker. As what is said by Allah: “Indeed, Allah commands you to render trusts to whom they are due and when you judge between people to judge with justice. (QS. Annisa’: 58)”

The three basic values of Islamic economics is limited freedom of wealth and production resources, balance and justice are instrumental values in Islamic economics. Islam, clearly in each sector, including economic sector, concerns about Shari’a morals and norms, so whatever contradicts to Shari’a, it contradicts to maqāshid syari’ah, and it will be rejected. While people’s economy, which takes sides on interests of people, is powerful for equity of income and opportunity so people are able to get prosperity. The most effective synergy is instilling morals and Shari’a on people’s economy. Halal, honesty, justice, avoiding unjust, avoiding...
wasted/redundant for unimportant things, avoiding haram things are moral values which are able to improve vales more than this synergy.

It is actually a pressure point of economy in Islam, besides instrument which is free from usury and any of its derivation, in Islamic economics. This economy is based on high moral. All people are allowed to be wealth, are able to be big if it is possible, but with the clear rules, based on the Shari’s, not doing unjust, fair, having principle of balance, beneficial for other people and care to each other.

**Islamic Economics and People’s Economy**

To look at the point of intersection from Islamic economics and people’s economy we need to look at the purposes of each of them. Islamic economics system aims to:


Meanwhile, the purposes of people’s economy can be formulated to be four main purposes. First, to establish equity and social justice that does not let economic inequality and social gap occurs and develops. Second, the spirit of economic nationalism in globalization era, it is clearer that there is urgency of powerful, tough, and independent national economy. Third, harmoniously, efficiently, and justly balance, between national planning and decentralization of economy and wide, free, and responsible autonomy, towards social justice for all Indonesian people.

Islam aims to establish people with solid social order. In the solid order, each individual is bond by brotherhood and love. This solid order will be achieved if justice in community is met including economic justice. Income and wealthy gap in community contradicts to concept of economic justice. These gaps are wanted to be overcome by Islamic economics.

The ways taken by Islam, such as by lowering the chances of monopoly and focusing great economic sectors on certain parties, ensuring the meeting of basic needs, and implementing social security system. Economic justice applied by Islam is not only relied on principle of Shari’a, but it also recognizes individual freedom in doing business as long as it is proper with framework of Shari’a. The framework includes the interests of people which take precedence over the interests of individual.

Social justice equity which is the purpose of people’s economy is proper with and covered in the purpose of Islamic economics. Economic inequality and social gap that wanted to be overcome by people’s economy are the concern point from Islamic economics. Economic democracy which wants to give great opportunity to people to be economic agents without any discrimination is developed in Islamic economics. Islam even regulates government’s intervention in sectors concerned with people livelihood by allowing government to take control of monopoly in certain sectors. It is done in order to make people’s need of public good is able to be guaranteed, such as: water, energy, minerals, and forests. Harmonious and justice balance and responsible economic autonomy are also the concerns in Islam which is recognized in individual freedom that is responsible in social welfare context.
Results and Discussion
Shari’ā Cooperative: The Point of Intersection of Economic Institution
As the most important pillar of the state which was expected to be the pillar of economy, ironically cooperative is far behind from private business entities and state enterprises. The important role of cooperative in enhancing economic empowerment, equity, and democracy has been proved by various countries in this world. However, the reality shows cooperative development is still apprehensive.

From 140 thousand cooperatives in Indonesia, only 28.5% are still active and less cooperatives which have good management of institution, optimal membership participation, focused business, moreover in big scale of business.

Economic institutions which are involved to people either in Islamic economics or people’s economy will meet in cooperative. Therefore, the most possible and proper approach is Shari’ā cooperative or cooperative which uses principles of Shari’ā for its implementation. Shari’ā cooperative is economic business organized steadily, democratically, autonomously, participatory, and socially in the operational by using principles that carry moral ethics and do business by concerning to halal or haram of business as what is taught by Islam. Why Shari’ā cooperative? It is because Islamic economics established by principle of free usury will deny everything related to it. Cooperative, even though it is an economic institution for people, but cannot be separated from usury. While other principle of cooperative can be said as proper and it is even supported by Islam, such as share ownership, profit share, partially to people, and other positive principles.

Today there are more than 3000 Shari’ā cooperatives in Indonesia which at short period they are able to help more than 920.000 microbusiness in this country and they have been in all of regencies in this country either in the form of cooperative of pondok pesantren (kopontren), masjid cooperative, and office cooperative, until market cooperative (kopas). Conceptually, cooperative is aligned with culture and the values of Islam, the majority of religion in Indonesia. No wonder if cooperative which operates based on Islamic Shari’ā will be easily accepted by Indonesian people. In perspective of Islam, cooperative which upholds principle of togetherness and brotherhood can be seen as ‘syirkah ta’awuniyyah’ which means cooperation and mutual help for good. When cooperative works in framework of Islamic Shari’ā, such as it is not engaged with usury, maysir (gambling), and gharar (speculator), then it is aligned with the values of Islam.

Synergy of Shari’ā and People’s Economy
Islamic economics and people’s economy institutions which meet in cooperative institution have been existed in community. What is more needed is how all of the concepts can run and synergize so it is able to reduce poverty in community and social justice is able to be enforced.

Indeed each economic instrument has been run and existed in community. For example, economic instrument of people such as cooperative has been existed and until now it is still developing even the portion is still small compared to other businesses. The data from Department of Cooperative shows that today the capital of cooperative is only 3.5 trillion; with the number of cooperative is around 97 thousand. SME or other sectors which are often set aside by the term of informal sector such as small sellers, street vendor and other terms, that actually they are parts of people’s economy and they have developed in such a way. The SME sectors are even the most sectors which absorb labors and they become a solution to deal with unemployment that keeps growing.

It also occurs to Shari’ā cooperatives. Today there are more than 3.000 Shari’ā cooperatives which in relative short time have been able to help more than 920.000
micro businesses in this country and they has been established in all regencies in the form of cooperative of pondok pesantren (kopontren), masjid cooperative, office cooperative, until market cooperative (kopas). Conceptually, cooperative is aligned with culture and the values of Islam, the majority of religion in Indonesia. No wonder if cooperative which operates based on Islamic Shari’a will be easily accepted by Indonesian people.

In perspective of Islam, cooperative which upholds principle of togetherness and brotherhood can be seen as syirkah ta’awuniyyah which means cooperation and mutual help for good. When cooperative works in framework of Islamic Shari’a, such as it is not engaged with usury, maysir (gambling), and gharar (speculator), then it is aligned with the values of Islam. The most positive things that is needed is how to make both of institutions develop and advance more so they are able to be the economic power and are able to effect the purposes that were dreamt.

There are several requirements that are able to be the factors of cooperative advancement, including: First, cooperative will be able to play the role for the people when cooperative runs based on its identity as an autonomy organization, institution is supervised by the members and if they keep holding on the values and principles of cooperative. Second, potential of cooperative is able to be done as maximum as possible if the specialty of cooperative is respected in regulations. Third, cooperative is able to achieve its purposes if its existence and activity are recognized. Fourth, cooperative is able to live like other companies if there is fair playing field. Fifth, government should give clear regulation, but cooperative is able and should control itself in its environment (self-regulation). Sixth, cooperative is owned by the members where stock is the basic capital, so they have to develop the resources by not treating the identity. Seventh, assistance of development means to be important for cooperative development, but it will be more effective if it is viewed as partnership by upholding the nature of cooperative and it is implemented in framework of network.

The requirements of cooperative advancement have two main factors; people and government. People play a role to empower cooperative by professional, transparent, and accountable management. Management of cooperative should be with excellence human resources. Cooperative is not a tool to get fund from government, or family project or staffs of government.

Government plays a role in developing cooperative by making supportive regulations and policies. Government is prosecuted to have strong commitment to run regulations and policies that take side to cooperative, not to make them as political commodity moreover as a facility of fund misappropriation. The function of government as regulator is prosecuted to be active, for example to give clear regulation for cooperative and business climate in general. The function is as the guard of cooperative and it needs to be concerned, and not only gives fund aid, but also coaching, supervision, empowerment and active participation of cooperative in business sector.

The potential of Islamic economics development and people’s economy is large. Cooperative, that the network reaches the villages is an economic asset of valuable people’s network. If government has enough regulation and commitment to empower cooperative either for human resources or capital and opportunity, the cooperative will be the great power in moving real sector. Shari’a cooperative or Shari’a financial institution grows well, even if the condition of people is multi-crisis and the support of government is not enough. BMT as the network of broad capital access for middle to lower society, even the number is still limited but the benefits are able to be felt.
Conclusions

Islamic economics and people’s economy has the same purposes, welfare and justice in economy for all people. The justice and welfare in economics in Islam should be based on Islamic norms and ethics, so all of the economic system can be done properly with Islamic Shari’a.

Besides it is a concept that is based on social justice and economic equity, people’s economy in Indonesia has been running since long time ago with planned institution, which is cooperative. Cooperative is the spearhead which is expected by founding fathers of the state as a tool for economic equity and justice. Cooperative institution in concept order and the implementation have conformity with institution of economic empowerment which is expected by Islam. Therefore, Shari’a economy converts cooperative institution with Shari’a cooperative.

Synergy from this institution is expected to be the spearhead of Islamic economics system as people’s economy. It can be done due to the big potential of cooperative, which reaches until the smallest community. The potential is also seen from Shari’s cooperative, which is now BMT that the existence aids informal sector in accessing capital. It is also important to make this Shari’a people-based economy success in supporting and government commitment in supporting regulations, policies, and rules.

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