

## **A CRITICAL ANALYSIS OF ISLAM, ECONOMY AND FINANCE IN THE EARLY 21<sup>ST</sup> CENTURY**

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### **Abstrak**

Sistem kepercayaan yang bisa diterima baik oleh manusia, baik duniawi (sekuler) dan akhirat (selanjutnya berorientasi) memiliki dua ciri khas. Ciri-ciri ini adalah: pertama, sistem kepercayaan fleksibel untuk beradaptasi dengan berbagai tempat dan waktu, namun tetap bisa menjaga nilai keasliannya. Jika tidak, sistem kepercayaan akan hancur atau bisa menyatu dengan sistem lain. Karakteristik kedua, sistem ini ideal, kadangkala bahkan Utopian (fantasi), dan juga mampu mengatur ketidaksempurnaan manusia dan bisa diterapkan dalam kehidupan manusia, seperti politik dan ekonomi. Jadi kita akan memiliki pandangan yang lebih baik mengenai sistem yang berasal dari abad pertengahan untuk bertahan dan maju dengan cepat dalam ekonomi global. Artikel ini akan membahas sejarah dan evolusi agama, Islam dan adaptasi Islam terhadap sistem keuangan dan ekonomi modern.

**Kata kunci:** *Islam, Ekonomi, Keuangan*

### **ABSTRACT**

Belief system that can be received well by humans, either worldly (secular) and the hereafter (hereafter oriented) has two specific characteristics. These characteristics are: first, the belief system is flexible to adapt to different places and times, but still able to maintain the value of its authenticity. If not, the belief system will be destroyed or can be fused with other systems. The second characteristic, the system is ideal, sometimes even Utopian (fantasy), and is also able to set the imperfections of human and can be applied in human life, such as politics and economics. So we will have a better view on a system that originated from medieval times to survive and advance rapidly in the global economy. This article will discuss the history and evolution of religion, encompass about the mechanisms of Islam that is able to adapt to changing times, and the adaptation of Islam to the modern financial and economic system.

**Keyword :** *Islam, Economy, Finance.*

### **INTRODUCTION**

Principles in the religion of Islam can be arranged into pyramidal form. At the top of the pyramid is the Qur'an that is the Word of Allah SWT submitted to the Prophet Muhammad, who then under the pyramid is followed by the Hadith. The meaning of Hadith is distinguished from each other. Hadith is the word and deed of the Prophet Muhammad, while the Sunnah is a tradition or culture that originated from the words and deeds of the Prophet Muhammad. In other words, the Hadith (usually a large number of short texts) tells the story and the Prophet's sayings, declarations, decisions, and opinions of others), and habits and decisions whose conclusions are drawn from the Hadith are called Sunnah. Problems and questions that have no explanation in either source, can use *ijma'* and *Qiyas* to get a proper view.<sup>1</sup>

In some areas, including economics, there are significant differences about what is governed by the Shari'ah. The more down the pyramid, the more likely the interpretation can be taken. On the one hand, the Qur'an is a collection of texts that have the truth absolutely because it comes from the Word of Allah SWT. On the other hand, Hadith is the first legal source that can cause controversy. The long process of proving its authenticity still can not dispel doubts about the authenticity of the Hadith. Interpretation of the Hadith is very different also to prove the authenticity of the Hadith. In addition, Islamic groups in every age have different opinions about the various sources of teachings within Islam. For example, they accept the Qur'an and reject the Hadith which they consider to be man-made and subject to change in every age.<sup>2</sup>

In the 10<sup>th</sup> century, there emerged four great schools of thought in the Sunni tradition of Hanafi, Shafi'i, Maliki and Hambali. Theoretically, every Sunni Muslim is a follower of one of these schools. In the former Islamic community, four *qadhi* (judges) in every major city will apply one of these schools to the realm of law not

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<sup>1</sup> *Ijma'* means consensus (consent), derived from the opinions and general thoughts of the recognized Islamic scholars of the time. *Qiyas* are considerations through analogy or logical conclusions based on their main sources. The jurists of Islam undertook efforts (*ijtihad*) and thoughtful thoughts by understanding the actions of the Prophet Muhammad and the four successors of the Caliph against any thing or policy made by the community at that time. See Aziz al-Azmeh. 1993. *Islam and Modernities*, (London: Verso). p. 12.

<sup>2</sup> In one corner of the extremity, some even argue that only *Makiyyah* verses are binding. See William E. Shepard. 1987. "Islam dan Ideology: Towards a Typology", *International Journal of Middle East Studies* (19). p. 32.

discussed in the Qur'an and Hadith.<sup>3</sup> The legal methodologies used by these schools are also different, for example the Hanbal school of thought seldom interprets literal religious texts (literally), while the Maliki and Hanafi schools are more contextual in interpreting the text.<sup>4</sup> Meanwhile, according to Henry Laoust,<sup>5</sup> states that this combination of external influences and idiosyncratic (typical) evolution makes the Shari'ah interpretation lead to significant differences in the Islamic world, which instead translate into increasingly evolving doctrinal differences. Thus, although Islam emphasizes the unity of the umma, the reality is not so and ja more complicated. It is an unfounded and unreliable general perception to see Islam as a monolithic religion.

According to Philip Hitti,<sup>6</sup> Mua'wiyah introduces innovations that are contrary to religious conservatism because he is surrounded by non-Muslims. By creating a hereditary dynasty, "the secularization of Islam and the transformation of the Caliph's theocracy into sovereignty into a temporal nature". Not only that, he also opposed the Islamic practices and doctrines that are commonly understood by the public with foreign influencers. Albert Hourani,<sup>7</sup> states that regulators, government officials, judges, justice organizers and dismissal of disputes, take on a number of customs (customs) existing within society and varying regional laws. Furthermore, the expansion and absorption of foreign influence occurred again

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<sup>3</sup> As time goes by, each school has its own followers. Today there are many Hanbali in Saudi Arabia, Maliki in West and North Africa, Shafi'i in Indonesia, Malaysia, East Africa, Yemen and parts of Egypt. The Hanafi school is the most widely distributed school of thought, formerly an official dynasty of Ottoman dynasties and influential in Turkey, Syria, Lebanon, Jordan and Iraq. This school is widely embraced by Muslims in India. See Ibrahim Warde. 2000. *Islamic Finance in the Global Economy* (Edinburgh University Press). p. 69.

<sup>4</sup> In discussing a particular issue each school can take a different attitude can be clear, hesitant or silent. Schools can be soft or firm. Therefore, each country can manganut different electricism system (choice of philosophical system from various sources); In Algeria or Morocco, for example, only the interpretation of Shari'ah based on the Maliki school of thought is permitted to be used in court, while in Egypt the interpretation is based on a mere school of use. See Nicholas Heer (eds). 1990. *Islamic Law and Jurisprudence* (University of Washington Press); Wael B. Hallaq. 1997. *A History of Islamic Legal Theories: An Introduction to Sunni Usul al-Fiqh* (Cambrige University Press); C.G. Weeramantry. 1995. *Islamic Jurisprudence: An International Perspective* (New York: ST. Martin's Press); Ibrahim Warde. 2000. *Op. Cit.* p. 70.

<sup>5</sup> In 657, the Islamic sect appeared for the first time, the khawarij. A larger sect movement emerged in 661, when the followers of Ali refused to recognize the power of Mua'wiyah (the founder of the Umayyad dynasty) and his successors. *Ibid.* p. 71.

<sup>6</sup> Philip K. Hitti. 1959. *Syiria: A Short History* (New York: Macmillan). p. 115.

<sup>7</sup> Albert Hourani. 1991. *A History of the Arab Peoples* (Harvard University Press). p. 66.

what the period of the Abbasid dynasty (750-1258). Although it was accompanied by bureaucracy, centralization, and attempts to reassert religious legitimacy, the cosmopolitan power of the Abbasid dynasty narrowed the original Arabic influence.<sup>8</sup> The definitive form corresponds to the closed-door theory of *ijtihad* and why the door of *ijtihad* is still a debate.<sup>9</sup> According to Joseph Schacht because of the *Syar'ah* incarnation that has been shaped final and increasingly diluting the original Arab Islamic norms along with the weakening step by step the power of the Abbasid dynasty to the peak of the Mongol invasion of Baghdad in 1258. Ara Muslim law experts worried about the influence of culture and norm Foreigners can subvert the Islamic legal system to a consensus: if then it happens, then there will be no new law produced.<sup>10</sup>

According to Edwar Mortimer,<sup>11</sup> argues that since the collapse of the effectiveness of the Abbasid dynasty of the 10<sup>th</sup>-Ages, secularists have become increasingly enlightened. Goodness and Justice are regarded as an indispensable qualification in a rule. The political will serves as a tool through through community idealism and can be realized, and only an ordinary need for order maintenance and security, so that minimum conditions in a belief can be practiced and that the Muslim community can continue to survive.

In its Golden Age, the Middle East in the 7th to 10th centuries, and in the 11th-14th centuries in North Africa and Spain, Islam was no longer depicted with a narrow-minded theocracy. The great translator and library center is built on the already translated foundation of Western and Western philosophy, medicine and Science. Science has been established in a neat link and further development in the West. Bernard Lewis, notes that in the golden age of Islam, Europe was digging scholarship from the Islamic world "just as Africa is digging scholarship to Great

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<sup>8</sup> As the *Shari'ah* develops slowly and undergoes a complex interaction process between the norms made in the *Qur'an* and the *Hadith* with local customs and the laws of society under the auspices of Islam. Jai, there is a continuation of the process of mutual adaptation (adaptation) between the *Shariah* with the practices of Islamic society. See *Ibid.* p. 161.

<sup>9</sup> Wael B. Hallaq. 1984. "Was the Gate of *Ijtihad* ever closed?," *International Journal of Middle East Studies* (16). p. 1-33.

<sup>10</sup> Joseph Schacht. 1964. *An Introduction to Islamic Law* (Oxford University Press). p. 37.

<sup>11</sup> Edwar Mortimer. 1982. *Faith and Power: The Politics of Islam* (New York: Random House). p. 37; Ibrahim Warde. 2000. *Op.Cit.* p. 74.

Britain".<sup>12</sup> At the end of the Middle Ages, Islamic culture and culture continued to flourish in several places (for example, in North Africa and Spain), whereas in the birthplace of Islam and Early Dynasties the Islamic Empire had entered a long period of stagnation. In the next few centuries the Islamic world suffered a long stagnation, while European rule continued to advance little by little. A popular chain in historical events (Renaissance, Reformation, Enlightenment, Industrial Revolution and Imperialism) created an economic, political, cultural and intellectual gap between the Islamic world and the Western World. Characteristic of the Umayyads (The last major Islamic kingdom feared by Western Christians and glorious for nearly 200 years, also known as 'the sick man of Europe') is a dynasty that has a weakness in all forms of disturbance and foreign power.<sup>13</sup>

At the end of the 19th century, almost all countries followed Westernization and Secularisation which led them to adopt Western models in politics, economics, law and education. Muslims become divided. Although some of these are contradictory between Islam and Westernization, a number of political and religious movements have sprung up throughout the Islamic world and are seeking to return to Islamic traditions and values.<sup>14</sup> Other characters of fundamentalist movements and the like are their anti-Western characters (inserted in perfect symbiosis with the

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<sup>12</sup> Bernard Lewis. 1993. *Islam and the West* (Oxford University Press). p. 13.

<sup>13</sup> These factors indicate that there was a strong interest and influence from the West in terms of politics, economy and culture in the Islamic world throughout the colonial era. After that, almost the entire Islamic world is relatively living in isolation and remains in the traditional path that has been there before. When certain Islamic societies prove to be dynamic, yet others still leave generations of stagnation. In the community, there is a deep suspicion of new innovations (bid'ah). The changing world requires a custom to reject any practices that absolutely want to return to the time of the Prophet Muhammad, when such practice can not be continued or done in the present. Therefore, there is a clash between scholars who prefer taqlid (imitation) with scholars who advocate the existence of *islah* (improvement) or *tajdid* (renewal). See John O. Voll, 'Renewal and Reform in Islamic History: *Tajdid and Islah*', in John L. Esposito (ed). 1983. *Voice of Resurgent Islam* (Oxford University Press). p. 32-47.

<sup>14</sup> The Islamic Modernists become divided into groups of traditionalist Islamists who believe that the diseases that arise in society are caused by betrayal of Islamic idealism. While Islamic modernists are divided into secularists, which include (Science and Progresivitas) what has been built and become part of Islamic modernists and they believe that political and intellectual liberalization will be able to bring back the roots to return to Islam. The Wahabi movement in Saudi Arabia, the Mahdi movement in Sudan, the Sanussi movement in Libya, and other 'fundamentalist' movements sprang up in the 17th-17th century, reflecting their rhetoric and idealism that originated in the early days of the rise of Islam. See Ibrahim Warde. 2000. *Op.Cit.* p. 77.

anti-Islam bias of certain Westerners). The whole tradition of orientalist writers positions the axiom of Islamic perception that has been followed.<sup>15</sup> Ernest Renan,<sup>16</sup> a Muslim can not learn anything or is unable to open himself to new ideas. Lord Cromer (who ruled Egypt in the 19th century) argues that "the gradual lack of Islam can not be captured by all the conveniences of modernity, which they have applied."<sup>17</sup>

Among social scientists, there is a special tradition (back to Max Weber) that sees Islam as a closed system, whose essence is very unfriendly to development and modernity.<sup>18</sup> Nevertheless, from the 19th century significant efforts were made to modernize the Islamic doctrine. The most influential Islamic movement was the Salafiyah, founded in Egypt in 1883 by the pioneer of Pan-Islam, Jamal al-Din al-Afghani (1839-1897), a Persian whose influence was felt throughout the Islamic world. Through al-Mannar's journal al-Afghani and his disciples (Muhammad Abduh of Egypt (1849-1905) and Rashid Rida of Syria (1865-1935) produced political, legal and intellectual reforms,<sup>19</sup> movements that express essential facts and ideas in a way Simple against complex phenomena.<sup>20</sup>

Therefore, this article will explore the mechanisms of Islam that are able to adapt to changing times, and explain the adaptation of Islam to modern economic and financial systems. The method of collecting data in writing is a library of research, to obtain data authors collect reference materials in the form of

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<sup>15</sup> Edward Said. 1979. *Orientalism* (New York: Random House)

<sup>16</sup> Albert Hourani. 1980. *Europe and the Middle East* (University of California Press). p. 10.

<sup>17</sup> John O. Voll. 1982. *Islam: Continuity and Change in the Modern World* (Boulder, Colo: Westview). p. 33.

<sup>18</sup> From consensus by social scientists, they claim that democracy and development depend on the actions and firmness of social groups, while the Orientalists are the associations and the like left behind in Islam. As consensus develops and social scientists are silent to think, ordinary people are essentially moving forward, Neo-Orientalists describe Islam as an ambitious religion and anarchist solidarity See Yahya Sadowski, 'The New Orientalism and the Democracy Debate', dalam Joel Benin and Joe Stork. 1997. *Political Islam: Essays from Middle East Report* (University of California Press). p. 43.

<sup>19</sup> Malcom Kerr. 1996. *Islamic Reform: the Political and Legal Theories of Muhammad Abduh and Rashid Rida* (University of California Press).

<sup>20</sup> Edward Mortimer sees in al-Afghani an example of three Muslim responses to the West: (1) defending by arms, (2) a hard effort to learn the secrets of Western powers, and (3) internalizing the mores of Western secular thinking methods. See Edwar Mortimer. 1982. Op.Cit. p.115; Ibrahim Warde. 2000. Op.Cit. p. 78.

documentation related to the title of the study conducted. And then analyzed Inductively, deductively and comparative as well as present the results of discussion with qualitative descriptive method.

## **DISCUSSION**

### **ISLAMIC ECONOMICS**

Trade is an Islamic tradition. The Prophet Muhammad was also a merchant born of the descendants of Banu Hashim of the Quraysh Tribe (leading among merchants in Mecca). The Prophet Muhammad was orphaned from childhood and raised by his father, Abu Talib, who taught the Khafilah trade. At the age of 20, he became a rich widow's wideband commercial agent whom he later married. Therefore, it is not surprising in early Islamic literature, traders to be a leading or trading profit are often associated with God's gifts. It takes centuries for Christians to get rid of the notion that trade business is a despicable job.<sup>21</sup> Islam itself initially explicitly legitimizes personal wealth, business firms, and profit. As long as the merchant fulfills his religious obligations, he is rewarded spiritually and materially. Unlike Jews, Friday is not a restful day because before and after conducting its religious activities, a Muslim is expected to continue his earthly activities.<sup>22</sup> Another illustration of the proximity of the relationship between trade and religion is that Islam is disseminated to all parts of the world (such as in Africa and the Far East) through merchants.

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<sup>21</sup> Max Weber, *The Protestant Ethic and Spirit of Capitalism*, Englewood Cliffs, N. J: Prentice Hall, 1980.

<sup>22</sup> Al-Qur'an, al-Baqarah (2): 198 "there is no sin for you to seek the gift of your Lord, so when you have departed from'Arafat, recite to Allah in Mashararharam and recite (with Calling) Allah as He showed you, and indeed you were before that including those who are astray: al-Muzammil (73): 20 "Surely your Lord knows that you stand (less than two-thirds of the night), or Half the night or a third and (likewise) a group of those who are with you. And God sets the measure of night and day. God knows that you can not determine the boundaries of those times, He gives you the light, so read what is easy (for you) from the Qur'an. He knows that there will be among you the sick and those who walk the earth searching for some of the gifts of God; And others fight in the way of Allah, Then read what is easy (for you) from the Qur'an and establish prayer, give zakat and give loans to God a good loan. And whatever good you do for yourselves you will have (rewarded) with Allah in return for the best and the greatest reward. And ask forgiveness of Allah; Allah is Forgiving, Merciful. See Ibrahim Ibrahim Warde. 2000. *Op.Cit.* p. 79.

In the time of the Prophet Muhammad, the economic system was very simple. Mecca (the richest city in Western Arabia) relies heavily on trade, although from a regional perspective it is very backward and full of irregularity. The spread of Islam further led to a favorable trade route in the region (previously under the supervision of Byzantium and Sassanid Persia) in Islamic rule. Muayya and its successors Umayyad expanded its power from their new capital (Damascus) to Europe and then expanded to India and China, and opened a new era of triumph. The Abbasid caliphate (based in Baghdad) established links between the Mediterranean and Indian Ocean basin, creating a single trading system that brought significant changes to trade and handicrafts and shaped large cities.<sup>23</sup>

As the economy undergoes complex development, a number of unknown questions (regarding the administration of a government, trade regulation, taxation and so on) should be discussed. Institutional innovation begins to be established, for example by building *hisbah*, an office that deals with market surveillance, provides city-related services, and resolves complicated disputes.<sup>24</sup> Islamic literature on subjects such as contract law appears to record every possible possibility. Concerning more theoretical issues addressing widespread economic issues, it is ignored by fuqaha in the classical period.<sup>25</sup> However, in the past there were some thinkers who described economic issues, among which the most famous were Ibn Khaldun (1332-1406). In addition to being well known as a pioneer of thought in history and sociology, he also writes about supply and demand, capital formation, trading rounds and value theories. And Ibn Khaldun is known as the greatest economist of Islam.<sup>26</sup>

The end of the colonial period, independent states set new economic policies as well. The 1950s and 1960s saw the emergence of economic nationalism, with its

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<sup>23</sup> Ira M. Lapidus. 1967. *Muslim Cities in the Later Middle Ages* (Harvard University Press).

<sup>24</sup> Muhammad Akram Khan. 1994. *An Introduction to Islamic Economics* (Islamabad: International Institute of Islamic Thought and Institute for Policy Studies). p. 83; Ahmad Maulidizen, "Methodology of Islamic Economics: An Analysis Comparison". *Journal of IslamiConomics* Vol.8, No. 1 (2017). P. 1-18

<sup>25</sup> Chibli Mallat. 1993. *The renewal of Islamic Law: Muhammad Baqer as-Sadr: Najaf and the Shi'i International* (Cambridge University Press). p. 111.

<sup>26</sup> William E. Shepard. 1996. "Muhammad Sa'id al-Ashmawi and the Application of the Shari'ah in Egypt", *International Journal of Middle East Studies* (28). p. 171-191.



emphasis on the role of the state as an engine of growth and development.<sup>27</sup> This spirit of nationalism and liberalization as the next stage will not be a significant challenge on the basis of religious assertiveness. In fact, in economics and politics Islam does not provide explicit blueprint. There are two branches in Islam that can be used to justify a set of policies or other forms. Liberals advocate the teaching of Islam in matters of wealth in trade profits to support policies that allow business firms to operate and flourish freely without government interference or control. The socialists emphasized the focus of the Qur'an on justice and compassion on the needy to justify state intervention as well as redistributive policies.<sup>28</sup>

However, although the economic decision-making process is significantly secularized, Islamic references remain in use. Egypt in the Nassir Government formed the Islamic Congress (along with Saudi Arabia and Pakistan) and created The Supreme Council of Islamic Affairs that sparked Mimar al-Islami. To adapt controversial policies to issues such as nationalization, land reform or family planning, governments are cautious enough to get an approving fatwa. Islamic symbols and references are often also used in determining the policy.<sup>29</sup> However, since the time of Ibn Khaldun the Islamic world no longer produces a leading economist.<sup>30</sup> The ideological debates in the modern era have been framed by Western norms. In the Liberal era, Muslims studying Western-style economics (as well as other related fields of knowledge) try to transfer such knowledge to the Islamic world. With decolonization and the birth of a trend that leads back to Islam, scholars seek to rethink social and economic sciences according to their religious education, by creating a branch of economics. Islamic economists have taken great strides since the 1970s using logic, scientific theory, and empirical facts

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<sup>27</sup> Myron Weiner dan Samuel P. Huntington (ed). 1987. *Understanding Political Development*, Boston (Little. Brown and Company).

<sup>28</sup> Timur Kuran. 1989. "Economic Justice in Contemporary Islamic Thought". *International Journal of Middle East Studies* (21). p. 171-191.

<sup>29</sup> John L. Esposito (ed). 1983. *Op.Cit.* p. 9.

<sup>30</sup> Khalid M. Ishaque, "The Islamic Approach to Economic Development", dalam John L. Esposito (ed). *Ibid.* p. 268-276.

to support the argument or facts put forward.<sup>31</sup> Rodney Wilson,<sup>32</sup> said that "there is more writing on Islamic economics in the last two decades of the previous 14<sup>th</sup> century.

It is generally accepted that the most original work is the work of Muhammad Baqer as-Sadr, through his book *Iqtisaduna* (our economy) widely criticizes, capitalism and Marxism and seeks to develop an Islamic approach to economics.<sup>33</sup> Although it can easily be criticized, Baqir as-Sadr's thought is quite original to get serious attention. Although he criticized the capitalist and socialist ideology, his work also includes both elements to show that Islam is not at odds with Modern economics.

In 1976 the First Islamic Conference on Islamic Economics took place in Mecca. For the first time in Islamic history, the Summit discussed exclusively economic issues. Concrete steps are taken to conduct field surveys and the promotion of Islamic economics as an academic discipline. King Abdul Aziz University established the International Center for Reaction in Islamic Economic (ICRIE) in 1979 to lead and support theoretical and applied research in a wide range of scope.<sup>34</sup> Such research institutes continued to flourish throughout the 18<sup>th</sup> and 19<sup>th</sup> Centuries and more and more universities are developing their learning on Islamic economics.<sup>35</sup> Starting from Pakistan in 1977, it was followed by a number of countries trying to Islamize their economic system. Islam can be presented

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<sup>31</sup> Timur Kuran. 1986. "The Economic System in Contemporary Islamic Thought: Interpretation and Assessment". *International Journal of Middle East Studies* (18). p. 135.

<sup>32</sup> Rodney Wilson, *Economics, Ethics and Religion: Jewish, Christian and Muslim Economic Thought* (New York University Press, 1997), p. 115. Many of their works tend to participate in generalization and are not assertive, thus inhibiting the emergence of a serious and systemic literature. The ongoing trend of 'Islamic economics' suggests that the mode of production is rushed, so the resulting literature so far is superficial and repetitive. See Chibli Mallat. 1993. *Op.Cit.* p. 111; Ibrahim Warde. 2000. *Op.Cit.* p. 84

<sup>33</sup> According to Baqer as-Sadr, "Islamic economics is not a science ('ilm') but a simple doctrine. In other words, Islamic economics is not designed to explain the economic events that occur, but to indicate the steps to be followed. There are three basic principles of the Islamic system: 'multi-property ownership', restricted economic freedoms and social justice'. About the creation of scarcity and abundance, Baqir as-Sadr focuses on distribution. A distribution should be built on the moral principles of general insurance and social solidarity. And take into account the workforce, the needs and the Islamic autonomy's view of wealth. See Chibli Mallat. 1993. *Op.Cit.* p. 117-120; Ibrahim Warde. *Ibid.* p. 85.

<sup>34</sup> Traute Wohlers-Scharf. 1983. *Arab and Islamic Banka: New Business Partners for Developing Countries*, Paris: OECD). p. 91.

<sup>35</sup> Muhammad Akram Khan. 1994. *Op.Cit.* p. 125; Ibrahim Warde. 2000. *Op.Cit.* p. 86.

offering a third way between capitalism and socialism and is not only indistinguishable but also superior and more efficient than capitalism and socialism.<sup>36</sup>

### **ADAPTING TO CHANGES IN SITUATIONS AND CONDITIONS**

As mentioned above, there is no belief system that can work well all the time and extends across the world in the absence of adaptability. In fact, an undoubted Islamic scholar, Baqer as-Sadr,<sup>37</sup> states that the Qur'an and Sunnah are generally the conceptual and legal content in which a proper application exists. In making the framework of the economic rules, a harder effort (*ijtihad*) is needed. If we look at the institutions built during the Iranian Revolution (the most significant Islamic Revolution of the modern era), a number of substantial innovations have been made.

Things to know is the Word of Allah SWT is not rigid as it appears. In the early days of the establishment of the Islamic community, an act may be considered obligatory, proper (*mustahab*), morally neutral (*mubah*), worthy of reproach and forbidden. Almost all commands contain dispensations and exceptions, thus showing flexible considerations. For example, the fasting commands in Ramadan, people who are sick and on the journey can suspend their fast, and for those who fasting to cause difficulties in them also get dispensation. Compensation is done by doing good, like feeding the poor.<sup>38</sup> With the widespread spreading of Islam, Islam is faced to come into contact with various cultures. This fact makes Islamic jurisprudence feel necessary for legislation on the permasalahan of Islamic

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<sup>36</sup> Jhon L. Esposito. 1992. *The Islamic Threat: Myth od Reality?* (Oxford University Press). p. 80.

<sup>37</sup> Chibli Mallat.1993. *Op.Cit.* p.125.

<sup>38</sup> Al-Qur'an, al-Baqarah (2): 184 "(ie) in certain days, then Whosoever of you is sick or on the way (then he breaks), So (must he fast) as many days left It is on other days, and it is obligatory for those who are heavy to do (if they are not fasting) to pay fidyah, (ie): Eat a poor man Whoever willingly performs virtue, So That is better for him. And fasting is better for you if ye know: Al-Baqarah (2): 185 "(The appointed day is) the month of Ramadan, the month in which the Qur'an begins to guide man and the explanations of the guidance And the distinction (between the right and the fool). Therefore, whosoever of you is present (in the land where he lives) on that month, then let him fast that month, and whoever is ill or in the journey (then he breaks), (fast he must fast), as much as the day he left , On other days. Allah wills ease for you, and does not want trouble for you. And let your numbers be sufficient, and let God glorify His guidance given to you, that you may be grateful. See Ibrahim Warde. 2000. *Op.Cit.* p. 88.

jurisprudence (*Usul al-Fiqh*) giving a building of detailed rules to interpret the Shari'ah. However, the existence of such complex rules does not preclude the mechanism of adaptation. The principle of *talfiq*, for example, would give the judge the authority to choose an interpretation of other jurisprudential schools outside their own sect, if it suits the particular situation of the case for which they are handling.

In general there are three principles that allow companies to not apply commonly adopted norms at the time: local custom (*urf*), public interest (*maslahah*), and emergency (*darurah*).<sup>39</sup> More generally, the separation of the established doctrine has taken place since the time of the Revolution, and considerable freedom of interpretation has been given to political leaders. Regarding issues of private property, the constitution of Iran requires property to fulfill three conditions, namely its ownership "must not go beyond the limits of Islamic law"; (2) the property itself "should be able to contribute to the economic growth and progress of the state"; (3) the property must not harm the community.<sup>40</sup>

In a global economy, the urgent need for markets often prevails over doctrine and tradition. In Saudi Arabia for example, Islamic courts have until recent years tended to side with debtors who failed to pay off their debts from creditor banks, so that Saudi banks (citing state credibility in international financial markets) want the

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<sup>39</sup> Shariah can accommodate community development, allow for innovation. We have seen the management of justice during the Umayyad era, the Governors taking a number of laws and customs in the areas they conquered in making policies. With the weakening of Arab influence in the last few centuries, syncretism is inevitable. In other words, the farther from the point of time and place of early Islam and its birthplace, the more strongly the influence of local customs on Islam develops in that place. When Islam faces a new challenge (as it does in the 14th Century in the face of capitalism and the West) the concept of *maslahah*, translated as the common good. Based on these classical principles, a judge dealing with the interpretation of the Qur'an and the contradicting Hadith, may choose the one he considers best for human welfare. Modernists such as Muhammad Abduh and Rashid Rida use *maslahah* as the key principle for deciding law. Even *fuqaha* argue that the public interest can override the text of revelation. The concept associated with *maslahah* is an emergency (*darurah*). Any innovations that are still ambiguous can be decided by this principle, approved by all schools of jurisprudence, that an emergency allows for all that is prohibited (*al-Darurah tubihu al-Mahzurat*). See Ibrahim Warde. 2000. *Op.Cit.* p. 90; Edwar Mortimer. 1982. *Op.Cit.* p.224; Frank E. Vogel dan Samuel L. Hayes III, *Islamic Law an Finance: Religion, Risk and Return*, The Hague: Kluwer Law International, 1998, 38; Shaul Bakhash, 'The Politics of Land, Law and Social Justice in Iran', *International Journal of Middle East Studies*, Vol. 43, No. 2. Spring, 1989, 196.

<sup>40</sup> Jahangir Amuzegar, *Iran's Economy Under the Islamic Republic*, London: I. B. Tauris, 1993, 21-28.

Government to revive and develop Secular independent courts resolve financial cases. Furthermore, Saudi Arabia uses this reputation for fair play to get heavy loans on international markets.<sup>41</sup>

In financial matters, *darurah* has been used to avoid interest on borrowing on the grounds that Muslims must be able to compete with others who are not bound by the same strict rules.<sup>42</sup> Storing money in foreign interest can also be justified because it has become the norm and practice of the International economy. In line with this, 'urgent need' for economic development is used as a basis in fatwas in Egypt that command interest.<sup>43</sup> Typically however, fatwas using the principle of *darurah* add that certain unlawful types of profits must be sanctified, that is by way of well-ordered goals enjoined in religious teachings, that Muslims should seek to find acceptable alternatives Islamic, And if this can be done, then the dispensation action may be abolished.

### **Reconciliation of Homo Islamicus and Homo Economicus**

The significant difference between Homo Islamicus and Homo Economicus is the attribute of more importance to the interests of others, with no disregard for self-interest. One of the most significant intellectual developments in the modern era is the new thought that accompanies and inspires capitalism and the Industrial Revolution, which later became the basic idea of economic politics in the 17th and 19th centuries. In Christian ethics it emphasizes the preeminence of personal goodness and the virtue of selflessness A number of thinkers reverse this logic: by acknowledging the dark side of human nature, they refute that logic to support a "greedy greedy attitude" attitude, deflecting the bad nature of the individual into the public good and more concerned with the 'interest' rather than the passion.<sup>44</sup> In dealing with issues of scarcity, this intellectual movement emphasizes the selfish

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<sup>41</sup> Kiren Aziz Chaudhry, *The Price of Wealth: Economics and Institutions in the Middle East*, Cornell University Press, 1997, 37.

<sup>42</sup> Edwar Mortimer. 1982. *Op.Cit.* p 245.

<sup>43</sup> Ibrahim Warde. 2000. *Op.Cit.* p. 92.

<sup>44</sup> Albert Hirschman. 1997. *The Passions and the Interest: Political Arguments for Capitalism Before Its Triumph* (Princeton University Press).; Lihat juga Ibrahim Warde. 2000. *Op.Cit.* p. 93.

and rational selfish role of the self.<sup>45</sup> According to Timur Kuran,<sup>46</sup> the main role of norms behaving in Islam is to make individual members of Islamic society (Homo Islamicus) fair, socially responsible. Unlike Homo Economicus on the self-centered and greedy Neo-Classical economy, Homo Islamicus consciously refrains from the temptation to get something immediately (instantaneously). The essence of the problem of economic politics, that of scarcity in a world whose principals are selfish, is erased with the assumption that scarcity has been resolved with selflessness. Richards and Waterbury,<sup>47</sup> writes that 'Muslims assert harmony and social order will be achieved by the good of the individual and adjust their behavior with God's revelation. Since God has created everything in quantity to suit human needs, the scarcity of an undue condition is caused by greed and greed. Under normal circumstances, peace of mind and goodness of self are indispensable, especially reminding that man is created as the "Deputy" of God on earth<sup>48</sup> and all the resources given and entrusted by Him are only temporary.<sup>49</sup>

In other words, what became economically correct can not necessarily be justified in Islam, and vice versa. The first approach sees humans as selfish beings, while another approach (Islam) sees humans as having a virtue. For economists, Islam does not have a realistic view of human behavior, whereas for Islamic scholars, economics is built on the principles of selfish individuality and aimed at

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<sup>45</sup> The main idea of a free-market economy is to pursue the benefits of oneself, those of great mutual benefit to others. In a famous formulation by Adam Smith (1723-1790) it says that: "not from the good of a meat dealer, a brewer or baker we can expect our dinner, but from their consideration of their own advantage. See Adam Smith. 1997. *An Inquiry into the Nature and Causes of the Wealth of Nations* (University of Chicago Press)

<sup>46</sup> Timur Kuran. 1986. *Op.Cit.* p. 136.

<sup>47</sup> Alan Richards and John Waterbury. 1996. *A Political Economy of the Middle East* (Colo: Westview Press). p. 354; Ahmad Maulidizen. 2017. "Islamic Finance In Theory And Practice: A Critical Analysis". *Journal of IslamiConomics* Vol. 8 (2): 111-140.

<sup>48</sup> Al-Baqarah (2): 30 "remember when your Lord said to the Angels:" I will make a caliph in the earth. "They say:" Why would You make the Caliph on earth the one who will make the damage to him and Shed blood, whereas We always celebrate by praising You and sanctifying You? "The Lord said:" I know what you do not know Akhmad Mujahidin. 2013. *Ekonomi Islam: Sejarah, Konsep, Instrumen, Negara dan Pasar* (Jakarta: PT. RajaGrafindo Persada). p. 39.; Veithzal Rivai dan Andi Buchari. 2009. *Islamic Economics; Ekonomi Syariah Bukan Opsi Tetapi Solusi* (Jakarta: PT. Bumi Aksara). p. 100-103; Nurul Hudan dan Mohammad Heykal. 2010. , *Lembaga Keuangan Islam; Tinjauan Teoritis dan Praktis* (Jakarta: Kencana). p. 5.

<sup>49</sup> Al-Qur'an, al-Hadid (57): 7 "Have faith in Allah and His Messenger and spend some of your wealth which Allah hath made you possess, then those who believe in you and spend (some) His wealth earns a great reward. See Ibrahim Warde. 2000. *Op.Cit.* p. 95.

greed and greed and immoral. In fact, the distance between Homo Economicus and Homo Islamicus can be easily bridged. However, there is a real field of commonality between the two, that in a sense "Homo Islamicus is an entrepreneur who works hard to gain material gain and will be spiritually rewarded at The face of the earth in the form of a share of profit and social recognition."<sup>50</sup> According to the Kuran The years 1976-1981 were the early years of modern Islamic economics, when almost all Islamic economies were mere theoretical (Pakistan and Iran had not yet begun their experiments). The comparison between the capitalist system and Islamic economic system as follows:

<b>Capitalism</b>	<b>Islamic Economics</b>
Men are more selfish	Humans are selfish but also altruistic
Meterialism is a central principle	Meterialism should be controlled
Absolute private ownership	Personal ownership within the framework of morality

Source: Ibrahim Warde, *Islamic Finance in the Global Economy*, 97.

Islamic economics and conventional economics differ primarily in terms of; Islamic economics adds an ethical and social dimension that is not usually found in conventional economics. His orientation is happiness in the world and in the hereafter (*falah*).<sup>51</sup> Islamic law also has economic morality, which is known as the "Golden Five", namely justice, freedom, equality, inclusion, and accountability. This Golden Five serves as the general principles underlying the principles of Sharia economics.<sup>52</sup> The Islamic economic brand is more pragmatic, and fundamentally unlike the 'Keynesian' (in the broader sense of socio-economic,

<sup>50</sup> Hard work is at the core of religion. See Karen Pfeifer, 'Is there an Islamic Economics?' dalam Joel Beinin and Joe Stork. 1997. *Political Islam: Essays from Middle East Report* (University of California Press). p. 163.

<sup>51</sup> Muhammad Akram Khan. 1994. *Op.Cit.* p. 34-44. Lihat juga Ibrahim Warde. 2000. *Op.Cit.* p. 97.

<sup>52</sup> Muhammad Fadel, "Shari'a: Islamic Law in Contemporary Context" Edited by Abbas Amanat and Frank Griffel. 2009. *Journal of Law and Religion* (Vol. XXIV). p.102. Lihat juga Faisal. 2011. "Restrukturisasi Pembiayaan *Murabahah* Dalam Mendukung Manajemen Resiko Sebagai Implementasi *Prudential Principle* Pada Bank Syariah di Indonesia". *Jurnal Dinamika Hukum*, Vol. 11 (3). p. 463-471

institutionalism, and other approaches attempting to reduce market surplus through state intervention), or attempts by Christian, Jewish thinkers, or secular to include the ethical dimension of the free market economy by controlling uncontrolled self-interest with moral and social values.<sup>53</sup> In short, the difference between Homo Islamicus and Homo Economicus is now irrelevant. Because both Homo are normative rather than descriptive. Homo Islamicus states what people should fight for, not how people should behave. While Homo Economicus describes an ideal free market, which will manifest in certain assumptions.<sup>54</sup>

### **Islamic Reconciliation and Finance**

The Qur'an states that although on the surface the same looks, the profits that can be derived from trading are fundamentally different from the advantages of borrowing money.<sup>55</sup> In Islam, usury is interpreted not as profit, but interest (excessive profit). However, as economic growth becomes more complex, the Islamic world is able to find substitutions, justifications or various tricks. In the early days of the emergence of Islam, lawyers are familiar with various contracts designed to avoid interest, one of which is the profit and loss sharing contract.<sup>56</sup> Modern finance entered the Islamic world along with the expansion of Western colonialism.<sup>57</sup> Egypt was the first Islamic state to have self-controlled banking. The National Bank of Egypt was coined in 1898 with mixed capital (50% of which was in the hands of the Egyptians). In 1920 Banque Misr was founded. This bank was the first established bank with its own capital of the rapidly growing Egyptian Capital Market to be a favorite among the capital markets that emerged in the 20<sup>th</sup> century (In a very unusual context in the post-World War II period, Egypt had the

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<sup>53</sup> Lihat Ellen Frankel Paul, Fred D. Miller, Jr, dan Jeffrey Paul (ed). 1985. *Ethics and Economics*, London: Basil Blackwell); Amitai Etzioni. 1998. *The Moral Dimension: Towards a New Economics* (New York: Free Press).

<sup>54</sup> Mohammed N. Sddiqi. 1981. *Muslim Economic Thinking* ( Leicester: The Islamic Foundation). p. 69; Ibrahim Warde. 2000. *Op.Cit.* p. 100.

<sup>55</sup> Ibrahim Warde. 2000. *Op.Cit.* p. 102.

<sup>56</sup> Abraham Udovitch. 1970. *Partnership and Profit in Medieval Islam* (Princeton University Press).

<sup>57</sup> Charles Issawi (ed). 1996. *The Economic History of the Middle East 1800-1914* (Universty of Chicago Press). p.10-11.



3rd largest Capital Market in this world).<sup>58</sup> The Egyptian Law permits interest no more than 7% and simultaneously presents a model of legislation for the Arab countries. Above all, the most important thing is that in Egypt 1904 interest was legitimized by religious authorities. In a famous fatwa and controversy, Sheikh Muhammad Abduh very carefully legitimized the interest earned through Bank deposits or insurance contracts.<sup>59</sup>

Many of the Books of the Law were adopted by Islamic countries, showing an attitude of silence on issues of interest-bearing loans. Overall, interest is designated even though it is not the *umumpara* of Muslims who refuse their own savings interest. The world of finance has a new direction as colonialism ends. Newly self-proclaimed nations established national financial institutions and issued national currency. Supervision of the pre-credit system and interest rates is seen as an important part of development and economic policy, particularly where nationalized banks (such as Egypt, Syria, Iraq, Algeria, South Yemen, Libya and Sudan). With the birth of Islamic finance, the most prominent consensus among scholars is dealing with conventional banks acceptable, if Islamic institutions are not available in their area. Regarding the issues of Muslims or Islamic institutions of interest benefiting from interest, opinions and practices vary greatly. Some Islamic institutions firmly refuse to accept interest, while others include the Islamic Development Bank (IDB) and Faisal Islamic Bank of Egypt (FIBE) always allocate their excess funds with accounts offering interest and usually placed abroad.<sup>60</sup> Three theological arguments have been commonly used to justify interest receipts. First, is the argument of emergency need (*darurah*) that is: with existence of development need for Moslems, flowering can be allowed. Secondly, it is based on the old distinction between *Dar al-Harb* (literally means world of war), ie non-Muslim countries, with *Dar al-Islam* (which means the Islamic World). Thus, it is permissible to take advantage of interest when dealing with *Dar al-Harb*, especially

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<sup>58</sup> David Lendes. 1958. *Banker and Pasha: International Finance and Economic Imperialism in Egypt* (Harvard University Press); Ibrahim Warde. 2000. Op.Cit. p. 105.

<sup>59</sup> Chibli Mallat. "The Debate on *riba* and interest in twentieth century Egypt", in Chibli Mallat. 1988. *Islamic Law and Finance* (London: Graham and Trotman). p. 69-88.

<sup>60</sup> Elias Kazarian, *Islamic Versus Traditional Banking: Financial Innovation in Egypt* (Boolder: Wetsview Press, 1993). p. 225.

if this can strengthen the bargaining position of *Dar al-Islam*. Third, the more often taken position is the advantage of acceptable interest, but the income is for a benevolent fund and Islamic Bank should not take advantage of interest

### **Conclusion**

The study of Islamic economics, especially Syariah banking, has become a decade-old phenomenon, with various types of Islamic Banks, Sharia Insurance, Syariah Mutual Funds, Sharia Capital Markets, Sharia Pawnshops and other institutions. However, in the operations of these institutions should be guided by the Fatwa and Islamic economic principles, such as the prohibition of usury, as this is a major pillar of Islamic economics, aims to create systems that support investment. The resulting consequences on the prohibition of usury in the real sector, among them can encourage the optimization of investment, prevent the accumulation of property in a group of people, prevent inflation and decrease productivity and encourage the creation of a fair economic activity. The presence of Islamic economics in the midst of society, is to create economic justice and income distribution towards the achievement of the welfare of society. Islamic economics puts justice for all business people, not knowing the terms 'creditor and debtor', but partners who share the same risk with a sense of responsibility. To that end, profit-loss sharing system can serve as an alternative solution to replenish interest systems in the Islamic economy and the Global economy

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