

HOW THE ISLAMIC PERSPECTIVE LOOKS AT ECONOMIC ACTIVITY FROM A CAPITALIST POINT OF VIEW

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Abstract

In the modern world, more precisely, when the cold war ended, capitalism affects almost every life, in this article will give a view of what exactly is called the capitalist economic system, its history and what are its characteristics, after that we will discuss how Islamic principles of the economic system, the conclusion of this article is an Islamic perspective based on Islamic economic principles (Choudhury, 1983), Islamic economic principles can provide a fair system derived from the Koran.

Keywords: Capitalism, Capitalist economic system, Islamic Economic Principles

1. BACKGROUND

Looking at current conditions, no one can argue that the entry of the digital era is closely related to the dominance of the capitalist regime. The end of the Cold War is often seen as the victory of capitalism because it was followed by the fall of communism-socialism, the Soviet Union, and its satellite states. The logic and culture of capitalism permeate and influence almost every aspect of modern life (Heriyanto, 2000). Kelen (Winarso, 2020) agrees, arguing that capitalism is the most widely accepted economic system in the world.

Due to globalization, a free market economic system based on capitalism has emerged as the standard by which most countries judge their own economic policies. What gives? Since no country can avoid the impact of economic globalization, and since the supply of natural resources varies from country to country, it is unrealistic to expect one country to be able to provide its citizens with everything they need in a limited sense. Indonesia is no exception to the rule that globalization and capitalism, the two pillars of the global economic system, are inextricably linked and give birth to a distinctive state of the world economy that in turn impacts the fabric of society everywhere. The history, philosophy, and most influential philosophies in management from both a capitalist and Islamic perspective will be discussed here.

2. LITERATURE REVIEW

1. Capitalism Economic System

a. Definition of Capitalism Economic System

Capitalism is an economic system based on three pillars: private property rights, free market competition (the economy is driven by supply and demand), and rationality (including technological innovation for industrialization, rule of law, and scientific progress) (Kamil, 2016).

The capitalist system regards people as the sole rightful owners of all goods produced. No rights of others are included. He may spend as much or as little as he likes. In accordance

with his influence, private individuals are justified in controlling the means of production. He invests only in economically viable (profit-driven) ventures (Effendi, 2019) .

b. History of the Capitalist Economic System

Capitalism emerged in England in the second millennium after Christ, and from there it quickly expanded to Western Europe and America. According to Adam Smith's capitalist theory (Khaer, 2014), the legal process of the market serves to satisfy individual desires due to competition and the power of individualism to establish economic order.

According to Effendi (2019), an economic system is "a set of rules and institutions by which the implementation of economic activities in society, both public and private, is regulated and organized according to agreed principles in pursuit of common interests. Capitalism is defined as a system of organizing economic activities in which private property rights are used to regulate production, distribution, and exchange for profit (Zainol Hasan and Mahyudi, 2020).

Capitalism is a system or approach that seeks to minimize national and international risks while encouraging successful corporate expansion. In a capitalist economic system, everyone owns their own property and is free to buy and sell it however they choose. It is up to him to utilize the economy and reap the rewards (Itang and Daenuri, 2017).

Adam Smith, Martin Luther, and Benjamin Franklin all had a significant influence on the development of the capitalist economic system. The capitalist economic system is a global economic pattern, and has close ties to the colonial economic system. Adam Smith, the progenitor of the capitalist economic system, offered ideas on how markets work (Zainol Hasan and Mahyudi, 2020). Smith advocated the expansion of economic opportunities for all participants.

The problems of the capitalist economic system (Amri, 2017) are:

- 1) In terms of property rights that allow the means of production, distribution and exchange to be privately owned.
- 2) In the sense of complete independence from government restrictions on economic activity. So much so that it inspires fantasies of getting rich by dishonest means (such as gambling or prostitution).
- 3) In the context of a monopoly that places a high value on competition, it leads to the consolidation of several firms into a single entity that then becomes a monopoly or cartel. Inflation and restraint of free competition are the inevitable results of such an economic system.
- 4) Disputes will develop over who is the richest in the private sector or among the people. Extreme differences in the protections enjoyed by business owners and employees will drive society apart into antagonistic camps.

According to the capitalist economic paradigm, humans have full legal rights to exploit the cosmos for their own benefit (Pangiuk, 2017). Capitalism's emphasis on individual rights often creates tensions in social relations. As is often the case, those with greater financial resources win in such situations (Amri, 2017). The capitalist system regards people as the sole rightful owners of all goods produced. No rights of others are included. He may spend as much or as little as he likes.

By virtue of his influence, the private individual is allowed to control the means of production. He invests only in economically viable (profit-driven) endeavors. Adam Smith's invisible hand thesis from his book *An Inquiry into the Nature and Causes of the Wealth of Nations* is central to capitalist economic thought. Adam Smith's idea of a free market

economy appeared in this work for the first time. Adam Smith founded his system on the idea that people should be free to pursue their own goals in life.

Capitalism is not a perfect economic model free from flaws and vulnerabilities. The vulnerability of the capitalist system to capitalists has been noted by several Muslim economists and scholars (Azizah, Erwina, and Sidra, 2021). Capitalism, according to Kurniawan and Born's (2017) research, is "a form of economic organization in which private ownership of the means of production and distribution is at the core of a market-based economy" in which profit maximization is pursued under conditions of severe market competition. The word "capitalism" comes from the Spanish "capital" which means "funds", "a sum of money", and "interest on borrowed money" (Haryanto, 2008).

Therefore, capitalism is a type of economic organization in which each person seeks to maximize his own financial gain by owning all distribution channels and manufacturing facilities. Meanwhile, according to supporters of the classical school of economic thought, the foundation of the capitalist economic system is the fulfillment of human needs through the efficient use of production resources. Products and services are also marketed openly and competitively in the market (Agustiati, 2009).

According to capitalist economic theory, those engaged in economic activities are competitors. This is in accordance with the tenets of their individualist philosophy. Capitalism is an economic system that prioritizes monetary profit above all other considerations, the financial sector is separate from the real sector which has the main objective of making profits, it has no concern for the real sector. This is because the capitalist economic system produces an economy that is largely controlled by the stock exchange or capital, contributing less to the real sector and more to the pseudo-economy. As a result, this will have an impact on trade that is based more on interest transactions than any substance. The term "*bubble economy*" refers more to the speculative nature of the derivative component of money. Money is controlled by a handful of elites, forcing the rest of society to compete for a shrinking pie (Muslim, 2012).

c. Pillars of the Capitalist Economic System

The foundation of this capitalist economic system knows everything about the following (Agustiati, 2009):

- 1) *Private property* or private property rights
As the cornerstone of capitalism, this institution ensures that everyone can legally acquire economic products and resources, make agreements about their use, and, if necessary, sell them.
- 2) *The invisible hand* or fostered by the *invisible hand*
Society must strive for optimal results. Each person in a capitalist society is encouraged to maximize his happiness at the lowest possible cost to himself.
- 3) *Economic individualism*
This maxim serves as the defining slogan of the capitalist system. In a sense, economic individualism and economic freedom will flourish without government interference. The scope of government involvement is limited to certain areas.
- 4) *Free market* competition and free market
Competition arises as an inevitable result of the basic design of the market mechanism. The free market under government regulation is at the core of capitalist economic theory. The role of the government is limited to supervision and no change is allowed. There is no action on the part of the government (Muslim, 2012).

Natural price theory is a pricing model founded by Adam Smith. Market prices that have reached a long-term equilibrium due to the operation of natural forces in society are known as "natural prices" (Indra, 2018).

d. Characteristics of the Capitalist Economic System

Characteristics of the capitalist economic system (Effendi, 2019):

1) Freedom to own property individually.

In the capitalist system, private property rights play an important role. Property rights do not exist or play any social role in the capitalist worldview. Absolute property rights will motivate individuals to maximize their return on investment, which will change the way wealth is distributed across the population.

2) Free *competition*

Competition can arise at any stage of the production process, including among producers, distributors, retailers, workers, business owners and investors. Everyone, from producers to workers, has the same basic right to engage in free and open competition.

3) Complete freedom

The most conducive environment for capitalism is liberalism. The core principle of liberalism is the idea that everyone is born with the inherent freedom to pursue any path to happiness they desire. Everyone has the freedom to start a business, form an organization, and run it as he or she sees fit.

4) Self-centeredness

According to Adam Smith, we can enjoy lunch not because butchers, brewers and bakers are very good people, but rather because they look after their own financial interests. The focus here is on their self-love rather than their humanity.

5) Price as a determinant / Price *system*

A new equilibrium that can deliver wealth to society will be established through free radicals (*laissez faire*). Due to market forces, the number of production elements will decrease if there is a surplus and increase if there is a shortage.

6) Minimum government intervention

When the government enters into the economy, it hinders the process of self-regulation. Individuals, not the state, are the main actors in a capitalist economy. Investors are given leeway by the government to expand their operations. The economy is just one of the many areas they may excel in and help improve. In other words, the government can help ensure the economy runs smoothly and sustainably, but is prohibited from actively intervening in the market.

e. Economic Concept of Capitalism

Capitalism is an economic theory that advocates maximum individual agency in economic decision-making. Adam Smith is a classical school figure whose ideas inspired this theory; many economists around the world believe that classical school ideas provide the intellectual foundation of the capitalist economic system. According to Adam Smith's theory, if all actors are equally fit, perfect competition will be optimal (Zainol Hasan and Mahyudi, 2020).

This idea comes from a *laissez-faire* guided economic system where capitalists work together to maximize profits, workers work cooperatively to maximize wages, employees are

organized into unions, and employers are organized into employers' associations. In addition, the government does not interfere in business operations in any way.

This requires a greater role for the state than the socialist economic system proposed by Karl Max. H. Idris Parakkasidan and Kamiruddin (2018) argue that the state should regulate all aspects of the economy to ensure that everyone benefits fairly from production, consumption, and redistribution.

f. Karl Marx's Critique of Capitalism

Capitalism is an economic system characterized by the dominance of market processes and the absence or low intervention of government in economic affairs. In a capitalist economy, everyone is free to pursue whatever interests them. Adam Smith argued that in the long run, everyone would benefit from the free market system, but Karl Marx argued that this was not the case. This is the context in which Karl Marx's critique of capitalism developed.

He warned that increasing social inequality would be a terrible outcome of the free market. Therefore, this free market would only help the bourgeoisie-the owners of the means of production or capital-become rich, while workers and laborers would be severely disadvantaged. One of the critics of the capitalist system was Karl Marx.

In 1867, when capitalism was developing, Marx wrote a scientific study on the criticism of capitalism which was later published as a book with the title *Das Kapital*. In which he explained that women, men, and children were all exploited by capitalists (Qomar, 2019). Workers wanted to use the ideas presented in *Das Kapital* as a theoretical weapon in fighting for the prosperity that capitalists had stolen from them. Some economists argue that Karl Marx's theory, which served as the basis of the socialist system, collapsed with the fall of the Berlin Wall and the Soviet Union (Marx, 2004).

g. Practice of Capitalism Economic System in Economic Activities

An early form of capitalism, as practiced by merchants in the Middle Ages, developed into a more formal form in Europe between the 16th and 19th centuries. Traditional governmental and religious constraints to capitalist trade were weakened by the fall of feudalism in the period. In the 18th century, the aristocracy ruled and confiscated wealth through arbitrary punishments and taxes; however, these obstacles to capital accumulation were eventually overcome, and capitalism dominated economic life in the United States.

Capitalism emerged as Europe's flagship economic system in the 19th century, along with Great Britain. Having established its dominance in Europe, capitalism moved steadily beyond its borders, led by Britain. Much of the world's access to the means of industrialization in the 19th and 20th centuries came from capitalism. This early stage of capitalism is also known as mercantilism, merchant capitalism, and trade capitalism. During this period, transnational traders-particularly those from Britain and the Low Countries-made important discoveries, which led to European colonization of the Americas and a global trade boom. Although most commodities were still produced using non-capitalist means of production, mercantilism was a system of trading for profit.

Under mercantilism, European merchants made profits by buying and selling products with the help of government regulations, subsidies, and monopolies. The goals of mercantilism included "opening and balancing trade" (Jan, 2010); "rewarding producers"; "expulsion of idleness"; "suppression of waste and excess by sanctuary laws"; "improvement and maintenance of land"; "regulation of prices"; and "development of a manufacturing culture."

Early proponents of mercantilism saw the expansion of state authority and international conquest as important principles of economic strategy. If a country lacked necessary resources, it should establish colonies in other countries to provide them. Finished goods would be sold in the colony's market. Colonies cannot produce or trade with outsiders if we want to prevent them from encroaching on our market share. The scenario here exemplifies the division of labor across the world. According to Immanuel Wellerstein (Jan, 2010), the production of products and services for sale in markets aimed at maximizing profits defines a capitalist global economy based on the international division of labor.

In capitalist markets, seemingly neutral forces of demand and supply determine the price of a product, which in turn signals to producers whether to increase or decrease *output*, change manufacturing methods and costs, and so on. In other words, the global invisible hand that emerged towards the end of the 19th century efficiently coordinates human activity beyond national borders.

2. Islamic Economic System

a. Basic principles in Islamic economics

After discussing the capitalist economic system which consists of the three ideas of individual ownership, competition and rationality of individual freedom, we will enter to understand the basic principles of Islamic economics, of course, Islamic principles are very different from the principles of capitalism, To understand the basis of Islamic economics itself, according to Choudhury (1983) divides Islamic principles into three parts, namely:

1) The principle of tawhid and brotherhood

Know that everything in the heavens and the earth belongs to Allah, as stated in Surah An-nur verse 24. You may be sure that He knows your current state. And when (human) hearts are returned to Him, understanding what they have done, He explains it to them. In this principle, for Islamic economics, it is believed that everything belongs to Allah Swt, humans are only given the responsibility to use and utilize it properly (Choudhury 1983).

2) Work principles and productivity

In this principle, explaining about workers and how work is done. in this case refers to how the relationship between the owner of the work who owns the workplace and the worker for profit sharing, In the previous discussion, it has been explained that by believing that all belongs to Allah swt, workers must be given an appropriate wage considering the level of work done (Islam & Bargouthi 2017).

3) The principle of equitable distribution

The principle of equal distribution in Islamic economics is known as *zakah, sadaqah, ghanimah, fay, fifth and ushr* (Choudhury 1983). The criteria for groups entitled to zakat are the poor, riqab, ibnu sabil, mualaf, gharim, *fisabilillah*. For this, the body responsible for equalization is *Baitul mal*.

3. CONCLUSION

Capitalism is an economic system based on capital and has three main ideas: individual ownership; business competition; and rationality Individual freedom is the main pillar in capitalism, so that individuals are free to think, work and produce for their survival. This system, with all its characteristics, is empirically able to become the dominant system in the global economic scene to date.

However, the application of the capitalist system has many shortcomings related to the implementation of economic activities. A paradigm emerged that is the Islamic economic

system that offers a fair system derived from the Quran in discussing all economic issues. In the Islamic perspective, there are many sources from the verses of the Koran, Islam as a way of life for humans, In the Islamic perspective, the economic principles are divided into 3, namely the principle of brotherhood, the principle of work and productivity and the principle of equitable distribution.

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