

ISLAMIC ECONOMIC METHODOLOGY APPROACH TO ACHIEVE ECONOMIC EQUITY: EPISTEMOLOGICAL STUDY

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Received: 05 04 2022

Revised: 23 04 2022

Approved: 26 04 2022

Abstract

Economic policies based on capitalism and socialism have proven to have failed to create a just economy. As a result of adhering to capitalist and socialist ideologies, macroeconomic imbalances and national instability occur. The welfare and prosperity of the people does not depend on production alone, but also on its proper distribution. Wealth in a country can be produced in large quantities, but if its distribution is not based on true and fair principles, then the country will not be able to achieve prosperity. This article aims to find out how the methodology of Islamic economics realizes equity and falah (Victory in this life and hereafter). This research uses descriptive qualitative research method with a literature review approach or Library research. Data collection techniques, with literature, from several sources obtained that are relevant to the theme. Books, journals, websites, and others. The data analysis technique is descriptive qualitative, describing the study of Islamic economic epistemology that can help realize economic equity. The results in this study BMT is a financial institutional system that is able to reform the conventional economic system and bring economic justice and equitable distribution with practical provisions through syar'i arrangements in collecting and distributing through wadi'ah, mudharabah, musyarakah, murabahah, salam, istishna transactions. , ijarah, and qardh. The implementation of Islamic social finance in Indonesia can be seen through the existence of various financial institutions that provide financial services by involving Islamic social funds such as Baznas (National Amil Zakat Agency), BWI (Indonesian Waqf Board) and other institutions with the aim of embracing the middle, small, and medium-sized micro communities.

Keywords: *Islamic Economics, Economic Equity, Epistemological Studies*

INTRODUCTION

Behind the world's success in boosting economic growth and increasing per capita income, countries around the world have faced serious problems with economic equity in the

last four decades, which are becoming increasingly alarming. Economic equity has become a scourge for capitalism, which is currently the preferred economic system in almost every country on the planet. High economic growth does not lead to adequate economic equality, but rather to alarming economic inequality, widening the poverty gap. Indonesia has some of the world's worst wealth disparities between rich and poor. According to a survey conducted by the Swiss financial institution Credit Suisse, the richest 1% of Indonesians control 49.3 percent of the country's wealth (Astuti, 2017).

In both developed and developing countries, achieving economic equity through income distribution is a critical economic achievement. The answer to today's development economics problems is a practical model of economic equity that can be implemented.

Humans should not only demand rights while ignoring the responsibilities, attitudes, and behaviors that lead to extortion or slavery of others. As stated in the Qur'an's letter al-Hadid verse 25, justice is essentially a balance between rights and obligations. This verse emphasizes that, in addition to worshiping Allah and eradicating polytheism, the main mission of prophethood is to bring justice. This is in contrast to the capitalist understanding of economic justice and equity, which is based on spiritual commitment, ukhuwah, and transcendental and universal values but tends to trigger interests, power, and conflict.

The economy of development has essentially gone through three stages. The classic Development Economics phase was developed by classical economists who attempted to explain the long-run economy within the context of capitalism using the famous slogan *laissez faire*. Since the publication of Adam Smith's *The Wealth of Nations* in 1776, this phase has lasted nearly a century. The second phase began after World War II, when a number of countries in the Third World gained independence. Because many countries had recently gained independence, the study of their problems began to gain traction. The focus of attention shifts from classical liberalism to neoclassical economics during this phase. The strategy adopted is for the government to play a larger role in the economy, with less reliance on markets. Due to the Great Depression, *laissez faire* capitalism had lost its luster (1929-1932). John Maynard Keynes, an economist, was a key figure during this period, with his 1936 book *The General Theory of Employment, Interest, and Money*. Keynesian and socialist

economics gained traction in the Western world during this time. The third phase, on the other hand, has a different focus than the second. The focus of Development Economics in this third phase shifts from anti-power (the state) to pro-market freedom. This phase began in the 1970s, when Keynesian and socialist strategies began to falter. Neoclassical economics began to "come back" and became the dominant paradigm during this period. They believe that reducing the role of the government in the economy through market liberalization is critical to solving the problems of developing countries. This period is also known as the birth of liberalism and neoclassical economics (Mossy and Arsyad, 2019)

To summarize, capitalism and socialism's economic concepts and policies have failed to produce a just economy. Macroeconomic imbalances and national instability occur as a result of adhering to capitalist and socialist ideas.

Such circumstances increase Muslims' ideological anxiety, prompting them to develop sharia-based discourses and even economic practices. Sharia principles have been implemented, such as by Nawar Iqbal (1946), Neiem Siddiq (1948), and Mahmud Ahmad, who pioneered Islamic banking (1952). This concept was passed down through the generations through scientific works such as Al Maududi (1950) and Mahmud Uzair's *A Groundwork For Interest Free Banking*, a pioneer in Islamic banking theory (1955). The capitalist and socialist systems, respectively, were born and now rule the world (Muh. Yunus Shamad, 2017).

People's well-being and prosperity are dependent not only on production, but also on its equitable and equitable distribution. A country's wealth can be produced in large quantities, but if it is not distributed according to true and fair principles, the country will not be able to prosper. The Indonesian people's reality is empirical evidence that the state fails to provide them with prosperity. This is due to the fact that wealth is concentrated in a few layers of society, while more than 40% of Indonesians live in poverty. After all, wealth distribution is a difficult and complicated issue that is also extremely important. This problem remains a challenge for thinkers to this day (suryani, 2010).

RESEARCH METHODS

This research used descriptive qualitative research method with a literature approach. Data collection techniques, with literature, from several sources obtained that are relevant to the theme. Books, journals, websites, and others. The data analysis technique is descriptive qualitative, describing the study of Islamic economic epistemology that can help realize economic equity.

Islamic Economics

Economics The study of human activities related to the production, distribution, and consumption of goods and services is known as economics. The word "economy" is derived from the Greek words *oikos* (meaning "family, household") and *nomos* (meaning "rules, rules, laws"). The economy can be defined as "household rules" or "household management" in broad terms. Economics includes contemplative activities in order to be innovative and creative in order to meet life's needs. This solution addresses production, distribution, and consumption issues. *Al-iqtishad al-Islami* is the Arabic term for Islamic economics. Knowledge of the rules governing the production, distribution, and consumption of wealth is defined as *iqtishad* (economics). Islamic economics is a branch of economics that studies human economic behavior that is governed by Islamic religious rules and is based on monotheism as enshrined in the pillars of faith and Islam (Ibrahim *et al.*, 2021).

Economic Equity

Economic equity is an effort to provide citizens with as many opportunities as possible for a minimum income, clothing, food, and housing. Poor countries are torn between pursuing economic equity and pursuing growth. Given the very limited access of citizens with low capital, human resources, and skills, if you focus on boosting growth, economic inequality is very likely to widen. Poor countries, on the other hand, will find it difficult to increase GNP and raise people's living standards if economic equality is prioritized through income distribution. Economic growth and equity are both important, but they are nearly impossible to achieve at the same time (Astuti, 2017).

RESULTS AND DISCUSSION

Epistemological Study of Islamic Economics Methodology

Methodology of Islamic Economics: An Epistemological Study

Conventional economics has gone through a process known as the empirical evidence process to become a science. A research method is used in science to demonstrate that knowledge exists and that its validity is tested. In contrast to conventional economics, Islam's science has a unique anatomy. Reason, the five senses, and life experience are not the only sources of science in Islam. Humans have been given reason by Allah (SWT), and Allah (SWT) has sent down a scientific guide for all mankind in the form of the Qur'an. The Qur'anic revelation necessitates a process of interpretation and comprehension so that humans can comprehend the nature of the knowledge that Allah SWT has bestowed upon them.

In Islamic economics, epistemology is based on a worldview based on revelation and religious teachings. Without any distinction between doctrine and reality, values and facts, the truth of a knowledge can be defined. Science actually brings us closer to God, rather than keeping us away from Him. Science, rather than deceiving us, brings us closer to the truth. Science in Islam seeks to discover the truth about God's nature, His creation, and all of life's phenomena through revelation, thought, and human experience. Prejudice and lust aren't the only things that need to be verified. We are simply lying if we do not believe the truth. As a result, science's essence is that it must lead us to the truth. As a result, all learned and developed knowledge must come from a source that is believed to be true, namely God (Ibrahim *et al.*, 2021). Based on the regulations, a halal certificate issued by the MUI is required to guarantee the halalness and thayyib of a product (Saputram, Kholisiah and Nuraini, 2019). Islamic economics puts forward the principle of freedom, including in the market structure a free cooperation system is adopted. As long as the forces of supply and demand run naturally, the price is determined based on the market mechanism so that no intervention from any party, including the government is allowed (Iswanto, 2019).

The methodology of Islamic economics plays a critical role in the development of Islamic economics as a scientific discipline. According to al-Attas, the greatest challenge facing

Muslims is the spread of Western civilization's knowledge throughout the Islamic world. The Islamic education system, according to al-Faruqi, has been imprinted with a Western caricature; Western science has been separated from human values and dignity, spiritual values, and dignity with God. Knowledge, according to Al-Attas, is a meaning that enters the soul at the same time as the soul discovers meaning and produces desires and self-will.

Al-Attas defines education as the process of implanting something into human beings, emphasizing that the something implanted is knowledge, and that the purpose of seeking this knowledge is encapsulated in the concept of ta'dib. Islamic education, on the other hand, aims to instill virtue in "human beings" as individuals and as members of society. Naquib's dream is for Islamic education to be able to produce good people everywhere (Al Insan Al) Kamil (Ibrahim *et al.*, 2021).

It is clear from the above epistemological study that Islamic economics is more than just a system or a norm. Islamic economics is a scientific discipline based on scientific methodologies, but the source of knowledge in Islam is not limited to ratio and empirical evidence as taught by positivism. The Qur'an and Sunnah are the primary sources of Islamic economics, whereas ijihad is a source of knowledge that leads to ijihad, where Islamic economics can accept conventional economic scientific methods based on ratios and empirical experience both inductively and deductively (Muh. Yunus Shamad, 2017).

Economic Equity in the Epistemological Study of Islamic Economics

Al-Mawardi has a concept of an ideal state that is consistent in its socioeconomic system's balance. All religious rules are followed, the government is well-organized, justice is administered, and the social vision is to build a better future. In order to achieve the goal of a prosperous social life, society, on the other hand, requires an integrative social paradigm as a means of social solidarity. According to al-Mawardi, religion, government, justice, state security, a prosperous economy, and the state's vision are all intertwined series in the social welfare system. Because religion is the foundation of the structure for building welfare, it is the first condition that must be met. It contains comprehensive life norms and rules in all fields, so that fulfilling personal and social obligations has a direct impact on the entire life system (Abdul Qoyum, 2021).

Community welfare will be realized if the government has the financial resources to carry out its functions, one of which is collecting taxes. Several Islamic material sources were used to develop public finance in the early days of Islam, and they were divided into four categories: (1) Zakat, which aims to reduce poverty; (2) Kharaj, which is a land tax; (3) Leasing of natural resources; and (4) 'Usyûr (customs duty), which is imposed on imported goods and is imposed on Muslim entrepreneurs. Land tax revenue is the most visible of these four groups. Al-Daudi primarily explains the classification of land taxes that can be used as a source of state revenue in his work. The land acquired as a result of the war must be used properly, without prejudice to the owner. As a result, al Daudi believes that taxes must be limited in order to optimize the land. On the other hand, it is also stated that the taxes mentioned are derived from a region's income. These limitations must be consistent with Islamic principles (Abdul Qoyum, 2021).

After centuries of the conventional economic and financial system's journey, indicators have been discovered indicating that the conventional economic system has failed. The indicators are as follows: first, the economic divide between the rich (haves) and the poor (have nots); second, an ongoing economic crisis; third, economic instability; fourth, environmental damage; and fifth, traditional banking and non-bank financial institution industries are increasingly moving away from the real sector and only playing with the risk of "derivatives transactions."

These characteristics arise as a result of a number of root causes, including secularism (the separation of the economy, business, finance, and religion), individualism (humans have as much power over nature as possible, free and unlimited), materialism (the measurement of success based solely on material factors), interest-based economy (economic activity), and scarcity (economic scarcity due to concentration of ownership, and uneven distribution). In conventional economics, this is the source of the problem.

As a result, in order to address the aforementioned economic issues, it is necessary to return to the search for the best solution. Because the Qur'an, Sunnah, and ijtihad emphasize the importance of a stable economic system, the Islamic economic and financial system, both

bank and non-bank, is considered appropriate and anti-crisis to address the problems of the world economy in general and Indonesia in particular (Surah 26: 177.178).

Islam teaches basic economic values that are based on monotheistic teachings. Islam includes all fundamental values and substantial norms so that they can be applied in Islamic economic institutions in society (Muhammad, 2020). It also includes more than just economic ethical values like balance, unity, responsibility, and justice.

The Indonesian government has implemented a number of policies aimed at combating the country's rising poverty rate. Apart from that, Islam has a policy in place to combat rising poverty, namely, a policy of economic equality through the zakat instrument, which has been implemented and/or practiced since the Prophet Muhammad's time. On the one hand, zakat is very useful for muzakki, and on the other hand, it is very useful for mustahik, which is a branch of Islam that actually confirms Islam as a rahmatan lil alamin religion.

BAZNAS

The enactment of Law Number 23 of 2011 concerning ZakaManagement strengthens BAZNAS' role as a national zakat management institution. Baznas is a non-structural government institution that is independent and accountable to the President through the Minister of Religion, according to the law. As a result, Baznas, in collaboration with the government, are in charge of overseeing zakat management based on Islamic law, trust, benefit, justice, legal certainty, integration, and accountability.

If Islamic social financial institutions and instruments can be optimized, they can play a significant role in a country's economy. Many studies have been conducted on the potential of Islamic social financial instruments, particularly zakat. According to Sudibyo (2018) in Outlook on Zakat Indonesia (2019), if zakat is charged as a tax deduction, Indonesian zakat could reach 3.4 percent of total GDP. According to the Baznas in Indonesia's Zakat Outlook (2019/2020), total zakat, infaq, and alms collected in 2019 totaled around Rp. 10.1 trillion, up about 26% from Rp. 8.1 trillion rupiah in 2018. In comparison to 2017, ZIS fundraising in 2018 increased by 23% from the original amount of 6.2 trillion rupiah. When compared to the potential collection, the total collection is very small.

If the potential for zakat that has not been collected can be optimized based on the potential and realization of the collection of these funds, then zakat as an Islamic social financial instrument supported by other Islamic social finance can help a country overcome various problems such as poverty, unemployment, and low economic growth. To fully realize the potential of Islamic social finance, synergies are required from a variety of parties, including Islamic social financial institutions that provide and open access to financial services, academics who serve as a source of financial literacy education, the government through policies, the media as a source of publication and socialization, and businesses through funds. CSR and privately held foundations

The Indonesian Waqf Board (BWI) is an independent state institution established in accordance with the Waqf Law No. 41 of 2004. This organization was established to promote and develop waqf in Indonesia. The Indonesian Waqf Board (bwi.go.id) has the duty and authority to provide guidance to Nazirites, including dismissing or replacing Nazirites, managing and developing waqf assets nationally and internationally, granting permission/approval for changes in the designation and status of waqf property, and providing advice and consideration to the government in formulating policies in the field, according to article 49 paragraph 1 of Law Number 41 of 2004 concerning Waqf (BWI, 2020). BWI was established not to take over waqf assets managed by existing nazhir (waqf asset managers), but to encourage nazhir to manage waqf assets more effectively and productively so that they can provide greater benefits to the community in terms of social services, economic empowerment, and public infrastructure development.

The National Land Agency (BPN) has registered 134,237 plots of land as certified waqf land, with a potential cash waqf of around Rp. 188 trillion and an annual realization of only Rp. 31.9 billion. The market value of registered waqf land is around IDR 590 trillion (\$60 billion), according to data obtained from the Ministry of Religion. With the same 10% minimum rate of return, these assets could generate \$6 billion in annual cash flow, or 0.849 percent of Indonesia's GDP. Given that Indonesia lacks the 0.350 percent of resources required to lift the poor above the poverty line of \$1.25 per day, this potential is enormous.

Baitul Mal wat Tamwil (BMT) is a maal-oriented sharia microfinance institution (collecting and distributing social funds). While Tamwil is profit-driven, it follows sharia principles when it comes to raising funds (funding) and financing (financing).

Baitul Mal wat Tamwil (BMT) is a non-bank financial institution with a mission to promote community prosperity through the creation and development of an economic order and civil society structure that is just, prosperous, prosperous, and justly based on Sharia and Allah SWT's pleasure (Manan, 2014: 362). BMT emphasizes the construction of values and morals of life, sincerity of sacrifice without waste, recognition of individual property rights, mutual assistance, institutionalization of productive zakat, prohibition of hoarding and neglecting others (monopoly), and prohibition of usury in achieving a just and prosperous society.

Bait al-Maal and Bait al-Tamwil are the two main roles that BMT plays. By collecting and distributing social funds, Al-Maal does not seek profit (non-profit). Al-Tamwil aims to make a profit by following shari'ah principles when conducting business (Ridwan, 2004: 101). BMT is a non-bank Islamic financial institution that is not governed by banking regulations, but its existence fulfills the function of al-Tamwil, which is to collect and finance according to sharia principles. Capital, liquidity, institutional health, good corporate governance implementation, and other issues should all be regulated specifically to gain trust. From a non-syari'ah non-bank institution to a sharia bank, the BMT base, which is only in the form of a cooperative, can transform into a bank.

Article 4 paragraph (2) of the Sharia Banking Law states that Sharia Banks (BS) and Sharia Business Units (UUS) can perform dual roles in carrying out the social functions of Baitul Maal. Maal and tamwil are balanced in operational practice.

In the presence of social and business functions, this sets us apart from other businesses. Bait al-responsibilities Maal's include: (1) providing cash for non-commercial financing; (2) providing reserves for the elimination of non-performing financing due to bad business customers; (3) providing efforts to improve the welfare of those in need, such as scholarships, health benefits, public and worship facility construction, and providing

promotion costs for Bait al-Tamwil in the success of fundraising and distribution products (Zamzami, 2009: 9).

BMT, in addition to being Bait al-Tamwil, plays a role in maximizing sharia business through two types of activities: (1) fundraising and (2) financing (financing). Both are done to keep money and liquidity from becoming idle. Management must socialize and preach to build public trust and be trustworthy in the context of funding and financing, because the higher the public trust, the easier it will be for the institution to be accepted and collect and distribute funds.

Because the government plays such an important role in economic equity, it is necessary to create government-managed financial institutions as part of efforts to level the playing field. There are financial institutions that manage social funds that can be used to empower the people's economy in addition to banking and non-banking financial institutions.

CONCLUSION

The existence of various financial institutions that provide financial services by involving Islamic social funds such as Baznas (National Amil Zakat Agency), BWI (Indonesian Waqf Agency), Baitul Maal Wa Tamwil, and other institutions with the goal of embracing middle, small, and micro communities demonstrates the implementation of Islamic social finance in Indonesia. As a result, it can be concluded that the Islamic economics methodological approach in Indonesia will be able to achieve economic equity, given the potential that exists, one of which is Indonesia, the country with the world's largest Muslim population. Second, Indonesians are known for being religious and generous. We can expect the emergence of centers for Islamic economic applications such as a new halal industry, an inclusive sharia financial services industry, productive Islamic philanthropic activities, and a quality center for Islamic economic studies in Indonesia if awareness about the importance of implementing the sharia economy has been widely spread.

The government must pay close attention by enacting policies encouraging Muslims to pay zakat in national amil zakat institutions such as BAZNAS and waqf at BWI, as well as collaborating between Islamic financial institutions and philanthropy institutions in order to empower people and achieve economic equity.

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