

INTEREST-FREE ECONOMY

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Abstract - Business activities are very complex, starting from capital, business objects, contracts used and ways of doing business cannot be separated from the reach of the Shari'a. Capital which is an injection of funds to build or develop one's business is often not considered halal. The existence of financial institutions that provide capital services with an interest system creates a dilemma for the community. On the one hand, usury is haram, but on the other hand, if there is no capital from the financial institution, the business will not stand or develop rapidly. Banks as financial institutions through their activities withdraw money from those who channel it to the public, with the main business of providing credit and services in payment traffic and money circulation. For countries that are trying to improve their economy, they have a very important role and position, especially in relation to the economic contacts of other countries. In modern life as it is today, Muslims can hardly avoid muamalah with conventional banks in all aspects of their lives, including their religious life.

Keywords: interest rates, Islamic banking, capital.

1. Introduction

Technology and information that continues to develop contribute to the business world, as well as the birth of financial institutions as institutions that play a very important role in economic growth. Indonesia, which is predominantly Muslim, certainly cannot escape from socio-economic changes. Islamic teachings that must be adhered to as a form of implementing the principle of monotheism become a barometer in responding to these social changes. So that Indonesian Muslims do not fall into business activities that are forbidden by Allah.

Business activities are very complex. Starting from capital, business objects, contracts used and ways of doing business cannot be separated from the reach of the Shari'a. Therefore, in this discussion, it is limited to the aspect of capital which supports the establishment of one's business. Capital which is an injection of funds to build or develop one's business is often not considered halal. Only on the pretext that there is benefit, then consider the business being carried out as halal, and a blessing so that they do not ignore the provisions of Allah's Shari'a.

Whereas the intended benefit can be subjective because Allah does not forbid something unless it contains harm (danger). The existence of financial institutions that provide capital services with an interest system creates a dilemma for the community. On the one hand, usury is haram, but on the other hand, if there is no capital from the financial institution, the business does not exist or does not develop rapidly. In line with this, this paper aims to discuss business development without usury as a solution to the problems faced.

Indonesia is one of the largest countries that adheres to Islam, but the sharia system only received permission to operate on May 1, 1992 (27 Shawwal 1412 H), namely the establishment of Bank Muamalat Indonesia (BMI) which was initiated by

the Indonesian Ulema Council (MUI).

The crisis that began in 1997 was the first test of the Islamic financial system in Indonesia. The crisis which initially only started with the Baht exchange rate crisis in Thailand has spread to an economic crisis, continues to become a social crisis, even to a political crisis. Finally, at its peak, it paralyzed almost all the joints of the nation's life. The crisis, which had been running for six months during 1997, worsened at a relatively fast pace. So on November 1, 1997 the Indonesian government revoked the licenses of 16 banks because they were declared incapable of carrying out their operations. Meanwhile, Bank Muamalat Indonesia (BMI) was not like that, BMI escaped from the crisis. Basically, banks that run their operating systems using interest suffer large losses while banks that run profit-sharing (sharia) systems do not.

This incident is a lesson that can be learned, although not all conventional banks are closed. However, a financial system that uses an interest system will bring havoc to the country's economy. Based on this brief introduction, the authors are interested in analyzing more deeply the impact of bank interest (usury) on the country's economy. Enable Indonesia to get out of the circle that can wreak even greater calamity on the country.

2. Discussion

A. Bank Interest (Riba) in History

History says that business activities with the interest system have existed since 2500 BC, both ancient Greece, ancient Rome, and Ancient Egypt. Likewise, in 2000 BC, in Mesopotamia (present-day Iraq) a flower system developed. History also records that the ancient Greeks, who had a high civilization, strictly forbade borrowing money with interest. Aristotle in his *Politics* has criticized the interest system that developed in ancient Greece. By relying on philosophical rational thought, without the guidance of revelation, he judged that interest was an unfair system. According to him, money is not like a chicken that can lay eggs. One coin cannot give birth to another currency. He further said that lending money at interest is something of a low degree. Meanwhile, Plato in his book *"Laws"*, also condemns flowers and views it as an ungodly practice. The two most prominent Greek philosophies are considered representative enough to represent the views of Greek philosophy on flowers.

Every human civilization actually rejects the existence of bank interest. Moreover, with the legitimacy of religious teachings, the rejection is getting stronger. However, the pragmatic interests of the capitalist economy destroyed this civilization.

The nations of the past had known banks, but the old banks were certainly different from modern banks, according to the initial level of transaction occurrence at that time. At that time there was no currency and only appeared in the Middle Ages, then there arose banking institutions which they used as currency instruments, exchange of money with others and storage. This is in accordance with the level of progress they achieved at that time. They have not operated the money deposited with the bankers. Then the bankers thought that it would be better if the money was

managed, because in general the owners of the money did not want the money they deposited to be operated. However, the money deposited by the customer to the bank without the customer's knowledge can be managed by the bank, while they can return this deposited money when the custodian asks for it back. Because there is a lot of money deposited in the bank, so he can enlarge his operations and bring in big profits too.¹

Bankers are of the opinion that it is advantageous for them if the depositors are given a share of the profits from the money they deposit with them, so that their money will also grow, in this way, the depositors get a profit and the banker also gets a much bigger profit. . If depositors are not given a profit, perhaps they will not entrust their money to the banker again or will not allow it to be developed. Because of that, eventually other people are motivated to entrust their money to him, so that the investment and profits will increase. From here, the idea of a modern banking institution (conventional bank) was born. The biggest support for the survival of banking is deposits, although they also rely on two other sources, namely:

1. Capital, includes capital provided by shareholders and capital obtained from profits.
2. Credit, this is done by commercial banks if they need capital, and borrowed from the central bank or other banks.

The development of modern banks began to develop in Italy in the Middle Ages which was controlled by several families to finance the papacy and the wool trade, then banking developed rapidly after entering the 18th and 19th centuries.²

Banks as financial institutions through their activities withdraw money from those who channel it to the public, with the main business of providing credit and services in payment traffic and money circulation. For countries that are trying to improve their economy, they have a very important role and position, especially in relation to the economic contacts of other countries. It is hard to imagine carrying out economic activities without dealing with banks.

In modern life as it is today, Muslims can hardly avoid muamalah with conventional banks in all aspects of their lives, including their religious life. For example, the pilgrimage in Indonesia, Muslims still have to use the services of a bank, especially in economic life that cannot be separated from banking services. Because without the services of banks, the Indonesian economy would not be as smooth and advanced as it is today.

As an intermediary, the bank then gets the spread as a source of income, which in general is the main source of income. The foregoing implies that a high interest rate on deposits can occur because of a high inflation rate, high real interest rates abroad, and high levels of competition between banks. On the other hand, a high interest rate

¹ Abu Sura'i Abdul Hadi, *Bunga Bank dalam Islam*, 1993, hlm 95.

² M. Zuhri, *Riba dalam Al-Qur'an dan Masalah Perbankan*, 1996, hlm. 142-143.

on a loan can occur due to a high interest rate on deposits as a source of funds and a high spread rate.

The process of determining interest rates as mentioned above tends to be easier to accommodate increases than decreases in interest rates. Because to reduce the interest rate, it must start from lowering the interest rate on deposits which contain the risk of moving the deposit of funds from the bank that lowers the interest rate to a bank that provides a higher interest rate. Therefore, who dares to lower the interest rate first? Of course not even through existing inter-bank agreements. Such an agreement is difficult to implement because of the different strengths of each bank. On the other hand, the loan interest expense paid by the borrower to the bank is usually shifted as much as possible by the borrower of funds to the last guarantor.

B. Prohibition of Riba

One of the main differences between the conventional economic system and the Islamic economic system is the application of interest and profit sharing. The conventional economic system will earn income in the form of interest while the Islamic economic system will earn income in the form of profit sharing.

The prohibition of interest (riba) in Islamic economics has been widely discussed by Islamic scholars and scientists throughout history. According to Prof. A. M. Sadeq (1989) in his article "Factor Pricing and Income Distribution from An Islamic Perspective" published in the Journal of Islamic Economics, states that the prohibition of usury in the economy, at least, is caused by four reasons:

1. The usury economic system has created injustice in society, especially for financiers (banks) who definitely receive profits without wanting to know whether the borrowers of these funds make a profit or not. If the lenders make a profit in their business, then the issue of injustice may not arise. However, if the business ventures of the capital borrowers go bankrupt, the capital borrowers must also repay the capital lent from the investors plus interest on the loan. In this situation, the bankrupt capital borrowers seem to have fallen on the ladder too, and isn't this something very unfair?
2. The usurious economic system is also the main cause of the imbalance between investors and borrowers. The large profits obtained by borrowers who usually consist of giant industrial groups (conglomerates) are only required to repay their capital loans plus interest on loans in relatively small amounts compared to the billions of profits they earn. In fact, the depositors of money in banks are generally composed of the lower middle class people. This means that the large profits received by the conglomerates from the proceeds of their borrowed money are not commensurate with those felt by the financiers (the depositors of money in the bank) who generally consist of the lower middle class.
3. The usury economic system will hinder investment because the higher the interest rate in society, the less likely people are to invest. People will be more inclined to save their money in banks because greater profits are obtained due to high interest rates.

4. Interest is considered as an additional cost of production for businessmen who use borrowed capital. High production costs will certainly force companies to sell their products at higher prices. The soaring price level, in turn, will invite inflation due to the weakening purchasing power of consumers. All the negative impacts of the usury economic system will gradually, but surely, weaken the economic foundations of the people. The economic crisis certainly cannot be separated from the adoption of the usurious economic system as mentioned above.³

C. The Impact of Riba on the State's Economy.

1. Economic Impact

Muhammad Syafi'i Antonio, according to him, the negative impact of usury in the economy is the inflationary impact caused by interest as the cost of money. This is because one of the elements of price determination is interest rates. The higher the interest rate, the higher the price that will be set on an item.⁴

Meanwhile, according to Agustianto, in Riba and Meta Islamic Economics, the impact of usury from an economic perspective is:

- a. The usurious economic system has caused many economic crises everywhere throughout history. Throughout history, since 1930 until now due to fluctuations in interest rates, it has opened up opportunities for speculators to speculate which could lead to economic volatility in many countries. The economic system of usury (interest) is the main cause of the instability of a country's currency. Because money will always move from countries with low real interest rates to countries with higher real interest rates because speculators want to earn big profits by keeping their money where real interest rates are relatively high. Efforts to obtain profits in this way, in economic terms are called arbitrage. The real interest rate here is the interest rate minus the inflation rate.
- b. In the usurious economic system, the gap in the world's economic growth occurs constantly, so that the rich get richer and the poor get poorer. IMF data shows how the gap has occurred since 1965 to the present day.
- c. Interest rates also affect investment, production and the creation of unemployment. The higher the interest rate, the lower the investment. If investment decreases, production also decreases. If production decreases, it will increase the unemployment rate.
- d. Economic theory also teaches that interest rates will significantly cause inflation. Inflation caused by interest is inflation that occurs due to human activity. Inflation like this is very hated by Islam, as Dhiyuddin Ahmad wrote in the book *Al-Quran and Poverty Alleviation*. Inflation will reduce purchasing power or impoverish the people with the assumption *cateris paribus*.
- e. The usurious economic system has also plunged developing countries into a deep debt trap, making it difficult for them to pay interest alone, especially with the

³ A. M. Sadeq. "Factor Pricing and Income Distribution from An Islamic Perspective" hal ; 198

⁴ Muhammad Syafi'i Antonio : *Bank Syariah dari teori ke praktek*, 2001 hlm,67

principal.

- f. In the context of Indonesia, the impact of interest is not only limited to that, but also has an impact on the depletion of APBN funds. Interest has burdened the state budget to pay bond interest to conventional banks which have been assisted by Bank Indonesia Liquidity Assistance (BLBI). In addition to bond interest, SBI also pays interest. This large interest payment has made the APBN into a deficit every year. The State Budget should be in a state of surplus every year in large amounts, but because the Indonesian monetary system uses the usury system, the impact on all Indonesian people is dire.⁵

2. Social Society

Riba is income earned unfairly. The usury takers use their money to order others to try and repay, for example twenty-five percent more than the amount lent. The problem is, who can guarantee that the business run by that person will later earn more than twenty five percent of profit? Everyone knows that whatever effort is made will have two possibilities, namely: success and failure. However, this is not the case with usury. By setting usury, people have ensured that the business being managed will definitely profit.

3. Impact of Company Resilience.

If one of the company's principles is going concern or the company will exist forever then the company will go through various economic conditions every time, where the weather can be very sunny and can be very extreme at other times, therefore only companies that have endurance who will survive. Realizing this situation, the company will always look for ways and schemes to survive in the face of various economic conditions, so the question is how far does interest affect the company's resilience.

The problem above, in fact, never happened if the Islamic economic system was adopted in the country's economic system. Because the value of money will not be affected by differences in the real interest rate, because Islamic economics does not recognize the interest system (riba). This is why the value of money in an interest-free economy does not experience harmful volatility. In Indonesia, the usury economic system has had a very bad impact on the Indonesian economy. The Indonesian state budget funds are depleted every year for the purpose of paying large amounts of interest, both for interest on foreign loans, especially for paying interest on recap bonds to banks with the usury system..

D. Business Solutions Without Riba

Mudharabah is a contract that is intended to develop assets when viewed from the side of the person who provides business capital (shahib al-mal), and is the cause of property ownership when viewed from the side of the person who manages the

⁵ Agustianto, Riba dan Meta Ekonomi Islam, 2010

property (mudharib).⁶ It is called property development because at first a person already has property and with a mudharabah contract hopes that his wealth will grow from profit sharing. It is called because ownership of property is seen from the manager because with the mudharabah contract the manager who previously did not have property becomes property from profit sharing. Mudharabah is an investment in economic institutions that have existed for a long time, because Abbas bin Abdul Mutholib ra., once handed over assets to be managed using the mudharabah system.⁷

The mudharabah contract in a philosophical review contains the values of cooperation, the exchange of benefits not only for the contract actors but for the wider community, benefit, and distribution of wealth. Mudharabah literally means hitting and traveling. Mudharabah seen from the financier (shohibul al-mal) is an expression of lust for property, the owner of capital wants his wealth to increase. It is also a form of helping people who have difficulty opening a business.⁸

The benefits felt from this mudharabah contract, not only by two parties (shahibul al-mal and mudharib) but also by many parties, namely the existence of a capital manager means that there are new players in the real sector whose job is to distribute human needs, meaning that there are new players in the real sector. business actors because they have obtained capital that produces human needs. Ibn Khaldun argued that the wealth of a country is not determined by the amount of money in the country, the wealth of a country is determined by the level of domestic production and the positive balance of payments of the country.⁹

Mudharabah contract is the distribution of benefits through the distribution of wealth. Wealth in Islam must be channeled to all elements. That's a healthy economy. Like a healthy human body, if you identify a healthy human body, it is the presence of blood circulation that flows throughout the body. Because if there is one organ of the body that is not flowing with blood, then that part of the body will get sick. The presence of blockages that result in not flowing blood to various organs of the body, is the cause of body pain.

Likewise, a healthy economy, goods are something that humans need and must be distributed everywhere. If there are people who cannot feel the benefits of the goods because of limited capital, then with the mudharabah contract people who do not have capital will be able to feel the benefits of the goods. Thus, the mudharabah contract is a distribution of benefits through the distribution of wealth.

The interest system is close to tyranny, as happens in the business world where it is not known whether it will make a profit or a loss. Likewise in profits, it is not known whether to experience a lot of profits or not. In the interest system, even though the business is losing money, the interest and principal must still be paid. How is it possible that there will be an exchange of benefits if there is a wronged party.¹⁰

⁶ fatwa DSN-MUI no 07/DSN-MUI/IV/2000.

⁷ Ath-Thabrani, dalam kitab Al-Kabiir, riwayat dari Ibnu Abbas ra.

⁸ Nurul Huda, Baitul Mal wa Tamwil (Jakarta: Amzah, 2016), h.

⁹ Adi Warman A. Karim, Ekonomi Mikro Islami (Jakarta: Rajawali Press, 2014), h. 148

¹⁰ Dwi Condro Triono, Ekonomi Pasar Syariah (Yogyakarta: Irtikaz, 2017), 254.

In contrast to *mudharabah*, profits are based on profit sharing. The amount will adjust to the conditions of the business being run. Is the company in a state of loss or profit. Whether the gain is big or small. With a profit-sharing system, no party will be wronged. This means that the benefits that are the purpose of the contract can be truly felt by both parties.

3. Conclusion

Muslims must manifest their Islam in all aspects of life, including economic life. Because actually, Muslims have their own economic system where the outlines have been described in full in the Qur'an and A-Sunnah. It is natural for us as Muslims to carry out economic activities in accordance with Islamic rules and regulations. It must be admitted that the development of civilization to date is extraordinary. Likewise, the pattern of life is very complex. So that Muslims in general and Muslim scientists in particular need to be very proactive in efforts to revitalize the concepts of *muamalah*, through exploring the values contained in the Al-Quran and A-Sunnah. It is very clear the rules for *muamalah* in the Al-Quran and Hadith regarding the prohibition of interest and the like in any kind of transaction. There is a financial imbalance (crisis) that is happening today because the Indonesian people have not fully implemented the Islamic economy. Not only ordinary people who do not understand about the Islamic economic system, but people who are highly educated are still convinced that the only thing that can improve the economy in Indonesia is the interest system.

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