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Control of Inflation in The Islamic Economic System

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Abstract :

Inflation is considered a monetary phenomenon caused by a decrease in the value of a currency unit against a commodity. This monetary phenomenon negatively affects the economy because it causes disruption to the functioning of money, distorts prices, damages output, undermines efficiency and productive investment and causes injustice and social tension in society. Islamic economics offers solutions to overcome inflation, including reforms to the monetary system, linking the quantity of money circulation with the quantity of production, directing spending and prohibiting excessive attitudes, preventing the accumulation of commodity goods and increasing production. Another solution to overcome inflation is implementing a fiscal policy that includes maximizing zakat collection and optimizing zakat utilization, charging fees on idle funds (cost of the idle fund) and using the principle of revenue sharing in every transaction or any business and money.

Keywords : *Inflation, Islamic economics, disruption*

INTRODUCTION

Inflation is a state in which the price of a particular item increases continuously and lasts a whole period of time. Inflation is a monetary event that can result in a decrease in the value of a currency against a particular item so that this event will cause disruption to the functioning of money itself, price distortions, result in damage to output in the production market, undermine efficiency and productive investment, and cause injustice and social tension in society.

Inflation is said to be a rise in the general level of prices, which means inflation is the general price increase of a good and service during a given period of time. In general, inflation is caused by the increase in people's purchasing power towards a good, when people's purchasing power on an item increases, it can be interpreted that people's demand for an item rises but the stock of the goods is little or limited, so that there is an increase in price. Inflation can also cause due to rising production costs so that when there is an increase in raw material prices and employee salary increases, producers will take action to raise the price of the commodity. In addition, inflation can also be caused because too much money circulating in the community is caused because, if the circulation of the amount of public money is a lot then the purchasing power of the community against an item will increase and goods will increase.

Indonesia experienced a fairly high inflation in 1998 with a figure of 77.6%. Inflation is caused by shrinkage of the rupiah exchange rate, economic crisis and expectations of high inflation. Previously Indonesia also experienced a similar hapir event with hyper inflation in 1966 when the old order ended. So psychologically inflation is a crisis for the people of Indonesia. One way that can be done to control inflation is to implement monetary policy. Monetary policy is defined as a coordinated monetary authority plan and action to maintain monetary balance, stabilize the value of money, promote smooth production and development, and expand employment opportunities to improve people's living standards. Monetary policy can be carried out by the Monetary Authority, the Central Bank by influencing the monetary variable, namely the amount of money in circulation.

Inflation is an economic condition that is always interesting to discuss because it is related to its widespread impact on the economy in aggregate or macro, namely related to economic growth, economic stability, competitiveness, interest rates, and even income distribution. A zero percent inflation rate is not the main goal of government policy because it is very difficult to achieve and can lead to deflation. The main thing is how to control the inflation rate to keep it low. Normal inflation is low inflation, which is between 0-4 percent, there is also limiting it to single-digit inflation.

If a country wants to control the low inflation rate, then the government must control the price increase. Efforts to control the price can be done by suppressing the rate of increase in the money supply for example by limiting lending or by raising the interest rate on loans (tight money policy). But the impact will be that there will be a sluggishness of investment, and rising unemployment that will eventually lower national income. We need to remember that inflation rates that are too low will also be very dangerous if it reaches the deflationary numbers. In economics, deflation is the opposite of inflation, a state in which prices generally fall and the value of money increases. Inflation that is too low will greatly affect employers. The entrepreneurs became a loss and resulted in the economy becoming sluggish, so many layoffs everywhere and eventually people's income decreased.

A sluggish economy will result in a country's economic growth to decline. A normal inflation rate is in line with a country's economic growth rate. In developing countries, inflation is considered reasonable when it is at 3%-4% every year with a deviation tolerance between 1%-2%. But for developed countries such as the United States, Britain, and Japan, usually the central bank targets inflation of 2%. If there is hyperInflation then it indicates that a country is experiencing an economic crisis (recession).

The influence of inflation is quite large on economic life, inflation is one of the economic problems that get a lot of attention from economists, governments, and the general public. Various theories, approaches and policies are developed so that inflation can be controlled as desired. For this reason, researchers are interested in researching inflation and how to overcome it in Islam, then this article will discuss "Inflation Control in the Islamic economic system".

RESEARCH METHOD

The method in writing this article is to use literature studies through a descriptive-analytic qualitative approach. According to Furchan and Maimun, descriptive-analytical qualitative approach is research that is emphasized on the search and review of written sources and other reading materials related to the themes discussed to be further studied and examined in depth. While the study of literature is not only reading and recording literature / books but reading and also processing research materials. This literature study also describes the objects of a study and then analyzes them. The analytical technique used in research is Content Analysis (content analysis). Content analysis is in-depth research into the content of information written or printed in the mass media.

FINDINGS AND DISCUSSION

a. Theory of Inflation in Islamic Economics

Taqiuddin Ahmad ibn al-Maqrizi (1364 AD - 1441 AD), was a disciple of Ibn Kholdun, he was an Islamic economist who was quite popular with his thinking, namely classifying inflation in two groups, namely inflation caused by reduced supply of goods (Natural inflation) and inflation caused by human error inflation. Inflation of this first form is what occurred during the time of the Prophet and Khulafaur Rashiddin. This is due to drought or war, meanwhile, the second type of inflation according to Al-Maqrizi is caused by three things. First, corruption and poor administration. Second, excessive taxes that burden farmers. Third, the amount of money is excessive.

1. *Natural Inflation*

Natural inflation is inflation that occurs without any cause that encourages inflation, it occurs naturally, not because it is caused by various deviations committed by the rulers of the country. According to Al-Maqrizi, when a natural disaster occurs, various foodstuffs and other produce fail to harvest, so the supply of these goods decreases very drastically and there is a delay. On the other hand, due to its very significant nature in life, the demand for various goods has increased. Soaring prices far exceed people's purchasing power.

Al-Maqrizi said that this inflation is inflation caused by the decline in Aggregate Supply (US) or rising Aggregated Demand (AD), it greatly impacted the increase in prices of various goods and services. As a result, economic transactions will experience obstacles, even the bankruptcy of entrepreneurs, which ultimately leads to a disaster of scarcity of needs and higher unemployment among the public.

Natural inflation can be interpreted as disruption to the amount of goods and services produced in an economy and the increase in people's purchasing power in real terms. Natural inflation can be divided by its causes into two:

a. Money coming in from abroad is too much because exports increase compared to the value of imports so that it results in increased aggregated demand. This situation had occurred during the time of Umar ibn Khatab, at that time exporters who sold their goods abroad were greater than the amount of goods they sold (positive net export). This incident makes the profit in the form of increased money that will be brought to Medina so that people's income and purchasing power increase. Rising aggregate demand will result in an increase in overall price levels. To overcome this situation Umar ibn Khatob prohibited the people of Medina to buy goods or commodities for 2 consecutive days, as a result of which there was a decrease in aggregated demand and price levels returned to normal.
b. The decrease in production levels is caused by natural events or wars such as famine, war conditions or economic embargoes. This famine period had occurred during the time of Umar ibn Khatab which resulted in the scarcity of wheat resulting in an increase in the level of prices.

2. *Human Eror Inflation*

Human Error Inflation is inflation that occurs due to mistakes made by man himself (QS Ar-Rum verse 41), which means; "*There has been corruption on land and in the sea caused by the works of the hands of men, that Allah may feel* *to them some of their deeds, that they may return (to the right way)*." Human Error Inflation can be grouped according to its causes as follows:

a. *corruption and bad administration*

Corruption and poor administration will drive high prices, as producers will adjust the selling price on their production to cover the additional costs they have paid. Bad bureaucracy with convoluted licensing processes will also encourage increases in the price of producer goods because they will be burdened with considerable costs in the adminitration process so that it will increase production costs that result in price increases.

If using the aggregate demand (AD) and aggregate supply (US) approaches, then corruption and poor administration will cause contraction in the aggregate supply curve, leading to the occurrence of high cost economy prices. Prices become higher because there are undue costs coming in so that they do not reflect the value that should be in the production process that causes inefficiencies. In addition to causing inefficiencies in resource allocation and high-cost economy, corruption and poor administration will be able to cause the economy to collapse.

b. *excessive tax*

The resulting effect due to the imposition of excessive taxes by the government on the economy will have almost the same impact as the consequences caused by corruption and poor administration, namely the contraction on the aggregate supply curve. The price will become more expensive because the production costs incurred must increase with the cost of taxes that must be paid to the government. If there is an excessive tax enactment it will have an impact on the selling price applied to the community. If considered further, excessive taxes according to economists will result in efficiency loss or dead weight loss.

c. *Escessive Seignorage*

Escessive Seignorage is a profit obtained from printing money that is used to cover the state budget, usually the printing is done by the government. Excessive printing of money will cause too much money circulating in the community, it will have an impact on the decline in the value of the currency.

Ibn al-Maqrizi revealed that printing money excessively will cause the price level to rise, so he thinks the value of the currency will decrease drastically which results in money no longer being valuable. According to him, the increase in the price of a commodity is an increase in the amount of money, while when measured by gold (dinar), commodity prices rarely increase. Money should be printed only at the minimum level required to transact and in fractions that have a small face value.

b. Control of Inflation in the Islamic Economy

Inflation control is an obligation for the government of a country because the problem of macroeconomic conditions will directly affect society. To overcome this, what the government can do is by doing some policies that concern monetary, fiscal, and non-monetary fields. Government policy (fiscal policy) and monetary authority (monetary policy) are part of efforts to control inflation. If inflation is deenisikan with the tendency to increase prices in general, then we will understand that in every economy there will always be inflationary problems.

a. Fiscal Policy

According to An-Nabahan in Islamic economic thought, the government is a formal institution that has an obligation to realize and provide the best service to its people. To realize the welfare of the community, the government's responsibility to the economy is one of them by supervising and interpeneting on the main factors driving the economy.

Islamic governments use two policies, namely fiscal policy and monetary policy. This policy has been implemented since the time of Rasullulah and Khulafaur Rosyidin then developed by the scholars. The purpose of fiscal policy in Islam is to create economic stability, high economic growth rates and equalization of income, plus other objectives contained in Islamic rule.

Fiscal policy is a very important policy for a prosperous country. This policy covers government spending on public interest, taxes and loans to stabilize the country's economy and people's well-being. Public spending in question is for the function of a prosperous state in enhancing growth, economic stability and greater income equality. RIGHTS Mannan argues that the Islamic principle of fiscal policy and spending budget aims to develop a society based on a balanced distribution of wealth by placing material and spiritual values at the same level. What is meant by material value is a useful value for the human body, namely the need for clothing, food, boards. While the spiritual value is a value that is useful for the human spirit, namely religious values (religion), aesthetic values, ethical / moral values and the value of truth in general. Thus Chapra and Mannan want fiscal policy in order to reduce inflation not only to put a material orientation but need to put spiritual values.

1. Moral improvement
   Human well-being will be gained through the fulfillment of human material and spiritual needs. Islamic economics encourages man to master nature and utilize the resources given by God for the good of man, Islam also gives a lesson to humans not to fixate on one thing by considering material fulfillment as the main benchmark as the fulfillment of human welfare and forgetting the spiritual value of man himself. Islam considers material life and spiritual life to complement each other as one and together as the foundation for the real well-being and happiness of man. The unity of all these things will increase human and community morals in economic life. With such an increase in spirit, there will not be a single goal that can be realized in the real welfare of man, it will bring to the core the concept of welfare in Islam.
2. Equitable distribution of income and wealth
   Islam has provided guidelines in organizing all aspects of life including in social and economic life. The equitable distribution of income and wealth is the goal that all economic systems want to achieve, it cannot be achieved without the belief of human fraternity based on faith. The awareness and attention to help each other among humans is only in the way of one's religious attitude so that the process of dispossession and equitable wealth will be easily achieved.
3. Elimination of Riba
   The concept of the elimination of riba in Islamic economic life in addition to being a religious order, it is believed to eliminate injustice in economic transactions and eliminate oppression of fellow human beings. The concept

of revenue sharing becomes the most important part in creating balanced economic conditions.

The role in fiscal policy will greatly affect the economic conditions of a country. In order to achieve these economic development goals, there are several instruments that can be used in their policies, namely:

a. Government Spending Arrangements, the Government must maintain the use of state budgets to fit the planning. So as not to exceed the planned limits that can encourage the increase in money supply and vice versa.
b. Increase and Decrease tax rates by controlling policies regarding tax rates can stabilize people's purchasing power and the production ability of goods and services.
c. Optimizing the collection and utilization of zakat. The maximal collection of zakat can be utilized for various activities aimed at ensuring economic stability. This is taken if it is assumed that an economy is in full employment, then the increase in aggregate demand will not cause an increase in national real income.
d. Charging for idle funds, this is to encourage people to invest their funds not only through savings and deposits but directed at the creation of real sector growth. With the cost, every community is required to invest the funds they have.
e. Use the revenue sharing principle on any transaction or any type of business and leave interest. In the profit sharing system all parties involved will divide the profits and losses together according to the proportion of their respective capital, thus all forms of transactions be it the household, private and government sectors can all carry out the principle of profit sharing without the use of interest.

The government in Islamic economics must be more assertive to ensure that the withdrawal of zakat proceeds collected from every Muslim when it has excess property that has reached nishab. The purpose of fiscal policy in Islamic economics is to create economic stability, high economic growth rates and income equality, coupled with other objectives contained in Islamic rules, namely Islam set at a high place for the realization of equality and democracy in accordance with QS. 59:7, which means: "*Whatever spoils Allah gives to His Messenger (from property) that comes from the inhabitants of the cities are for Allah, for the Messengers, relatives, orphans, the poor and those who are on the way, so that they may not circulate among the rich among you. What the Messenger gives you, accept it. And what he forbids for you, so leave it. And fear God. God is punished*."

Islamic economics will encourage helping and supporting the economy of underdeveloped communities and to advance and spread the teachings of Islam as widely as possible. The use of fiscal policy can also create employment opportunities, it can be realized if the investment obtained in addition to being used to eliminate the gap between national income and aggregate consumption expenditure, it is expected that the level of profit can be achieved so that it can invite entrepreneurs to help open new investments that will absorb a lot of labor. In addition, what can be done by the government is to attract the burden of unemployed property, so it will encourage the community to optimize its funds to empower resources or investment in order to create new jobs for the community.

c. Monetary policy

Monetary policy is a policy derived from the central bank in regulating the amount of money in circulation through monetary instruments owned. Through these instruments it is expected that the circulation of money can be regulated and inflation can be controlled in accordance with what has been targeted. There are three policies that central banks can pursue in regulating inflation:

1. (discount policy) is the policy of the central bank to affect the circulation of money by raising and lowering interest rates. Related to the bank of Shari'ah is by raising and lowering the rate of revenue sharing ratio.
2. Open Market operations are with the policy of a central bank with the way to buy and sell securities. So that it can be manarik or channel money in order to control the money circulating in the community
3. Cash ratio policy is the central bank's policy to influence the circulation of money by raising and decreasing the presentation of cash inventories from banks.

Monter's policy in Islamic economics is to accelerate the turnover of money in the rill sector to be used optimally and sustainably so as to encourage economic growth as well as stability. Islamic economics does not use instruments of interest or monetary expansion through the printing of new money or budget deficits. The thing to do in the concept of monetary policy in an Islamic economy is the stock of money, not interest rates. Banks should direct their monetary policy in order to encourage growth in the supply of enough money to finance potential growth, both in medium and long-term goals so as to achieve stable prices and socio-economic stability.

To maintain the stability of the price level in the Islamic economy, there are several things that are not allowed, namely:

a. All forms of riba
b. Not allowed to hoard money
c. Requests for money are used for non-real transaction purposes and just in case.
d. Tallaqi rukban transactions are transactions made by intercepting sellers from suburbs outside the city for resale in the city center to benefit from price uncertainty.
e. *Kali bi kali* transaction. Namely cashless transactions that are future transactions without any goods being traded.

According to Chapra in monter policy strategy, things can be done to help regulate the supply of money in accordance with real demand and also help meet the need to close the government budget deficit and also achieve other goals of the community. So it must include several elements that must be done, including:

- Growth targets on M and M0

Periodically the central bank must set the growth of the money supply (M) in accordance with national economic objectives, including maintainable economic growth and stability in the value of money.

- *Public share of demand deposit*
  In certain amounts (normal conditions) the maximum demand deposit of commercial banks up to 25% must be left to the government to finance socially profitable projects.
- *Statutory reserve requirement*

  Commercial banks must have a certain amount of reserves of 10%-20% of their demand deposits with the central bank. The opposite is true of central banks. Statutory reserve requirement helps provide guarantees on deposits as well as helping to provide adequate liquidity for banks.

CONCLUSION

Inflation is a condition when there is a general and continuous increase in prices over a period of time in an economic area. In the Islamic perspective inflation is interpreted as a monetary phenomenon due to a decrease in the value of the unit of money against a commodity. Based on the source or cause of the increase in prevailing prices, inflation is usually divided into three forms, namely demand pull inflation, cost push inflation, mixed inflation. While in the Islamic perspective, inflation based on the cause is grouped into two, namely natural inflation and human error inflation.

The occurrence of inflation is bad for a country's economy because it will cause disruption to the functioning of money, price distortion, undermine efficiency and productive investment and cause injustice and social tensions. There are two types of policies used to overcome inflation, namely fiscal policy and monetary policy. Islamic economics offers solutions to overcome inflation including reforms to the monetary system by eliminating all forms of interest and implementing fiscal policy which among the instruments is to maximize zakat collection and optimization of zakat utilization, charge fees on idle funds (cost of idle funds), and use the principle of revenue sharing in every transaction or all types of businesses and leave interest. Ideally, macroeconomic policy should aim to stabilize prices.

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