

Monetary Policy Literature in the History of Islamic Economic Thinking

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ABSTRACT

One of the Government's strategies is to promote the welfare aspect of the community's economic life. Economic development can be carried out with various strategies. One of them is empowering the wealth of natural resources that have been created by God. The government can open mines of gold, silver, coal, kerosene, gas, tin, etc. that are stored in the bowels of the earth as a form of natural empowerment. From another dimension, to maximize the ability of the economy, the government can make monetary and fiscal policies. In this paper, the author will explain how the government's monetary and fiscal policies in economic empowerment. Broadly speaking, the Islamic version of monetary policy is different from the non-Islamic version of monetary policy. This article focuses on the discussion of monetary policy in the history of Islamic economic thought, which will discuss how monetary policy was carried out in the early days of Islamic rule, starting from the time of the Prophet, his companions, to classical and contemporary economic thinkers. The explanations and descriptions that will be presented in this article can provide benefits both theoretically and practically regarding monetary policy in classical civilization, and its suitability for the present. The method used in writing this article uses a literature review approach, is used to collect relevant information related to monetary policy in the history of Islamic economic thought, secondary data in this article is collected from various research reports in order to obtain an explanation more comprehensive. The impact of monetary policy on the economy at the beginning of the Islamic Government was seen by the increasing demand

for Aggregate Demand from the community after moving to Medina by bringing together muhajirin and ansar. With this brotherhood, each ansar is responsible for the muhajirin so that the distribution of income from ansar to muhajirin increases and has an impact on increasing the total demand of the community and resulting in an increase in resources, labor, land and capital.

Keywords: Monetary, Policy, Islam, Economy, Development

INTRODUCTION

One of the Government's strategies is to promote the welfare aspect of the community's economic life. Economic development can be carried out with various strategies. One of them is empowering the wealth of natural resources that have been created by God. The government can open mines of gold, silver, coal, kerosene, gas, tin, etc. that are stored in the bowels of the earth as a form of natural empowerment. From another dimension, to maximize the ability of the economy, the government can make monetary and fiscal policies. In this paper, the author will explain how the government's monetary and fiscal policies in economic empowerment.

Broadly speaking, the Islamic version of monetary policy is different from the non-Islamic version of monetary policy. Although there are similarities in definitions and the same goals, but there are substantial differences in the legal basis used, the method (both ways of collecting distribution) being used, the state income

instrument used by the system. What has always been the basis for the Islamic monetary policy system is the Qur'an. The monetary policy built by the Prophet Muhammad was the first economic system that had to have a strong ideology based on religion.

Islam does not condone the practice of tolerating interest on loans. To maintain economic stability, Islam does not justify the government to practice usury in foreign loans. In contrast to Indonesia, where the interest system for foreign loans has become a god, so that Indonesia has become a continuously dependent country. So as we can see, for a long time we have been in crisis because of the wrong economic system.

In the field of economists, the Arabs have achieved very rapid development, and become the center of world trade (Karim, 2009:56-57). From the very beginning in Islamic governance, monetary policy was one of the tools to achieve the objectives of the Shari'ah described by Imam al-Ghazali including increasing welfare while maintaining faith, intellectual life, wealth and ownership (Huda at el. 2009:154) . The state has the right to enter into the economic life of the community in order to continue the common welfare by practicing virtue and eliminating the damage of *al-amarbilma'ruf al nahiy al munkar* by prohibiting usury, preventing hoarding (*ikhtikar*), combating all forms of fraud in transactions and regulating commercial transactions. community (Sinn, 2000:21). In economic life, Islam recognizes the freedom to carry out economic activities. However, this freedom is not absolute, a freedom that is limited to the benefit of the individual and the public.

The main problems in monetary policy, one of the most important is related to currency, first, the value of a country's money due to global trade makes it no longer independent and bound to one another. Thus, the instability of the currency of other countries (in this case the US dollar) can cause the instability of the

currencies of other countries. Second, money has begun to shift its function, people no longer use money as a means of exchange and a unit of value, but now it has been used as a store of value.

Discussions related to monetary policy within the scope of Islamic economics are still relatively new and limited, mainly still revolves around its methodology and epistemology (Choudhury, 1997). However, in some literature, it has laid down a fairly clear framework of thought on the position and concepts in the implementation of monetary policy in the Islamic economic system. But most of the others only explain the position of monetary policy in the context of conventional economics and how it can be adapted in a sharia-compliant system. Meanwhile, Abdalla in Yacob and Ibrahim (1999) in his discussion of *musharaka*, briefly touched on the mode of Islamic financing based on profit sharing, namely *musharaka* in monetary policy and its practice in Sudan.

All these discussions, none of which clearly and clearly questions the appropriateness of the current monetary system, as well as all its interest-based apparatus. We all understand that most of the current crises are the result of the domination of the interest system (Sakti, 2002), while the monetary system both in terms of policy and its authority is very dependent on this interest instrument in carrying out its functions and duties.

This article focuses on the discussion of monetary policy in the history of Islamic economic thought, which will discuss how monetary policy was carried out in the early days of Islamic rule, starting from the time of the Prophet, his companions, to classical and contemporary economics thinkers. Explanations and descriptions that will be presented in this article can provide benefits both theoretically and practically regarding monetary policy in classical civilization, and its suitability for the present.

The method used in writing this article uses a literature review approach, used to collect relevant information related to monetary policy in the history of Islamic economic thought, the secondary data in this article were collected from various research reports in order to obtain a more comprehensive explanation. Library research is a form of research that uses library facilities by examining theoretical discussions from various books, articles, and scientific works related to writing (Pandiangan, 2018). According Pandiangan et al. (2018) in Sugiyono, based on certain characteristics that are considered to have relevance to the characteristics of the population that have been known previously.

DISCUSSION

a. Definition and History of Monetarism

The discussion of monetary policy occupies a fairly high position in the strata of economics, where discussions and debates on monetary policy, both in terms of theory and implementation, continue to develop and evolve. Likewise regarding its interpretation and functions, which are constantly evolving .evaluated and studied. Therefore, in interpreting this monetary policy, the author prefers to refer to a relatively classic definition, at least representing the initial thoughts in the study of monetary policy. Therefore, the definition offered by Tinbergen (1956) might represent this sentiment. According to Tinbergen, monetary policy is: “the manipulation of certain aspects of the economy that are under the direct control of the monetary authority, usually called policy instruments”, so as to attain goals that are considered desirable. “Based on the above definition, it can be understood that monetary policy is one of the elements in making economic policy that is directly related to the use of monetary instruments which are under the control of the monetary authority. Of course, economic policy is not the only responsibility and function of the monetary authority, because the scope of its

work also includes regulation of financial systems and institutions, banks for the government and lenders of the last resort. In other words, monetary policy is largely determined by the presence of money in the market, or the emphasis on monetary aggregates. However, this emphasis on the monetary function, which was first initiated by Milton Friedman and later followed by economists from the Federal Reserve Bank of St. Louis, Brunner and Metzler, Sijben (1979), is a relatively new phenomenon. The monetarism movement, at first, was a reaction of this group to the failure of the Keynesian macro-economic stabilization policy in the 1960s, to the crisis experienced by America and Western Europe (Sijben, 1979). This policy, the economic stabilization policy, is a product of Keynes, which among other things states that monetary policy is not effective in neutralizing the economic crisis. This is strongly refuted by the Monetarist, which is supported, among others, by the study of Friedman, Meiselman, et.al, who found that; there is a close and relatively stable relationship between changes in money supply and changes in the national account (Sijben, *ibid*). This, and then coupled with their displeasure with government intervention in economic activity, 6 caused the Monetarist group to continue to insist that economic policy be placed on monetary policy. Their propaganda was quite intense, both through central banking institutions and the academic world, including writing new textbooks that contradicted the premise of most classic textbooks – namely the supremacy of fiscal and Keynesian policy. And, after decades have passed, it seems, monetarism has succeeded in mastering the paradigm of world economic decision-making.

b. Debate in Monetary Policy: Rules and Discretion

One of the most exciting debates, in monetary policy discourse, is between Keynesians and Monetarists, as described above. In addition, monetary policy also has

another dimension, namely the issue of how to make monetary decisions and implement them, which is no less fierce than the previous debate. The debate between those who support the existence of some kind of guide or regulation in monetary policy, or rules, with those who support the full freedom and authority of the monetary authority, or discretion has been going on for more than a century. In fact, both of them have successively dominated the structure and structure of the world monetary authority, with different impacts and consequences on economic activity. Finally, rules began to take over this dominance in the mid-1970s and early 1980s.

c. Islamic Monetary Policy

Early action, Islam has insight into the monetary system. Shaykh Abdul QodimZallum, quoted by Rivai and Buchori (2009:318) in his book *Islamic Ecomics Islamic Economics* is not an option but a solution explaining that the monetary system is a set of procurement and financial arrangements in a country, the most important of which in every finance is determination of the financial basis on which the unit is attributed all the values of various other currencies. If the basic unit of finance is gold, then the financial system is called the gold money system. If the base unit is silver, it is called the silver money system. Shaykh Taqiyuddin An-Nabhani (2009:298-303) says Islam has given freedom to humans to make exchanges by using whatever they like. it' s just that the exchange of goods with certain units of money has been shown by Islam with monetary units. Islam has set for Muslims to certain types of gold and silver. This conclusion is based on the following reasons: First Islam forbids hoarding (al Kans) gold and silver QS at-taubah 9:34 the prohibition isat at hoarding gold and silver, as money and a medium of exchange. Second, Islam has linked gold and silver with standard laws, such as the diyat in the killing of 1000 dinars and the limit for

cutting off hands for thieves for assets that reach dinars. Third, Rasulullah SAW has set gold and silver as currency, and made only gold and silver as the standard of money. Where the standard of goods and services will be returned to that standard. Fourth, When Allah SWT obliges zakat on money, Allah SWT has obligated the zakat Islam has set for Muslims to certain types of gold and silver. This conclusion is based on the following reasons: First Islam forbids hoarding (al Kans) gold and silver QS at-taubah 9:34 the prohibition isat at hoarding gold and silver, as money and a medium of exchange. Second, Islam has linked gold and silver with standard laws, such as the diyat in the killing of 1000 dinars and the limit for cutting off hands for thieves for assets that reach dinars. Third, Rasulullah SAW has set gold and silver as currency, and made only gold and silver as the standard of money. Where the standard of goods and services will be returned to that standard. Fourth, When Allah SWT obliges zakat on money, Allah SWT has obligated the zakat Islam has set for Muslims to certain types of gold and silver. This conclusion is based on the following reasons: First Islam forbids hoarding (al Kans) gold and silver QS at-taubah 9:34 the prohibition isat at hoarding gold and silver, as money and a medium of exchange. Second, Islam has linked gold and silver with standard laws, such as the diyat in the killing of 1000 dinars and the limit for cutting off hands for

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between different types such as buying gold for silver

Based on this legal basis, the monetary system was revealed is not a general area of science and technology (Madaniyah), but is part of a worldview and ideology. In Islam this is commonly called the issue of aqidah and sharia. The fact states that the monetary system is not a general science but its source comes from certain Islamic aqidah and sharia. For example, interest is a monetary problem in the capitalist system, but in Islam, interest is not a monetary problem, because the law is haram. So the capitalist monetary system should not be applied in Islamic society.

The monetary policy mechanism based on Islamic sharia must include six elements:

1. Every year the central bank must determine the growth of money circulation, this is in accordance with national economic targets.
2. Public Share of demand deposit (giral money) in a certain amount (maximum 25%) must be submitted to the government to finance social projects that are profitable.
3. Statutory Reserve Requirements. Commercial banks are required to have a certain amount of mandatory reserves in the central bank. Statutory reserve requirements help provide guarantees for deposits and at the same time help provide adequate liquidity for banks. Instead, the central bank must compensate for the costs incurred to mobilize the funds expended by commercial banks.
4. Fourth. Credit Ceilings (credit restrictions). Monetary policy sets the credit limit that commercial banks may apply to provide assurance that credit creation is in line with monetary targets and creates healthy competition between commercial banks.
5. Credit Allocation by Value. Realization of credit must improve the welfare of society. Credit allocation leads to optimization of production and

distribution of goods and services needed by most people. Profits obtained from the provision of credit are also intended for the benefits of the community. For this reason, it is necessary to have credit guarantees agreed upon by the government and commercial banks to reduce the risks and costs that must be borne by banks.

6. Another technique. The above quantitative techniques must be equipped with other weapons to realize the required goals, including moral suasion or moral appeals.

d. Monetary Management at the Beginning of Islamic Government

At the time of the apostles, dinars and dirhams were imported. Roman dinar and Persian dirham. The amount of volume At the time of the Apostle, dinars and dirhams were imported. Roman dinar and Persian dirham. The volume of imports of dinars and dirhams⁷⁵ as well as commodity goods depends on the volume of commodities exported by these two countries and other areas under their influence. Usually, money will be imported if the money demand in the internal market increases. On the other hand, commodities will be imported if the demand for money decreases. The demand for money during the Prophet's period was generally a transactional and precautionary request. Prohibition of hoarding, both money and commodity goods. In order to maintain monetary stability,

1. Unreal requests. Requests for money are for transactional purposes only and just in case. This act is included in redundant behavior and is prohibited by Allah in Surah al-Sra' verse 27 as follows 27. Indeed, the spenders are the brothers of Satan, and the devil is a complete disbeliever in his Lord.
2. Hoarding of currency as prohibit hoarding of goods. This provision is prohibited by Allah in the letter at-Taubah verse 34 as follows:

34. O you who believe, indeed most of the pious Jews and Christian monks actually eat people's wealth in a false way and they hinder (people) from the path of Allah. and those who keep gold and silver and do not spend them in the way of Allah, So tell them, (that they will have) a painful torment,

3. Conduct transactions by blocking the seller in the middle of the road before reaching the market (talaqqirukban). This prohibition is related to dishonest behavior, so that it will cause harm to the seller. This behavior is the forerunner of the act of speculation. In the hadith of the Prophet, strictly forbids buying and selling by blocking people in the middle of the road.

Meaning: From Ibn Abbas Ra he said; Rasulullah SAW said: it is not permissible to buy and sell by blocking the seller in the middle of the road before reaching the market, and also not to sell merchandise from people who have just arrived from the village I asked him what is meant by the prohibition on selling people's goods from the hamlet? The Prophet replied, do not be a broker in buying and selling that is prohibited. Hadith narrated by Imam Bukhari. This form of transaction was prohibited by the Prophet because it would be able to disrupt monetary stability.

4. All forms of usury, Islam strictly forbids usury in all its forms. This is also prohibited because it can make people miserable and will obviously have an effect on monetary problems. The prohibition of usury is contained in the Qur'an Surah Al-Baqarah:

278. O you who believe, fear Allah and leave the rest of usury (which has not been collected) if you are believers.

In promoting economic growth, as well as stability, Islam does not use interest instruments or monetary expansion through printing new money or budget deficits. The steps taken are accelerating the circulation of money and developing

real sector infrastructure. The driving factor for accelerating the velocity of money is that excess liquidity should not be hoarded and should not be lent at interest.

5. Buy and sell under pressure. Buying and selling should be done on a consensual basis, not because of a threat. Buying and selling carried out under threat is a sale and purchase that is prohibited by Islam. For example, buying and selling with the developer at a lower price than the market price. This is done because the seller is under threat from the developers. This buying and selling is prohibited by Islam, because it destroys the economic stability of the community.
6. Buying and selling of other people's property One of the conditions for a valid sale and purchase must be that the object to be sold is legally owned. However, it happens in the community that buying and selling that has not been handed over has been sold to someone else (bay' alal bay').

e. The Impact of Monetary Policy on the Economy of the Early Islamic Government

The impact of the monetary (financial) policy taken by the early Islamic government in order to increase the demand for Aggregate Demand of the community after the migration to Medina was to bring together the muhajirin and the ansar. The form of brotherhood between Muhajirin and Ansar according to IbnHisham quoted by Hasan (2009, p. 188) is by binding a peace agreement between the Muslims consisting of the Muhajirin and Ansar with the Jews. The description of this peace agreement as a protection for the survival of the Jews in Medina, as a stipulation on their freedom to embrace Judaism and their property is guaranteed. This is reinforced by Pulungan (1996, p. 113) said Rasulullah SAW made a brotherly agreement between the Muhajirin and the Ansar as an Islamic community on the one hand and between the Muslims and

the Jews and their allies on the other so that they avoid tribal conflicts and jointly defend the security of the city of Medina from enemy attacks for life. peaceful coexistence as the essence of brotherhood. With this brotherhood, each ansar is responsible for the emigrants so that the distribution of income from ansar to muhajirin has an impact on increasing the total demand of the people of Medina (Antonio 2007, p. 176). Then another policy is to provide employment by implementing contracts of Muzāra'ah, Musāqad, and Mudharabah as well as limited cooperation between muhajirin who provide labor and ansar who provide capital in the form of agricultural land and currency. naturally, the expansion of the production of trade facilities increased the total production of the people of Medina and also in increased utilization of resources and labour, land and capital. Then in the same period the government distributed land to immigrants to build settlements. This policy also has an impact on increasing work participation and residential development activities in Medina as well as meeting the important needs of migrants for housing. Thus the general welfare level of the Muslims and other citizens of Medina increased (Antonio 2007, p. 177). In this regard, Another impact of financial policy is to provide employment by implementing Muzāra'ah, Musāqad, and Mudharabah contracts. In This policy also has an impact on increasing work participation and residential development activities in Medina as well as meeting the important needs of migrants for housing. Thus the general welfare level of the Muslims and other citizens of Medina increased (Antonio 2007, p. 177). In this regard, Another impact of financial policy is to provide employment by implementing Muzāra'ah, Musāqad, and Mudharabah contracts. In This policy also has an impact on increasing work participation and residential development activities in Medina as well as meeting the important needs of migrants for housing. Thus the general welfare level of the Muslims and other

citizens of Medina increased (Antonio 2007, p. 177). In this regard, Another impact of financial policy is to provide employment by implementing Muzāra'ah, Musāqad, and Mudharabah contracts. In addition, there was limited cooperation between muhajirin who provided labor and ansar who provided capital in the form of agricultural land and natural currency, expansion of production and trade facilities which had an impact on increasing the total production of the community and resulting in increased resources, labor, land, and capital. During the same period, the government distributed land to emigrants to build settlements and at the same time to meet the essential need for housing. Thus the level of general welfare of the Muslim community and the citizens of Medina increased (Antonio 2007, p. 177). The existence of these policies has an impact on increasing production and services in the economy which ultimately leads to a high level of balance between aggregate supply and demand. Along with progress in the economic field, the welfare and employment of the Muslims continues to increase. Thus, monetary and fiscal policies, although through expansion, do not have a negative effect on the value of money (Amalia, 2005, p. 85). Therefore, it can be concluded that at the beginning of the Islamic Government the supply of money (Money Supply) to income was very elastic (flexible) (Karim 2006, p. 163). In addition to the initial economic and monetary policies of the Islamic Government in Medina, it can also be seen from the Government's efforts to build markets controlled by Muslims, which were previously controlled by Jews, so that Muslim consumers shop at Muslim traders, the impact will be that the Muslim economy will grow to balance the dominance of Jewish traders. The basic principles laid down by the Islamic government were related to market mechanisms in trade. In trade transactions, both parties can sell and buy goods sincerely, meaning that there is no interference and interference from other parties in determining the price of goods.

Islam places the function of money solely as a medium of exchange and not as a commodity, so it is not suitable for trading, let alone it contains an element of uncertainty or speculation (gharar) so that what exists is not the price of money, let alone associated with the passage of time, but the value of money to be exchanged for goods. If money is exchanged for other money, then the exchange must be carried out simultaneously (taqabud), and without delay (hulul). If two people exchange money with one side paying cash while the other promises to pay at a later date, then the first party will not be able to use the promised money for transactions until the money is actually paid, so the first party has actually lost the opportunity. In IbnTaymiyya's view, this is the reason why the Prophet Muhammad forbade this type of transaction. then the first party will not be able to use the promised money for transactions until the money is actually paid, so that the first party has actually lost the opportunity. In IbnTaymiyya's view, this is the reason why the Prophet Muhammad forbade this type of transaction. then the first party will not be able to use the promised money for transactions until the money is actually paid, so that the first party has actually lost the opportunity. In IbnTaymiyya's view, this is the reason why the Prophet Muhammad forbade this type of transaction.

CONCLUSION

The laying of the foundations of the State's financial (Monetary) system carried out by the early Islamic Government was a very significant step, as well as brilliant and spectacular at that time so that Islam as a Religion and a State could develop rapidly in a relatively short period of time. The economic and monetary system applied by Rasulullah SAW is rooted in the principles of the Qur'an which is the main source of Islamic teachings. As the main guide for humans in carrying out economic and monetary activities in every aspect of life. There are several principles of economic

and monetary policy described by the Qur'an. First, Allah SWT is the supreme ruler as well as the absolute owner of the universe. Both humans are only the Caliph of Allah SWT on earth, not the real owner. Thirdly, all that is owned and obtained by humans is with His permission. Fourth Wealth must be rotated and must not be hoarded. Fifth, economic exploitation in all its forms, including usury, must be eliminated. Sixth Determine the inheritance as a medium for retribution of wealth. Seventh Establish policies for all individuals, including the poor. The management of the monetary system at the beginning of the Islamic Government was handed over to the Baitul Mal institution. Baitul Mal is a post that is dedicated to managing all income or expenditure of property that is the right of Muslims, while the owner is not clear then the property is the right of Baitul Mal even though the owner is clear. In managing the monetary system, the Islamic government initially allocated funds for the spread of Islam, education and culture, scientific development, infrastructure development and provision of social welfare services. The entire allocation of Baitul Mal funds has an impact on economic growth both directly and indirectly, such as the allocation of the spread of Islam which has an impact on increasing Aggregate Demand as well as Aggregate Supply. Because the population will increase and the use of natural resources will be maximized. The impact of monetary policy on the economy at the beginning of the Islamic Government was seen by the increasing demand for Aggregate Demand from the community after moving to Medina by bringing together muhajirin and ansar. With this brotherhood, each ansar is responsible for the muhajirin so that the such as the allocation for the spread of Islam which has an impact on increasing Aggregate Demand as well as Aggregate Supply. Because the population will increase and the use of natural resources will be maximized. The impact of monetary policy on the economy at the

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