



Analysis of Mixed Economic System in Islamic Perspective

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Abstract

This study tries to analyze a mixed economic system based on the Islamic rules. It is regarded as an ideal mixed economic system because the government plays plays the role in the economic system. Nowadays, many concepts of mixed economic system come up but it cannot be said as the ideal ones due to the economic actors' greediness in interfering the systems. The method for analyzing data is placing the government and private sectors appropriately at a curve of possibility of producing the private-public goods. There are some findings. The first result shows that the government does not need to conduct the market operation and the price interference with the assumption that the poor can meet their basic needs. Then, Islam views that mixed economic system is the ideal one if the goverment and the private sector play roles in the system. The role of goverment is to provide goods for the public and to control the private sectors. Further, the private sectors provide goods for the needs of private. Finally, the finding also shows that there is greediness that appears at the goverment and the private sectors.

Keywords: mixed economic system, government, and private roles, Islam

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INTRODUCTION

Mixed economic system is defined as an economic system that combines more than one aspect of the economic systems (Wikipedia, 2015). Typically, in a mixed economic system, the aspects combined are the domination of private and government. Thus, the mixed economic system is an economic system characterized by the domination of private and government. This system was born of the rapid changes in the economic phenomena that produced the new type of economy (Bogolib; 2013).

Mixed economic system has been used as an economic system of many countries in the world. Mixed economic system is also used in Indonesia (Seff, 2010). Even Hatta (1963: 41) had described the form of a mixed economic system in Indonesia in the form of domination of the state to work on large business, cooperatives for small things, and domination of the private to seek their own capital and labor. In fact, in many countries, the domination of private and government domination is very subtle, and none of the countries which economic system is dominated only by the private sector or the government.

Differences that exist among various countries are only on the degree of the government's domination in a mixed economic system. Perhaps in a country the degree of government's domination is low or moderate, while in other countries the degree of government's domination is high. For example, according to Velinga (2009), the governments in (Southeast) Asia and Latin America are very dominating in the economic development. Nevertheless, they are known as the countries with the mixed economic system. Another difference is the use of a special name for a mixed economic system that is adopted by a country. In

Indonesia, for example, a special name for a mixed economic system is economic democracy (Abbas, 2008), while in Malawi in the year of 1964 to 1980 it is called unilateral capitalism (Kayuni, 2011), and in China that intensively reforms the economic openness it is called Socialism in China culture (Tisdell 2008).

Based on the nature and reality of the mixed economic system, this paper aims to analyze a mixed economic system in the perspective of Islam. The underlying assumption of this paper is the possibility of a mixed economic system with non-ideal pattern. The arguments that can be presented of a mixed economic system that is not ideal is the human greed that not only causes the excessive utilitarianism as proposed by Chapra (2000: 26), but also causes so much domination of public or private that will be detrimental to all parties.

Even greed can lead to collusion between the government and the private sector that in the short term, according Santosa (2014: 162), preserves the poverty, unemployment, economic inequality, environmental damage, and causes the social pathologies. Other argument is the more value of the teachings of Islam that not only teaches the system of worship, but also a variety of living systems, including as told by Al 'Assal and Karim (1980: 10) and Bashir (1987: 1) in the form of an Islamic economic system that would be *rahmatan lil 'aalamiin* and able to eliminate the human greed, which is different from the economic system of capitalism and socialism, as stated by Qardhawi (1995: 18-21).

This article is useful for the observers of the (Islamic) economic system concept. If all this time the concept of a mixed economic system has been considered ideal in terms of the nature and reality, the existence of this paper opens a space for the development of

the concept of a mixed economic system that is ideal and not greedy. Even it opens a space for comparison of the economic system in the economic role of the state and the private sectors. This article is also beneficial for the stakeholders of the mixed economic system. They can consider it for participation that is not based on utilitarianism and greed and is according to the teachings of Islam about the economy.

Mixed economic system focuses on the problem solution of production and exchange of resources, goods and services, while the institutional and agency are not the focus of it. Even adopting the institutional and agency from the capitalist economic system or the socialist economic system is not a problem (Prishardoyo, 2010). It can be concluded that the focus on the production and exchange make the mixed economic system very flexible in adopting the institutional or agency.

There are three models in the adoption of institutional and agency of capitalism or socialism. The first model is the model that avoids the shortcomings of economic system of capitalism and socialism. The second model is a model that gets benefit from the advantages of the economic system of capitalism and socialism. And the third model is the model of 'pendulum' between the economic systems of capitalism and socialism. Although each model is different in the adoption of systems, all three have similarities in the way of adoption, namely the hope that will resolve problems of production and exchange.

The first model is represented by Muhammad Hatta, which according to Abbas (2008) argued a lot about the shortcomings of western capitalist economic system such as secularism, individualism and free fight

liberalism. If the various shortcomings are not avoided, it will damage the noble values such as democracy, cooperation and criticism, and even it will lead to the domination of private monopoly and no involvement of the state so there is no prosperity and economic and non-economic welfare.

The second model emphasizes that the economic systems of capitalism and socialism have various benefits that are needed, but these benefits are not owned by other economic systems. Hence, the usefulness of the economic system is taken as needed. An example is the economic system of socialism that is considered to have benefits in terms of economic domination by the state, and then the domination is adopted and used to control and intervene in the economy. Another example is the economic system of capitalism that is considered to have benefits in the individual ownership and it is adopted by a mixed economic system and used to motivate the domination of private sector in the economy. It may be said that the adoption of this second model is a model of Benefit, Adopt and Use (BAU), which is useful, take and use it.

The third model pays more attention on various technical issues. Like a pendulum, the model is sometimes 'heavy' towards the domination of private or government depending on the technical problems of production and exchange that occurred. Santosa (2014: 223) stated that the pendulum is ever 'heavy' towards the domination of the private-called liberalism, and also ever 'heavy' towards the domination of the government, which began when US President Roosevelt in 1935 applied the New Deal program inspired by the thought of JM

Keynes to overcome the economic crisis at that time, which was also useful to prevent the development of socialism. As for today, the pendulum is back to 'heavy' towards the domination of the private-called neoliberalism through the reduction of the role of government to strengthen the economic growth, although there are many critics, such as a criticism of causing the environmental damage.

Various literature on the role of government in the economy according to the teachings of Islam rests on an overview of the government's two roles: a role as a provider of goods and a role of controlling the economy. As shown in Figure 1, the government's role as a provider of goods can be divided into two those are the role of government as a provider of the basic needs and the role of government in the provision of the public goods. The role of government in the provision of goods is due to the hadith of the Prophet that states: "*Imam* is a servant and he will be asked for his responsibility as his services". For example, the government must provide the basic need food for the poor and people who are not able to meet their own needs. Likewise, the government should provide the public goods that people need, such as highways, hospitals, or schools.

This had ever been taken by the caliph Umar bin Khattab, who was shouldering a sack of grain at night to be given to a mother and her children who suffered from hunger, and immediately repaired the damaged road that harmed a horse pulling carts (al-Qudsy and Rahman, 2011). Such is a little picture of the reality that government in Islam teachings plays a role in the provision of goods. Therefore, in Islam, the government serves the people in the fulfillment of basic needs and public goods.

The role of government in the form of controlling on the economy can be divided into two. The first is controlling over the various economic fraud in the community. The first role is known as a (*wilayatul*) *hisbah* role. Law enforcement officials (judges) will always be around in the middle of the market and the public places. When encountering and proving the fraud, the government official is authorized to immediately stop such fraud so that there is a protection on the consumer (Khan, 2011). Second is the control of improper price of goods. In this case the government controls it by doing 'market operations' to increase the amount of goods and to lower the price level back to the fairness. The government does not control the economy through price caps.

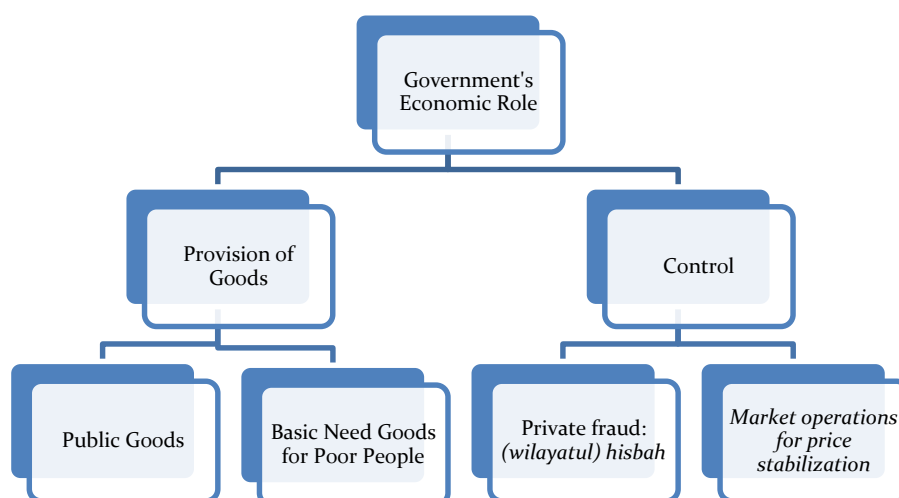


Figure 1. Government's Economic Role According to Islam

There are allegations that the Islamic government can narrow the price. Islahi (1999) for example, who was based on the opinion of Ibn Taymiyyah, suspected that the government may intervene in the price. But if you pay attention more closely on the opinion of Ibn Taymiyyah to discuss the role of (*wilayatul*) *hisbah* in controlling economic fraud, the alleged role of government in influencing the price is not right. More precisely, as stated by Riyardi (2013), the government plays the role in controlling the economic fraud and does not intervene in the price. Thus the government's role is tangible in controlling the economic fraud controls through (*wilayatul*) *hisbah* and controlling the impropriety of prices through 'market operations', which are not an intervention and the price restrictions.

RESEARCH METHODS

The method used in this analysis is a method of ideal position placement of the private and government in the providing of private and public goods based on the possibility curve of the production of private-

public goods. This method puts the private and the government by paying attention to the assumption of full employment in such a condition that any attempt to add a private good brings impact on the reduction of more resources of the government sector, and vice versa, as in the concept of possibility curve of production of private-public goods. Thus, this method is appropriate to examine the government's economic role in the Islamic way and the Islamic mixed economic system.

RESULTS AND DISCUSSION

Figure 2 below shows the production possibility curve of private and public goods and the concepts in it. It is seen that the economy produces the private and public goods at the possibility of points A, B, C or D. The change in production from point A to point B makes the private goods produced more with the 'cost' in the form of reduced production of public goods. The change in production from point A to point C makes the private good produced more, but with the 'cost' in the form of more reduced production of public goods, which is $oP_3 - oP_1 > oP_2 - oP_1$.

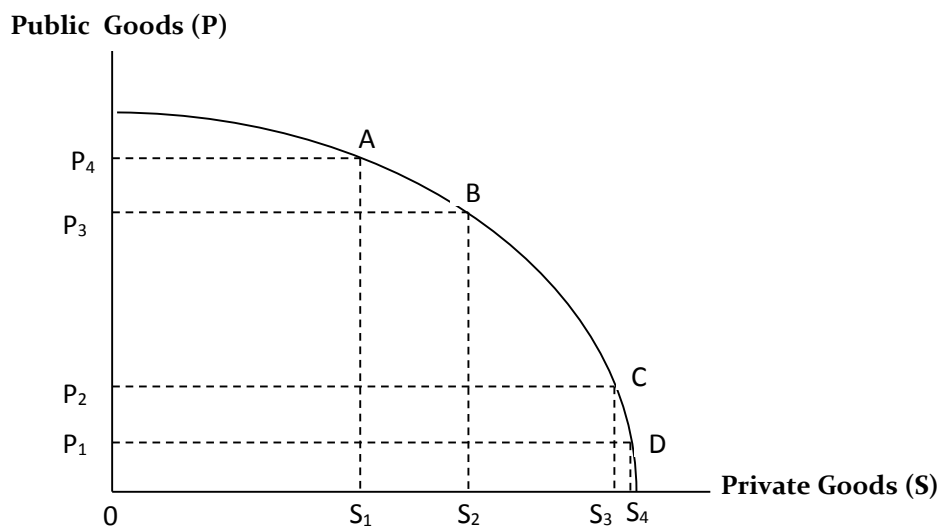


Figure 2. Possibility Curve of Production of Private-Public Goods

And vice versa, the change in production from D to C makes the public goods produced more with the 'cost' of reduced production of private goods. The change in production from point D to point B makes the public goods produced more, but with the 'cost' of more reduced production of private goods, which is $\Delta S_3 - \Delta S_1 > \Delta S_2 - \Delta S_1$. Thus, the private and the government need to be careful in the role of producing the private and public goods, because their role will affect the 'balance' of the production of private-public goods needed by the people. There are three possibilities for the placement of role of government and private. The first placement possibility is the placement of government as a provider of public goods and the placement of private as a provider of private goods. The second is the the placement of government as a provider of public and private goods, while the private as a provider of private goods. The third is the placement of government as a provider of public and private goods, while the private as a provider of private and public goods. Figure 3 shows all possible placements. Possibility 1 illustrates that the government only produces the public goods and the private only produces the private goods. The combination produces a balance production of E^*_2 , in which the public goods produced by the government are as many as P^*_2 and the private goods are produced as many as

S^*_2 . Possibility 2 illustrates that the government also produces the private goods resulting in the balance production of E^*_1 or the private also produces the public goods resulting in the balance production of E^*_3 . To achieve a balance production of E^*_1 , the government uses most of the endowment to produce the public goods as many as P^*_1 that is less than P^*_2 and uses the remaining endowment to produce the private goods valued $S^*_2 - S^*_3$ so that the total of all private goods is S^* .

As for reaching the balance production of E^*_3 , the private uses most of the endowment to produce the private goods as many as S^*_1 that is less than S^*_2 and uses the endowment remaining to produce the public goods valued at $P^*_2 - P^*_3$ of the private so that the total of all public goods is P^*_3 . The possibility 3 illustrates that the government and the private produce the public and private goods. If you assume that the starting point is the balance of E^*_2 , the government produces the public goods and the private produces the private goods less than the production in the balance of E^*_2 , but the production balance stays at E^*_2 because the government produces the private goods as many as $S^*_1 - S^*_2$ and the private produces the public goods as many as $P^*_1 - P^*_2$. The balance resulted is the same as Possibility 1, which is a balance of E^*_2 . Resulting balance is equal to 1 Chances are, namely the balance of E^*_2 .

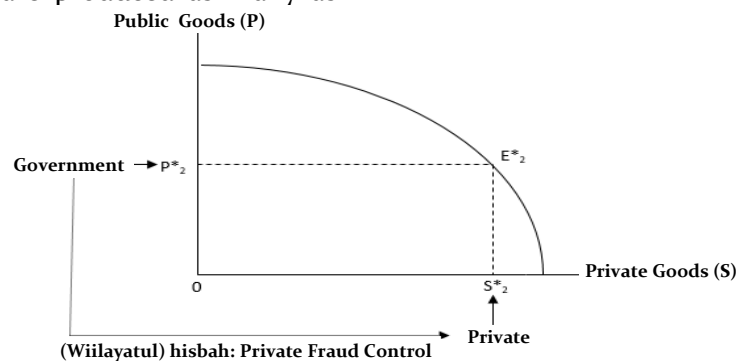


Figure 3. Three Possibilities of Placement of Government and Private in Provision of Public and Private Goods; (a) Possibility 1

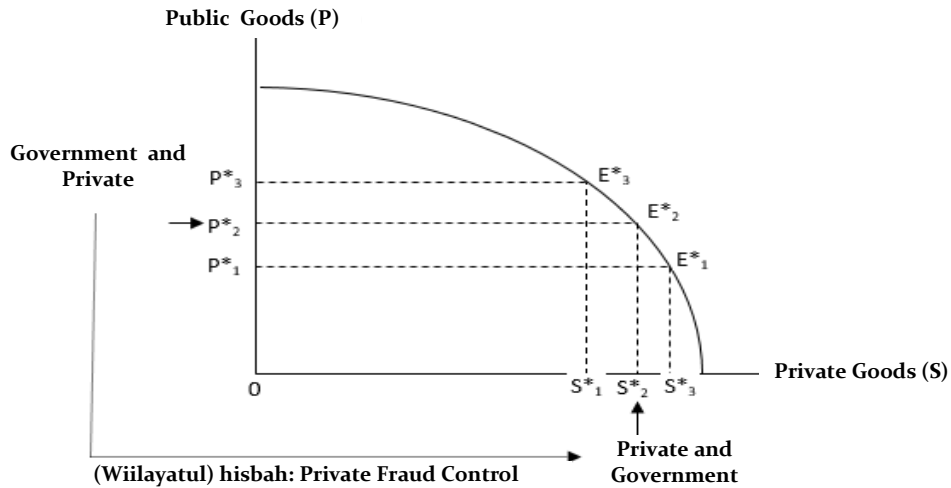


Figure 4. Three Possibilities of Placement of Government and Private in Provision of Public and Private Goods; (b) Possibility 2 and 3

The comparison among the three possibilities may be seen in Table 1. The comparison includes the use of endowment and the provision of goods conducted by the government and private sector and the production balance produced. The possibility of placement 1 is different from the possibility of placement 2. The differences are in the use of endowment, the role of government or the private sector in producing the public and private goods, and the balance produced. Likewise, the possibility 1 is different from the possibility 3. The differences are in the use of endowment and the role of government and the private sector in producing the public and private goods. At every possible placements, there is the role of government as *wilayatul hisbah*, which is the role of government to correct the private fraud in the provision of goods. In Figure of Possibility 1, the government plays the role as overseeing the private sector in providing the private goods, while in Figure of Possibility 2 and 3, the government plays the role as overseeing the private sector in providing the private and public goods.

Mixed economy according to the teachings of Islam is a mixed economy that places the government and the private sector in the ideal position. This ideal mixed economy is if the government and private are positioned in accordance with possibility 1. Endowment is used maximally, the government focuses on providing the public goods, the private focuses on providing the private goods, and the balance is the essential one.P

Possibility 1 is more ideal than possibility 2 because possibility 1 has the essential production balance. It is also more ideal than possibility 3 because the endowment of government and private is used maximally and the roles of government and private are focussed on the provision of the public and private goods. Possibility 1 is the most ideal one among possibility 2 and 3. Possibility 1 represents an ideal Islamic economic mixture. The ideal position of the role of government and the private in the perspective of Islamic teachings is that when each produces in accordance with its 'specialization'.

Table 1. Comparison of Possibility of Placement of Government and Private in Provision of Public and Private Goods

Placement	Government	Private		Balance	
	Endowment	Goods Provider	Endowment		Goods Provider
Possibility 1	To provide the public goods	Public	To provide the private goods	Private	E^*_2
Possibility 2	Most is to provide the public goods and some is to provide the private goods	Public and Private	To provide the private goods	Private	E^*_1
	To provide the public goods	Public	Most is to provide the private goods and some is to provide the public goods	Private and Public	E^*_3
Possibility 3	Most of the government's endowment is to provide the public goods and some is to provide the private goods	Public and private	Most of the private's endowment is to provide the public goods and some is to provide the private goods	Private and Public	E^*_2

Source: Primary Data, processed.

The government with its endowment provides the public goods, while the private with its endowment provides the private goods. This is called a mixed economic system in the Islamic teachings: the Government and the private sector are in the ideal position as the providers of public goods and private goods.

The government also has a control mechanism against the fraud conducted by the private in the provision of goods. Mechanism of (*wilayatul*) *hisbah* is used by the government to control the private fraud.

The impact is that the private really produces the private goods as many as S^*_2 .

Mixed economic system according to the teachings of Islam has similarities and differences compared to the mixed economic system of the following models: model avoiding the fraud of capitalism-socialism, model of taking benefit from capitalism-socialism, and capitalism-socialism pendulum model. The similarities are in the significance of the government and the private in providing the public and private goods.

The differences are in the position of the role of government and private sector, in which the mixed economic system based on the teachings of Islam prioritizes the aspects of ideals of the government as a producer of public goods and the private as a producer of private goods as shown in Figure 3a, while other various models of mixed economic system does not prioritize the aspects of ideals as shown in Figure 3b. The institutional and agency of the government and private is not taken from a deficiency or excess of capitalism and socialism. Likewise, the institutional and agency of the government and private is not like a pendulum which orientation is technically able to change the direction into capitalism or socialism. The institutional and agency of the role of government and the private sector based on the teachings of Islam is maximizing the government's endowment in providing the public goods and the private's endowment in providing the private goods.

Another difference is in the role of government in the mixed economic system based on the teachings of Islam as *wilayatul hisbah*. The government plays the role in controlling the provision of private goods. The role of *hisbah wilayatul* is only known in a mixed economy based on the teachings of Islam and otherwise unknown in other mixed economy.

Thus, the mixed economic system based on the teachings of Islam is an ideal one. It has two characteristics. The first is prioritizing the aspects of ideals in the form of the government's providing the public goods and the private's providing the private goods maximally. The second is the government control over the provision of goods by the private sector.

Meaning of Economic Greed

Meaning of economic greed according to the teachings of Islam can be seen from the use of endowment and the roles of government and private in Possibility 2. Greed is the use of endowment for the production activities that do not prioritize the aspects of ideals. Economic greed is the government greed in using a small portion of its endowment to produce the private goods and make the production of public goods not maximum, or the private greed in using a small portion of its endowment to produce the public goods and make the production of private goods not maximum.

When both parties, the government and the private sector, conduct the economic greed, as shown in Figure 3, the production balance is in a position as at possibility 1, which is the ideal balance. It is caused by the 'compensation' for the reduction of endowment and the number of products in accordance with the aspects of ideals. The reduced endowment and the public goods produced by the government are 'compensated' by the private sector's role in producing the public goods. Vice versa, the reduced endowment and the private goods produced by the private are 'compensated' by the government's role in producing the private goods. However, the reduced endowment and the endowment's use to produce the goods that are not its 'specialisation' remains an economic greed although the state of production balance can be maintained at an ideal balance.

CONCLUSION

Mixed economic system based on the teachings of Islam has been confirmed through the possibility curve of the production of private-public goods as an

ideal mixed economic system. There are three possibilities for the placement of government and private sector in the provision of public-private goods. Among the three possible placements, the possibility that puts the government as a provider of public goods and the private sector as a provider of private goods is an ideal possibility because there is no economic greed at that possibility. The institutional and agency of the government and private are in the ideal mixed economic system. The governments provides the public goods and controls the private fraud, and the private sector provides the private goods.

This article assumes that the ideal mixed economic system is able to demonstrate the government's role in providing the basic needs for the poor, to show the government's role in controlling the instability of private goods price through the market operations, and not to intervene in the price. However, the limitation of model of the possibility curve of the production of private-public goods makes these assumptions not shown. In the future, it is suggested about the explanation that will describe an ideal mixed economic system in the government's role to provide the basic needs for the poor and to control the price instability of private goods through the market operations, and that the government will not intervene in the price.

There will also be opportunities and challenges to discuss the comparisons among the economic system of capitalism, socialism, and Islam in a mixed economic system. Assuming that there is a mixed in an economic system, in which there is always the roles of government and private sector, it can be asked about the differences in private and public roles in the provision of goods between the Islamic economic system as

shown in this article and the economic system of capitalism and socialism. The comparison of economic systems in the perspective of a mixed economic system is expected to realize what Mannan (1993: 333) called as merely "Put the old wine into the new bottles".

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