

The Concept of Production, Distribution, and Consumption in Islamic Economics

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Abstract. During the last two decades, two economic ideologies which experienced world development namely socialism and capitalism were competing to prove their selves as the most rightful and the most potential in solving economical problems which was faced by people. Yet, both of them were judged failed to serve solutions in solving the main classic economic problem of people. Islamic Economy was introduced as the alternative in solving the problems. One of the idea from Islamic Economy ideologies is the concept of production, distribution, and consumption. The research methodology, which was used in the research was descriptive-qualitative method, the data collection was conducted through combining theories from different references. The research aims to acknowledge how the concept of production, distribution, and consumption in Islamic Economy works. The research findings includes: 1) the production concept in Islamic Economy should be based on three main basic aspect namely the aspect of belief, knowledge, and deed; 2) the production concept in Islamic Economy should be based on the basic principle of Islamic Economy namely individual freedom, social insurance, prohibition in accumulating wealth, and fair wealth distribution; 3) the concept of consumption in Islamic Economy to only fulfill daily needs not the wants.

Keyword : Production, Distribution, Consumption, and Islamic Economy

INTRODUCTION

During the last two decades, two economical ideologies namely socialism and capitalism were developed throughout the world as they were competing to serve their influence towards countries in the world. Both of them competed against each other to prove their selves as the rightest and the most efficient in solving faced economy problems. Supporters from each ideologies were also competing to show argument as well as presenting the supporting concepts to show their ideology was the toughest and would survive in a long period. However, as the time passes by, the failure indication of these two ideologies were getting clearer. Both of them were labelled as a failure to introduce solutions in solving the main problem of human economy.

Present time shows the visible reality, which majorly depicts injustice and inequality in the distribution of income and wealth that occurs in developed countries and developing countries who use capitalist economic systems as their ideologies or economic concepts, thus creating poverty everywhere. Today's production activities as an example are more often affixed with mechanisms, models and production strategies which override values, ethics and moral judgment as well as the influence of the holidays moment which leads many producers to do *ihtikar* or hoarding. As a result, there will be a scarcity of production goods. In addition, producers often carry out production activities such as cheating on scales, covering the flaws of production, and so on.

Furthermore, Ermawati Usman in her research entitled Producer Behavior in Islamic Business Ethics found that there were other forms of cheating: producers who produce goods using labels or famous brands. Moreover, the traditional market sellers are also rife with using tools such as the use of lights, which will tailor the color of the product to make it look fresher in order to achieve maximum profit (Usman, 2007).

Besides Ermawati, Azhari Akmal Tarigan revealed several forms of unhealthy market competition, one of which was predatory pricing. This behavior is dominated by large companies that even become market leaders who try to sell their products below the production price with the aim of reducing or even removing competitors in the market. This predatory pricing becomes an irony.

Therefore, in addition to consumers harming, it will also lead to the formation of an unhealthy market, resulting in the disadvantage for customer. Whereas in the classical economic approach states that the three main economic problems which become a single entity, namely production, distribution, and consumption need to be solved and solutions are sought so that a situation where all the goods and services needed can be available and sufficient to create prosperity in the community.

Islam as a universal belief with a systematical concept of economic presents as an alternative that is expected to solve these problems. The statement is not a simple idea, but has the support of the world's leading economist Anthony Giddens, as quoted by Agustianto, in his book *The Third Way* stating that the world should seek a third path from the struggle of the world enormous system, capitalism and socialism. It is not excessive if the third awaited way is the Islamic Economy. Responding to the reality of the economic problems that occurs, the focus of the discussion in this article will discuss on how the concepts of production, distribution, and consumption in the Islamic Economy works.

LITERATURE REVIEW

Theoretical Foundation

a. Production

Production defines as the centre of economic activity. Regarding economy, there will never be consumption, distribution, or trade in goods and services without the start of production process. Therefore, production is an effort of a person or group to release themselves from fidelity. Production does not only mean physically creating something that has not existed yet, but what can be done to make goods become useful from various kind of production activities as no one can create a genuine new objects (Turmudi, 2017).

Generally, production means as a process for producing goods and services or the process of increasing the value of an object. This is in line with the opinion of Aslam Haneef who sees production as a utility creation. Yet, conventional economy production activities sometimes forget where the product will distributed, as long as efficiency is achieved and get maximum profits, it will continue to be finished. This is not in accordance with the Islamic economic concept that the goods and services produced must be able to improve economic welfare (Haneef, 2010).

b. Distribution

Distribution describes as the movement of goods from manufacturing companies to market and finally at the hand of consumers. Distribution has a close relationship with the level of welfare in a society. Distribution theory in capitalist economics gives freedom to own and strive for all individual societies. Thus, every society could get as much wealth as possible according to the factors of production, but it does not pay attention to the fair and even distribution for all individuals. In the point of Islamic Economics' view, the concept of a capitalist economic system labels as *dzalim* as it results in accumulation of wealth in certain group (Rahmawaty, 2013).

c. Consumption

Consumption is the essential goal of the product, as production is needed as long as there is still consumption. Consumption understands as the final part of production. It makes production can stop but consumption cannot stop. Consumption depends on income, if a person's income increases, consumption will also increase as humans always have the desire to consume (*propensity to consume*) (Rasyid, 1998).

According to Samuelson, consumption is an activity, which consumes utility (value of use) of goods and services. Consumer of the goods according to their needs are divided into three, namely primary needs, secondary needs and tertiary needs (Hans, 1993).

Therefore, consumption is a beneficial spend that is useful in achieving the needs of life physically or their household, which aims to satisfy human needs. This means that the purpose of consumption is to find the highest satisfaction with the determination of goods or services to be consumed based on satisfaction criteria regardless of whether the goods or services bring benefits, so

that finally the consumption limit is only budgetary capacity. As long as you still have a budget to buy goods or services, it will continue to be finished. Thus, there will be no one who can prevent consuming desired of goods as long as the community has income. This attitude clearly will negate consideration of the interests of others or consideration of other aspects such as halal and appetite. In this concept, satisfaction is the result of utility, so satisfaction and utility are considered the same in a capitalist economic system (P3EI, 1989).

PREVIOUS RESEARCH

Widya Sari (2014) conducted a research which focused to the concept of Islamic consumption based on halal and good principles, the principle of nothingness follows lust, and the principle of gratitude. The concept of production and distribution in Islam must prioritize the value of freedom in interaction and participation based on religion and the value of justice in relationships that are based on two joints, namely freedom and prosperity. Furthermore, Fahrudin Sukarno (2010) in here research, states that the conceptual framework of Islamic production concept is emerging the morality basic in order to implement production activities. This morality basic will affect to economic growth, distributive justice, environmental conservation program, and also corporate social responsibility. Arif Pujiono (2006) states that consumption in Islamic economics has been arranged in the frame of *sharia*, so that it can guide a Muslim to not fall prey to what is consumed and what he consumes becomes a blessing. In addition, Anita Rahmawaty (2013) states that the distribution of Islamic economics in distributive justice as well as the mechanism of distribution in Islam become a solution to the justice and public welfare.

RESEARCH METHODOLOGY

The used research methodology was descriptive qualitative. Thus, the data collection was conducted through searching for any references, which are related with the current reviewed topic. Afterwards, related found theories were combined.

FINDING AND DISCUSSION

1) Finding

d. Production

Production is the centre of economic activity. In economic life, there will never be consumption, distribution, or trade in goods and services without the start of production process. Therefore, production is an effort of a person or group to release themselves from fidelity. Production does not mean physically creating something that has not existed yet only, but what can be done is to make goods become useful from various kind of production activities, because no one can create a genuine new objects (Turmudi, 2017).

Generally, production is a process for producing goods and services or the process of increasing the value of an object. This is in line with the opinion of Aslam Haneef who sees production as a utility creation. Yet, conventional economy production activities sometimes forget where the product will distributed, as long as efficiency is achieved and get maximum profits, it will continue to be finished. This is not in accordance with the Islamic economic concept that the goods and services produced must be able to improve economic welfare (Haneef, 2010).

e. Distribution

Distribution describes as the movement of goods from manufacturing companies to market and finally at the hand of consumers. Distribution has a close relationship with the level of welfare of a society. Distribution theory in capitalist economics gives freedom to own and strive for all individual societies, so that every society could get as much wealth as possible according to the factors of production but does not pay attention to whether the distribution is felt fairly and evenly by all individuals or only a handful of people only. In the point of Islamic Economics' view, the concept of a capitalist economic system labels as *dzalim* as it results in accumulation of wealth in certain group (Rahmawaty, 2013).

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2. Discussion

a. Islamic Production

Production in Islamic Economic, which included in Fiqh of Umar bin Khatab could be previewed from three kind aspects (Al-Haritsi, 2003) :

The first aspect is belief, Islam teaches every activities would be always related with worship (Qur'an of surah Adz-Dzariyat verse 56), so that economic activities are included in the area of worship (Yunia & Kadir, 2014). Thus, the element of production in Islam must be based on the concept of *istikhlaf*, where human must be responsible for prospering the world and also investing and developing assets mandated by Allah to cover human needs. This is in line with the duty of humans as caliphs on earth (Qur'an of surah Al-Baqarah verse 30). One of the tasks is to manage resources that have been provided by Allah efficiently and optimally without making damage on earth so that welfare and justice can be upheld and can obtain utility or valuable use of resources that are in accordance with Islamic teachings. Production activities are created because of the need. Therefore, the concept of production in Islam must consider aspects of needs not desires. According to al-Syathibi, the formulation of human needs in Islam consists of three types, namely *dharuriyat* (primary), *hajiyyat* (secondary), and *tahsiniyat* (tertiary) (Yunia & Kadir, 2014). Producing the *dharuriyat* sector or the most important needs must take precedence over the needs of the *hajiyyat* and *tahsiniyat*. This must be done thus people can live a decent life, because if the main needs are not achieved, human life will be threatened and this is not in accordance with the goals of *maqasid al-shari'ah*, namely as a manifestation of benefit among humans.

The second aspect is knowledge, the knowledge aspect teaches Muslim must learn sharia laws that related to economic activities in order to understand the good and bad. Studying sharia law that related to economic activity is mandatory, it is based on the provisions contained in the commandments of Islamic teachings (Ja'far, 2012). The order instructs to conduct in totality in all activities including in the economic field (Qur'an of surah Al-Baqarah verse 208). In terms of production of goods according to Imam al-Ghazali, the production of basic needs is specifically seen as a social obligation (*fardhu al-kifayah*). It means that if there are already producing and the amount is sufficient, the individual lose the obligation to produce items. In contrary, if there is no one who produces goods and resulting could not fulfilling the needs, then they will be held a judgement in the hereafter. Thus, the state must be responsible and guarantee that the goods produced are sufficient (Karim, 2011).

The third aspect is deed, which is an application of the aspects of belief and knowledge that have an impact on the quality of good production and have implications for good distribution. Attitude that must be carried out in the production of Islamic economics are to avoid negative externalities, make natural resource efficiency, always innovate, prioritize *dharuriyat*, and always aim for benefit (individuals, families, communities, living things and the earth) (Yunia & Kadir, 2014).

b. Islamic Distribution

One of human economic activities besides production and consumption is distribution (Sudarsono, 2002). The teachings of Islam require people to always try in living a balanced life, namely by paying attention to the welfare of life in the world and salvation in the hereafter (Rahmawaty, 2013). One of the main principles in the Islamic economy is distributive justice. Distribution activities in the Islamic economic system must be based on two principles, namely freedom and justice (Al-Qardhawi, 1997).

The freedom describes as a freedom, which is based on the values of monotheism and justice, not like the understanding of capitalists, which frees human actions to act and act without the intervention of any party. Thus, the balance between individuals with material and spiritual elements, the balance of individuals and society, and the balance of society with other communities is taken for granted.

The principle of justice in distribution is illustrated by the prohibition of assets that only circulate in certain groups, even though the wealth is expected to circulate in a comprehensive manner and contribute to the welfare of the community (Qur'an of surah Al – Hasyr 7). Therefore, the accumulation of wealth by a group of people must be prohibited in the Islamic economic system. Islam suggests moving the flow of wealth to a lower class of society. In the interpretation of the Qur'an, a command that is highly recommended and must be applied in all aspects of life is an order to do justice. As explained in Surah of Qur'an Ar-Rahman (55) verses 7-9 towards justice in the economic field.

Therefore, the concept of distribution in Islamic Economics must be based on the basic principles of Islamic economics, namely individual freedom, the existence of social insurance, prohibition of accumulating wealth and fair distribution of wealth.

c. Islamic Consumption

Consumption in Islamic economics has the purpose of advantages for people, not the concept of utility such in the point of view of capitalist economics. The achievement of advantages is the goal of *maqasid syari'ah*. The concept of utility is very subjective because it contradicts with the fulfillment of satisfaction, and the concept of advantage is relatively more objective as it is based on meeting needs. Advantages are fulfilled based on rational normative and positive considerations. Therefore, there are objective criteria in determining the advantages goods or no advantages goods. While the specified utility is more subjective because it will different from one individual to another.

Islam teaches the follower to always carrying out everything that has been given by Allah in the Qur'an. Likewise in economic activities in the form of consumption activities that encourage life to be frugal and not luxurious. This means that economic activities are intended only to fulfill the needs of life rather than satisfaction of wants.

CLOSING

Conclusion

Production in the Islamic economy must be based on three basic aspects, namely aspects of belief, knowledge, and deed. Therefore, the benefit of individuals, families, communities, living things and the earth could be achieved. In the other hand, the concept of distribution in Islamic economics must be based on the basic principles of Islamic economics, namely individual freedom, the existence of social insurance, prohibition of accumulating wealth, and fair distribution of wealth. Furthermore, the concept of consumption in Islam is intended to fulfill the needs of life rather than the satisfaction of wants.

Suggestion

The government must be able to guarantee the fulfillment of social security, the prohibition of accumulating wealth, and the distribution of fair wealth. The community must be able to generate a sense of obligation to carry out production, distribution, and consumption activities in accordance with the Islamic economic concept.

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