

# SHARIA ECONOMIC ISSUES IN THE PERSPECTIVE OF M. DAWAM RAHARDJO

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## Abstract

This study aims to study further the thoughts of a Muslim figure in Indonesia who has a different view of the Islamic economic system. He is M. Dawam Rahardjo, whose thoughts give rise to many controversies. One of them is to disagree with the bank's interest ban. The method used in this study is literature studies. The results showed that according to M. Dawam Raharjo, which is forbidden in the Qur'an as the holy book of Muslims is transacting in a bathil. Financial transactions conducted at financial institutions are most profitable for all parties.

**Keywords:** M. Dawam Rahardjo, riba, Islamic banking

## 1. Introduction

Muhammad Dawam Raharjdo is best known as an economist and religious figure. He has written many books both about the economy and about the religion of Islam. Dawam has been chairman of ICMI in Indonesia, the leader of the Journal of Science and Culture of Ulumul Qur'an, and chairman of elsaf foundation (Institute of Religious and Philosophical Studies). In addition, Dawam is also known as a multidimensional figure, because he is an economist, entrepreneur, culturalist, scholar, also an NGO activist, Islamic thinker and also interpreter. Dawam was born solo on April 20, 1942. He was the eldest of eight children, the son of Muhammad Zuhdi Rahardjo and Muthmainnah. Although born in a simple family environment, Dawam has excelled since childhood (*Profil - Dawam Rahardjo*, t.t.).

During his childhood, he learned a lot about religious sciences, such as preaching, memorizing several letters in Juz 'Amma, as well as the basics of religious education such as Arabic, Tafsir, Fiqh, and Hadith. He also studied tajwid science at Krapyak Boarding School for one month. His education began at Madrasah Bustanul Athfal Muhammadiyah (kindergarten equivalent) Kauman. Then he continued his education at madrasah Ibtidaiyah Muhammadiyah at the Great Mosque of Solo. When he went to elementary school at Logi Wetan People's School, Dawam was immediately placed in the 2nd grade. At that time, he also attended Madrasah Al-Islam in the afternoon, where Amien Rais also studied. After graduating from elementary school, Dawam continued his education in Junior High School 1 Solo and graduated in 1957, and continued his schooling at Manahan High School and graduated in 1961 (*Profil - Dawam Rahardjo*, t.t.).

After graduating high school, Dawam got the opportunity to attend AFS (American Field Service) and

became a student at Borach High School, Idaho, United States for one year. After returning from the United States, he continued his education at the Faculty of Economics, Universitas Gadjah Mada and obtained a bachelor's degree in 1969. Since then, his academic career has skyrocketed. In 1993, he had served as Professor of Development Economics at the University of Muhammadiyah Malang, and also became Rector of University 45 in Bekasi. Meanwhile he developed an intellectual interest in digging into the Qur'an which led him to study various exegesis books and books related to the Quran. In his search he discovered the meaning of pluralism and tolerance in religious life. According to him, pluralism is a path to peace and tolerance is the key word.

Dawam Rahardjo claimed that when he was not tolerant, he had to constantly hate and reject everything that was different from him. But after being tolerant, he claimed to get more affection. The threat he received was even reduced. More importantly, tolerance is the key to progress. Without tolerance, Islam is unlikely to advance. Tolerance doesn't mean weak. With tolerance, he claimed to be able to understand his creed better. He and his friends spread the understanding of pluralism, liberalism and secularism. For his thoughts he had received an haram fatwa from MUI, because it was considered contrary to Islam.

However, Dawam stuck to his stance. Many consider him an intellectual figure who dares to defend the people and promote justice. Because of the pluralist attitude that he showed wants harmony between religious people. Therefore, it will be very interesting if we examine his critical writings. Especially regarding the concept of Islamic economics that runs today, where almost all over the country is being strongly encouraged by sharia-based economic activities but it turns out that there are still many problems that have not been resolved to this day and raise question marks. Is the implementation of sharia economy that is currently running is the right solution?

## **2. Sharia bank and Bank Interest Ban Controversy**

Islamic banking, a typical Indonesian name for Islamic banking, is a new phenomenon in Indonesia. Its existence in the world is still about 3 decades old, while in Indonesia it is still two decades old. Therefore, its presence, both at the national and international levels is still not significant. The value of Islamic banking assets in Indonesia only reached 0.6% of the value of national banking assets. (*Statistik Perbankan Indonesia*, 2019) The highest development was recorded in Kuwait, but in this country the value of Islamic banking assets only reached 20%, while in Malaysia only reached about 8-10%. In only three countries, Pakistan, Sudan and Iran, the entire banking system has followed the Sharia system. This is due to the central government's decree that the entire conventional banking system be abolished and replaced with an Islamic system (Rahardjo, 2015).

In many other countries, Islamic economics also began with experiments at the societal level. The idea of Islamic banks, essentially the abolition of Riba and the application of the principle of revenue sharing, is ontologically derived from the thinking of scholars and intellectuals who are not many, namely those who are concerned about problems in the economic field either in education or the profession. In writings on Islamic economics, scholars and scholars have made politics and government targets for advocacy because they hope their ideas will be adopted as an economic system embraced and implemented by the state. However, if the theme of the writing is about Islamic banking the target is actually more towards the community because of its implementation through business investment. Therefore, Islamic political parties do not make the concept of Islamic banking their political platform.

The law that prohibits bank interest had caused misunderstandings among Muslims, there was a widespread perception that the prohibited not only interest, but the prevailing bank system. The truth is that Riba is illegal. All Muslim and non-Muslim economists agree with this view. The banking system simply changed the rent system to a more modern-looking "bank interest" system. But that view instead angered one of Muhammadiyah figures, Kasman Singodimejo. In his book in the style of the Interest pamphlet it is not Riba and the Bank is Not Haram (1972), Singodimejo realized to Muslims that the bank is not only not haram, but also a sector that must be developed. If Muslims do not want to develop the Bank, then Muslims will be in decline, especially in the economic field. If the economy regresses then other areas will also be underdeveloped. He also criticized Mukhtamar Tarjih Muhammadiyah who had banned bank interest because

it was considered riba. He based his opinion on A. Hassan's al-Furqan commentary on flowers and riba (Rahardjo, 2015).

In the postcolonial period, Syafrudin Prawiranegara, a leading jurist, economist and technocrat, was of the view that the scholars' assumption of bank interest was usury because of their ignorance of economics. I quoted a little statement from Syafrudin Prawiranegara when filling a lecture in front of students of Bank Muhammadiyah Academy in 1970 which said "bank interest with reasonable interest rates is not riba. Which includes riba is a trade that contains elements of fraud to make a profit and harm others. The legal basis is QS al-Baqarah (2): 188 and 275 and QS an-Nissa (4): 29'. In line with Kasman Singodimejo, he argues that "Flowers in the modern economic mind are not only a reality, but also a stimulus that is reasonable and needed for economic development". Prominent economist Dr, Mohammad Hatta, also belongs to the group that argues that bank interest is not riba so the law is not a law (Rahardjo, 2015).

### 3. The Development of Islamic Economy through Financial Institutions

The idea of Islamic economics undergoes a different process to what is happening to western conventional economics. The idea of modern Islamic economics was initiated by a discussion of economic aspects in orthodox jurisprudent derived from the Qur'an and Sunnah. Before the Middle Ages economic problems had been discussed by philosophers and jurists who had formed kalam *mahzabs*, such as Ibn Sina, al-Farabi, Ibn Rushd and Ibn Tufail who wrote rational speculative theoretical thoughts. Furthermore, in medieval Times Ibn Taymiyyah made a great contribution to theological thought. In modern times, Abul A'la Maududi and Sayyid Qutb pioneered the idea of modern Islamic economics with reference to the world's dominant schools of thought, namely Socialism and Capitalism. From here was born ideological discourse in economic theory that is technical and professional in nature (Rahardjo, 2012).

In a further development, a consensus was reached that Islamic economics is an economic system based on Sharia law. From here, then political groups take pragmatic steps by implementing sharia economic system by forming banking institutions that do not implement an interest system because it is considered riba. The choice of establishing an Islamic bank is a pragmatic step because the Islamic world in the 1970s was experiencing an oil bonanza that resulted in abundant petrodollars. Islamic scientists use this situation to establish Islamic banking, but they tend to forget the idea of zakat and *tijarah*, which in the Qur'an is referred to as an alternative to riba.

From this pragmatic approach was formed Islamic development bank (Islamic Development Bank) in 1976 followed by the establishment of commercial or commercial banks aimed at seeking profit and strengthening capital. This pragmatic approach can be said to be successful because the business world accepts the concept, both rationally and emotionally. Today, business and academics consider that Islamic banks in Indonesia have been accepted by the market. In various countries and also in Indonesia Islamic banking has also undergone legislation and regulations.

This development made westerners interested in the concept of sharia. But his interest is not emotional but rational-market interest. In Germany, Christian democrats are attracted to sharia economy precisely because they have similarities to the social economic doctrine of the church. They state that Islamic economic doctrine does not contradict the teachings of liberal economics or market economics. Therefore, Christian democrats want the concept of Islamic banking to lead to social banking.

Islamic social banks or sharia cooperatives are ideally based on the financial practices of the prophet and his companions, as initiated by Suroso Imam Djazuli who defined Islamic economics as an economy based on transaction practices carried out by the Prophet and his companions. At that time *muamalah* transactions were carried out at the community level without the existence of financial institutions that are now called banks. The transactions that are closest to the practices that occurred at the beginning of the development of Islam are transactions carried out through cooperatives as a collection of people (*al-ummah*) with a different system from commercial banks that serve as capital management institutions. This kind of model is more accurately referred to as *Bait al-Mal wa al-Tamwil*. On the asset side there is a *bait al-mal* mechanism, while on the *pasiva* side appears the *tamwil* mechanism which is now detailed in the form of models *murabahah*,

*mudharabah*, *musyarakah* and *qard al-hasan* which becomes the product of cooperative muamalat.

Currently, the sharia financing model that applies in commercial banks and Islamic microfinance institutions is implemented through cooperatives, which are considered investment solutions. To finance medium-scale projects, a *musyarakah* financing model is used. Furthermore, the *mudharabah* transaction between the owner of capital and workers (*mudharib*) based on the revenue sharing system. *Murabahah* transactions are only conducted in trade and distribution. In this way *ZIZKAF* from the concept of *karitas* was transformed into the concept of cooperative enterprise based on family (*ukhuwah islamiyah*). (Rahardjo, 2015)

#### 4. Criticisms and Challenges of Islamic Banking

Some experts and supporters of Islamic banking, such as Dr. Syafii Antonio, Adiwarmar Karim, and Zaim Saidi, claim that sharia economy is an alternative economic system to the capitalist economic system. But another observer, such as Zaim Uchrhowi, in his observations said that the so-called Islamic economy as exemplified by the Islamic financial sector is just one variant of the conventional capitalist economic system. What distinguishes the two systems is that sharia economy is based on Sharia law (Abas, 2009).

As we know, in the capitalist economic system that holds the initiative in the process of production are individuals or privatizes. The government is only obliged to maintain public security so that people can freely try and trade. What must be maintained by the government is that in addition to the tyranny of the soul, especially the safety of individual property, as well as the rights of individual property are considered sacred and should not be violated by anyone.

Until now, Islamic economics that is considered sub-capitalism is only in medieval commercial capitalism. Its main characteristic is the tangle of financial transactions and trade transactions. The Qur'an explains that the prominent transactions are borrowing (*muamalah*) and trading (*tijarah*).

In its annual report, Bank Syariah Bukopin mentioned that the highest financing transactions, according to the Islamic banking category, are *murabahah* or loans for buying and selling. The transaction covers 76% of the total financing. The *mudharabah* transaction only reached 6%. Whereas in terms of the quality of financing growth is growing exponentially with FDR (Financing to Deposit Ratio) reaching 103%. This kind of growth pattern is a common symptom experienced by Islamic banking. The main motivation why non-Islamic banks including foreign banks are interested in entering the Islamic market is due to the potential for higher income when compared to conventional bank interest rates on term deposits. This becomes easy to implement because capital and third-party funds will be rotated in *murabahah* financing.

The position of *murabahah* transactions linking financial transactions and trade transactions explains Zaim Uchrhowi's conclusion that Islamic economics is a sub-ordination of capitalism. BSB and other Islamic banks have not succeeded in making innovations that can ensure that Islamic finance is indeed an alternative to capitalism. The Sharia Council itself is certainly unable to answer the qualitative problems of Islamic banking. Therefore, the answer to the question of whether Islamic economics is an alternative to capitalism is if it can be proven theoretically that the capital or resources at which it is the starting point are human beings, such as cooperatives based on *ta'awun* (joint effort).

#### 5. Conclusion

To be able to develop further, practitioners and scientists who are concerned about the Islamic economic system must be able to immediately solve existing problems, especially at the level of practice in society, so as to prove their superiority and ability to provide benefits to the general public and the business world. This is actually what M. Dawam Rahardjo proposed as the basis of his thinking, where Islamic finance must be grounded and has been practiced by Muslims themselves. Today, many non-Muslim investors are starting to glance at the Islamic economic system, especially in the Islamic banking sector and began to invest in it. It can be said that sharia economy has begun to be accepted by the world community even they have begun to learn whether the concept of Islamic economy can be an alternative in the global financial system.

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