ANALYSIS OF ISLAMIC TEACHING ON ECONOMIC GROWTH: THE NATURAL ECONOMIC GROWTH CONCEPT

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Abstract

Purpose of Study: The aim of this paper is analyzing Islamic teaching on economic growth.

Methodology: The methods are the constructing method to differ Islamic teaching from the economic growth concept and the conceptualizing method to form the Islamic economic growth concept.

Results: The results are Islamic teaching prefers to place economic growth as an implicit issue, while economic right as an explicit issue and the Islamic economic growth rate is the natural economic growth rate that contains social surplus. The rate is higher than the population growth rate. Other results are a normal industry and the Bayt al-mal is not as an instrument of fiscal and monetary policies. The concept can be compared to the Historical, Keynesian and Classical and Neoclassical concepts.

Implications/Applications: The Islamic economic growth concept can be used to avoid economic problems, to cause economy runs normally and to have a social surplus.

Keywords: Islamic Teaching, Growth Model, Islamic Teaching

INTRODUCTION

The field induced emission of electrons from cold cathodes Economic growth is a long run aggregate production increasing that generates welfare (Dornbusch, Fischer, and Startz 2001; Bashir 1993). Aggregate production increasing describes increasing of products and factors cause the increasing, whereas long run increasing describes economic stages lead to welfare. Therefore, economic growth contains 2 important things: factors cause economic growth and stages of economic growth.

Factors cause economic growth can be classified into 2 groups: Demand-side and supply-side groups. The demand-side group is analyzed by Keynesian School. Economic growth is caused by an effective demand from consumption, investment and government expenditures. The monetarist school can be included in the demand side group because monetary policy can be used to support fiscal policy (Santosa, Widodo, and Riyardi 2004).

The supply side group is analyzed by Classic and Neoclassic Schools. Among them are Solow (Shatzmiller 2011) that developed the relationship between per worker production and per worker capital as an aggregate production function so that technological progress can be measured, Mankiw, Romer, and Weil (1990) that introduced human capital and Romer (1986) that introduced an endogenous growth when the economy is in the increasing marginal productivitiy. Assuming the population is not a cost for the economy, economic growth is caused by saving growth from factors increasing and mobility so that economy can perform capital, human resources and research and development investments to create capital accumulation, human capital, and technological progress.

Stages of economic growth is analyzed by Historical School. They argue that economic growth happens in continued economic stages. Bruno Hildebrand, Adam Smith, and Walt Whitman Rostow can be included as Historical School. According to Bruno Hildebrand economic growth consists of subsistence, money and credit stages, whereas according to Adam Smith, economic growth processes subsequently from hunting, pastoral, agricultural, commercial and industrial stages, and Walt Whitman Rostow introduced traditional society, preconditions for take-off, take-off, the drive to maturity and mass consumption stages (Abidin 2012; Jenaabadi & Issazadegan, 2014).

Economic growth is an important issue. Referring to Malthus’s trap introduced by Thomas Robert Malthus, that the harmony of nature can be broken because of population growth that higher than food growth (Zuhdi 2008), there are 2 possible solving. Malthus himself proposed to manage population growth by positive, negative and moral restraint checks (Ahmad, Bhatti, and Arshad 2013; Elgueta, Martín Quintana, et al. 2018).
However, others prefer the second solving, managing (food) growth. Purwaningsih (2016) for example, after recognizing Amartya Sen finding and assuming Malthus’s checks as not considering green revolution and government role, proposed the sustainable green revolution in form of the role of the Islamic government to support food self-sufficiency, food security, food self-reliance, and food sovereignty. Beyond food, growth is economic growth. Lucas (1998) analyzed that economic growth empirically around the world has been higher than population growth since the industrial revolution. His finding strengthens economic growth as an important issue.

Economic growth often associated with other economic issues and problems. Followers of the trickledown effect ‘school’ belief to the miracle of economic growth. Economic growth is a main issue and pillar to solve other economic problems. Others consider that economic growth is not a single issue in the economy.

Economic welfare obtained when the economic growth and other economic problems solved simultaneously. According to development economics, the economic problems in developing countries are very complex and cannot be solved by economic growth approach. Even, the high economic growth rate can cause many economic problems such as government budget, a balance of payment, business activity and socio-economy pressures (Karim 2002; Ranjbaran, 2014; Marbán, José and Eddie Mulenga, 2019; Muyambiri and Chabaefe, 2018).

There are 2 fractions that analyze economic growth in the Islamic perspective. The first fraction inspired by religions to economy relationship concept proposed firstly by Weber (2001) and initiated in the form of religions to economic growth relationship concept by Barro and McClearly (2003). The fraction stated that religions simultaneously support economic growth. Noland (2003) argued that it can be classified in this fraction because studying the relationship between Islam and economic growth in India, Ghana, and Malaysia has given the answer, and followed with the statement by Imam and Kpodar (2015) that found the robust and comprehensive relationship between Islamic banking and economic growth also can be classified into the first fraction.

The second fraction seeks specific content from Islamic teaching that can be associated with economic growth. There are 3 groups. The first group seeks Islamic moral of economic growth. Akhtar (1993) for example, introduced a bounty of God to the aggregate production function, while Abidin (2012), introduced zakāh to the aggregate demand equation and Islamic entrepreneurship to promote economic growth. Zuhdi (2008) introduced tauhid, rububiyah, khalifah, and tazkiyah, whereas Ahmad, Bhatti, and Arshad (2013) introduced responsibility, empowerment, equilibrium, endowment, and almsgiving. The second group focuses on Muslim history and experience. Kuran (2003)—using comparison method—analyzed underdeveloped experienced Muslim after 1100 CE and stated that institutional factors did not support firm to be a big firm, whereas Western institutional factors supported the Western firm. Shatzmiller (2011) analyzed Muslim economy before 750 CE and found institutional factors to support economic growth such as number of mining, yield from mining, money supply, money flow for economic activity, urbanization, population growth, slavery, housing, migration, manufacturing industry, human resources agriculture and trade, and financial institution. The third group tries to establish Islamic economic growth model using the current data. Bashir (1993) for example, established money supply to the economic growth model of Organization of Islamic Conference (OIC) country members since 1960 to 1985 and analyzed that monetary policy in form of money creation is not in line with Islamic teaching because causes declining in economic growth. Santos, Widodo, and Riyardi (2004) established Indonesian demand for money data since 1983 to 2000 and analyzed that in the short run Muslim demand for money was not influenced by interest rate, whereas in the long run was influenced because the interest rate was expected to increase the economic real sector activity and subsequently to promote economic growth.

Based on an assumption of contrast between the Islamic economy and common economy, this paper discusses Islamic teaching on economic growth. The reason is previous analyses did not describe the specific features of Islamic economic growth. Different from previous papers, this paper analyses specific features deriving from Islamic teaching of economic growth.

**EXPERIMENTAL DESIGN**

The method used in this analysis is constructing and conceptualizing methods of Islamic teaching on economic growth. As shown in figure 1 the constructing method is done in the form of a contrasting comparison between economic growth and Islamic teaching. The comparison is expected to construct Islamic teaching in economic growth which is different or similar to the common economic growth concept.
Teaching on Economic Growth, the constructing method is inspired but different from the comparison method used by Kuran (2003). There are 4 steps to run the constructing method. The first is determining the economic growth concept. The concept consists of economic growth issue, the high rate of economic growth, industrialization to accelerate economic growth and the role of fiscal and monetary policies. The second is seeking contrasting Islamic teaching to the economic growth concept, the third run is concluding the contrast comparison and the last is separating the different conclusion from a similar conclusion.

The conceptualizing method is used in order to ensure the constructing method in establishing economic growth concept from Islamic teaching. The conceptualizing method is done by checking the different conclusion obtained from constructing method by the relevant economics concept. If the different conclusion confirmed by the relevant economics concept then the Islamic teaching on economic growth exists.

RESULTS AND DISCUSSION

Islamic economic growth concept is derived from 4 Islamic teachings on economic growth. Islamic economic growth explains the economic growth issue, the economic growth rate, the role of industrialization, and the fiscal and monetary policies. Table 1 shows the Islamic economic growth concept.

Economic growth issue is not found in Islamic teaching, but economic right is found easily. For examples are partnership, labor and government rights. Partnership right can be mudaraba or musharaka rights. Dariah et al. (2015) analyzed mathematically that the mudaraba rights can cause optimization of input and output utilization. Labor right is explained by Ahmad (2011). Wage is labor right and should be formulated on 5 principles. The principles are wages are right and not benevolence, sufficiency to keep worker live, adaptability to economic problems, punctual payment, and full payment principles. Government right can be known from Bayt al-mal property right such as zakāh, booty, spoils of war rights and Islamic Taxes. Islahi (2009) that analyzed the economy of Ottoman-era around 10 AH or 16 CE as comparable-to-mercantilism economy found that the government right is expanded by waqf right. All of them mean that according to Islamic economic teaching, the economic right issue is a strategic issue. The economic right issue is more important than economic growth issue. Therefore, economic right is placed as an explicit issue, whereas economic growth is placed as an implicit issue.

Placing economic right issue as a strategic issue is confirmed by property right concept in institutional economics. Economic and property rights support circular flows of economic activity and economic growth. Considering economic and property rights ensure economic growth (McTaggart, Findlay, and Perkin 2010).

Islamic economic growth concept reveals economic right and economic growth issues. The economic right issue is placed as an explicit issue, while economic growth issue is placed as an implicit issue. Islamic economic growth concept cares to the economic growth issue by focuses on the economic right issue.
The high economic growth rate is not prioritized in Islamic teaching. The priority is the natural economic growth rate. It is lower than the high economic growth rate but higher than the population growth rate. Written mathematically, the natural economic growth rate is \( G_p < G_n < G_h \) where \( G_p \) is population growth rate, \( G_n \) is the natural economic growth rate and \( G_h \) is the high economic growth rate.

The Islamic teaching of natural economic growth rate can be deducted from Prophet’s (PBUH) optimistic of Madina economic and food scarcity. He was so optimistic the scarcity can be solved without price fixing. He believed to the ‘invisible hand’ although people encouraged him to fix the price. The ‘invisible hand’ will solve the scarcity. The ‘invisible hand’ according to Oguz, and Tabakoglu (1991) was regional trading that supported food supply growth. Therefore, Islamic teaching implicitly taught about natural economic growth.

In addition, Islamic teaching considers that the natural economic growth contains social surplus besides economic surplus. A social surplus such as zakāh, charity, donation, and government distributions strengthens the natural economic growth as the ‘invisible hand’ in two cases. In the scarcity and crisis case, social surplus lightens people from economic scarcity and crisis suffering, whereas in the normal case, the social surplus can be treated as a social investment.

The Islamic teaching of natural economic growth rate is in line with the concept of economic growth to face Malthus’ trap. The first task of the economic growth is to face against scarcity and crisis and to balance the increase of economic demand. In addition, the Islamic teaching of natural economic growth rate is in line with the ‘invisible hand’ concept because the natural economic growth rate concept introduces social surplus besides economic surplus. The natural economic growth rate causes economic problems solved, the economy runs normally and the economy has a social surplus.

Islamic teaching does not enforce industrialization. In the time of Prophet (PBUH), the economy ran without any industrial acceleration. In addition, agriculture and trade sectors were dominant, while the industrial sector was dominated by small industry. Islamic teaching expresses that industrialization is not a single factor to promote economic growth.

Industrialization is a hard duty. Without human resources, capital, institution, infrastructure, regulation, market, agriculture sector, and trade sector readiness, industrialization does not support economic growth. Even, industrialization causes problems for the economy such as footloose industry (Santosa 2015), de-industrialization (Riyardi et al. 2013) or westernization (Chapra 2000).

The concept of industrialization to support economic growth in Islamic teaching is a normal industrialization concept. Industrial sector should have mutual linkage to other sectors such as agricultural and trade sectors and supported by industrial and economic environments. The industry supports economic growth by running normally and not causing economic problems.

Bayt al-mal shows Islamic teaching on state property acquirement, ownership, and distribution concept. Bayt al-mal has a unique position. It is not structured formally, but under central or local governmental authority, task and responsibility (Al-Muhammad 2013).

Bayt al-mal is not used as an instrument to promote economic growth. Activities to acquire, to own and to distribute state property are not fiscal activities. In addition, activity to supply money is not a monetary policy activity. Some facts in the time of Prophet (PBUH) supported it. For example, bayt al-mal was not planned based on economic growth, inflation rate, or exchange rate assumptions. Also, bayt al-mal was not planned periodically and yearly. Bayt al-mal is a state treasury concept.

The reason behind bayt al-mal concept as a state treasury concept is to avoid contraction activities causing economic pressure. Mannan (1993) analyzed that the economic pressure spread from budget pressure such as debt trap or high tax, balance of payment pressure, economic and financial crisis to corruption behavior. If expansive policies are difficult, avoiding economic pressure can be done by implementing bayt al-mal as a state treasure that is not an instrument of fiscal and monetary policies. Therefore, bayt al-mal is Islamic teaching on state treasury concept. Bayt al-mal is not used as an instrument of fiscal and monetary policies. Bayt al-mal avoids causing a contracting economy.

Islamic teaching has an interesting concept of economic growth. Islamic teaching launches strategic issue by placing economic right as an explicit issue, whereas economic growth issue is placed as an implicit issue. Also, Islamic teaching refers to the natural economic growth rate which higher to population growth rate than the high economic growth rate. These concepts will establish an Islamic economy to run normally, has a social surplus and solves economic problems.
The normal industrialization and the Bayt al-mal concepts ensure that Islamic economy runs appropriately. Islamic teaching offers a natural economic growth concept.

### Table 1: Islamic Teaching on Economic Growth Concept

<table>
<thead>
<tr>
<th>Topic</th>
<th>Islamic Concept on Economic Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Issue</td>
<td>The strategic issue is an economic right issue rather than economic growth issue</td>
</tr>
<tr>
<td>Economic growth rate</td>
<td>Economic growth rate is natural economic growth rate which is higher than population growth rate</td>
</tr>
<tr>
<td></td>
<td>but lower than high economic growth. The natural growth rate contains the social surplus.</td>
</tr>
<tr>
<td>Industrialization to accelerate economic growth</td>
<td>Industrial sectors support economic growth as normal industrial sector</td>
</tr>
<tr>
<td>Government budgets instrument of fiscal policy and support by the monetary policy under central bank authority</td>
<td>Baytal-malastatetreasuryisnotaninstrumentoffiscaland monetary policies</td>
</tr>
</tbody>
</table>

The natural economic growth concept is different from the high economic growth concept. The natural economic growth concept and its social surplus are a good foundation for the high economic growth concept, whereas the high economic growth concept probably is not derived from the natural economic growth concept. In addition, the fact of natural economic growth concept is social surplus inside normal economy avoiding economic problems, whereas the fact of the high economic growth concept is economic problems counterbalanced by accelerating economy engineered by economic surplus. The natural economic growth concept is an alternative to the high economic growth concept.

The natural economic growth concept can be compared to economic growth concept proposed by Historical School. Both consider the subsistence economy, money economy and credit economy. Also, both consider economic sectors such as agriculture, industry and trade sectors. However, natural economic growth concept does not view all as the stages, whereas the Historical School views all as the stage of growth and development.

Also, the natural economic growth concept can be compared to the economic growth concept proposed by Keynesian School. Both concern to the economics of state budget. However, the natural economic growth concept does not establish it as an instrument of the fiscal and monetary policies to promote economic growth, while Keynesian School configures state budget as a fiscal policy to promote demand-side economic growth and supported by the monetary policy under central bank authority.

In addition, the natural economic growth concept can be compared to the Classic and Neoclassic Schools. They consider the importance of resources and supply side. However, the first is optimistic in population treatment, while the second tends to realistic. Also, the first open to social surplus and investment, while the second is engineered by economic surplus and investment. Finally, the first introduces mudaraba and musharaka partnerships as a tool of capital investment and accumulation, while the second operates financial firms.

The Islamic teaching of natural economic growth concept cannot be placed in the place of religions and economic growth relationship. Also, this Islamic concept cannot be placed together to Noland (2003) concept that found Islamic religion does not significantly influence economic growth. Similarly, this concept cannot be placed together to Imam and Kpodar (2015) that analyzed comprehensively and robustly the relationship between Islamic banking and growth but did not take into account a specific Islamic feature especially in the growth concept.

The Islamic teaching of natural economic growth concept, as Picture 2, can be placed together to the concepts offered by Shatzmiller (2011), Kuran (2003), Santosa et al (2004), Bashir (1993) to establish Islamic economic growth concept chain so that the concept development can be seen. Also, the Islamic teaching on the natural economic growth concept can be placed parallel to the Riyardi and Santos (2015), Akhtar (1993), Abidin (2012), Zuhdi (2008) and Ahmad, Bhatti, and Arshad (2013) as a role model for the Islamic economic growth concept chain. However, the concept can be placed as a role model because of analyzing specific features of economic growth from Islamic teaching that is similar to
Riyardi and Santosa (2015), while Akhtar (1993), Abidin (2012), Ahmad, Bhatti, and Arshad (2013) and Zuhdi (2008) can be placed as a role model because of constructing economic growth as an Islamic teaching.

**CONCLUSION**

Islamic teaching on economic growth answered 4 important questions of economic growth. Islamic teaching offers natural economic growth concept that contains strategic issue by placing economic right as explicit issue and economic growth as implicit issue, and natural economic growth rate which is higher than population growth rate but is lower than high economic growth rate to solve economic problems, to cause economy runs normally and to have social surplus. Also, Islamic teaching on economic growth offers normal industrialization and Bayt al-mal as state treasury to ensure economy runs appropriately. Islamic teaching offers a natural economic growth concept.

Natural economic growth concept is different to economic growth concept proposed by Historical, Keynesian and Classic/Neoclassic Schools. Also, the natural economic growth concept cannot be placed in the religions and economic growth relationship concept. Natural economic growth concept is a role model of Islamic economic growth.

It is important for the next studies to establish natural Islamic economic growth role model. If the natural economic growth concept exists, countries facing economic problems such as footloose industry, budget, and debt pressures, the balance of payment pressure, economic crisis, socio-economic problems or other economic problems can implement the natural economic growth concept. The focus is to run the economy normally, to solve economic problems and to have the social surplus. The economy can be used as the landmark to a welfare economy.

**REFERENCES**


