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# Theory of Exchange and the Evolution of Markets Perspective of Al-Ghazali

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## ABSTRACT

This article confirms that Al-Ghazali's socio-economic thinking is rooted in the Islamic welfare concept. The method used in this paper is literature research that is reading and reviewing various sources related to the topic. The conclusion of Al-Ghazali's economic thought is the voluntary exchange and market evolution which includes demand, supply, price, profit and market ethics as well as usury and the role of the state in the advancement of the public economy.

**Keywords:** Al-Ghazali, Islamic Economics, Theory of exchange, Evolution of the market

**JEL Code:** B00, G10, G13

## A. INTRODUCTION

Economic activity is defined as inseparable in life. The process that occurs in terms of exchange with a particular agreement creates a system which we then call the economic transactions<sup>1</sup>. Islamic economic thought is a pattern of thought that based on the Qur'an and As-Sunnah. Islamic economic thinking is a process of ijtihad of Islamic thinkers based on legal sources and other sources of support aimed at finding solutions to problems of principle in various fields including the field of muamalat and economy facing Islamic society. Ijtihad in the context of Islamic economic thought refers to the sources of Islamic legislation and at the same time participates in the study and observation of the reality of the time that is concerned with gaining the benefit and rejecting the harm<sup>2</sup>.

Al-Ghazali is a prominent thinker in the Islamic world. His position of scholarship is recognized as one of the Islamic scientists who produced many works that became the reference so now. Most of Al-Ghazali's works are based on the fields of philosophy, kalam science, tasawwuf, and fiqh suggestions, such as *Ihya Ulumuddin*, *al-Munqidz min al-Dhalal*, *Tahafut al-Falasifah*, *al-Basith*, *al-Wasith*, *al-Khulasah*, *Al-Mankhul*, *al-Mustashfa*, and *Maqasid al-Falasifah*<sup>3</sup>.

This paper will analyze the concept of economic thought from Al-Ghazali. What is the difference between al-Ghazali's concept of thought and other economic ideas? By pouring Al-Ghazali's ideas and thoughts on his economic thinking, this article will try to expose them more fully.

## B. LITERATURE REVIEW

In previous writings written by Sutopo<sup>4</sup> that Imam al-Ghazali's thoughts about the economy include money, trade, labor division, consumption behavior and community

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<sup>1</sup> Nuril Aini, "Pemikiran Ekonomi Islam Imam Al-Ghazali Tentang Konsep Uang, Aktivitas Produksi dan Etika Perilaku Pasar (Studi Atas Dalam Kitab Ihya' Ulumuddin)". (2017).

<sup>2</sup> Mohd Faiz Mohamed Yusof, Joni Tamkin Borhan, dan Nurhanani Romli, "Pemikiran Ekonomi Al-Ghazali dalam Teori Kewangan Article," *International Journal of Islamic and Civilizational Studies* 3 (2016: 79–95).

<sup>3</sup> Ibid.

<sup>4</sup> Sutopo, "Pemikiran Imam Ghazali Tentang Ekonomi," *Jurnal Ummul Qura* III, no. 2 (2013: 49–58).

organization in the economy. In this paper also discusses Al-Ghazali's view of financial concepts. Economic discussion of Imam Al-Ghazali covers a very broad aspect, but in general can be grouped into: the exchange and evolution of the market.

Ulfa Jamilatun Farida<sup>5</sup>, in his research describes the market mechanism according to Al-Ghazali. In his work he discusses barter and problems, the importance of trading activities and the evolution of the market, including the work of the power of demand and supply in influencing the price. In addition Al-Ghazali has also understood a concept, which we now call the elasticity of demand that reducing the profit margins by selling cheaper prices will increase sales volume and will in turn increase profits.

In the study Lilik Rahmawati<sup>6</sup> states that economic activity must be done efficiently and the trade distribution of Al-Ghazali thought requires that volunteers should be more motivated by religious moral obligations because without voluntary distribution there will be two things: wasteful and miserly.

Previous studies have been good enough, but still explain Al-Ghazali's economic thinking that is focused on a particular problem. Therefore, in writing this article the author tries to explain the economic thought of Al-Ghazali more fully.

### C. METHODOLOGY

The method used in the historical approach of Islamic economic thought in this article through textual exegesis (text analysis)<sup>7</sup>. While the steps are done by using the scientific method (scientific method) is a series of steps in the form of tracing the existing classic texts, identify problems, collect data in the scope of existing problems, quoting and synchronizing with other writings and draw conclusions.

### D. DISCUSSION

Abu Hamid Muhammad Al Thusi Al Ghazali (1058-1111 AD) or more familiar with the name Imam Al-Ghazali, was born in 1058, in the village of Al Ghazalah, an area located in northern Iran. He began writing about economic philosophy in the 11th and 12th centuries<sup>8</sup>.

Al-Ghazali's socio-economic thinking is rooted in a concept he calls "the function of Islamic social welfare"<sup>9</sup>. The theme that became the starting point of all his work is the concept of *maslahat* or social welfare, which is a concept that covers all human activities and makes a close connection between individuals and society.

Al-Ghazali asserted that economic activity must be done efficiently because it is part of the fulfillment of one's religious duties<sup>10</sup>. There are several economic themes that can be lifted from the thought of Al-Ghazali, among others;

#### 1. Voluntary Exchange and Market Evolution

In Yahanan's research<sup>11</sup>, the market is a meeting place between the seller and the buyer. The process of the emergence of a market based on the power of demand and supply

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<sup>5</sup> Ulfa Jamilatun Farida, "Telaah Kritis Pemikiran Ekonomi Islam Terhadap Mekanisme Pasar Dalam Konteks Ekonomi Islam Kekinian," *Eksyar* 1, no. 1 (2014): 56–68).

<sup>6</sup> Lilik Rahmawati, "KONSEP EKONOMI AL-GHAZALI Lilik Rahmawati (Dosen Fakultas Syariah IAIN Sunan Ampel)" 2, no. 1 (2012): 329–345).

<sup>7</sup> MC Marcuzzo, "Is History of Economic Thought a 'Serious' Subject?," *Erasmus Journal for Philosophy and Economics* 1, no. 1 (2008): 107–123).

<sup>8</sup> Muhammad Findi A, "Membedah Pemikiran Ekonomi Al-Ghazali," *Jurnal Ekonomi Islam Republika*, September 2010.

<sup>9</sup> Mohamad Ikrom, "Pemikiran ekonomi al ghazali" 2, no. 1 (2015): 51–66).

<sup>10</sup> Moh Tohir, "Rekonstruksi Pemikiran Pembangunan Ekonomi Islam Menurut Pemikiran Al-Ghazali, Ibn Khaldun, dan M. Umer Chapra" (2014).

to determine price and profit. The evolution of the market according to Al-Ghazali is a human trigger to do noble behavior that can help others and give each other. The definition of market according to Al-Ghazali written by Misdi Rianto<sup>12</sup> is the tendency of free market for price changes until the market is so balanced that until the number of supply and demand equal (balanced). The economic activities allowed by Al-Ghazali are *al-ba'i*, *al-salam*, *al-ijarah*, *al-qiradh* and *al-syirkah*<sup>13</sup>. While unauthorized economic activity is hoarding goods, distributing counterfeit money, cheating in goods information, scales and hiding market prices<sup>14</sup>.

#### **a. Request, Quote, Price, and Profit**

In Mohamad's research Ikrom<sup>15</sup> Al-Ghazali spoke of "the prevailing price as determined by market practices", a concept later known as *al-saman al-fair* (fair price). For a supply curve that "rises from the lower left to the top right" is expressed by him as "if the farmer does not get the buyer and his goods, he will sell it at a cheaper price". As for the demand curve that "drops from the top left to the bottom right" is described by him as "the price can be lowered by reducing demand".

#### **b. Ethics of Market Behavior**

Moh. Muafi<sup>16</sup> states that market function must be based on the ethics and moral of the perpetrators. It specifically warns of prohibiting profits by storing food and other items, providing misinformation about the weight, quantity and price of the goods. In the research Ali Muhayatsyah<sup>17</sup> Al-Ghazali also has a view of market ethics that focuses on truth and honesty, which can be applied to market evolution and the role of money based on the ethics and morals of the perpetrators.

##### **i. Production Activities**

Al-Ghazali classifies the goods of production in three major groups namely Basic Industries, Supporting Industries and Complementary Industries<sup>18</sup>.

##### **ii. Barter and Evolution of Money**

Al-Ghazali explains how money can overcome the problems arising from a barter exchange. The function of money menurut Al-Ghazali is as a tool of exchange and measuring instruments. Doing false dirhams in the midst of *naqad* (true gold and silver) then it is unjust acts<sup>19</sup>. Al-Ghazali stressed that the new money would have value if used in an exchange<sup>20</sup>.

## **2. Prohibition of Riba**

Al-Ghazali forbids the existence of usury, he says that the charging of money flows from its main function as a medium of exchange and as a measure of value<sup>21</sup>. Sutopo<sup>22</sup> also stated that the buying and selling of currency is included into usury.

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<sup>11</sup> Yahanan, "Evolusi Pasar Menurut Pemikiran Imam Al-Ghazali" XIV, no. 1 (2014: 195–209).

<sup>12</sup> Misdi Rianto, "Pemikiran Al-Ghazali tentang Mekanisme Pasar dalam Islam" (2011).

<sup>13</sup> Al-Ghazali, *Ihya' Ulumuddin Juz 2* p 66-74 n.d.

<sup>14</sup> Al-Ghazali, *Ihya' Ulumuddin Juz 2* p 74-84 n.d.

<sup>15</sup> Ikrom, "Pemikiran ekonomi al ghazali."

<sup>16</sup> Moh Muafi bin Thohir, "Pemikiran Imam Al-Ghazali tentang Ekonomi Islam dalam Kitab *Ihya' Ulumuddin*" 8, no. 2 (2016: 76–93).

<sup>17</sup> Ali Muhayatsyah, "Etika Bisnis Islam dalam Perspektif Pemikiran Al-Ghazali" (n.d.): 1–20.

<sup>18</sup> Mega Nendira, "Pemikiran Ekonomi Al-ghazali" (13 November, 2014).

<sup>19</sup> Imam Al-Ghazali, *Ihya Ulumuddin Bahasa Indonesia*, ed. Dr.H.A.Malik karim Amrullah (08 Januari 2016, n.d.).

<sup>20</sup> S. Mohammad Ghazanfar dan Abdul Azim Islahi, "Pikiran Ekonomi Al-Ghazali" (n.d.).

<sup>21</sup> Al-Ghazali, *Ihya Ulumuddin Bahasa Indonesia*.

<sup>22</sup> Sutopo, "Pemikiran Imam Ghazali Tentang Ekonomi."

### **3. The Role of State and Public Finance**

#### **a. Economic Progress through Justice, Peace and Stability**

Al-Ghazali believes that the state is responsible for creating the right conditions for improving prosperity and economic development for it to have a regulatory body to be fair and balanced.

#### **b. Public Finance**

Al-Ghazali paid attention to both sides of the budget, both the income side and the expenditure side. Halal sources of income include assets without the heirs of their owners, can not be traced, plus donations of charity or wakaf with no management and taxes. Public expenditures include the development of socio-economic infrastructure, education, defense and health services<sup>23</sup>.

### **E. CONCLUSIONS**

In the development of Islamic economics, there are many figures who discuss about economic issues that sociologically helped build the theories / economic concepts one of them is Imam Al-Ghazali. The socio-economic thought of al-Ghazali is rooted in a concept he calls "the function of Islamic social welfare". Al-Ghazali asserted that economic activity must be done efficiently because it is part of the fulfillment of one's religious duties. In summary Al-Ghazali argues that to determine prices and profits must be based on the power of demand and supply and the prohibition against usury because it will transfer the function of money as a medium of exchange.

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