JURNAL MULTIDISIPLIN MADANI (MUDIMA)
Homepage: https://journal.formosapublisher.org/index.php/mudima
ISSN: 2808-5639 (Online)
Research Article

Volume 3, No 1, January (2023)	DOI: https://doi.org/10.55927/mudima.v3i1.2423	Page: 48-54

Islamic Economic Position as a Breakfast to Reducing Inflation

Nila Atikah[1*], Akhmad Syafi'i[2], Upit Elya Rohimi[3], Prieska Rani[4]
[1]Institut Agama Islam Bunga Bangsa Cirebon
[2]STID Al-Biruni Babakan Ciwaringin
[3]Universitas Swadaya Gunung Jati, Cirebon
[4]Universitas Terbuka
Corresponding Author: Nila Atikah nilaat990@gmail.com

ARTICLEINFO

Keywords: Islamic Economics, Breakthrough, Inflation

Received : 1 December
Revised : 19 December
Accepted : 21 January

ABSTRACT

Inflation is a monetary event that results in a decrease in currency value for certain goods. These incidents cause disruption to the function of money, distort prices, destroy output, undermine efficiency and productive investment, and cause social injustice. The method in writing this article is to use a literature study with a descriptive-analytic qualitative approach, namely research that is emphasized tracking and analyzing. Written sources and related reading material to the theme were discussed for further study and in-depth study. This research was conducted to examine Inflation and how to overcome it in Islam. Inflation is a condition where there is an increase in prices in general, and it takes place continuously. Inflation is also a state of continuous decline in the currency's value. In general, Inflation is caused by: the sizeable public Demand for an item, an increase in production costs, and the very high circulation of money in society. Meanwhile, according to Al-Maqrizi Taqyudin, in the Islamic economy, Inflation is caused by natural Inflation (naturally) and human error inflation (by humans). According to its nature, Inflation is divided into a creeping, medium inflation (galloping Inflation), and high Inflation (hyper). Inflation). The cause of Inflation is divided into Requests pull Inflation and Cosh push Inflation. According to the origin, Inflation is divided into Inflation originating from within the country and abroad. Meanwhile, according to public expectations, it is divided into Expected Inflation and Unexpected Inflation. in conventional economies, the way to overcome Inflation is by implementing monetary policy, fiscal policy, non - monetary/non-fiscal policies. In Islam, Inflation is overcome by printing low/minimal amounts of money, executing the Dues Idle fund strategy, and implementing fiscal policy

INTRODUCTION

Inflation is a monetary event that results in a decrease in the currency value of a particular item. This event will disrupt the function of money, cause price distortions, damage *output,* undermine efficiency and productive investment, and cause injustice and social tension if defined. Inflation is a condition where the price of a particular item increases continuously and lasts a long time (Mariani, 2022).

Inflation is *a rise in the general level of prices*, meaning that Inflation is a general increase in prices of goods/commodities and services over a certain period (Fauziyah, 2016). In general, Inflation is caused by an increase in people's purchasing power for an item; when people's purchasing power for an item increases, it can be interpreted that the public's Demand for an item increases, but the stock of the item is small or limited, increasing in price. Increased production costs will also cause Inflation due to increases in raw material prices and employee salaries. So producers take action to increase prices. In addition, a large amount of money circulating in society will cause Inflation. This is because if there is a large amount of public money in circulation, then people's purchasing power for an item will increase, and the item is limited, increasing in price. Inflation is an indicator to analyze economic growth, unemployment, poverty and export-import. Inflation is a huge problem in the economy of every country, including Indonesia. The occurrence of domestic shocks will cause price fluctuations in the domestic market which will end up with an increase in Inflation in the economy (Nabella & Aliasuddin, 2017).

Indonesia experienced the highest Inflation in 1998 at 77.6% (Nugroho & Utomo, 2022). One of the reasons for this Inflation was the depreciation of the rupiah exchange rate, the economic crisis and expectations of high Inflation. Previously, Indonesia experienced hyper Inflation in 1966 when the old order ended. So psychologically, Inflation is a crisis for the people of Indonesia. The way to control Inflation is by implementing monetary policy. The Monetary authorities carry out monetary policy by influencing Monetary variables, the money supply, SBI interest rates and exchange rates. CPI is an indicator used to measure the level of Inflation. Changes in the CPI from time to time reflect the rate of increase (Inflation) or rate of decrease (deflation) of goods and services. Based on BPS data, the inflation rate in 2017 was 3.61%. In 2018 it decreased by 0.48% to 3.13. In 2019, Inflation decreased by 2.72%, and this year decreased again by 0.89%. The inflation rate from 2017 to 2020 is still classified as mild Inflation because it is still below 10%.

The government must suppress price increases if a country wants to maintain a low inflation rate. Efforts to reduce this price can be made by reducing the increase in the money supply, for example, by limiting the provision of credit or by increasing loan interest rates (*tight). Money policy*). However, the impact is that there will be investment sluggishness and increased unemployment, ultimately reducing National Income (Mahendra, 2016).

An inflation rate that is too high will impact the community. Namely, the real income of the community will decrease (Dwijayanthy & Naomi, 2009). It can be illustrated when we have Rp. 10,000.00 to buy chicken noodles. Before Inflation occurred, the price of one portion of chicken noodles was Rp. 5,000.00 so that Rp. 10,000.00 could buy two portions of chicken. However, after a long period of high Inflation, the price of chicken noodles rose to IDR 10,000 per portion. So with IDR 10,000.00, we only get one serving of chicken noodles. So that the IDR 10,000 we had earlier will be used to buy one serving of chicken noodles; another impact of uncontrolled Inflation is that economic actors cannot predict future economic conditions. For example, when raw material prices suddenly increase, we need to determine the profit we will get when selling chicken noodles.

It should be remembered that an inflation rate that is too low will also be dangerous, especially if it reaches a deflation rate (Mulyani, 2020). In economics, deflation is the opposite of Inflation, which is a condition in which prices generally fall and the value of money increases. Inflation that is too low will significantly impact entrepreneurs. Entrepreneurs suffer losses resulting in a sluggish economy, resulting in many layoffs everywhere and, ultimately, people's income decreases. A sluggish economy will result in a country's declining economic growth.

An average inflation rate aligns with a country's economic growth rate. In developing countries, Inflation is considered reasonable if it is at 3% -4% annually with a deviation tolerance of between 1% -

2%. (Rohmawati, 2017) . However, for developed countries such as the United States, Britain and Japan, the central bank usually targets Inflation of 2%. If hyperinflation occurs, it indicates that a country is experiencing an economic crisis (recession). For this reason, researchers are interested in researching Inflation and how to deal with it in Islam.

RESEARCH METHODS

The method in writing this article is to use a literature study with a qualitative *descriptive-analytic approach.* A descriptive-*analytic* qualitative approach, namely research that emphasizes tracing and studying written sources and other reading materials related to the themes discussed for further study and in-depth study (Jaya & Murahman, 2022). Literature study is not just reading and recording literature/books but also reading and processing research materials. This literature study also describes the object of a study and then analyzes it. The analysis technique used in this research is content analysis (content analysis). Content analysis is an in-depth study of the contents of written or printed information in the mass media.

RESULTS AND DISCUSSION

Definition of Inflation

Inflation is a fascinating topic to be discussed in economic life because it has a significant impact on macroeconomic life, economic growth, interest rates and income distribution of a country. As an economic actor, paying attention to the fluctuations in the prices of goods in the market is very necessary. Inflation will determine the price of goods on the market, which are always needed in everyday life. The inflation rate must be maintained at an average rate so that an economic upheaval does not occur. It will be dangerous if Inflation cannot be controlled; for this reason, it is necessary to make efforts to prevent Inflation from happening.

Inflation occurs when prices generally increase continuously. At that time, the supply of goods and services experienced scarcity, while consumers had to spend more money for the same amount of goods and services. So this will lead to Inflation (Yulianti & Khairuna, 2019).

Understanding Islamic Inflation is no different from conventional Inflation (Dwihapsari, Kurniaputri, & Huda, 2021). Inflation has a meaning as a symptom of a general and continuous increase in the price of goods. Thus, Inflation is a symptom that occurs due to an increase in the price of goods that is intentional or natural and does not only occur in one place but in all corners of the country and even the world. This price increase lasts continuously or for a long time and could be even higher if no solution is found to solve the problem that causes the Inflation.

So it can be concluded that Inflation is a condition with an increase in prices in general and takes place continuously. In other words, Inflation is also a continuous decline in currency values.

Causes of Inflation

In 1998 when the Monetary crisis occurred in Indonesia, Inflation occurred due to a large number of foreign debts that were due soon, and Indonesia had not been able to pay. This was caused by Soeharto's leadership which was getting worse and worse. In addition, the La Nina natural disaster caused drought, which forced the government to spend a lot of money to deal with it. Inflation in 1998 was the worst Inflation that occurred in Indonesia. In general, the causes of Inflation are; *First,* the number of public requests for an item. Goods in high Demand by the community indicate that the goods are in great 123demand or needed by the community, causing sellers of these goods to increase the price of these goods. However, this cannot be said to be Inflation if it lasts for a while. The *second cause* is an increase in production costs; if there is an increase in production costs such as raw materials, workers' wages, fuel and others, it will cause a company to increase the price of the goods it has produced. *Third,* the circulation of money in society is very high; if people have a lot of money, then people will tend to spend that money to buy an item which will cause an increase in Demand which causes producers to raise the selling price of an item.

Islamic economics causes Inflation as follows (Yulianti & Khairuna, 2019) :

1. *Natural Inflation*

Natural Inflation is Inflation that occurs naturally, where humans are unable to prevent it. This Inflation occurs due to a decrease in aggregate supply or an increase in aggregate Demand. *Natural Inflation* For example, when a natural disaster occurs, we will not be able to prevent the disaster because that is the will of Allah SWT. The natural flood disaster will then cause farmers to experience crop failure so that food staples such as rice will decrease in supply, leading to scarcity. Because rice is a staple food for the people, there is a lot of Demand for rice. The scarcity of rice will cause the price of rice to be expensive, resulting in Inflation. On the other hand, because goods such as rice are very significant to life, the Demand for goods is experiencing enhancement. Prices soared beyond people's purchasing power. As a result, economic activity will not run smoothly, stagnate, or even stop. And if it continues continuously, it will cause famine, epidemics, and death. To overcome this problem, the government must spend substantial funds, which will reduce state revenue *Natural Inflation* disrupts the number of goods and services produced in economic activity. If the number of goods produced decreases while the amount of money in circulation is high, prices would rise. In addition, an increase in people's purchasing power will cause the value of exports to be greater than imports, resulting in imports of money, which will decrease the amount of money in circulation. If the speed of circulation of money and the amount of goods and services remains constant, prices will increase.

Natural Inflation due to increased exports, while imports decreased. This causes a large amount of money to enter from abroad into the country, increasing aggregate Demand. This incident was never experienced during the time of Umar ibn Khattab. At that time, exporters who sold their goods abroad bought fewer goods from abroad than the goods they sold. This causes excess money to be brought to Medina so that people's income and purchasing power increase, and causes price increases. To overcome this, Umar prohibited the residents of Medina from buying commodity goods for two consecutive days so that there would be a decrease in aggregate Demand and prices would return to normal.

2. *Human Error Inflation*

Human Error Inflation is Inflation caused by human error; these errors include:

a. Corruption and bad administration, due to the appointment of bribed officials and nepotism, officials will abuse their positions to gain personal interests, both for economic needs and the luxury of life. Widespread corruption will result in decreased state revenues. This will cause a country's economy to slump. The spirit of corruption has spread to high-ranking officials and to the sub-district/village level.
b. High taxes because many officials are corrupt, state spending will increase. So that the government finally sets a very high tax fee, which is very burdensome for the community, especially the small community. This tax increase will cause an increase in production costs so that the goods produced will experience a price increase.
c. Overprinting money, when there is a budget deficit due to economic congestion or corruptors spending state money, the government ends up printing a lot of money. Too much money being printed will cause the price level to rise and the currency's value to fall.

In addition, Inflation can also be caused by the following:

a. Prices of imported goods have increased;
b. Increasing the supply of excessive money without being offset by additional production or supply of goods.
c. The chaotic political and economic system is the result of an irresponsible government.

In addition to the increase in the amount of money in circulation, the increase in the amount of Demand is also *expected to cause Inflation*. Suppose people believe that Inflation this year is high. In that case, people will now spend their money and store goods, especially goods that can protect wealth from Inflation, such as gold and property. So it will cause Inflation.

Inflation can also be caused by hedonistic people who want to live beyond their means. Limited wealth causes people to use credit cards to shop. Using credit cards for consumption is a shopping effort using the wealth expected to be received in the future. This will cause the amount of money in circulation to increase and exceed people's income, and eventually, Inflation will occur.

Types of Inflation

1. Inflation by its nature

According to Nopirin (1992:122), there are several types of Inflation, including the following:

a. Creeping *Inflation*) is a low inflation rate of less than 10% per year. Price increases occur slowly with small percentages and over a relatively long period.
b. Moderate Inflation (*galloping Inflation*), namely price increases that are pretty large in a relatively

short time and have acceleration properties. This means the prices this week/month are higher than last week/month and so on. Moderate Inflation has a more severe effect compared to creeping Inflation.

c. High Inflation (*hyperinflation*), this Inflation is the most severe. Prices rose to three or four times the regular price. People no longer want to save money. The value of the rupiah currency fell, and the circulation of money was faster. Usually, this situation arises when the government experiences a budget deficit so that it prints money.

2. Inflation according to its causes

According to Boediono (1995:53-55), Inflation based on the cause is divided into:

a. *Requests pull Inflation*

This Inflation originates from an increase in Demand while production is in a state of total employment. If a full employment opportunity (*full employment*) has been reached, a further increase in Demand will only increase prices. Suppose this increase in Demand causes the GNP balance to be above or above the GNP at full employment. In that case, that will happen an *inflationary gap.* If it happens *inflationary gap,* then there will be Inflation.

b. *Cosh push Inflation*

Cosh pushes Inflation characterized by rising prices and falling production. As a result, Inflation is accompanied by a recession, which will result in a decrease in total supply as a result of an increase in production costs. An increase in production will increase prices and decrease production.

3. Inflation by origin

Inflation by origin is divided into:

a. Inflation originating from within the country (*domestic Inflation*) comes from within the country, such as occurring because of a budget deficit so that new money is printed; besides that, crop failure is also Inflation that occurs within the country. With a crop failure, there will be scarcity, causing the price of goods to rise and, eventually, Inflation.

b. Inflation originating from abroad (*imported Inflation*), This Inflation occurs because of rising prices abroad, causing the following things:

1) increase in the cost of the living Index because some goods come from abroad;
2) increase in the price index through an increase in production costs of various goods using imported raw materials;
3) An increase in the price of imported goods increases government/private spending, trying to offset the increase in imports.

4. Inflation according to people's expectations

Inflation, according to public expectations, is divided into the following:

a. *Expected Inflation* is Inflation that is expected or expected to occur.

For example, if the Inflation from 2009 to 2014 is constant or does not change at 5%, then the targeted Inflation in 2015 is 5.5%.

b. *Unexpected Inflation* is Inflation that is not expected to occur. As predicted in 2014, Inflation of 5.5% most likely Inflation in 2015 will deviate from the estimated 5.5% to 5.7%.

Overcoming Inflation in the Conventional Economy

be overcome by reducing M (amount of money in circulation) and/or V (speed of money circulation) or raising T (goods traded) (Satya Graha Pinasti, 2022). For this reason, three policies can be implemented to overcome Inflation, namely as follows:

1. Monetary Policy

This Monetary Policy is issued by the central bank, which regulates the amount of money circulating in the community to stabilize it. To overcome Inflation, Monetary policy's main objective is to reduce the amount of money circulating in the community and make it difficult to extend credit. There are four ways that the central bank does to overcome Inflation, that is (Suhardi & Tambunan, 2022) :

a. Discount politics, namely overcoming Inflation by raising interest rates so that people like to save, and then the circulation of money in society will decrease so that Inflation can be overcome.

b. Open market politics, by selling securities so that the amount of money circulating in society decreases.

c. Politics of cash reserves by increasing *cash ratio* used to reduce the amount of credit provided to the public.

2. Fiscal Policy

Fiscal policy is a policy made by the government relating to spending and income in the form of government taxes. Efforts were taken to overcome Inflation by reducing government spending, increasing taxes, and holding government loans by issuing SUN.

3. Non -Monetary and Non- Fiscal Policy

This policy was carried out by increasing production output, stabilizing salaries and wages (not increasing frequently), controlling prices, and distributing goods to the community.

Overcoming Inflation in Islamic Economics

1. Inflation in Islam

Islam is not known for Inflation because the currency used is dinars and dirhams, which have a stable value and are justified by Islam. Deficit conditions had occurred in the time of the Prophet and only happened once, namely before the Occupation War. Inflation is divided into two types: Due to the reduced supply of goods and due to human error (Greetings, 2020). At the time of the Prophet, Inflation occurred due to reduced supplies of goods due to drought and war.

There are three kinds of Inflation caused by human error: corruption, bad administration and excessive taxes, and printing a lot of money. According to Islamic Economics, Inflation causes a country's economy to deteriorate, namely as follows:

a. Disrupting the money function, especially the savings function (deposit value), the prepayment function, and the calculation unit function. Inflation also causes more Inflation (*self-feeding Inflation*).
b. Causing people to be reluctant to save.
c. Encouraging people's behaviour to shop, especially for not basic needs and tertiary goods.
d. d. Directing investment to non-productive things, namely the accumulation of wealth (*hoarding*), such as land, buildings, precious metals, and foreign currency, at the expense of investments in productive directions such as agriculture, industry, trade and transportation.

2. Money must be printed with a low amount

Al- Maqrizi (Karim, 2007) states that money should be printed at the minimum level required for transactions and in fractions with a small nominal value.

3. Implement the *Dues strategy Idle fund* (Tax on idle funds)

This is an Islamic Monetary policy instrument carried out by Bank Indonesia, namely the Minimum Statutory Reserves (GWM) at BI, which is determined by BI based on a certain percentage of third-party funds. Third-party funds are in the form of demand deposits, mudharabah savings, mudharabah investment deposits, mudharabah investment certificates, sharia interbank (IMA Certificate), and Bank Indonesia Wadi'ah Certificate (SWBI).

4. Implementing Fiscal Policy

Fiscal policy in Baitul Mal has had a positive impact on investment and aggregate supply and has had an impact on the inflation rate and economic growth. For example, there is rarely a deficit in the state budget. This is because expenses should only be made if there is a receipt. The magnitude of the *rate kharaj* is determined by land productivity, not by the zone, and the calculation of trade zakat is based on the amount of profit, not on the selling price.

CONCLUSION

From the discussion above, it can be concluded that Inflation is a condition with an increase in prices in general and takes place continuously. In other words, Inflation is also a continuous decline in currency values. Therefore, in general, Inflation is caused by a large number of public requests for goods, rising production costs, and the high circulation of money in society. E economy Islam Inflation is caused by *natural Inflation* (naturally) and *human error inflation* (by humans) (Kurniawati, 2019). Then By its nature, Inflation is divided into creeping *Inflation*), medium inflation (*galloping Inflation*), and high Inflation (*hyperinflation*). The cause of Inflation is divided into *Demand-pull Inflation* and *Cosh pushes Inflation.* According to its origin, Inflation is divided into domestic and foreign Inflation. Meanwhile, according to community expectations, it is divided into *Expected Inflation* and *Unexpected Inflation.* As well as the economy, The conventional way to deal with Inflation is to apply monetary policy, fiscal policy, non- monetary / non-fiscal policy. In Islam, Inflation is overcome by printing money in low/minimum amounts, implementing the *Dues strategy Idle Fund,* and implementing fiscal policy.

REFERENCES

Dwihapsari, Rindani, Kurniaputri, Mega Rachma, & Huda, Nurul. (2021). Analysis of Monetary Policy Effectiveness in Conventional and Sharia Perspectives on Inflation in Indonesia in 2013-2020. *Scientific Journal of Islamic Economics*, *7* (2), 980–993.

Dwijayanthy, Febrina, & Naomi, Prima. (2009). Analysis of the Effect of Inflation, BI Rate, and Currency Exchange Rate on Bank Profitability for the 2003-2007 Period [English: Analysis of Effect of Inflation, BI Rate, and Exchange Rate on Bank Profitability (Period 2003-2007)]. *Karisma Journal* , *3* (2), 87–98.

Fauziyah, Wenny Elies Nur. (2016). The Influence of the Bi Rate and the Amount of Money in Circulation on the Inflation Rate in Indonesia. *Journal of Economic Education (JUPE)*, *4* (3).

Jaya, Abdika, & Murahman, Mardi. (2022). Policies for Handling the Impact of Inflation After the Fuel Increase in Musi Rawas Regency. *Mazda Journal*, *1* (2), 112–120.

Kurniawati, F. (2019). Inflation Control in Islamic Economic Perspective. *Adzkiya: Journal of Sharia Law and Economics*, *6* (2).

Mahendra, A. (2016). Analysis of the influence of the money supply, SBI interest rates and the exchange rate on Inflation in Indonesia. *Journal of Accounting & Finance Research*, pp. 1–12.

Masriani, Yulies Tiena. (2022). The tax regulation strategy is an effort to overcome land price inflation. *Owner: Accounting Research and Journal*, *6* (4), 3959–3966.

Mulyani, R. (2020). Inflation and How to Overcome It in Islam. *Lishabab*, *1* (2), 267–278.

Isabella, Annissa, & Aliasuddin, Aliasuddin. (2017). Causality Analysis Between Inflation and Unemployment in Indonesia. *Scientific Journal of Development Economics Students*, *2* (3), 423–430.

Nugroho, Mahar Fatwa, & Utomo, Yuni Prihadi. (2022). Analysis of the Influence of Interest Rates, Government Expenditure, Public Consumption, Amount of Money in Circulation, and the Exchange Rate on Inflation in Indonesia in 1997-2020. *Economics: Journal of Economics and Business*, *6* (2), 822–825.

Rohmawati, I. (2017). The Influence of Trading Volume, Dividend Payout Ratio and Inflation on Stock Price Volatility in Companies Listed in the LQ45 Index in 2011-2015. *Journal of Education and Economics*, *6* (1), 38–45.

Regards, Wafa Raihany. (2020). Inflation Amid a Pandemic in an Islamic Perspective. *Journal of Syntax Transformation*, *1* (5), 187–192.

Satya Graha Pinasti, Irma. (2022). *The Influence of Gross Domestic Product, BI7DRR, and Payment System Financial Innovation on Money Demand in Indonesia (2016.04–2020.12)*. UPN "Veteran" Yogyakarta.

Suhardi, Auliya Ahmad, & Tambunan, Khairina. (2022). Ways to Overcome Inflation to Increase Economic Growth in Indonesia Based on an Islamic Economic Perspective. *Salimiya: Journal of Islamic Religious Studies*, *3* (1), 26–37.

Yulianti, Rahma, & Khairuna, Khairuna. (2019). The Influence of Inflation on Economic Growth in Aceh Province for the 2015-2018 Period in an Islamic Economic Perspective. *Journal of Muhammadiyah Accounting (JAM)*, *9* (2).