

THE ECONOMICS OF IKHTIKAR

Suherman Rosyidi¹

¹Islamic Economics Departement, Faculty of Economics and Business, Airlangga University,
Indonesia

Abstract

Ihtikār is not a new problem in Islamic economics. The Prophet (peace be upon him) himself firmly stated that the perpetrator of ihtikār are sinners. Nevertheless, Islamic thinkers, since the very beginning, not one voice in understanding this issue, both its meaning and the type of goods concerned. Among the modern Islamic economists, some interpret ihtikār as monopoly, and some are simply declare it as an action of hoarding. They also not one voice in the matter of the type of goods hoarded; the majority stated that the goods that should not be hoarded is just food stuff alone, while others declare all items. This article will explain the issue.

Keywords : Economics , goods, Ihtikar.

1. Introduction

Ihtikār means the act of hoarding so that the amount of a good circulating in society is reduced, then the price goes up. The hoarder earn huge profits, while the society is being disadvantaged communities, as mentioned in a hadith:

Mu'az bin Jabal said: I asked the Messenger of Allah about *ihtikār*, what is it? The Prophet said: "When someone (trader) hear the low price he felt uneasy, and when he heard the price is expensive, he was pleased. Worst of people are those who do *ihtikār*, when God give cheap price he was troubled, and when God gives a high price, he was pleased" (HR. At-Tabarani) (Sulaiman bin Ahmad bin Ayyub Abu Al-Qosim At-Tabarani, n.d.).

Yahya ibn Sa'id said: Sa'id bin Musayyab reported that Ma'mar said; The Prophet once said: Those who practice *ihtikār* then he is a sinner. Then it was said to Sa'id: "You have done *ihtikār*." Sa'id said: 'Ma'mar - who narrated this hadith - he also did *ihtikār*." (HR. Muslim) (Abu Al-Husain Muslim bin Hajjaj bin Muslim Al-Qusyairy Al-Nasisabury, n.d.).

According to Tirmizi, Sa'id bin Musayyab just withheld some commodities, namely oil, grain and the like. According to Abu Dawud, what Sa'id has done was doing *ihtikār* on date, yarn and spices. According to Ibn Abdul Barr, Sa'id and Ma'mar both did *ihtikār* on oil alone. They both thought that what is intended in the Hadith is the detention of goods that become staples alone and not other commodities such as oil, palm seeds, spices and other commodities is not a necessity (Ibnu Al-Mulqin Sirajuddin Abu Hafsh Umar bin Ali bin Ahmad As-Shafi'i Al-Misry 2004).

Regarding the latter above hadith, Ibn Abd Al-Barr argues that it is impossible for a noble companion who reported the hadith of the Prophet and a tabi'in named Said bin Musayyab, after they narrate *ihtikār* ban, then they denied it. This indicates that the prohibited is just food stuff alone (Ibnu Al-Mulqin Sirajuddin Abu Hafsh Umar bin Ali bin Ahmad As-Shafi'i Al-Misry 2004).

2. Literature Review

2.1. The Meaning of *Ikhtikār*

Ihtikār, as stated in the first hadith, is the literal understanding of the term, while its meaning in the jurisprudence is a detention or hoarding of merchandise with the intention of resale at a higher price when the need arose. It is based on information contained in the book *Umdatul Qari Sharh Sahih Bukhari* (Syekh Badruddin Al-'Ayny Al-Hanafy, n.d.).

Seen outwardly, the hadith narrated by Muslim gives legal rulings on the practice of illicit hoarding of food and other goods. On the other hand, among the scholars of Syafi'iyah and 'Al-Hadawiyah (Shiite) stressed the prohibition of *ihtikār* only to items that are basic needs of humans and animals only, whose presence is needed and whose scarcity would cause problems (Ibnu Al-Mulqin Sirajuddin Abu Hafsh Umar bin Ali bin Ahmad As-Shafi'i Al-Misry 2004).

From the above, succinctly concluded that the scholars understand *ihtikār* as stockpiling of merchandise. As far as I know, none of the scholars of the Salaf connecting *ihtikār* with monopoly. Particularly interesting is the attention of contemporary expert opinion on this *ihtikār* sense. The first is the least concern of contemporary Islamic economic experts on this issue, despite the seriousness of the Prophet in prohibiting it. By looking at the index, there are only few Islamic finance books that discuss the issue. The second relates to defining *ihtikār*. Not a bit of Islamic economic dictionary defines *ihtikār* directly as a monopoly.

Among Muslim writers who a bit much say about this issue is Islahi in his book *Economic Concepts of Ibn Taymiyya* (1412 H, The Islamic Foundation, Leicester). He mention this *ihtikār* directly with an English translation, hoarding. First, he stated hoarding behavior as an injustice by stating: "... an injustice, such as hoarding, ..." Despite mentions hoarding or *ihtikār* as injustice, he did not explain what is that unfairness. Besides Islahi, IRTI also mentions *ihtikār* as hoarding (IRTI (1412H), n.d.).

Next, as one of the market imperfections cases concerning rejection of the Prophet to set price, Islahi stated "According to him, the price rise was caused by market forces and not by

imperfections in the market. It was a case of shortage, i.e. decrease in supply due to decrease in production and not a case of the sellers' hoarding or withholding supply." Here he mentions the sellers' hoarding as one form of the causes of market imperfection. However, he still has not mentioned how the practice of hoarding or *ihtikār* so that it can be cited as a cause of market imperfection.

After that Islahi mention the issue of monopoly. He wrote "In the Middle Ages Muslims were so much against hoarding and monopoly that they considered dealings with monopoly-holders to be a sin." It can be concluded from this statement whether or not hoarding is monopoly, because Islahi stated "hoarding and monopoly," not "or." On the contrary, Bal'abbas firmly stated "with usury come the following restrictions; *ihtikār* (monopoly), *gharar* (uncertainty), *jahālah* (vagueness), gambling, *tadlis* (false information) and alike ('Abd al-Razzaq Sa'id Bal'abbas 2008), i.e. *ihtikār* is monopoly.

Bal'abbas not alone in equating *ihtikār* with monopoly. IshaqBatti also said the same thing when he writes: "... the rationale of prohibiting usury is the fixed rate of interest which is associated with *gharar* (uncertainty), *ghaban* (under value / pricing), and *ihtikār* (monopoly)" (Bhatti, n.d.).

Of the same interesting is the one stated by ISRA. In its *Compendium*, *ihtikār* was defined concisely as monopoly (Monopoly (*ihtikār*) 2010). It is stated there that, literally, the word *ihtikār* means "to hoard and monopolize something." (Monopoly (*ihtikār*) 2010). Although it is stated that *ihtikār* does not include hoarding alone, but does also include the act to "monopolize something," the technical explanation of the word says: "Technically: to withhold a commodity [from the market] in order to make the price go up and, thus, to harm people." (Monopoly (*ihtikār*) 2010). In other words, monopolization is not mentioned in this technical explanation.

Despite the fact that not all writers write on *ihtikār*, some do. To my knowledge, they – just like some scholars cited above – are of two groups in defining *ihtikār*, namely hoarding and monopoly.

3. Research Methods

The study method used is a literature study by gathering various previous research as a reference and various documents related to Economics of *Ihtikar*.

4. Results and Discussion

4.1. The Nature of *Ihtikār*

Having regard to the above description, we know that economic thinkers interpret *ihtikār* equals monopoly equals hoarding. Here we face the question that must be answered: (i) if *ihtikār* means hoarding, then are all hoarding banned? (ii) does hoarding mean monopoly? (iii) are all kinds of monopoly prohibited?

Is *ihtikār* monopoly? As we know, the monopoly derived from the word meaning *mono* that means one and *poly* which means seller. Thus, the monopoly is a state in which the market occupied by just one firm alone. In other words, a monopoly is a one-firm industry.

Now let us look at the definition of *ihtikār* as expressed by the scholars above. There explained that *ihtikār* is an action of commodity hoarding. Seen up here, then all acts of hoarding – whatever the goods being hoarded may be – can be regarded as *ihtikār* action. We shall see, however, that the Prophet forbade people do *ihtikār* and call the culprit as a sinner. Given this, we should examine the extent to which the actions of hoarding may cause sin.

Hoarding action was declared to be an act of sin because of its potential to harm the interests of the community. This means that if the hoarding it does not cause any harm to the community, then hoarding can not be said to be a wrongful act and therefore not a sin. In other words, the question of whether it was right or wrong hoarding is very dependent on the answer to the question of whether hoarding has a negative effect to the public or not.

Commodity hoarding would be detrimental to society as a whole if the hoarding was able to cause scarcity effect (which occurs due to blocked supply) and price increases as the result. The price increase is expected by the perpetrator of *ihtikār*, because in doing so he or she hopes to get a bigger total revenue, hence greater profit. Both of these, namely shortages and price hikes, will disrupt the community finance.

To make things clearer, imagine that ten firms trading good X in the market. If one of those ten firms (say firm A) hoards while others do not, will this firm's action cause injury to the community? No, because with his actions, while nine others do not, firm A would not cause any harmful effects to the public. No matter how much firm A would hoard good X, consumers always have the opportunity to buy it from another firm. In other words, his actions in hoarding X is in vain.

The problem would be different if firm A is alone in the market. By definition, firm A is a monopoly; hoarding or not, it is a monopoly. If then firm A do *ihtikār* or hoarding, then the effect of scarcity and rising prices will occur. In other words, it is in this example that monopoly equals hoarding.

There is another possibility. Imagine that all those ten firms collude, and this is the symptoms of collusive oligopoly. The joining of the ten firms will make them a cartel that has monopoly power. If then this cartel do the action of *ihtikār*, then the same result with a monopoly as mentioned above will occur. Thus, we find again a reality, namely that the hoarding would mean the same as a monopoly when committed by a cartel.

Yet the power of the cartel could be gradual. If – recall the above example – there were only those ten firms in the market, then the cartel is monopoly in itself and its act of hoarding something is monopolizing. Conversely, if - in addition to those ten firm – there were some other firms, the monopoly power played by the cartel depends on the coefficient - or ratio – of market concentration. On this, Shepherd stated that the market concentration ratio of $CR_1 = 90$ called "practically a monopoly, (Shepherd 1994)", not to mention $CR_1 = 100$ which apparently is a monopoly.

If $CR_1 < 90$, then the cartel deal with competitors and thus *ihtikār* accomplishments would not bring bad consequences for society. In other words, the cartel did *ihtikār* in vain.

After discussing the relationship between *ihtikār* and monopoly, now we see the output being hoarded. As it could be inferred from the information at the first part of this writing, the ulama' are of two views; while the first limits the scope of prohibition of *ihtikār* to food stuff and cloths, the second extends the scope to all goods.

The main consideration of the prohibition of *ihtikār* is the harm it may cause to the community. The goods whose scarcity can be harmful to society must be one that has some degree of urgency, does not – or a little – have good substitutes, and within the reach of community's purchasing power. Economics textbooks show that goods with those attributes are ones whose price elasticity of demand is inelastic (Rosyidi 2013).

Goods whose demand elasticity is inelastic has the followings as its main characteristics,

1. price and total revenue move in the same direction. If its price is increased, than the firm's total revenue will also be increased, vice versa.
2. everything that increases price (transaction cost, cost of government regulation, etc.) can be transferred to the consumers, hence increasing the amount of money the consumers should expense for the good.

This statement explains that if the goods whose demand elasticity is inelastic is hoarded and then the price goes up - as expected by the hoarders - then the general public would be harmed. There are two losses suffered by the people, namely scarcity during the hoarding period and price increases after the firm throw the hoarded products to the market.

We might mention some kind of stuff like this in real life around us. Food stuff and clothes are mere few examples. Noteworthy is that the bigger the coefficient of demand inelasticity for goods hoarded, the greater will be the loss of community it creates, and the greater is the sin.

Problems caused by hoarding as presented above will not occur if the hoarded goods' elasticity of demand is elastic. Items such as these have the properties – in contrast to the goods whose elasticity of demand is inelastic – have many substitutes, not urgent, and expensive (Rosyidi 2013). Hoarding goods like this will only cause loss for the hoarding firms.

Thus, the monopoly holder will only cause harm to society if the goods it monopolizes has the inelastic elasticity of demand.

5. Conclusion

from the above discussion it can be concluded several points:

1. Literally, *ihtikār* is (an act of) hoarding.
2. Not all hoarding is monopoly. Only if the hoarding firm is the only firm in the market, or if it is a cartel with somewhat strong power, then hoarding means monopoly.
3. Not all monopolies are forbidden. Only if a monopoly holder monopolizes good whose elasticity of demand is inelastic, then this kind of monopoly is forbidden.
4. Monopolizing good whose elasticity of demand is elastic will be harmful to the monopoly holder.

References

- [1] 'Abd al-Razzaq Sa'id Bal'abbas. 2008. "Hal Qa_ar Al-Fuqahâ' Al-Mu'Â_iron Fi Bayanu Al-Ni'Am Al-Iqtis'ād Al-Islâmy?" *Islamic Economics Journal* 21 (1): 35–36.
- [2] Abu Al-Husain Muslim bin Hajjaj bin Muslim Al-Qusyairy Al-Nasisabury. n.d. *Al-Jami' Al-Shohih Al-Musamma Shahih Muslim*. Beirut: Darul Jayl.
- [3] Bhatti, Ishaq. n.d. "The Concept of Corporate Governance and Business Ethics in Islamic Financial Institutions." <http://www.islamicfinancenews.com/glossary/ihtikar>.
- [4] Ibnu Al-Mulqin Sirajuddin Abu Hafsh Umar bin Ali bin Ahmad As-Shafi'i Al-Misry. 2004. *Al-Badrul Munir Fi Takhrij Ahadits Wal Atsar Al-Waqi'ati Fi Syarhi Al-Kabir*. Riyad: Darul Hijrah.
- [5] IRTI (1412H). n.d. "Lectures on Islamic Economics." Jeddah: Ihtikār: Hoarding.
- [6] Monopoly (ihtikār). 2010. "ISRA Compendium for Islamic Financial Terms." International Shari'ah Research Academy for Islamic Finance (ISRA).
- [7] Rosyidi, S. 2013. *Pengantar Teori Ekonomi (Introduction to Economics)*. Jakarta: Rajagrafindo Persada.
- [8] Shepherd, A.B. 1994. *Industrial Organization*. McGraw Hill Book.
- [9] Sulaiman bin Ahmad bin Ayyub Abu Al-Qosim Aṭ -Ṭ abarany. n.d. *Al-Mu'jam Al-Kabir*.
- [10] Syekh Badruddin Al-'Ayny Al-Hanafy. n.d. *Umdatul Qori Sharh Şahîḥ Bukhari*.