

FRIEDMAN'S MONETARY THEORY: A CRITICAL REVIEW BASED ON AL-MAQRIZI'S PERSPECTIVE

Eko Nur Cahyo¹, Sya'na Sekar Izaty², Alfi Khilmi Khusnia³

¹Universitas Darussalam Gontor

²Universitas Darussalam Gontor

³Universitas Darussalam Gontor

Email: sekarizaty71@gmail.com

Abstract

This study aims to examine and critique Milton Friedman's economic theory, particularly regarding monetary policy, from the perspective of Islamic economic theory as proposed by al-Maqrizi. Milton Friedman, as a prominent figure in modern economic thought, is known for his monetary theory, which emphasizes the importance of government control over the money supply to achieve economic stability. However, this theory often faces criticism, especially from economists who find it overly narrow. In contrast, al-Maqrizi, a classical Islamic economist, highlights the significance of ethics, moral values, and justice in the economy. By employing a qualitative analysis approach and a comparative textual method between Friedman's theory and al-Maqrizi's works, this study reveals that al-Maqrizi's approach to economic theory is more comprehensive than Friedman's. It incorporates social, moral, and spiritual dimensions closely related to societal welfare. Furthermore, al-Maqrizi emphasizes the critical role of government in monitoring and controlling the economy to prevent practices detrimental to society, such as monopolies and hoarding. The findings of this study are expected to enrich the literature on Islamic economics and serve as a reference for policymakers in developing more equitable and sustainable economic models.

Keyword: *Friedman's Monetary Theory; Al-Maqrizi; Inflation*

A. INTRODUCTION

The phenomenon of inflation has become a major challenge in global economic dynamics, especially in the era of Economy 4.0, where technology and digitalization play a central role in economic development. Inflation is a phenomenon that will continue to recur in a country. Inflation can be interpreted as a situation where the price of goods and services soars high due to the large amount of money circulating in the community. The large amount of money in circulation indicates that there will be a decline in the value of the currency. (Hafidz Meiditambua Saefulloh et al., 2023, p. 22) The increase in the price of goods and services in general can disrupt economic stability and reduce people's purchasing power. In a capitalist economy, inflation will occur due to two main factors, namely first, the large demand for goods that is not balanced with the production of the number of goods in circulation. Another reason is the increase in the price of raw materials or production materials so that it results in an increase in the selling price of these goods. (Ramadhani et al., n.d., p. 50) The phenomenon of inflation is closely related to the macroeconomic growth of a country because it affects economic growth, economic stability and income distribution in a country. (Parakkasi, 2016, p. 45)

In this context, capitalist economist Milthon Freidman argues that inflation can also be said to be a monetary phenomenon because inflation causes a decrease in the value of the monetary unit of calculation against a commodity or service. (Parakkasi, 2016, p. 43) Therefore, he offers the application of theories that are considered quite relevant to the problem. One of the theories offered is Friedman's Monetary Theory which emphasizes the importance of controlling the money supply to maintain economic stability. Friedman argued that inflation is the result of irregular growth in the amount of money, and as such, tight control of the money supply can prevent adverse price fluctuations. This approach promotes a laissez-faire monetary policy, with the aim that the market will find its own balance without excessive intervention from the government. That way, the price will be adjusted naturally based on supply and demand. This is seen as increasing the efficiency of resource allocation, where goods and services are produced according to the needs of the community.

However, criticism of this theory arises from various points of view, including from the tradition of Islamic thought represented by Imam al-Maqrizi. Al-Maqrizi, in his work *Ighathah al-Ummah bi-Kashf*

al-Ghummah, highlights that inflation is not always related to money or the monetary system. He revealed that there are two main factors that cause inflation, namely the natural factor which is considered a phenomenon that cannot be avoided by humans and the human error factor as a result of human negligence and error.(Firdaus, 2021, p. 281) From a monetary point of view, he emphasizes the importance of using stable monetary standards, such as dinars and dirhams, to avoid inflation and maintain the stability of currency values. Al-Maqrizi argues that the standard of the dinar and dirham can provide assurance against fluctuations in the value of money caused by irregular or inconsistent monetary policies.(Latif & Syauqoti, 2023, p. 428) Al Maqrizi emphasizes the use of stable and sustainable monetary standards to avoid inflation and ensure the economic well-being of the community. He argued that government intervention is needed to maintain social justice, prevent harmful economic practices, and ensure a fair distribution of wealth.

This study aims to analyze and criticize Friedman's Monoterist theory using the lens of al-Maqrizi's monetary theory. Through this comparison, the study will explore the fundamental differences in each figure's approach to monetary economic management. Thus, this analysis is expected to contribute to a more comprehensive understanding of economic dynamics and the need for a more inclusive approach in global economic management from a sharia perspective.

B. METODE

This study uses a qualitative method with descriptive analysis. This paper is studied with a literature study by collecting various references in accordance with the theme of the discussion. Sources come from books, articles, scientific journals and certain pages to get data. The information that has been collected is then analyzed for its suitability with the theme of the discussion.

C. ANALYSIS AND DISCUSS

2.1 Theory of Monterist Freidman

Milthon Freidman is a capitalist economist who has a visionary view of money and the monetary system. His opinion on an economic problem has become a reference in solving economic problems. One of the most famous theories is the "Monetist Friedman" theory which specifically discusses monetary theory and inflation. His opinion is that the money supply is the key to controlling the inflation rate and economic stability. He considered that the combination of flexible exchange rates and domestic monetary rules could be used as a basis to avoid economic problems in a country.(Dellas & Tavlas, n.d., p. 362) According to him, a floating exchange rate would help protect the domestic economy from external shocks and would give national policy authority to meet domestic objectives.(Dellas & Tavlas, n.d., p. 369)

In addition, Freidman said that economic stability will be achieved by regulating the amount of money in circulation in the community. It can also be said that the monetary authority is the party that makes it possible to take over all the regulations on the circulation and circulation of money. To support his argument, Freidman views that government intervention in the market must be reduced so that the allocation of resources in the free market can run efficiently. Thus, Freidman's theory can help in understanding the importance of stable money growth although it must consider other factors such as foreign currency fluctuations.

Freidman as a monetarist economist views gold and silver as something that no longer needs to be used. According to him, the gold standard has a weakness because it does not provide flexibility in regulating the money supply. From its point of view, gold limits monetary authorities in adjusting the amount of money in circulation when it is needed to stabilize the global economy. So it is clear that Freidman believes more in the fiat money system that can be managed by monetary authorities to maintain economic stability. In addition, he explained that the fixed money growth rule in the range of 3-5% per year can control inflation without the need for government intervention.(Nelson, 2011) So it can be concluded that Freidman supports interest rates as a tool in monetary policy.

2.2 Inflation during the Mamluk Kingdom

Inflation in the mamluk kingdom occurred in the 14th and 15th centuries AD.(Aravik et al., 2020) The causes of inflation in that era have been outlined by several Muslim

economists, such as Al Maqrizi who described that at that time there was a food crisis and a large monetary crisis that had a big impact on the kingdom's financial deficit. There were several causes of inflation during the Mamluk kingdom, (Yizayi & Alayi, 1994) so Al-Maqrizi has described it in two groups, namely:

1. Inflation Due to Human Error or Human Negligence

Human beings as creatures of Allah who make food, drink, clothing and boards always try to fulfill this. (Saidy, 2017, p. 6) However, keep in mind that humans also have lust, often acting according to their lust, not their conscience. This is clearly illustrated in the inflation of the mamluk kingdom era which was explained by Al Maqrizi with several practices carried out by a group of people in meeting their personal needs, including:

a Corruption, waste and poor administration in the government.

Even the government that was in office at that time squandered money for personal interests and unproductive purchases. This resulted in exacerbating the state budget deficit so that the government was forced to print additional money to cover the expenses of these officials. (Latif & Syauqoti, 2023) If described more broadly, corruption will result in a sharp increase in the price of goods and services. This is because the prices of goods and services have been distorted by components that should not exist. In the end, everything will result in the inefficiency of resource allocation and cause losses to the community. (Karim, 2007, p. 143)

b Printing of excess money

The government at that time imposed a devaluation of coins to cover budget expenditures. The meaning of metal devaluation is that in the era of the mamluk kingdom, the government printed more money by mixing precious metals with cheaper metals, causing a decrease in the intrinsic value of the currency, resulting in triggering inflation. (المقریزی, 1940) So that there was a surge in market prices, especially the need for basic materials. In fact, the market is the only place where the government of that era is the lifeblood of the government in stabilizing the economy. (Novia, 2022, p. 63) The devaluation of coins is not enough to cover these expenditures, so there is a shift in monetary standards from precious metals to an increase in paper money (Fulus) which causes economic instability. (Aravik et al., 2020, p. 11) This is because banknotes clearly have a lower intrinsic value compared to precious metals.

c. High tax drawdown

The consequence of this policy is the increase in the cost of cultivating land, seed seeds and the wages of cultivators. This condition can be analyzed that farmers find it difficult to reach the cost of these costs, which in turn worsens inflation. (Dede Hamidin, 2018)

2. Inflation due to Nature (Alamiyah)

Natural inflation is inflation caused by natural disasters that cannot be avoided by humans. Maqrizi explained that inflation due to nature is where humans experience natural disasters which will result in declining crop yields. On the other hand, the community needs these goods, causing a high demand (Demend). As a result of this, the price of essential goods soared, which had implications for the prices of other goods, including services. (Ramadhani et al., n.d., p. 54) This statement can be explained by conventional analysis.

$$MV = PT = Y$$

M = Amount of Money in Circulation

V = Speed of money circulation

P = Price Tier

T = Number of goods and services

Y = GDP Rate

With this formula, it is clearer that natural inflation is; (Karim, 2007, p. 140)

a. There is a disturbance in the number of goods and services. For example, if the value of T is fixed while the values of M and V are fixed, it will result in an increase in the value of P.

b. People's purchasing power has increased in real terms. For example, if the number of exports is greater than the amount of imports, there will be an import of money with

M analysis decreasing, while V and T remain so that it results in an increase in the value of P.

2.3 The Concept of Money in Islamic Views

Al Maqrizi is a Muslim economist who pays great attention to the intrinsic value of money, which at that time still used gold and silver. Al-Maqrizi argues that the intrinsic value of gold and silver will not fluctuate like fulus. His opinion reveals that the economy in society will create justice and balance if gold and silver are enforced as monetary standards.(Kalsum, 2014, p. 429) Al-Maqrizi's opinion is also based on the use of gold and silver during the time of the Prophet. At that time, the exchange rate of gold and silver was relatively stable with an exchange rate of 1:10 dirhams.(Karim, 2007, p. 177) In addition, Al Ghazali also argues that Allah created gold and silver as the arbiter by which all wealth can be measured by both.(Ilyas, 2016, p. 36) However, the use of gold and silver is not specifically explained in the Qur'an and hadith.

According to Ibn Taymiyah, gold and silver were not required to be used in the payment system although this was the norm at that time. It allows the use of fiduciar money, but keep in mind that excessive and continuous use will result in the disappearance of gold and silver in accordance with Gresham's law.(Karim, 2007, p. 179) Therefore, it needs to be understood that the existence of silver gold gives importance to an economy. Ibn Taimiyah also explained that the use of metal currencies such as Fulus with low quality will kick out good quality. Therefore, Al Ghazali requires the government to use fiduciar money to be printed as needed and must always maintain its value.(Karim, 2007) Islam emphasizes that money is money, money is not a capital or commodity to be traded. The function of money in Islam is described as a medium of exchange and payment. Money also functions as a unit of value. However, in conventional economics, the function of money is added by explaining that money is something that stores value. If money is something that stores value, it will give rise to the occurrence of money trading. In fact, in Islam, money is not a utility because money is only an intermediary to turn an item into another desired good.(Fasiri & Aziz, 2021)

This is explained by experts that money as a measure of wealth if it experiences instability will result in economic injustice and equity. So if it is said that the root of the inflation problem is money, this is in accordance with the theory that the financial sector always runs on its own without being balanced with the real sector. As a result, there are wild fluctuations in money.

2.4 Friedman's Monetary Theory in Al-Maqrizi's Perspective

Friedman's Monetary Theory basically only focuses on inflation associated with the monetary system, which in the end the solution provided by Friedman is that there must be control over the money supply. If criticized from the perspective of Al-Maqrizi, then we will find the reason for Friedman's theory. The main thing that we can analyze is that the instability of money value is caused by structural and moral causes.(Izzati & Rofiah, 2024) Just like the government when making policies when experiencing shocks in the money market due to excess demand. So the policy that should be taken is not to print excess money, but to affect the behavior of demand for asset costs or idle money.(Karim, 2007)

The emergence of fiat money in the economic world has brought many changes in the money value system. Friedman has also explained that inflation is a monetary phenomenon that is closely related to money. So the question is, what's wrong with money? In this case, Friedman focuses more on the use of monetary policy based on data and statistics, as well as controlling the amount of money in circulation to maintain economic stability. However, Friedman's theory does not discuss in depth the ethics of monetary policy decisions. Money-printing policies, while they can control inflation in the short term, risk sacrificing morality and the principle of justice if not done carefully.

Meanwhile, Al-Maqrizi criticized the uncontrolled money printing policy as a form of oppression against the people. In the sharia economy, every economic policy must avoid practices that can plunge society into losses or injustices.(Izzati & Rofiah, 2024) The state or government has an obligation to ensure that financial policies are not only efficient but also fair. Riba and oppression in monetary policy are very avoidable things in the sharia economy.

Overall, Friedman's theory of controlling the amount of money in circulation can be criticized from the perspective of sharia economics with reference to social justice, governance ethics, and wealth distribution (Irawan et al., 2024). Although Friedman's theory provides a technical solution to inflation through monetary control, sharia economics and al-Maqrizi's view emphasizes that economic policies must ensure the welfare of all levels of society, especially the poor, and must be managed with moral principles based on justice and public welfare.

D. KESIMPULAN (bold 10 pt)

Criticism of Milton Friedman's economic theory with the perspective of al-Maqrizi theory shows a profound difference in the approach to monetary policy and the role of the state in the economy. Friedman, known for his theory of monetarism, prioritized controlling the money supply as the main solution to overcome inflation and create economic stability. However, this theory tends to focus on technical efficiency and macroeconomic control without considering in depth its social impacts, especially on the poor. On the other hand, al-Maqrizi, with an approach more oriented towards social justice and government ethics, criticized the out-of-control money printing policy as a form of oppression against the people. He emphasized that monetary policy must consider the welfare of the entire community, not just prioritizing economic stability in terms of numbers and statistics. In his view, excessive money printing can damage people's purchasing power, exacerbate social inequality, and harm the poor. Overall, criticism of Friedman's theory from al-Maqrizi's perspective highlights the importance of social justice, economic sustainability, and the morality of government in monetary policy. While Friedman focuses more on number-based economic management and monetary control, al-Maqrizi reminded that economic policies must be carried out with the welfare of the people in mind and the equitable distribution of wealth, which is in line with the principles of sharia economics.

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