BARGAINING MECHANISM IN ISLAMIC ECONOMIC SYSTEM

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Abstract

This article discusses the concept of bargaining position in the Islamic economic system. By using a literature study, this article finds a narrative that bargaining positions occur in goods or services. The conclusion are: bargaining must be carried out by more than one person. So, there are at least two people who transact (sellers and buyers). If there is only one person, the bargaining position certainly cannot happen. Examples of the many bargaining that occur are on the market. In a sale and purchase, those with higher bargaining rights are buyers. Whereas the seller will compensate the buyer for positive bargaining. Bidding is goods or services offered at a certain amount and price level and under certain conditions. There is also an offer in the Islamic economy that distinguishes it from conventional offers, that the goods or services offered must be transparent and specified in their specifications, how the condition of the goods, what are the advantages and disadvantages of the goods. The offer made does not harm the party submitting the request; and vice versa.

Keywords: bargaining position; buyer; seller; offering; bidding; Islamic economics

A. INTRODUCTION

In the economic system, the market is a component that is very important to continue to run the wheel of the economy (Ahamed, 2008, p. 569). A market that brings together business actors (sellers) with buyers because of the interests and needs of each other (demand), so there is bargaining (bidding). Where requests and offers are the trigger for the transaction (Ma, 2008, p. 11).

With the existence of a market, a bargaining transaction will occur, bargaining is a bargaining position for goods or services (Tietze, 2012, p. 223). Bargaining must be carried out by more than one person. So, there are at least two people who transact (sellers and buyers) (Klotz, 2008, p. 99). If only one person, certainly, the transaction can not be done. Examples of the many bargaining that occur are on the market. In a sale and purchase, those with higher bargaining rights are buyers. Whereas the seller will compensate the buyer for positive bargaining (Spulber, 1999, p. 330).

In the religion of Islam, which is not only shumā’iyah (perfect) but also harā’iyah (dynamic). It is called perfect because Islam is a perfect religion of previous religions and its Sharī’a regulates all aspects of life, both aqeedah and muamalah. In the rules about muamalah, Islam regulates all forms of human behavior in dealing with others to fulfill their needs in the world. Included in it is an Islamic rule that regulates the market and its mechanisms (Kunhibava & Rachagan, 2011).
Therefore, in Islamic economic systems in practice must follow the rules that have been made based on the al-Qur'an and al-Sunnah (Supriyadi, 2014). So, this article tries to examine, regarding the mechanism of bargaining in the Islamic economic system.

B. METHOD

the method used in writing this article is the literature study method. This method was chosen to see a number of explanations contained in Islamic economic literature, starting from the Qur'an, hadith, to the opinions of the scholars.

C. RESULT AND DISCUSSION

1. Theoretical Study

a. Islamic Economic System

Muslim scholars, define Islamic economics in diverse narratives. However, the substance remains the same. According to Muhammad Abdul Manan, Islamic economics is a social science which studies the economics problems of a people imbibed with the values of Islam (Mannan, 1980, p. 3). So, according to Manan Islamic economics is a social science that studies the economic problems of society inspired by Islamic values.

M. Umer Chapra defines Islamic economics as the branch of knowledge which helps realize human well-being through an allocation and distribution of scarce resources that is in conformity with Islamic teaching without unduly curbing Individual freedom or creating continued macroeconomic and ecological imbalances. From such disclosure, Islamic economics is a knowledge that helps efforts to realize human happiness through the allocation and distribution of limited resources within the corridor that refers to Islamic teaching without giving individual freedom or without sustainable macroeconomic behavior and without environmental imbalances (Nasution & Edwin, 2006, p. 16).

Meanwhile, according to Syed Nawab Haider Naqvi, Islamic economics, in short, is a study of the economic behavior of representative Muslims in modern Muslim societies (Naqvi, 2009, p. 28). Furthermore, the system is defined as an organization of various elements that are interconnected with each other. These elements also influence each other, and work together to achieve certain goals. With such understanding, we can say that the economic system is an organization consisting of parts that work together to achieve economic goals (Nasution & Edwin, 2006, p. 2). Then what is called the Islamic economic system?

In simple terms we can say, Islamic economic systems are an economic system based on Islamic teachings and values. (Suryani, 2012) The source of the whole value is of course the al-Qur'an, al-Sunnah, al-jma’ and al-qiyas (Ahmad, 2011). The values of the Islamic economic system are an integral part of the overall Islamic teachings (Hasan, 2016) that are comprehensive and have been declared by Allah SWT as a perfect teaching (QS. Al-Ma’ida’ verse 3).
Because it is based on Divine values, the Islamic economic system will certainly be different from the capitalist economic system based on the teachings of capitalism, and also different from the socialist economic system based on the teachings of socialism (Mirakhor & Askari, 2017, p. 33). Indeed, in some ways, the Islamic economic system is a compromise between the two systems, but in many ways the Islamic economic system is totally different from the two systems. The Islamic economic system has good qualities from capitalism and socialism, but regardless of its bad nature (Nasution & Edwin, 2006, p. 2).

There are several things that encourage the need to study the characteristics of Islamic economics:

a) Straightening out the wrong views that assess capitalist economics (giving respect to the principle of property rights) and socialist (giving respect to equality and justice) does not conflict with Islamic economic methods.

b) Helping Muslim economists who have been involved in conventional economic theory in understanding Islamic economics.

c) Helping those interested in muqalah fiqh studies in conducting comparative studies between Islamic economics and conventional economics.

While the characteristic source of Islamic Economics is Islam itself which includes three basic principles. All three are fundamentally and jointly regulating economic theory in Islam, namely the principles of faith, morals and legal principles (muamalah in broader concept) (Huda & Nurul, 2008, p. 2).

Basically, Islamic economic systems differ from capitalist and socialist economic systems; and in some cases, it is a conflict between the two and is between the two extremes. The Islamic economic system has virtues that exist in the capitalist and socialist economic system, but is free of weaknesses found in both systems. Relationships between individuals in the Islamic economic system are quite structured so that they help each other and cooperation takes precedence over the rivalry and hostility of their neighbors. For this purpose, the Islamic economic system not only provides individuals with economic and social facilitation and even gives them moral education and certain training that makes them feel responsible to help their fellow workers in achieving their desires or at least not blocking them in his efforts to live (Rahman, 1995, p. 10).
Islam views economic problems not from a capitalist point of view that gives individuals the freedom and ownership rights and promotes business individually. Nor is it from a communist point of view, which "wants to abolish all individual rights and make them like state-controlled slaves of the economy. But Islam justifies selfishness without allowing it to damage society. It is possible to choose a self-centered attitude among community members. Through the provision of morals and laws, on the one hand the understanding of economic concepts among the people is changed and improved through moral education and on the other hand, certain legal steps are taken to ensure that the selfishness of the capitalist group does not reach the stage that makes them greedy, and for the poor, do not feel jealousy, hold grudges and lose tolerance, the most important part of these principles that is necessary for economic organizations in society to achieve the stated goals is individual ownership rights, which need to human progress is not only always maintained and maintained but continues to be supported and strengthened (Rahman, 1995, p. 11).

b. Bargaining Mechanism

The bargaining position applies in goods or services. Bargaining must be carried out by more than one person. So, there are at least two people who transact (sellers and buyers). If only one person certainly can't. Examples of the many bargaining that occur are on the market. In a sale and purchase, those with higher bargaining rights are buyers. Whereas the seller will compensate the buyer for positive bargaining. In the journal article, Peter C. Cramton Bargaining Mechanism is divided into 5 parts (Cramton, 2016):

1) Formulation
2) Perfect bargaining mechanisms
3) Efficiency
4) The case of uniform symmetric exchange
5) Conclusion

The formulation of two parties, buyers and sellers, who bargain on the price of an object that can be produced by the seller at a cost that is worth b to the buyer. Cost sellers and buyer valuations are also called price reservations. Because they represent, the minimum and maximum prices for each party will agree to trade. Both sellers and buyers have the right to delay the bargaining process. In particular, the value of the object of a discount in the future is in accordance with the positive discount rates \( \rho \) for sellers and because of buyers. Thus, the prize, if the bidder agrees the transaction at the price of \( x \) discount at the time \( t \), where \( x - se^{\rho x} \) for seller and becomes \( be^{-x} \) for buyer. If it fails to reach an agreement, both the prize value is zero. Implicit in this case the formulation is the assumption that the future discount bidder is at the same level, so that at any time \( t \) the payment discount by the buyer equals the ticket revenue for the seller. Without this assumption, there will be a possibility for players to achieve unlimited results by having players with a lower discount rate lending an arbitrary amount of money to other players (Cramton, 2016).

Perfect bargaining mechanisms, the weakest requirement of imposing a bargaining mechanism \((T, x)\) in the form of a game is (1). Individual rationality, namely that everyone wants to play games and (2). Incentive compatibility, namely that the mechanism induces the delivery of truth. In addition, when bidders cannot make or commit commitments, one needs further restrictions on sequential rationality, it does not have to be general knowledge.
that the mechanism of induction over time is dominated by alternative mechanisms. The bargaining scheme that satisfies incentive compatibility, individual rationality, and sequential rationality is called the perfect bargaining mechanism (Cramton, 2016).

Efficiency sets of perfect bargaining mechanisms are usually quite large, which means that there are many broad forms of play with equilibrium satisfying the compatibility of incentives, individual rationality, and sequential rationality. To narrow this set, it is reasonable to assume additional efficiency properties. There are three notions of efficiency, explained at length by Holmstrom and Myerson (1983), that ex-post, transient, and efficiency ex ante consider that comparisons are made before the game knows their information, while efficiency considers that players only know their personal information, and ex post efficiency assumes that all information is known (Cramton, 2016).

The symmetric exchange case of uniform: An example to illustrate the theory presented in the previous section would be useful to see an example. Especially considering the case of uniform symmetrical exchanges where both the seller's rights and the buyer's rights are evenly distributed at (0,1). Then \( c(s, \alpha) = (1 + \alpha) s \) and \( d(b, \alpha) = (1 + \alpha) b - \alpha \) which strictly increases when \( \alpha = 1 \), and by theorem 3 we know that, for some \( \alpha \in (0,1) \) the desired mechanism \( p = p_\alpha \) ex ante is found by specifying \( R(\alpha) \) for zero, so that \( U(s) = V(b) = 0 \). Again, it will be useful to consider two cases depending on \( \rho \leq \sigma \) or \( \rho > \sigma \) (Cramton, 2016).

Conclusion of two important features of managing bargaining for each information and time, bidders usually have complete information about their respective preferences, and therefore must communicate about some of their personal information, to determine whether or not there is a profit from the transaction. One means of communication for agents and signals of their personal information through willingness to delay the agreement. Bidders who anticipate a large profit from a transaction will want to postpone the agreement and will propose an interesting thing from another transaction is the beginning of the process of accepting the bargaining transaction. While bidders expect small profits will prefer to wait for better offers from their opponents (Cramton, 2016).

2. Case Description

Cases that we often encounter in this problem may often occur in women, especially among mothers who will shop. For example, housewives who will shop in the new market in Bandung, when shopping, it will take quite a long time, when the mother enters a new market building, we will find the mother 4-5 hours later out of the building. Because besides looking for the model desired by the mother, the price is also a benchmark for the mother to get the product she wants. The bargaining process is not possible for the mother to avoid, before getting the minimum price possible from the price offered by the mother, she will keep moving stores until she gets the price, she thinks is right with what she wants (direct survey by author, June, 2017).

a. Ethics of Bargaining in Islam

In trading activities, there are several processes commonly carried out by parties involved in these activities, such as bidding on ordinary sales. Bidding (on goods that do not have a fixed price) is usually related to price determination, because it is an undeniable reality that a seller wants the goods sold can be sold at a high price, while the buyer wants to be able
to buy at a low price (Parsons, Rodriguez-Aguilar, & Klein, 2011). For this, there is a process of bargaining between sellers and buyers to set prices.

Islam provides rules about the ethics of bargaining (Elasrag, 2015) that do not cause the existence of the aggrieved party in the Hadith of Muslim History: From Ibn ‘Umar, he said, the Prophet pbuh said:

"Let no one sell on his brother's sale. Don't also someone preach (apply) on his brother's sermon unless he gets permission for that" (Narrated by Muslim)

From Ibn ‘Umar, he said that the Prophet pbuh said:

"Let no one of you bid for his brother's offer" (Narrated by Bukhari).

Bidding is goods or services offered at a certain amount and price level and under certain conditions (Bikramjit, 2015, p. 36). There are also Islamic offers that distinguish it from conventional offers, that the goods or services offered must be transparent and specified specifications, how the condition of the goods, what are the advantages and disadvantages of the goods (Schoon, 2016, p. 48). Do not let the offer that we do harm the party who submitted the request. The Messenger of Allah in making an offer always details the specifications of the merchandise, to the extent that the purchase price is mentioned and offers the price of what the item is purchased and which will be obtained by it (Askari, Iqbal, & Mirakhhor, 2014, p. 128).

Offers in buying and selling especially conventional ones is a process that cannot be avoided. This is due to the existence of two conflicting interests. The seller, of course, wants to be able to sell the goods at a high price. While on the one hand, the buyer of course wants to be able to buy goods at low prices.

In the above hadith, there are ethics that must be considered by both parties involved in the transaction. Prohibition of buying from selling other people or bidding on someone else's offer is not only shown to the buyer, but also to the seller. For sellers, practices that violate the ethical offer can take the form of offering merchandise at a lower price to prospective buyers who are in the process of bargaining with other sellers. The practice can also take the form of offering goods of better quality at the same price to prospective buyers who are in the process of bargaining or in the past with other sellers.

The offer of course aims to divert prospective buyers to buy their merchandise and leave the previous seller. This method is prohibited because it is very unethical when there are parties who seize prospective buyers in an unethical manner. For prospective buyers, the practice of bidding someone else's offer that violates the offer ethics in this hadith can be in the form of:

1) The second prospective buyer offers a higher price than the first bidder who is in the process of bidding with the seller or on buying and selling which is still in the past.
2) The second prospective buyer asks the seller who is in the past to cancel the sale and purchase with the first buyer by giving a promise to buy at a higher price.
3) In practice, including bidding on someone else's offer when the prospective new buyer declares a shortage of goods being bid by a previous prospective buyer. Such a method is carried out with the intention that the bidder does not buy the item and the second buyer intends to buy it.
The prohibition in the hadith shows that in buying and selling transactions it is not justified that unfair competition between prospective buyers (Hassanien, 2010, p. 120). Therefore, this matter gets very serious attention from the Prophet. Buyers are only allowed to bid on items that are not being offered by others. Even though the buyer is very interested in the item being offered by another person. The prohibition in this hadith provides guarantees to those who may be in an unfavorable position, so that parties with strong socio-economic conditions do not apply arbitrarily to people with weak social economics.

In another hadith, at the end of the hadith there is the ability to bid for goods that are not purchased, if the first bidder has left the transaction location, he has given permission. That is, the unfavorability is shown to the second prospective buyer, when making an offer for an item being offered by the first prospective buyer. The prohibited form of bidding is when a second prospective buyer suggests that the seller cancel the current sale and purchase, with the promise that he will buy at a higher price. Prohibition of offers only when both prospective buyers and sellers are in the bidding process or in the past. This prohibition can anticipate a fight or hostility between fellow buyers (Al-Qaradawi, 1999, p. 260).

Bidding on other people's offers can also occur with the seller. For example, when the seller is bargaining with prospective buyers A, then another trader offers A the same item with a cheaper price, or the same price for the same item for goods of better quality. Unability is indicated for prospective sellers if the item that is the object of buying and selling is in the process of being bidding or in the past.

This prohibition can anticipate a fight or hostility between sellers. That is what is guarded by Islam, so that transactions that will occur will not be a source of contention between the parties involved in the transaction. Especially for sellers, fellow sellers' hostility will affect each other's performance. Do not think about the progress of the business, the hostility will cause other adverse things (Visser, 2013, p. 90).

The hadith being discussed is found in a series of long hadiths, the rules regarding the ethics of this offer are accompanied by the prohibition of proposing someone else's proposal, until the first applicant decides not to woo. The essence of the prohibition is the same, namely that those who come later pay attention to the ethics of fair competition. With the meaning of the latter party do not seize with various pretexts.

If there is a sale and purchase with this prohibited bidding process, there is a difference in income regarding the law of sale and purchase, namely:

1) According to Jumhur (the majority of scholars), buying and selling is legal but sinful.
2) According to Hanafiyyah and Malikiyyah in one of their histories and Ibn Hazm stated that buying and selling was illegal.

The occurrence of these differences of opinion may be caused by the legitimate or not buying and selling usually seen from the complete or not the conditions of buying and selling pillars. For fuqaha which states that buying and selling is legal but sinful, the focus is on fulfilling the terms of the pillars. But for those who say the law of buying and selling is not legal, because it considers one of the elements in the hadith is not perfect (Al-Mushlih & Ash-Shawi, 2001, p. 107).

b. Procedures for Bargaining in Islam
Bargaining Mechanism in Islamic Economic System

In Islamic economics, there are certain procedures that must be followed and obeyed by anyone in carrying out buying and selling transactions, namely:

1) Intention to Buy (if you don’t intend to buy, do not bid and cancel the price agreement) the action of canceling the agreement is uncivilized, disappointing and can hurt the seller, even though the person agreed even though fortunately it doesn't matter, because the seller is tired, neglecting time, financial loss actually added to the loss of frustration because the buyer acted only playing games and cheating the agreement.

2) If an agreement has been made between the parties, the sale and purchase transaction must be carried out, so that the seller is not disappointed.

3) Do not bid on the item being offered by someone.

4) Do not jealous and envy each other.

5) Do not bring up the ugliness of others.

6) Do not hate each other.

7) Do not fight each other.

8) Do not bid higher on other offers.

9) Sellers do not praise the merchandise too much.

10) Buyers do not reproach merchandise.

Bidding on other people’s offers can also occur with the seller. When the seller is bargaining with prospective buyers A, then other traders offer the same item at a cheaper price, or the same price with a better quality.

This prohibition can anticipate a fight or hostility between fellow sellers. That is what is guarded by Islam, so that transactions that will occur source of contention between the parties involved in the transaction. Especially for sellers, fellow sellers’ hostility will affect each other’s performance. Let alone to think about the progress of his business, the hostility will cause other adverse things (Fayyad, 2012).

The Prophet said, be God’s servants who are brothers. A Muslim is another Muslim brother by not denying him, not disappointing him, not lying to him and not humbling him. The location of taqwa is here (the Prophet pointed to his chest until it was repeated three times). A person should be judged badly if they demean their Muslim siblings. A Muslim is forbidden to shed blood, seize property, and tarnish the honor of other Muslims. (Narrated by Muslim) (al-Nawawi, 1996, pp. 336–337).

D. CONCLUSION

Bargaining occurs in buying and selling transactions carried out by 2 or more parties. So, in the sale and purchase transaction there are several ethics that must be fulfilled by every party who makes a transaction, especially in the process of bargaining. The process of bargaining in Islam is permissible as long as it does not harm one of the parties to the transaction. If it is detrimental to one party, it is deemed null and void of the transaction process, and it is clear that the sale and purchase agreement is not valid.

In the Islamic economic system, all must be based on the al-Qur’an and al-Sunnah. All the rules in bermuamalah have been explained in the Koran and exemplified by the Prophet Muhammad. Included in the process of bargaining in a transaction, as long as it does not deviate from the existing rules, any form of bargaining is allowed.
REFERENCES


