

Setting Fuel Prices in Jokowi's Era in Light of Adam Smith and Ibnu Taimiyah Pricing Theory

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Abstract

Fuel oil (BBM) is one of the needs of the Indonesian people, which must be guaranteed when available. So the government plays a vital role in managing. Included in the policy authority for setting subsidised fuel prices, the government determines prices. During Jokowi's administration, which is entering its second term as president, the policy of changing fuel prices has been implemented several times. This study describes the traces of setting fuel prices under Jokowi's administration, using qualitative research with descriptive analysis that describes the problem using existing theory. The theory used in this study is pricing according to classical economists, namely Adam Smith and Islamic economists, namely Ibnu Taimiyah. The results of this study explain that based on Adam Smith's thoughts regarding the theory of pricing, realistic prices operate independently in a free market without interference from the authorities. In contrast, the authority is to determine subsidised fuel prices. So Adam Smith's thinking cannot be applied to conditions of changes in subsidised fuel prices in Indonesia. Meanwhile, according to Ibn Taimiyah, there is a concept of price changes due to demand and supply. The reality is that the increase in fuel prices is not due to supply and demand but budgetary issues. Then the existence of a fair price, according to Ibn Taimiyah, aims to create a sense of fairness for both the seller and the buyer. Through the reasons for managing subsidy targets, the form of fair prices, according to Ibnu Taimiyah, can be used in the current increase in fuel prices.

Keywords: Price, Fuel Oil (BBM), Adam Smith, Ibnu Taimiyah

1. INTRODUCTION

Fuel oil (BBM) is one of the necessities for the people of Indonesia in supporting various daily activities in different sectors of people's lives, such as industry or as a supporter of transportation. Because it concerns the livelihood of the general public, regulating fuel prices certainly requires government intervention. The role of the government regarding the need for fuel is to ensure its availability for the community. According to (Harahap & Aslami, 2022), the State of Indonesia has the right to determine fuel prices. So far, the State has always kept fuel prices stable and affordable for the people of Indonesia. However, the increasing public need for fuel consumption and rising international fuel prices have caused local fuel prices to adjust to global fuel prices so that the country's fiscal sustainability remains safe and not threatened.

In connection with the determination of fuel prices, during Jokowi's administration, there have been several changes in fuel prices. It was counted at the beginning of his reign with Jusuf Kalla in 2014 until he entered his second period as head of State with Ma'ruf Amin. The following is data on fuel price changes from the beginning of Jokowi's administration until now.

Table 1. Changes in fuel prices during the Jokowi administration

Year	Fuel type	Initial Price	Final Price
2014	Premium	6.500	8.500
	Solar	5.500	7.500
2015			
1 January	Premium	8.500	7.600

	Solar	7.600	7.250
19 January	Premium	7.600	6.600
	Solar	7.250	6.400
1 March	Premium	6.600	6.800
28 March	Premium	6.800	7.300
	Solar	6.400	7.900
December	Premium	7.300	7.150
	Solar	6.700	5.950
2016			
5 January	Premium	7.300	6.950
	Solar	6.700	5.650
1 April	Premium	6.950	6.450
	Solar	5.650	5.150
2018			
20 January	Pertalite	7.200	7.600
24 March	Pertalite	7.600	7.800
2019			
5 January	Pertalite	7.800	7.650
2022			
1 April	Pertamax	9.000	12.500
3 September	Pertalite	7.650	10.000
	Solar	5.150	6.800
	Pertamax	12.500	14.500

Data source: Data obtained through <https://nasional.kompas.com>

Changes in fuel prices from year to year will undoubtedly impact society at large, especially on the policy of increasing costs. Given that many community activities use fuel, the price increase will undoubtedly affect the implementation of the activities of the affected community. As an example, in agricultural or plantation activities, according to research results (Hakim, Zakaria, and Ikramatoun, 2022), Economic activity in the distribution of fuel can drive the agricultural sector of the Tangse people. It affects the community's social life. The dominant Tangse people work as farmers and depend on retail fuel sellers. The existence of retail fuel sellers makes it easier for farmers to meet their fuel needs. The Tangse community's agricultural sector is a benchmark for the community's economic growth. The existence of retail fuel sellers makes it easier for farmers to access fuel needs.

Apart from that, various other sectors in the life of the Indonesian people will undoubtedly feel the impact of the increase in fuel prices. Pricing in business is a process to determine how much income the company will earn or receive from the product or service it produces. Pricing is one of the companies' most challenging decisions (Arnos, 2018). In economics, the idea of pricing has also been extensively studied by several experts. One of the classical economists who stated a theory of pricing was Adam Smith. According to Smith, the existing price theory becomes a realistic price theory. Realistic prices are market prices in an extended equilibrium framework (equilibrium) to be the output of natural forces in a people. There is still freedom of action, where everyone can do what they want and change what they like (Arwin, 2020).

In a study, it was stated that Smith sparked the theory of market mechanisms in which there is no government interference. Over time, this was abandoned. It was considered to cause unhealthy competition between individuals because it was capitalist (Lahuri, Nurunisa, and Maulana, 2022). As a regulator, the government must also administer the State, including price

policies in several vital sectors. According to (Muhalli, 2020), the State is for the government's duties. Smith explained that the government is required as a police force to run a fair trade.

Pricing in Islam also has its concept. As Muslims, it is essential to pay attention to all Islamic principles in carrying out activities in the world. A business includes pricing activities that must be carried out for the company's development. Islam is very concerned with the issue of price balance, especially how the role of the State is in realising price stability and how to overcome the problem of price volatility. Scholars differ on whether or not the State may set prices. Some scholars reject the role of the State in setting prices, and some other scholars justify the state setting prices (Supriadi, 2018).

After the migration (hijrah) of Rasulullah SAW to Medina, he became a market supervisor (muhtasib). At that time, the market mechanism was highly valued. One of the proofs is that Rasulullah SAW refused to make a policy in price fixing. The price was rising then because of the demand and supply experience.

Several Islamic leaders have also contributed to thinkers regarding pricing by Islamic values. One of them is Ibnu Taimiyah, who stated that if the price goes naturally according to market conditions, a fair price will arise so that the government is not allowed to interfere with it (Amir, 2021).

Ibn Taimiyah explained that the price is determined through the forces of demand and supply. Only in cases where prices rise due to injustice and inequality in market mechanisms the government may intervene in setting prices. However, if prices rise/fall naturally under normal conditions, the government does not have the authority to set prices (Farma, 2019). Another study explained that according to Ibn Taimiyah, two price concepts are circulating in the market: fair and unfair. If the regulation or price fixing by the government contains elements of tyranny (injustice) against humans and is coercive without the right to sell goods they like or forbids them from goods that Allah has made lawful, then it is unlawful. However, suppose price-fixing contains justice between humans for buying and selling transactions at an average standard price. It prohibits them from doing things Allah forbids and taking extra above the regular price. In that case, this is permissible (Banun, 2021).

Through both views regarding price fixing based on classical and Islamic economics, the authors hope to find an interesting discussion in studying the current changes in fuel prices.

2. THEORETICAL FRAMEWORK

Price Fixing

Price is the amount of money used to assess and obtain the products and services consumers need (Hidayat, 2021). Price is the only element of the marketing mix that provides income or income for the company, while the other three elements (product, distribution and promotion) cause costs (expenses) to arise (Sukirno, 2017). Price is significant for the economy because price plays a vital role in the business and business run. In other words, the set price level affects the circulation of goods sold (Anwar & Satrio, 2015).

Pricing has always been a problem for every company because this pricing is not the absolute power or authority of an entrepreneur or the company. Pricing can create sales receipts from products produced and marketed (Zulkarnaen & Amin, 2018). Although pricing is important, many companies still need to improve in dealing with the pricing problem. Because it generates sales receipts, the price affects the sales, profit levels, and market share that the company can achieve.

Determining the price that should consider the influencing factors directly or indirectly:

- a. The direct factors are raw material prices, production costs, marketing costs, government regulations, and other factors.
- b. Factors that are indirect but closely related to pricing include, among others, the price of similar products sold by competitors, the effect of cost on the relationship between

substitute products and complementary products, and discounts for dealers and consumers (Wibisono, 2013).

Fuel oil

BBM (fuel oil): is a type of fuel produced from refining crude oil. Crude oil from the earth's bowels is processed in a refinery first to produce oil products, including energy (Setiawan et al., 2020). Apart from delivering fuel, crude oil refineries have various other products, ranging from gas to naphtha, light sulfur wax residue (LSWR) and asphalt.

Subsidised fuel prices in Indonesia are the same price set by the government and apply equally in all regions of Indonesia (Rivani, 2014). The government, together with the DPR, determines the fuel price after considering the basic costs of providing fuel provided by Pertamina/other business entities and the community's level of ability (willingness to pay). Non-Subsidised Fuel is BBM, whose price is not regulated by the government; business Entities are welcome to compete healthily and efficiently, of course, within the corridors of Oil and Gas Law No. 22 of 2001 along with the decline and date changes (Hasan, 2018).

Adam Smith's Theory of Pricing

Smith firmly and consistently defended his theory that natural prices must be allowed to apply according to market mechanisms. He believed that crude prices would use without the need to be standardised by civil authorities. The economic practices of his time also led him to think that what the government would standardise was not a realistic or fair price but a price that would ultimately benefit only a select few of the rich and powerful and not benefits all. Therefore, the best way to achieve fair prices is to allow natural prices to develop according to market mechanisms (Atmanti, 2017).

Smith then explained that because natural prices are influenced and determined by various situations, these realistic prices will only serve as a long-term trend towards which the costs of multiple commodities fluctuate. It is optional if an item is sold at its natural price level. Because only through market mechanisms and factors that occur outside the market are formed, various events sometimes make the price of goods move far above its natural price level and sometimes force it to fall even below its realistic price (Hidayatullah, 2018).

Smith further explained the factors that can affect prices, including wages, land rental prices, and investors' profits, as well as the amount of demand and supply for a commodity in the market, all of which can cause prices to fluctuate, sometimes rising beyond their natural price and or also dropping beyond realistic price (Dahar, 2012).

Ibn Taimiyah's Theory of Pricing

According to Ibn Taimiyah, a price is determined by supply and demand. The rise and fall of prices are not always related to the mastery (unjust) carried out by someone. Sometimes the reason is due to a shortage in production or a decrease in imports of the goods requested. So, if the demand for the number of goods increases while the ability to provide them drops, prices will naturally rise. On the other hand, if the ability to supply goods increases and demand decreases, prices will fall. Scarcity and abundance do not have to be caused by one's actions; they could be related to causes that do not involve injustice (Rahman et al., 2021).

In discussing a fair price, Ibn Taimiyah uses two terms, namely:

a. Equivalent price (*Tsaman Al-Mitsil*)

Ibnu Taymiyah's concept of equal price has something in common with the idea of comparable price presented by an academic thinker named Aquinas. However, Ibn Taimiyah gives a broader meaning and recommends setting an equivalent price with the consideration that if an item does not exist somewhere. Explicitly, he put forward considerations to reconcile the buyer's subjective value and the seller's objective value. The main objective of equal prices is to maintain fairness in conducting reciprocal transactions and other relations among members of society. In the concept of comparing prices, sellers and buyers both feel justice.

b. Equal Compensation (*Iwadh Al-Mitsl*)

In defining equal compensation, Ibn Taimiyah said: "what is meant by equality is the quantity of a particular object in general use (*'urf*). It is also related to basic values (*rate*) and habits. More than that, he added: "correct evaluation of fair compensation is based on analogies and estimates of the goods with other goods that are equivalent". It is fair and acceptable (Muslimin, Zainab, and Jafar, 2020).

3. RESEARCH METHODOLOGY

This research is qualitative research using descriptive analysis. This analysis provides a description or description of the research subject based on variable data obtained from certain subject groups. The data taken is secondary data, namely data that already exists. This study uses a literature study, which receives data from various sources such as books, scientific articles, official websites, and reports on the object data studied. The data acquired will be recorded, read, and processed to help answer research problems. The data obtained will be analysed based on the existing literature in books or scientific articles.

4. DISCUSSION

Adam Smith stated that the natural price or the prevailing price is by the economic conditions in the market. So that through this price, the government does not need to interfere in setting it. Costs that run naturally hope to reduce injustice to the impact of fees charged by the authorities. If the leaders manage the price, it can bring up potential profits for some parties. At the same time, other parties may be harmed.

The price of fuel in Indonesia, especially those that are subsidies, is already under the government's authority. Changes in fuel prices, which have a significant impact on society, are the price increase policies. During Jokowi's administration, his first period as president until now, he is in his second term. In 2014, the increase in fuel prices was due to the subsidy budget that outperformed other sector subsidy plans. Until 2022, the increase in subsidised fuel prices is because the budget has tripled, and the benefits of these subsidies are off target. The fuel subsidy should be for low-income people who need it, but in reality, private car drivers can also feel this fuel subsidy.

According to Adam Smith, the natural price in setting subsidised fuel prices in Indonesia is not appropriate because the subsidy policy is the full authority of the government. The increase in fuel prices will undoubtedly impact society, given that various economic backgrounds exist. The increase in subsidised fuel prices for small communities will undoubtedly be burdensome. The efficiency of implementation also needs to be highlighted. In the current case, the cost of subsidised fuel is soaring. The price has increased quite a bit compared to petrol stations, so of course, the prices for retail gasoline traders are much higher. It caused long queues at several gas stations due to increased subsidised fuel prices.

Adam Smith's thinking regarding realistic prices aims to minimise the adverse effects of interference from the authorities regarding price fixing. The fixing of fuel prices in Indonesia, especially price increases, certainly has an impact on people's economic life. A study states that the rise in fuel prices is one of the independent variables affecting the income level of public transportation drivers in Manado (Jura et al., 2016). Then in the investment sector, the increase in fuel prices through the average test does not cause abnormal returns. While using the intermediate examination of trading volume activity (TVA) before and after the price increase, some differences affect trading volume (Ningsih & Cahyaningdyah, 2014). In other sectors, such as fisheries and maritime affairs, the reduction in fuel subsidies has significantly impacted the capture fisheries sector. In particular for capture fisheries, especially for TCT commodities (Tuna, Cakalang and Tongkol) and other capture fisheries commodities, the increase in fuel prices is a dissent in the capture fisheries business, meaning that an increase in fuel prices causes a decrease in output, input, labour, exports, and household demand. (Mira, Rahadian, and Zulham 2016).

There are several unfavourable impacts on various sectors of the country's economy from rising fuel prices, so Adam Smith's pricing theory regarding price fixing cannot be realised in Indonesia. It is because the authorities or the government still manage subsidised fuel prices. Then there are still many impacts or losses for some parties.

Study of Ibn Taimiyah's Thoughts Regarding Indonesian Fuel Price Determination

According to Ibn Taimiyah, the price that runs in society is influenced by the level of demand and supply. Price increases are only sometimes due to the government as the manager of the country. In general, the public widely knows the concept of demand and supply in setting prices on the market. When demand increases while supply remains constant or even decreases, prices will follow the rise.

Indonesia's rising fuel prices, the reason for this policy, is the bloated budget. From the beginning of the Jokowi administration in 2014 to the second government period in 2022, the budget was the background for the fuel price hike policy. The government is quite responsive in facing the reality that the benefits of subsidised fuel are off target. Subsidised energy should be directed at small communities, but able people can access subsidised power. However, policies in handling these deviating targets can impact small communities. The increase in fuel prices will undoubtedly burden the community.

A study stated that price setting, according to Ibn Taimiyah, was through the influence of demand and supply. When market imperfections occur, the government needs to intervene (Banun, 2021). In contrast to Adam Smith's thought, prices run naturally without government intervention. In other studies, Ibn Taimiyah emphasised the free market principle: prices occur naturally from demand and supply factors, purchasing power factors, production cost factors, and others where there is no government intervention (Rahman et al., 2021).

The value of the Islamic concept only provides room for intervention from any party to determine the price if and only if there is an emergency condition that requires certain parties to determine the price. Therefore, the government's ultimate role is to keep it to a minimum. However, government intervention as a market player can be justified if the market is not limited to perfect conditions, in the sense that there are conditions that prevent fair competition (market failure) (Effendi, 2021).

The government's interference in setting the price of subsidised fuel has a deeper meaning, even though many people feel burdened. Increasing fuel prices is one of the steps to achieve the subsidy target according to target. The concept of a fair price, according to Ibnu Taimiyah, promotes real achievement for all parties, both sellers and buyers. The Indonesian government is currently trying to increase the economic growth of society through various subsidy policies to provide benefits for people in need. Justice regarding the equal distribution of the benefits of infrastructure facilities manifests in the Indonesian government's efforts. So the concept of fair pricing, according to Ibnu Taimiyah, has relevance to rising fuel prices. Nevertheless, the main reason is to create justice in society. The recipients of the submit program are indeed those who deserve the assistance.

5. CONCLUSION

The determination of fuel prices during Jokowi's administration refers to a substantial reason related to the condition of the swollen subsidy budget. The increase in fuel prices is the answer to the subsidy targets that still need to be added to the target. Based on Adam Smith's thoughts regarding the theory of price fixing, realistic prices run independently in free markets without government interference. At the same time, the government's determination of subsidised fuel prices is the authority. So Adam Smith's thinking is not applied to conditions of changes in subsidised fuel prices in Indonesia.

Meanwhile, according to Ibn Taimiyah, there is a concept of price changes due to demand and supply. The reality is that the increase in fuel prices is not due to supply and demand but budgetary issues. Then the existence of a fair price, according to Ibn Taimiyah, aims to create a

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