



The Low Cost Green Car (LCGC) Program in Islamic Perspective
(Analysis Study of Pricing Theory, Law of Supply and Demand and Subsidies in Islam)

¹Muhfiatun, ²Susi Riyantika

¹Faculty of Islamic Economics and Business
State Islamic University Sunan Kalijaga Yogyakarta-Indonesia
²IAIN Purwokerto-Indonesia

Abstract : Recently the Government of Indonesia makes a program of Low Cost Green Car (LCGC). The purpose of the program is to support the independence LCGC four-wheeled vehicles industry in order to anticipate the trend of increased demand for energy-efficient motor vehicles and reasonably priced. LCGC program is polemical prolonged. Protests came from all circles. Such as Local Officials, to the Economist. Because the program is properly designed like a cheap car city so that it's bought by urban communities only.

According to The Ministry of Industry Article 1 (e) that the Green Car is set up with the price of Rp. 95,000,000.00 (ninety five million). In this case, the government intervened by way Ceiling Price although this intervention thresholds given in the event of structural changes in Indonesia's economic fundamentals, but the policy of intervention was assessed inconsistently. Because the car LCGC-called "earmarked" for the people of the lower middle class but are prohibited from using subsidized fuel. With some reason LCGC issuance of policies by the Government, there are some points that are contradicted by the transport and economic conditions in Indonesia. LCGC policy is certainly contrary to the spirit of alleviating transport problems especially congestion that was hit by the crisis. With the tax-free policy by the government, then the purchasing of the low-cost car will be higher. This is in accordance with the law of demand. The impact is congestion will worsen, especially in the knots of Indonesia's major cities. That means it will grow, the use of fuel and air pollution.

Keywords: LCGC, Tax Subsidy, Supply and Demand.

Introduction

A car for some people that is the upper-middle-class can be a basic requirement because of the tight schedule of their daily activities that require comfort, safety and speed in transportation. But for most of the other people, namely the lower-middle-class a car is a secondary need or even tertiary because to possess it is only a mere fulfillment.

As we know that the car for the lower-middle-class is a tertiary needs. However, recently the Government of Indonesia makes a program of the Low Cost Green Car (LCGC). Quoting from President Susilo Bambang Yudhoyono (bisnis.liputan6.com) that this car is destined for the lower-middle-class in this rural community. As for the statement of the Minister of Industry - M: S Hidayat related LCGC program is to support the independence of four-wheeled motor vehicle industry and in order to deal with the trend of increased demand for energy-efficient motor vehicles and reasonably priced. These things are related to the competencies in the field of automotive industry in the framework of the Asean Free Trade Area (AFTA). According to the industry minister if the national automotive industry does not respond to market demand, Indonesia has to import LCGC cars from Thailand, and this may hamper even detrimental to the pulse of the national automotive industry. Besides the minister of industry also argued that the

ownership of the car is the right of all people, lower-middle-class people are also entitled to have a car. (Birokrasikompassiana.com/polemic car policy's low cost green car).

Relating with the stating above, the Ministry of Industry on July 1, 2013 has released the technical guidelines (guidelines) the Low Cost Green Car (LCGC). LCGC program is prolonged polemic. Protests came from various backgrounds ranging from Local Officials to the Economist. Because the low cost car program is properly designed like cars in the city so that it's only bought by many urban people. It would worsen congestion especially in Jakarta, Bandung and in some major cities. In addition, the program will increase the subsidies LCGC. These things get more complicated when President Yudhoyono stated that the car is destined for rural people. But on the other hand, the Minister of Industry M.S. Hidayat said the government was making rules about the ban on low-cost cars consume subsidized fuel. As stated by the board of the Indonesian Consumers Foundation (YLKI) Tulus Abadi, LCGC program is 'inverted logic' on low-cost car program for the medium but must use expensive fuel. (www.neraca.co.id).

This article will explain how Low Cost Green Car (LCGC) in terms of the Pricing and Tax Subsidies in Islam? What is the impact of the Low Cost Green Car (LCGC) associated with Theory of Prices and the Law of Supply and Demand?

The purpose of this study was to determine the Low Cost Green Car (LCGC) in terms of the Pricing and Tax Subsidies in Islamic perspective and to analyze the impact of LCGC program if it is associated with the theory of price and the Law of Supply and Demand.

Low Cost Green Car Program

Program Pengembangan Produksi Kendaraan Bermotor Roda Empat Yang Hemat Energi dan Harga Terjangkau shortened PPKB is a motor vehicle production development program by providing facilities dispensation for *Pajak Pertambahan Nilai atas Barang Mewah (PPnBM)*. (Regulation of the Minister of Industry No: 33). *Kendaraan Bermotor Roda Empat Yang Hemat Energi dan Harga Terjangkau (KBH2)* is known as the Low Cost Green Car – LCGC.

There are some speculations about how the decline of lower-cost cars, they are:

1. Specifications of different types of cars that are on the market today. Sign gap in the market with different specifications. Different types of cars with the cost structure and different price segments as well.
2. The use of off the shelf parts available in the market, if still cheaper than having to develop new components themselves. Selection for an existing part is not necessarily ideal, because it is not necessarily in accordance with the technical design criteria specified in the original plan. Use of replacement parts are generally more expensive, because the strategy of the price of spare parts for the brand holders. The use of parts in common use is not as easy as imagined. because many technical and commercial aspects should be considered. Owner of property design will use this opportunity to find profit. The government can play a role by taking a portion of the development. Design and development of major components financed and coordinated by the government. Including the distribution of who is entitled to use the main components for the application according to cars design.
3. Intelligence of total vehicle designer and designer of each component in the selection of materials, processes and production preparation tools without sacrificing quality, performance of the function, comfort, reliability and strength. Compromise between investment and production costs per piece. The choice of material decisive advantage because the market selling price has been determined.
4. Exemption of import duties. Tax relief on industries that conduct R & D. Provide tax breaks for the development of strategic components. Provide financial assistance for the supply of strategic raw materials in cheap. Consolidating purchases in order to achieve an economical quantities, bear the burden of inventory and so on.

5. Regulate the marketing of special vehicles car sales cost can be reduced so that the distribution cost is less than 10 percent of the selling price of the plant.

Price Fixing According To Islam

Ibn Taymiyyah explained that the equivalent price is the price established by the market run freely, between demand and supply. He described the changes in market prices as follows: *If the resident sells his goods are normal (al-wajh al-ma'ruf) without using ways unfair then that price increases due to the influence of scarcity (ie reduction in supply) or because of an increasing population (ie, an increase in demand), the increase in prices is the will of Allah. In this case, forcing sellers to sell their goods at a certain price is coercive one (ikrah bi ghairi haq).*

The phrase "the normal way without using fair ways" indicates that the equivalent price it should be a competitive price that is not accompanied by fraud, because only for a fair price in the competitive market and just practice full of scams that could cause price increases. (Adiwarman Karim, 2007).

The Price Theory and Law of Supply and Demand According to Ibn Khaldun

Ibn Khaldun turned out to have formulated a theory of prices long before the modern Western economists define it. Ibn Khaldun, in his book *Al-Muqaddimah* specifically wrote a chapter entitled "Prices in the City". He divided the items into two types of basic goods and complementary goods. (Adiwarman Karim, 2007)

According to Ibn Khaldun, the demand for complementary goods will increase in line with the development of cities and changing lifestyles. In his book, Ibn Khaldun wrote as follows:

Other complementary goods, such as spices, fruits, etc., do not constitute material which is common. To obtain it does not need to deploy all or most of the city dwellers thereof. Then, when a place has been prosperous, populous, and full of luxuries, there will arise a great need for goods outside of daily necessities. Each man tried to buy luxury goods, according to his ability. Thus, the supply can not meet the need; the number of buyers is increasing even though it was a little inventory, while the rich are willing to pay high, because their needs are greater. And this, as you see, will lead to rising prices.

In the language of the contemporary economy, an increase in disposable income of the inhabitants of the city. Rising disposable income could increase the marginal propensity to consume (the marginal propensity to consume) to luxury goods of every resident of the city. This creates new demand or an increase in demand for luxury goods. When it raised the question of profit, Ibn Khaldun says that a reasonable profit will encourage the growth of trade. While very low profit to be made lethargic trade as traders lose motivation. Conversely when traders took profits are very high, it also would weaken the trade as consumer demand will weaken.

Subsidies in Islam

Islam in contrast to Capitalism. If Capitalism looked subsidy from the perspectives of government intervention or market mechanism, Islam regards the subsidy from the perspective of the sharia, namely when subsidies should and when required by state subsidies.

If the subsidy is defined as financial assistance that is paid by the state, Islam recognizes the existence of subsidies in this sense. Subsidies can be considered one way (uslub) is allowed to perform state (Khilafah), because it includes the provision of state property to individual people (i'tha'u ad-Dawla li min amwaliha ar-ra'iyah) are entitled Khalifah. Caliph Umar ibn al-

Khattab never leave a treasure of Baitul Mal (Treasury) to farmers in Iraq so that they could cultivate their agricultural lands. (An Nabhani, 2004).

On that basis, the state should provide subsidies to individual people who act as manufacturers, such as subsidies for fertilizer and seed to farmers, subsidies for soybean tofu and tempeh, and so forth. Countries may also provide subsidies to individual people who act as a consumer, such as food subsidies (cheap food), or subsidized cooking oil, and so forth.

Subsidies should also be given to the state public service sector (al-marafiq al-'amma) implemented by the state, for example: (1) telecommunication (al-solemn al-baridiyah) such as telephone, mail, fax, internet; (2) Islamic banking services (al-solemn al-mashrifiyah) such as transfers, savings, and foreign currency exchange; and (3) public transport services (al-muwashalat al-'amma) such as trains, ships, and aircraft. (Zallum, 2004).

Research Methods

This research is a literature that research data and information obtained from published sources (readings) in the form of books, studies and other reading material. (Supardi 2005 :) In this study, the authors used data collection techniques or library research literature (literature) by collecting the literature associated with the study, then analyzed and conclusions drawn.

Because this study used data collection techniques or library research literature (literature), the materials used in this research is secondary data. The secondary data in the form of material obtained from books, mass media, websites, articles, journals and other literature that has relevance to the object of the research study.

Data analysis method

Analysis of the data used is descriptive qualitative. With this method, the problems and the facts will be described descriptively, then analyzed in order to obtain a complete picture of the issues studied. Qualitative analysis activities as presented Maathew B. Miles and A. Michael Huberma (Matthew Miles, 15) involves data reduction, data testing and conclusion.

Low Cost Green Car (LCGC) In Islamic Perspective

Refers to Ministry of Industry Article 1 letter (e) that the Green Car is set up with the price of Rp. 95,000,000.00 (ninety five million). The price adjustment to changing economic conditions, increases in raw material production set a maximum of 15% of the initial determination LCGC price. In this case, the government intervened by way Ceiling Price, namely the determination of the maximum price for a commodity. Although this price intervention thresholds given in the event of changes in the structure of Indonesia's economic fundamentals, but the policy of price intervention is inconsistent. Because the car LCGC-called "earmarked" for the people of the lower middle class but are prohibited from using subsidized fuel consumption (www.kemenperin.go.id) which notabennya reserved for them. An awkwardness for the people when buying low but daily operating costs for expensive precisely.

Society would support the development of industry, especially eco-friendly and provide a multiplier effect (multiplier effect) for the economy. But the program LCGC the opposite is true. Car components are imported, and get a tax break on imported components of the car. Which occurs when the demand for this car will only increase more foreign exchange flowing into the hands of Indonesia 'foreign' car because the circuit is still 100% of imports. So the real lovers on government price interventions against the low-cost car manufacturer's are not environmentally friendly consumer let alone the Government or State. It is precisely the negative impact of the low-cost will be more pronounced.

Impact of the Low Cost Green Car Related to the Supply-Demand Laws

As it is known that LCGC is priced cheap because it is intended for middle-class society. In this case, there have been "confusion" flow of policy. If you start from the beginning of this program is intended for middle class people down the Government should not prohibit the use of subsidized fuel for the car users. Because in fact subsidized fuel was destined for the middle class down. Then who 'actually' consumers of LCGC?

Urban people middle class and above, of course. It is recognized by Nunuj Nurdjanah, researchers from the Road Transport Research Agency of Transportation. Citing the opinion Nunuj "Cars LCGC relatively affordable price in the market, especially for the middle class to the top, so that attract people to buy and use it as certainly nicer, more safety, more convenient, and safer than a motorbike." Then jointed again with his statement, "the public will feel the middle class has a new car at an affordable price, the majority of motorcycle users may move on cheap cars". Although there is a discourse that cheaper cars will be distributed to the outer islands, but due to design low-cost car is a city car, so if distributed outside Java and Bali, such as Kalimantan, Papua, and other areas that the road conditions are inadequate and have terrain difficult for the car kind of city car will most likely be less in demand.

So the biggest consumers of the Low Cost Green Car program are the urban communities. Here LCGC car sales data for the period March 2014: (www.firmanblog.com/data LCGC car sales).

DATA PENJUALAN LCGC MARET2014

TOYOTA AGYA	6.648
DAIHATSU AYL A	4.333
SUZUKI KARIMUN WAGON R	2.037
HONDA BRIO SATYA	425
TOTAL	13.443

The impact of the program LCGC this could lead to "domino-effect", namely the increasing private car ownership which would also increase the use of private cars on the road resulting in increased traffic density, of increasing fuel consumption, interest in public transit will decrease, the dominance of private transport on Eid transport will increase.

According to statistics, the growth of vehicles in Indonesia average range of 11.26%. For information on the ratio between the number of people with motor vehicles in Indonesia is 1: 4.6 (tempo.com, 2013). If this growth trend continues or solved by building overpasses or highway, may ultimately streets in Indonesia will be paralyzed because the vehicle is booming and the streets have no space as the space vehicle. In fact, the number of vehicles instead of the more it benefits the government, but actually harmful. Parties who benefit are obviously foreigners who sell such vehicles. While the government bears the burden of fuel subsidies which increasingly swell with increasing growth vehicle.

With some reason LCGC issuance of policies by the Government, there are some points that are contradicted by the transport and economic conditions in Indonesia. LCGC policy is certainly contrary to the spirit of alleviating transport problems especially congestion that was hit by the crisis. With the tax-free policy by the government, then the purchasing power of the low-cost car will be higher. This is in accordance with the law Demand. The impact is congestion will worsen, especially in the knots of Indonesia's major cities. That means it will grow, the use of fuel and air pollution. But LCGC is a green car with low emission levels, emission levels LCGC indeed low, but of course the quantity of cars is high then the use of fuel will be higher and of course damage the air content. Besides, the car in Indonesia are not all low-emission, cars produced under the year 2010 there are still many who have not applied low

emissions technology, but cars were still free to roam the streets of most of Indonesia. According to data from the Committee on the Elimination of Leaded Gasoline (KPBB) states that the level of air pollution in Jakarta increased by about 30-40 per cent in the period 2010-2012. As for the cost to be paid residents of Jakarta because of air pollution in 2010 ranges from Rp 38.5 trillion. Charges of it for the treatment of six types of illness / disease due to air pollution.

USAID study in 2008 (birokrasikompanya.com/ Cheap Car Program, Impact and Solutions) said that due to traffic congestion, the average speed of traffic in Jakarta is only 20 km /h. Even then, approximately 60% of the total travel time is spent in a traffic jam, and only 40% of the total time used for the move. Meanwhile, when calculated, the economic losses due to congestion reached Rp 27.76 trillion.

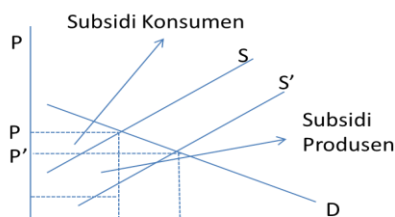
On the other hand the government pretended to support the poor medium which in fact harassing the poor. In connection with the right to have a vehicle for low- and middle-income people actually become a priority for the people of these groups is not the ownership of the car, but rather how to meet daily basic needs such as clothing, food, housing, and education. It is not complementary and secondary such as four-wheeled vehicles. Here also there are irregularities that LCGC users must wear non-subsidized fuel, while LCGC target market is the low and middle income people. Clear that the low purchasing power by this group of people can not afford to buy non-subsidized fuel.

If the government supports this policy by a reason of protecting national automotive market, then it is misguided thinking. The automotive market is getting better is certainly beneficial owners of capital, in this case the foreign car manufacturers are mostly from Japan. Indonesia only get a slight advantage, and this is certainly not comparable to the burden that must be accepted that fuel subsidies are increasingly bloated, and other losses caused by congestion.

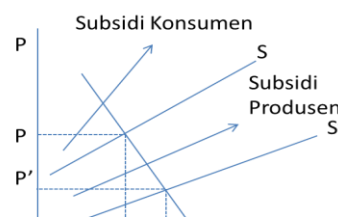
LCGC Tax Deductions: Overview Against Subsidies in Islam

One of the points in the rules LCGC fiscal provides convenience for manufacturers of environmentally friendly cars, which aims to stimulate the industry creates a fuel-efficient vehicles. This legal umbrella include the following tax incentives and requirements of the development of the car Low Cost Green Car (LCGC), hybrid, electric and biofuel vehicles with fuel. In Article 3, paragraph 1, letter c mentioned that the energy-efficient cars and reasonably priced than sedan or station wagon will be affected by the Sales Tax on Luxury Goods on taxable goods amounted to 0%.

Tax reductions both in terms of making this car in the form of a tax deduction on the import of car components as well as a tax deduction for consumers this car was not going to mean anything for the State Indonesia. A tax deduction or in other words tax subsidy can be explained by the following curve:



Gambar 1



Gambar 2

In Figure 1 describes when luxury goods (including automobiles) subsidy, the subsidy obtained by consumers is less than the subsidy received by producers. In contrast to Figure 2

which describes when basic goods subsidies, subsidies received by consumers is greater than that received by producers. It also explains when the Government provides subsidies to car manufacturers through LCGC policy, it actually received the most subsidies are car manufacturers, not consumers.

Obviously this tax subsidy would reduce state revenues either from taxes (excise) tax and sales tax on luxury. On the other hand, the increase of subsidized fuel consumption due to the increased use of private vehicles will only make the fuel subsidy budget swelled to hundreds of trillions of rupiah. This further makes the budget deficit for the State. It may therefore be said to be the low-cost of this is not appropriate. As described in the above, the subsidy should have been devoted to the primary requirement for the public sector or to the public service sector (*al-marafiq al-'amma*) which the advantage is obvious for many people, not for mere personal community.

Conclusion and Suggestion

Conclusion

Based on the presentation above, we can conclude that the provision of subsidies for the car is something that is not appropriate, because the subsidy in the view of Islam was given to basic goods or primer. As exemplified by the Caliph Omar Ibn Khattab which provides subsidies to manufacturers that produce staples and Umar also provide subsidies to people to buy basic necessities. This is done by the Caliph Umar for subsidies should help lower middle income people to buy basic necessities.

Apart from that, the mechanisms for reducing the tax on luxury goods that the Government apply in LCGC, actually would reduce state revenue. Therefore Eco Car program which was initially to support the national automotive industry were felt not right on target.

Suggestion

Government policies that should be done is to increase the number of transportation-related mass transport is cheap and efficient as MRT (Mass Rapid Transit). The use of MRT can reduce the use of fuel which is actually subsidized by the government, congestion can also be reduced significantly, especially in the major cities of Indonesia. Not by increasing the number of private transport is priced at cost which would add to congestion.

References

Al-Nabhani, Taqiyuddin. (2004). *Membangun Sistem Ekonomi Alternatif*. Surabaya: Risalah Gusti.119

Ir. Adiwarman A. Karim. (2007). *Ekonomi Mikro Islami*. Jakarta, PT RajaGrafindo Persada,147-151

_____. (2007). *Sejarah Pemikiran Ekonomi Islam*. Jakarta, PT RajaGrafindo Persada.358

Matthew B. Miles dan A. Michael Huberman. *Analisis Data Kualitatif*, terj. Tjetjep Rohendi Rohidi. Jakarta, UI Press. 15-20

Supardi. (2005). *Metodologi Penelitian Ekonomi dan Bisnis*. Yogyakarta, UII Press Yogyakarta. 34

Peraturan Menteri Perindustrian Nomor: 33/M-IND/Per/7/2013 Tentang *Pengembangan Produksi Kendaraan Bermotor Roda Empat Yang Hemat Energi Dan Harga Terjangkau*.

Badan Pusat Statistik, www.bps.go.id

Kementerian Perindustrian, <http://www.kemenperin.go.id/artikel/5289>.

Data Penjualan Mobil LCGC Bulan Maret 2014, www.firmanblog.com

<http://birokrasi.kompasiana.com/2014/02/28/polemik-kebijakan-mobil-murah-low-cost-green-car-sebuah-kesesatan-pemikiran-pemerintah-636275.html>

<http://www.neraca.co.id/article/35296/Logika-Terbalik-Mobil-Murah/5>