Existence and Introduction of Islamic Economics: Role and Relevance

Bilal Ahmad Khan

Special Centre for the Study of North East India, School of Social Science-I, JNU, New Delhi

Email: bilalahmadk9@gmail.com

Abstract

The collection of rules, values and standards of conduct that organize economic life and establish relations of production in an Islamic society is Islamic economic system. These rules and standards are based on Islamic order recognized in Qurran. Islamic economics based on specific concept of universe and the creation of man is contradictory to the concept adopted and accepted by modern science. Islamic economics postulates although ability and expertise is required for progress and growth but distribution of resources completely dependent on it would be cruel, inhuman and bereft of kindness, and lead to oppression. Islamic economics does not favor making human ability and expertise the fulcrum of resource distribution. It should be kind, considerate and based on justice and fairness. This is because according to Islamic philosophy, ownership is considered to be a trust from Allah which has been bestowed on the rich so that they may utilize it correctly. In Islamic economics the role of the individual, his inclinations and his aims and objectives occupy a central position and are vitally important. He is definitely a rational being but his level of rationality is not confined to the calculations of cost and profit. An individual does not want merely to obtain monetary profit and physical pleasure and leisure but he also wants and aims for something beyond what the material world has to offer. The main aim of the study is to find out the relationship between Islam and economics. In Islamic economics the comprehensive moral training of the individual, his technical and educational ability, his aims and his priorities are of primary importance. According to Islamic economics the means of acquiring wealth has the same importance as wealth itself. Dishonesty, abuse of trust and earning of wealth through fraudulent ways and means may perhaps increase the status of an individual but the society suffers because of it on the whole. This leads to an unjust and oppressive economic system.

Keywords Islamic society, ownership, profit, wealth, fraudulent and unjust etc.

1. Introduction

Al-Ghazali, Persian Philosopher (1058–1111) classified economics as one of the sciences connected with religion, along with metaphysics, ethics, and psychology. Many scholars trace the history of economic thought through the Muslim world, which was in a Golden Age from 8th to 13th century and whose philosophy continued the work of the Greek and Hellenistic thinkers and came to influence Aquinas when Europe "rediscovered" Greek philosophy through Arabic translation. A common theme among these scholars was the praise of economic activity and even self-interested accumulation of wealth (Matthew, Falagas, etc. 2006).

The influence of earlier Greek and Hellenistic thought on the Muslim world began largely with Abbasid caliph al-Ma'mun, who sponsored the translation of Greek texts into Arabic in the 9th century by Syrian Christians in Baghdad. But already by that time numerous Muslim scholars had written on economic issues, and early Muslim leaders had shown sophisticated attempts to enforce fiscal and monetary financing, use deficit financing, use taxes to encourage production, the use of credit instruments for banking, including rudimentary savings and checking accounts, and contract law. The book entitled "*Book of Taxation (Kitab al-Kharaj)*" outlined Abu Yusuf's ideas on taxation, public finance, and agricultural

production. He discussed proportional tax on produce instead of fixed taxes on property as being superior as an incentive to bring more land into cultivation. He also advocated forgiving tax policies which favor the producer and a centralized tax administration to reduce corruption. Abu Yusuf favored the use of tax revenues for socioeconomic infrastructure, and included discussion of various types of taxes, including sales tax, death taxes, and import tariffs (Hosseini, 2003).

Early discussion of the benefits of division of labor are included in the writings of Qabus, al-Ghazali, al-Farabi (873–950), Ibn Sina (Avicenna) (980–1037), Ibn Miskawayh, Nasir al-Din al-Tusi (1201–74), Ibn Khaldun (1332–1406), and Asaad Davani (b. 1444). Among them, the discussions included division of labor within households, societies, factories, and among nations. Farabi notes that each society lacks at least some necessary resources, and thus an optimal society can only be achieved where domestic, regional, and international trade occur, and that such trade can be beneficial to all parties involved. Ghazali was also noted for his subtle understanding of monetary theory and formulation of another version of Gresham's Law (Abu Nassr. 1982).

Islam does not prescribe a particular *economic* system but provides the core elements and principles, which form the basic philosophy of a system or an *economy*. Before introducing Islamic economics, it would be prudent to try and clear two misunderstandings. The first misunderstanding around the term Islamic economics has been created by modern-day economists (through which the term gained ground) either deliberately or because they have not been introduced to it correctly. That misunderstanding is that Islamic economics is nothing but something supplementary or an addition to Conventional economics. Under Conventional economics, if you declare the Zakat (charity to poor) to be compulsory, make the giving and taking of interest illegal and make distributive justice as the central theme of your broad economic policy, then this body of knowledge becomes Islamic economics.

There are two arguments put forward to prove this premises. The first being that Conventional economics is based on universal laws and theories, which like nature is immutable and shall continue till eternity. Conventional economics is applicable to all societies irrespective of their ethos, culture and civilization. Earning a livelihood is the natural need of every human being. The ways and means that are adopted to earn a livelihood may be deemed to be nothing more than tools like the sickle of a farmer and the hammer of the blacksmith. The second argument is that human priorities are universal. Man wants to satisfy his needs, wants and desire for luxuries and is generally affected or influenced when he pays those who provide him that utility. The science or art of economics is the study of these transactions and choices and then formulating those observations into universal laws and theories. Thus, these economics laws and theories are like laws of nature and hence cannot be classified as Islamic or un-Islamic.

The second misunderstanding about Islamic economics is found in the religious circles (among Muslims) and that misunderstanding is that Islamic economics is merely the combination of those laws and injunctions that can be found in the Qur'an, Hadith and Books of Fiqh (Islamic jurisprudence) and which discuss the economic aspect of human life. Islamic economics imparts terminologies and nomenclature to those laws (dealing with economic aspects of human life) and applies those laws to contemporary (economic) demands and requirements. The fallacy of this understanding is that it considers Islamic economics to be nothing more than a branch of Islamic Jurisprudence (*Fiqh*).

Conventional economics is the analytical study of economic activity at the level of an

individual and at the public or collective level. Conventional economics deals with trade, taxation, customs, excise, banking and insurance. It is not insulated from the general laws and regulations. However, its real domain is the study of economic activity, the various elements and factors that govern and influence an economy and ways and means of economic growth.

In the same way, Islamic economics is not limited to preparing a list of rules and regulations under Islamic jurisprudence that deals with issues pertaining to the economic aspects of human life. Rather, it deals with the evaluation and application of Islamic teachings, values and principles to the economic sphere of human endeavor so that we might come to know how economic activity develops and matures under the value based on Divine system, what is the nature of the economic system and the different elements that are created thereof and how does it resolve the various economic challenges faced by mankind.

Islamic economics is an alternative method or to a certain extent the transformation- of the analysis or the study of economic enterprise or economic transactions. In the analysis, the economic aspect of man is considered to be merely one part of human life and is not its key component, whereas in Modern economics, economic enterprise is the *raison d'être* of all human endeavor. According to Marxist philosophy the struggle for ownership of the means of the production is the sole element constituting the basis of all human endeavors. Human intellect, his morality, his religion and his priorities all emanates from it. In fact, the history of mankind too is based on it. The proponents of capitalism do not accept this (Marxist) philosophy but their theories and analysis only lend credence to it indirectly. The main assumption of capitalist theory is that economic activity has its own internal laws and regulations which are independent of the ethics and morality practiced by an individual. Thus, capitalism cuts off the relation of all the other aspects of life (like ethics, altruism etc,) from the elements constituting the economy. For example, which goods and services should have demanded in the market? How should the supply be regulated with financial and other natural resources? Where and how should investment be practiced? All those and similar such issues are independent of morality and philosophy. In contrast, according to Islamic economics, life is an organic whole and not divided into independent compartments and considers economic enterprise to be subjected to human worldview and the rules of ethics and morality. Hence its laws pertaining to supply and demand are linked with the laws of morality and adhere to an ethical point of view.

2. The Foundations of Islamic Economics

The Islamic economic system is a theoretical construct of an economy whose members follow the Islamic faith. The core of Islamic economics rests on theological foundations – social welfare is valued above material gain and heavy emphasis is placed on a strong belief in and faithful obedience to Allah. The characteristics of, and principles which underlie, Islamic economics are surveyed. Particular attention is paid to the injunction against interest payments and to the requirement that the faithful pay a capital levy or wealth tax. The Quran is the primary source for Islamic teachings and tenets. While the community may adapt social and economic policies in order to meet a society's shifting socio-economic needs, the basic principles of the Islamic economic and social system, however, must be preserved. Freely elected leaders are expected to work with society to formulate policies supporting economic and social stability, economic prosperity, public education, healthcare, economic equity, a fair distribution of income and a social safety net. All physically and mentally competent Muslims are required to work for their livelihoods, and those with a sufficient level of assets are obliged to pay taxes to fund welfare and other social programs (*Askari & Taghavi, 2005*).

The Islamic economic system aims to guarantee individual liberty, freedom of choice, private property and enterprise, the profit motive and possibilities of unlimited effort and reward. It seeks to provide effective moral filters at different levels of life and activity and established institutions in the voluntary sector, as well as through state apparatus to ensure economic development and social justice in the society. Under this system God's guidance made sure the flow of money and goods was "purified" by being channeled from those who had much of it to those who had little by encouraging zakat (charity) and discouraging riba (interest) on loans. Islam does not prescribe a particular economic system but provides the core elements and principles, which form the basic philosophy of a system or an economy. Islam provides primarily normative principles for economics and finance. However, it is not devoid of positive economic statements or hypotheses. Several areas of economics are truly positive and cannot be different in an Islamic or in any other framework (Asutay, 2009).

Islamic economics is based on a specific concept of the universe and the creation of man which is quite different from and contradictory to the concept adopted and accepted by modern science. This concept (of the creation, existence and nature of man and the universe) is derived from the Quran and the Sunnah. The universe has been created by a Merciful and Benevolent God, who has provided sufficient resources in order to cater to the natural needs of his creation. There does not exist any scarcity of resources as such in the universe because this would be against His Infinite Mercy and Benevolence. Whatever scarcity can be found in this world is the result of the unjust distribution of the resources by man-made organizations and entities or because of inefficient application of work and efforts. This is the very antithesis of the concept of scarcity propounded by Modern economics. According to it the scarcity found in the world is both the inherent and enforced. According to Malthus even if you try to increase the resources and necessities of life then their rate of increase is arithmetic in the ratio of 1:2:3 whereas the human population grows at a geometric rate of 2:4:8. Hence the scarcity created by disparity between resources and human population will always keep on increasing. Then, the distribution of resources is based on ability, expertise and market price (Malthus T.R.: *Principles of Political Economy*, 1820). As people have different levels of ability and expertise, some acquire a greater share of resources and some get a smaller share.

There is not a beast in the earth but sustenance thereof depends on Allah. (Quran 11:6)

We have honoured the sons of Adam; provided them with transport on land and sea; given them for sustenance things good and pure; and conferred on them special favors, above a great part of our creation. (Quran 17:70)

If the man-made system of distribution of resources is just and fair then the needs and requirements of all mankind can be fulfilled and satisfied. But the problem is that some people, institutions and organizations usurp a substantial portion of available resources using their power and various plans, tricks and schemes. Thus, there is less available for the old, infirm and the poor with hunger, disease and poverty becoming their lot. The Modern theory about population declares that man is simply a consumer and not a provider. This means that when a child is born in this world, he comes only with his needs and wants, not with the resources required to satisfy those needs and wants. No matter how well you try to feed him his population keeps on increasing.

However the facts seem to be otherwise. If you look at the increase in human population in the last 100 years, you can also note that the standard of living of countries has gone up. If the rich and developed countries had supported and helped the poor developing nations and if the rich countries had succeeded in controlling their criminal and thriftless consumption then

there would have been a significant reduction in poverty. But the Modern theory of population has blamed the growing population of poor countries for their poverty.

In contrast, we have the Islamic viewpoint that constructs the foundations of human life with universal truths. The universe has provided such infinite treasures of resources that if man acted with fairness and justice, controlled unwanted and thriftless spending then the available resources would suffice to meet the needs of entire human population. Even today statistics prove that there are so many natural resources in this world that they can suffice for the entire human population. The only condition is that the rich and the powerful change their way of life.

The other fundamental concept of Islamic economics is that in order to benefit from the treasures bestowed upon us by nature, man needs to strive hard. Modern economics has also considered human endeavor and enterprise to be a pre-requisite but it has made the distribution of resources to be completely at the mercy of human efforts and his ability and expertise. It postulates that the most useful and profitable thing for society is the profitable economic enterprise along with the application of efforts and expertise. Hence the best economic system in this world is the one which distributes resources according to a person's abilities and expertise. Whosoever is equipped with this quality and characteristic shall get a bigger share of the resources. Humanitarian considerations, morality, ethics, piety and fear of God have no place in this system. This is a mechanical and automated way of life that is similar to the animal world where might and power prevails over the weak and the feeble. Right to life belong to the animal which can snatch, capture and has the ability to hunt down its prey. Market theory is based on this system.

In contrast, Islamic economics postulates that although ability and expertise is required for progress and growth but to make the distribution of resources completely dependent on it would be cruel, inhuman and bereft of kindness, and lead to oppression. Hence Islamic economics does not favor making human ability and expertise the fulcrum of resource distribution. Rather it should be kind, considerate and based on justice and fairness. This is because according to Islamic philosophy, ownership is considered to be a trust from Allah which has been bestowed on the rich so that they may utilize it correctly. They should spend the resources given to them by their creator on themselves and on the poor and needy.

And in their wealth, is a share for those who ask and those are deprived. (Quran 51:19)

We do not claim that conventional economists and institutions related to the field of economics are unaware of this fact or are ignoring it during the formulation of their policies and planning. Rather, our stand is that the fundamental market theory of economics keeps it an exogenous factor and keeps it confined merely to a footnote after the formulation of the fundamental theory of economics. The defect lies in the basic theory that serves as a foundation of Conventional economics. Hence, despite the gravity of the situation, Conventional economics has not been able to reinvent itself and is still based on the theory of efficiency and scarcity and is being developed along those lines.

The importance of Economics in Islam is reflected in five basic queries that will be made to every being on the Day of Judgment. Hadith of Prophet Muhammad (PBUH), *"The son of Adam will not pass away from Allah until he is asked about five things: how he lived his life, and how he utilized his youth, with what means did he earn his wealth, how did he spend his wealth, and what did he do with his knowledge."*

3. Islamic Economics- Role, Trends and Objectives

Islamic Economics studies of the problem of allocation of resources, production of goods and services and distribution of output, income and wealth in an economy in the light of the Qur'an and the Sunnah. In Islamic economics the role of the individual, his inclinations and his aims and objectives occupy a central position and are vitally important. He is definitely a rational being but his level of rationality is not confined to the calculations of cost and profit. According to the Modern economics the individual as a consumer wants to maximize utility by paying the minimum price while as a producer wants to maximize profit by manufacturing goods with minimum cost. In contrast, according to Islamic economics an individual does not want merely to obtain monetary profit and physical pleasure and leisure but he also wants and aims for something beyond what the material world has to offer. The most comprehensive term that can be used to describe that higher aim of life is the “success in the Hereafter”. The motive for demand as a buyer or consumer is not merely monetary or materialistic profit but it can also be to drive the pleasure of God and the welfare and well being of society. Both these dimensions together determine its demand. This will determine which goods he will purchase and how much quantity. This will be determined by his needs and wants but also his personal piety and piety nature. He is hyper-consumer but one who follows the middle path. He remains away from the prohibited (goods and services), refrain from (unwanted) luxuries and hence the national production (gross output) is distributed in such a way that the products that cater to or are required for the fulfillment of the bare necessities of life flourish in the market and the trends of wastage are reduced. In the same way the producer who is busy in raising capital for production does not look at his personal needs in a very narrow manner in terms of rate of profit but in fact shows consideration for the overall good and welfare of society and this becomes the overall motive for the creation of capital. This rationality is in tune with humanitarian consideration and seeking the Pleasure of God. It does not have the automated mechanical and cruel nature of Modern economics. However, in Islamic economics the comprehensive moral training of the individual, his technical and educational ability, his aims and his priorities are of primary importance. Capital accumulation has secondary importance. Thus, according to Islamic economics the means of acquiring wealth has the same importance as wealth itself. Accordingly, the legal and permissible way of acquiring wealth is the definitive guarantee to the comprehensive success and welfare of any society. Dishonesty, abuse of trust and earning of wealth through fraudulent ways and means may perhaps increase the status of an individual but the society suffers because of it on the whole. This leads to an unjust and oppressive economic system.

These are the two completely different versions of the individual on which Conventional and Islamic economics is based. In the modern economics, the domain of Macroeconomics is based on this materialistic version of the individual. Hence, on the whole it is also bereft of moral values and humanitarian considerations. In order to appreciate this reality, we will now turn to those fundamental problems which form the foundation of modern economics, so that we can clarify and explain the unique characteristic of Islamic economics.

3.1 Three Basic Questions posed by Modern Economics and their Answers

Modern economics discussed three basic questions:

What to produce?	How to produce?	For whom to produce?
------------------	-----------------	----------------------

It must remember that while seeking answers to these questions we should keep in mind that

the relationship of man with the universe must occupy a central place, answer have already discussed above. Modern economics acquires the answers to these three questions through the market in which price and cost play a pivotal role. Price is based on demand and supply. Supply depends on the cost of production. Demand depends on the priorities of the consumer, the utility sought in the good or service and the income of the consumer. As there exists scarcity in this world and production is not sufficient for the needs of the entire population, the producer has to choose between the expected demand of the goods in the market and the expected profit. Hence, those goods are produced which have a demand in a market. Demand is expressed in the market in the form of the price that the consumer is ready to pay and also has that purchasing power. The producer looks at the expected demand and the expected price in the market that can fetch him the maximum profit. Hence, he produces those goods that fetch the maximum profit at a price that is attractive. The distribution of the means of production takes place on this basis and so does the variation in the Gross National Product.

The answer to the second question (how to produce?) can be found in the various modern sciences related to the cost of production and allocation of resources for the purpose of production. The goal of the producer is to produce at the minimum possible cost so that his profit can be maximized. Cost can be reduced with the help of technology and the optimum utilization of resources. The elements that constitute the cost of production are the cost of raw material and its supply. For this, Modern economists have formulated a theory which reiterated how expertise and capabilities constitute the elements of productivity of goods and services. In order to efficiently use labour and capital and to give shape to their various combinations they compare the price of labour and capital with their production capacity. They then reach a conclusion about which possible combination will help produce the product or service at an optimum price. Thus, in the calculations of the cost of production, only the financial aspects are considered. What is the effect in overall welfare if we produce something and avoid producing its alternative? There is no mention of it in the overall calculation.

Conventional economics also diverts the answer of the third question (For whom to produce?) to the laws of demand and supply and market price. How should the distribution of the national produce take place, as it depends on the demand set by the consumer and the buyer? The production should reach which consumers depends on who has the capacity or ability to acquire and purchase those produced goods by paying its price in the market. In simple words the answer to this question is that production must be made for what person or group who can play its price. Conventional economists have left the insensitivity of this mechanical answer and tried to explain that whosoever has a demand for products and services ignores the fact that demand is merely the reflection of financial resources and not that of needs.

The summary of the answers to these three questions is as follows:

- I. Demand has primary importance, not need.
- II. The financial cost of production has primary importance in the supply of goods and services, not the use of non-financial welfare and charity schemes for society.
- III. Who will and how much will each contribute in the total National Production will be decoded by the output of the various factors of production.

The overall effect of the above is that it creates a society in which only those who can afford to pay the price in the market for the necessities of life will get them while the rest would be deprived thereof. Thus, only those who constitute demand would constitute the market and only they would be able to purchase whatever is available in the market.

Then as far as the needs and wants of the poor and the deprived are concerned, that do not contribute to the power of financial resources, they would be left behind and not be able to participate in this process. The rich shall become richer and the poor will turn poorer. As demand will be a reflection of the priorities of people with purchasing power, it is primarily their needs, luxuries and their satisfaction that would be taken into consideration in the national production. Hence, in general, the components of the entire national production shall be driven by the rich, affluent and affording individuals and groups.

The result of this philosophy is that in all countries and mostly in the poor and developing countries the expenditure of national resources on luxury items is extremely high. We see that air-conditioned cars, five star hotels, expensive hospitals which are beyond the reach of the poor are being established in a country like India where people are stuffed like animals in the general compartment of trains and in state-transport buses. Where poor patients have to be content with the medicines provided in government run hospitals, where people drink polluted water in the dirty shanty towns and neighborhoods and where a large portion of the population is unable to afford even primary education for the children.

The second result of this philosophy is that while pursuing industrialization, importance is not given to pollution or public health. Morality and human life are also not important, nor is its fundamental need ever considered critical. Hence, the industrialists do not care one bit about air pollution. Factories producing carcinogenic chemicals endanger public health. Yet it is considered very trivial and part of the system. Where there is criminal adulteration in food and medicine, profit-making becomes the mission of life. And since in the present economy, financial instruments like bonds and stocks (in the stock exchange) rule the roost and money grows very quickly, everybody is running towards it. Today, contributing to the real economy is not as attractive as making money through the play of financial securities. It is this condition that paved the way for Securities Scam of India, the scandal and incidents of money laundering. There is a race to earn more and more financial profit that is becoming apparent everywhere and at all levels. One can see open manipulation in expensive hospitals that are registered as charitable trusts in order to evade taxes. Business is plagued by and reeling under fraud, lies and deceit.

In sharp contrast is the economic system which is derived from the Islamic moral values, priorities and objectives. In this economic system answers to the following questions are reflective of humanitarian considerations, social welfare and the well-being of society which are derived from a particular theory of the creation of man and the universe which has been described above.

3.2 The Philosophy of Life

The philosophy of life (prevalent in the West) makes scarcity, competition and the quest to earn profit the d'etre of an individual's life and regards the economic success of the individual to be the outcome of his intelligence and hard work. The individual who is financially successful thinks that the entire success that he is enjoying is because of his own efforts. We therefore see that his personality and temperament has traits like pride and vanity. He deems it to be his right to crush the weak and the poor. Giving away in charity to the poor and needy out of whatever he gains from the treasuries of the world, he considers his benevolence and kind-heartedness. According to him this world runs on loot and plunder, injustice and oppression. Whatsoever loots whatever possible in this world is his right? He is obsessed with increasing whatever wealth he has acquired. His life is without contentment. His life is

marked with the quest of adding artificial wants and the greed for more and more luxuries, leading to oppression and destruction.

In contrast is the philosophy of life that is based on gratitude and having trust in God. The believer deems this world to be a gift of God and the wealth that he has earned or acquired to be the grace of his creator. There are many people in this world who are better than him in knowledge and skill, but the conditions did not favor them. Hence, they are not poor and destitute. Thus, he is thankful to God and in order to express his gratitude through his deeds he behaves politely and kindly with his fellow human beings. He avoids oppression, violation of trusts and fraud. Instead of arrogance he is level-headed and becomes the epitome of sincerity and simplicity. He terms failure to be the decision of Allah and adopts the method of *tawakkal* (putting ones trust in Allah).

In this economic system the consumer also puts the success in the Hereafter along with his personal interests in his priorities. He avoids buying prohibited goods like alcoholic drinks and other intoxicants. He tries to help out his relatives, the poor, the needy and destitute to the best of his ability. While preparing his financial budget, he sets aside resources for both his physical rest and relief and for his spiritual growth and progress. To realize this objective, he divides his time in an optimum manner and accordingly avoids extravagance and wastage. He keeps a share in his own wealth for the needy and the destitute.

There are at least three results that are obtained because of this methodology. The first result is the most of the demand depends on the necessities of life and second is that the demand for luxuries is reduced which enhances the resources for producing goods and services for other uses in society.

The third result is that because of this change in demand, the intensity of unabated inflation reduces dramatically. The cost of capital, especially the tendency to react to pressure of wages is reduced. In modern times advertising plays a key role in creating demand. Those who crave to improve their quality of life try to satisfy their imaginary and unrealistic needs. Hence such a society comes into existence in which the legitimate and necessary needs are merely 1/3. Remaining 2/3 demand is either created from advertising or because of the attempt by people to imitate and copy the lifestyle of others with economists call Demonstrative Effect. A society based on ethics and humanitarian values limits the demand of an individual to his needs and for the goods required to enhance his capabilities because he wants to take care of the needs of the poor and needy as well. He does so because of his pious character and not because of the pressure of following some legal injunction.

3.3 The Humanitarian Investor

The priorities of such manufacturers, producers and investors are markedly different. Like other people he is also desirous of profit but the criteria of investment also include the principle of benefit to society and keeping away from things that are harmful to sections of society. A pious and humanitarian investor will choose the path of stable business which will benefit the common citizens even if the rate of profit is less. He believes in making good this loss of profit by driving the pleasure of God. Hence if he has two options before him: one option in which he has a high rate of profit but it will have a detrimental effect on the morals of society, give less opportunity to help the poor and the needy, in fact there may even be a possibility that they will be harmed and the other option where he has a lesser rate of profit but he can help the poor and needy through business, then he will give priority to the latter.

In contemporary society, as is apparent in every town and village in India, people have money for intoxicants and crass entertainment but do not have funds for building houses for the poor and for their education, their health and other needs. It becomes incumbent upon the government to make arrangement for those funds and necessary investment. In our country private investment avoids those enterprises like excellent educational institutions, decent hospitals, clean and hygienic water, reasonable transport etc. where the rate of profit may be less but the less privileged of society may benefit a lot. Most of these institutions that supply these essential services are nationalized or are government enterprises which are subsidized by the government because of shortage of resources.

A humanitarian society does not hoard goods so that the price of goods may be raised artificially. It does not disrupt and abuse the utilization of natural resources, causing air-pollution which has become the hallmark of modern economic system. In a pious and Islamic economic system, the probability of this happening is almost zero. In this society financial auditing does not just include the value of goods consumed in production and yields but a balance sheet of negligence and abnormalities is also created in which non-financial successes and the components that constitute progress and prosperity of society find space.

3.4 Islam is not Merely a Fantasy

But the philosophy of Islam is not just empty theory that is completely dependent on the morals of the individual, his piety and his humanitarian considerations. Rather, Islamic economics has been institutionalized in such a manner that the possibility of deviation of the individual becomes minimal. One of the important institutions to ensure that is the way Islam prohibits usury in finance and trade and declares profit and loss to be the foundation of business and investment.

3.5 The Contemporary Economic System

In the contemporary economic system usury or interest opens the door for artificial sources of income because of which it becomes possible that the individual earns wealth through stocks and equities which is much more than the value of real production. In the contemporary economic system the calculation of gross national income is based on the assets produced in a limited period of time. But because assets are of different types hence their estimate is calculated on the basis of market price and their balance is computed. But the estimate of the assets is not calculated like real goods and products; instead, it is calculated according to the shares of production unit and the price of their stocks. In this entire process the expected profitability of any unit determines the price of its stocks and shares. This means that the hope and expectation permeates in and forms the basis of the entire business of the stock exchange.

Expected profit is a psychological state or an emotional sentiment which is far removed from reality and the real world. The situation in the stock exchange is that it can come crashing down even if there is a small tremor or anxiety in the (stock market) trading circles and can rise with very little amount of hope and expectation. In this way the wealth of thousands can increase or decrease in a matter of minutes. The production capacity and future of those industrial units whose price has fallen in the market is also impacted. Hence, the entire process of investment is completely founded on sentiments and expectations. In the same way the Gross National Income and the estimate of expected income keeps fluctuating. The estimate of national income and assets is to a large extent merely a chimera and illusion. You may have often heard that scores of people committed suicide because of the fluctuation in the price of stocks and shares in the stock exchange. The expected profit generated by stocks

and shares severely impacts real investment. In this entire shady business, the role of the real produce/production is secondary. To understand what may be the amount of fraud and deception in this process, we need to study the entire system which is not possible in this work. The rate of interest over which this entire edifice is built often gyrates, because of which the system of investment becomes unstable. There is a lot of variation in the cost of production. The entire system of production becomes unstable. Hence this interest based economic system is always experiencing fluctuations and is very unstable.

3.6 Interest Based Financial System

Besides the stock exchange in the banking and non-banking financial institutions, the rate of interest plays a key or pivotal role. In fact, those acquainted with it knows that the expected price of shares and the supply of capital depends upon the rate of interest. The interest based system directly breaks the relationship between real production and financial sources and an economic system is created in which stability is impacted severely. In the current system of investment, the condition to provide loan/credit is based on the capacity of repaying interest and collateral by the debtor. The result is that talented individuals (entrepreneurs) who cannot provide any collateral will be deprived of investment and loan is provided to those people and those factories that are financially strong and possess the ability to repay their loans. Thus, the flow of investment is in the direction where the financial resources already exist. Hence there is an acute accumulation of wealth and resources and income disparity increases and the system of unjust distribution of wealth becomes more entrenched. In the supply of interest based finance it is not seen where the debtor (person taking loan) or investor is applying those loaned financial resources. Rather the focus on the expected profit through investment. The estimate of this profit is based on financial parameters. The result of this attitude is not healthy for society and creates a rift within society.

3.7 Classical Muslim Commerce

The systems of contract relied upon by merchants was very effective. Merchants would buy and sell on commission, with money loaned to them by wealthy investors, or a joint investment of several merchants, who were often Muslim, Christian and Jewish. Recently, a collection of documents was found in an Egyptian synagogue shedding a very detailed and human light on the life of medieval Middle Eastern merchants. Business partnerships would be made for many commercial ventures, and bonds of kinship enabled trade networks to form over huge distances. During the ninth century banks enabled the drawing of check-in by a bank in Baghdad that could be cashed in Morocco (Peters, Edward, 1983).

The concepts of welfare and pension were introduced in early Islamic law as forms of Zakat (charity), one of the Five Pillars of Islam, since the time of the Abbasid caliph Al-Mansur in the 8th century. The taxes (including Zakat and Jizya) collected in the treasury of an Islamic government was used to provide income for the needy, including the poor, elderly, orphans, widows, and the disabled. According to the Islamic jurist Al-Ghazali (Algazel, 1058–1111), the government was also expected to store up food supplies in every region in case of a disaster or famine occurs. The Caliphate was thus one of the earliest welfare states, particularly the Abbasid Caliphate (Crone, Patricia, 2005).

3.8 Trade

During the Islamic Golden Age, isolated regions had contact with a far-reaching Muslim trade network extending from the Atlantic Ocean and the Mediterranean in the west to the Indian

Ocean and South China Sea in the east, and covering most of the Old World, including significant areas of Asia and Africa and much of Europe, with their trade networks. Arabic silver dirham coins were being circulated throughout the Afro-Eurasian landmass, as far as sub-Saharan Africa in the south and northern Europe in the north, often in exchange for goods and slaves (Roman, Kovalev, Alexis and Kaelin, 2007). This helped establish the Rashidun, Abbasid and Fatimid Caliphates as the world's leading extensive economic powers in the 7th-13th centuries. Due to religious sanctions against debt, Tamil Muslims have historically been money changers (not money lenders) throughout South and South East Asia (Tyabji, Amini, 1991).

3.9 Agriculture in the medieval Islamic world

From the 8th century to the 13th century in Muslim lands many crops and plants were planted along Muslim trade routes, farming techniques spread. In addition to changes in economy, population distribution, vegetation cover, agricultural production, population levels, urban growth, the distribution of the labor force, and numerous other aspects of life in the Islamic world were affected according to Andrew Watson (Andrew M. Watson, 1974). However this is disputed by other scholars, who claim cultivation and consumption of staples such as durum wheat, Asiatic rice, and sorghum, as well as cotton, were already commonplace centuries before, or that agricultural production declined in areas brought under Muslim rule in the Middle Ages (Ashtor E. 1976).

The demographics of medieval Islamic society varied in some significant aspects from other agricultural societies, including a decline in birth rates, as well as a change in life expectancy. Other traditional agrarian societies are estimated to have had an average life expectancy of 20 to 25 years, while ancient Rome and medieval Europe are estimated at 20 to 30 years. Conrad I. Lawrence estimates the average lifespan in the early Islamic Caliphate to be above 35 years for the general population, and several studies on the life spans of Islamic scholars concluded that members of this occupational group enjoyed a life expectancy between 69 and 75 years, though this longevity was not representative of the general population (Shatzmiller, Maya, 1994).

The early Islamic Empire also had the highest literacy rates among pre-modern societies, alongside the city of classical Athens in the 4th century BC, and later, China after the introduction of printing from the 10th century. One factor for the relatively high literacy rates in the early Islamic Empire was its parent-driven educational marketplace, as the state did not systematically subsidize educational services until the introduction of state funding under Nizam al-Mulk in the 11th century. Another factor was the diffusion of paper from China, which led to an efflorescence of books and written culture in Islamic society, thus papermaking technology transformed Islamic society from an oral to scribal culture, comparable to the later shifts from scribal to typographic culture, and from typographic culture to the Internet. Other factors include the widespread use of paper books in Islamic society (more so than any other previously existing society), the study and memorization of the Qur'an, flourishing commercial activity, and the emergence of the Maktab and Madrasah educational institutions (Edmund Burke, 2009).

3.10 Islamic capitalism

Early forms of mercantilism and capitalism are thought to have developed in the Islamic Golden Age from the 9th century. Early Islamic commerce applied a number of concepts and techniques, including bills of exchange, forms of partnership such as limited partnerships, and

capital accumulation, promissory notes, trusts, transactional accounts, loans, ledgers and assignments. Organizational enterprises independent of the state also existed in the medieval Islamic world, while the agency institution was also introduced. Medieval Europe adopted and developed many of these concepts from the 13th century onwards (Subhi Y. Labib, 1969).

A market economy was established in the Islamic world on the basis of an economic system resembling merchant capitalism. Labour promoted capital formation in medieval Islamic society, and a considerable number of owners of monetary fund and precious metals developed financial capital. The capitalists (sahib al-mal) stood at the height of their power between the 9th and 12th centuries, but their influence declined after the arrival of the ikta (landowners) and after the state monopolized production; both these trends hampered any development of industrial capitalism in the Islamic world. Some state enterprises still had a capitalist mode of production, such as pearl diving in Iraq and the textile industry in Egypt ((Subhi Y. Labib, 1969)).

From the 11th to the 13th centuries, the "Karimis", an enterprise and business group controlled by entrepreneurs, came to dominate much of the Islamic world's economy. The group was controlled by about fifty Muslim merchants labeled as "Karimis", who were of Yemeni, Egyptian and sometimes Indian origin. Each Karimi merchant had considerable wealth, ranging from at least 100,000 dinars to as much as 10 million dinars. The group had considerable influence in most important eastern markets, and sometimes influenced politics through its financing activities and through a variety of customers, including Emirs, Sultans, Viziers, foreign merchants, and common consumers. The Karimis dominated many of the trade routes across the Mediterranean, the Red Sea, and the Indian Ocean, and as far as Francia in the north, China in the east, and sub-Saharan Africa in the south, where they obtained gold from gold mines. Practices employed by the Karimis included the use of agents, the financing of projects as a method of acquiring capital, and a banking institution for loans and deposits.

3.11 Islamic socialism

Though medieval Islamic economics appears to have somewhat resembled a form of capitalism, some arguing that it laid the foundations for the development of modern capitalism, Others see Islamic economics as neither completely capitalistic nor completely socialistic, but rather a balance between the two, emphasizing both "individual economic freedom and the need to serve the common good (Shadi, 2003).

Abū Dharr al-Ghifārī, a Companion of Muḥammad, is credited by many as the founder of Islamic socialism. The concepts of welfare and pension were introduced in early Islamic law as forms of Zakat (charity), one of the Five Pillars of Islam, during the time of the Rashidun caliph Umar in the 7th century. This practiced continued well into the era of the Abbasid Caliphate, as seen under Al-Ma'mun's rule in the 8th century, for example. The taxes (including Zakat and Jizya) collected in the treasury of an Islamic government were used to provide income for the needy, including the poor, elderly, orphans, widows, and the disabled. According to the Islamic jurist Al-Ghazali (Algazel, 1058–1111), the government was also expected to stockpile food supplies in every region in case a disaster or famine occurred. The Caliphate is thus considered the world's first major welfare state (Hanna, Sami, George, 1969).

3.12 Industrial development

Muslim engineers in the Islamic world were responsible for numerous innovative industrial uses of hydropower, early industrial uses of tide mills, wind power, and fossil fuels such as petroleum. A variety of industrial mills were used in the Islamic world, including fulling mills, gristmills, hullers, sawmills, shipmills, stamp mills, steel mills, sugar mills, tide mills, and windmills. By the 11th century, every province throughout the Islamic world had these industrial mills in operation, from al-Andalus and North Africa to the Middle East and Central Asia. Muslim engineers also employed water turbines, and gears in mills and water-raising machines, and pioneered the use of dams as a source of water power, used to provide additional power to watermills and water-raising machines. Such advances made it possible for many industrial tasks that were previously driven by manual labour in ancient times to be mechanized and driven by machinery instead in the medieval Islamic world. The transfer of these technologies to medieval Europe later laid the foundations for the Industrial Revolution in 18th century Europe (*Adam Robert Lucas. 2005*).

3.13 Labour Force

The labor force in the Caliphate were employed from diverse ethnic and religious backgrounds, while both men and women were involved in diverse occupations and economic activities. Women were employed in a wide range of commercial activities and diverse occupations in the primary sector (as farmers for example), secondary sector (as construction workers, dyers, spinners, etc.) and tertiary sector (as investors, doctors, nurses, presidents of guilds, brokers, peddlers, lenders, scholars, etc.).

Muslim women also held a monopoly over certain branches of the textile industry, the largest and most specialized and market-oriented industry at the time, in occupations such as spinning, dyeing, and embroidery. In comparison, female property rights and wage labour were relatively uncommon in Europe until the Industrial Revolution in the 18th and 19th centuries (*Maya Shatzmiller. 1997*).

3.14 Provision of Finance on the basis of profit and loss

In contrast we have a different financial system in which the lenders of capital/ investors operate on the basis of profit and loss. Banks and financial institutions not only keep an eye on real/actual production but get associated with the overall development and prosperity of society. In this financial system of shares and stocks it is not possible to earn money through the buying and selling of stocks. Such a thing is only possible when interest based transactions are very common. In the absence of interest, money stops becoming a saleable commodity and is only a means of carrying out a financial transaction. Hence the creation of wealth/money is beneficial only if it is based on real production and hence the possibility of inflation becomes minimal. In the Islamic economic system the absence of interest for the common producers does not leave any possibility of earning money through financial tricks and manipulations. The importance of collateral while taking a loan also becomes zero because the investor himself becomes part of industrial unit on the basis of either active partnership or passive partnership. The correct estimation of required abilities and expected demand decides the supplied finance. Capable but weak (as far as resources are concerned) producers are also not deprived of financial resources. Hence the trend of inequitable distribution of wealth and the disparity in income is reduced substantially. That is why prolonged instability in the economy is also minimized. In the conventional economic system the fluctuation in market capitalization and rates of interest depends on market sentiments and

psychological expectations whereas here (under the principles of Islamic economics) changes emanate from real production.

But there is still a possibility in the economy that there may still be disparity of incomes or it may even widen. That is why Islam has established a system of Zakat and voluntary charity through which there is a reduction in this trend. At the same time it has suggested a system of inheritance that reduces the accumulation of wealth. Moreover, in some special situation the spending of money has even been termed as compensation. If we observe it through real parameters then we see that the rate at which Zakat is charged is very small and if we check the number of people who are eligible to receive Zakat, it is very large as their annual income is below the *nisaab* / minimum slab.

In the present economic system government keeps the production under private ownership and confines itself to only facilitating responsibilities. First, government should provide all such facilities and infrastructure through which private investment delivers the best possible results and secondly whatever faults are developed at the collective level they should be corrected. Thirdly, it should keep an eye on the implementation of equitable distribution of wealth and take the necessary steps to achieve the same.

In short, the system that is based on Islamic teachings can be described as follows:

1. Economic liberty has been considered to be a fundamental right. But this right cannot be used only for generating personal profit and is subject to the larger public good.
2. In this system although private profit has importance, but this is not merely financial profit and it has the clause of 'Success in the Hereafter (life after death)' added in such a manner that it becomes part and parcel of that system which creates a fundamental difference though the change (it changes about) and (also through its own) nature.
3. In this system, capital and assets have secondary importance. The character of the individual and public expediency has primary importance.
4. In this economic system justice is regarded and kept as a primary and necessary goal and then the necessary laws and institutions are created for its achievement.
5. In this economic system a social and ideological climate is created which results in the distribution of resources and production in such a manner that the fulfillment of basic necessities of life gets primary importance. After that the luxury items gets secondary priority only by means of consumption and production.
6. This economic system creates a direct correlation between real production and actual financial resources and is not like the contemporary economic system that links the two indirectly. This gives allowances only to profit and risk but not to interest/usury,
7. In this economic system the system of yields and income depends only on labour, production and risk. Trading of capital and manipulation of stocks is ruled out. In this system money is not tradable but is simply a source or medium of exchange.
8. This suggests such standards of investment that when implemented, both the individual and society benefit and which in fact strengthens the profit of individual with profit and benefits accrued to society. It does not depend merely on ideology (religious) to achieve this but derives and establishes formal regulations and public institutions which build investment according to these standards.
9. In this system, the combination of demand and needs is formed in such a manner that performance, humanitarian considerations and justice all become elements of economic activity/enterprise. The faults that are found in the market demand and the unjust

inequitable distribution of produced goods is corrected by making them dependent on the comprehensive and collective needs of society and for that purpose it influences the mind of the investor and puts in place such laws and institutions that aid in the achievement of these objectives. For this purpose, it takes a certain moderate quantum of resources and makes legal provision for distributing it to the poor and the needy.

10. In this economic system as the government is not actually the producer but simply acts as a regulator to remove the (market) distortions hence it does not need extraordinary resources to fulfill its own mandatory expenses. To enable the equitable distribution of resources the government does not have to levy huge rate of taxation as some oppressive regimes do; nor have the government to take large loans from the Central Bank. In this way the government avoids becoming a source of inflation. Hence, the levying of taxation would be least and the need for the creation of wealth will also be reduced. Hence the tendency of the prices of basic commodities to keep on increasing will be limited.

4. Conclusion

In conclusion, the *Islamic economic* system is a theoretical construct of an industrial economy whose members follow the Islamic faith. An individual does not want merely to obtain monetary profit and physical pleasure and leisure but he also wants and aims for something beyond what the material world has to offer according to Islamic economics. In Islamic economics the role of the individual, his inclinations and his aims and objectives occupy a central position and are vitally important. He is definitely a rational being but his level of rationality is not confined to the calculations of cost and profit. The comprehensive moral training of the individual, his technical and educational ability, his aims and his priorities are of primary importance in Islamic Economics. The philosophy of life (prevalent in the West) makes scarcity, competition and the quest to earn profit the d'etre of an individual's life. Islamic economics has been institutionalized in such a manner that the possibility of deviation of the individual becomes minimal. According to Islamic economics the means of acquiring wealth has the same importance as wealth itself. Dishonesty and earning of wealth through fraudulent ways and means may perhaps increase the status of an individual but the society suffers.

References

- Andrew M. Watson (1974), "The Arab Agricultural Revolution and its Diffusion, 700-1100", *The Journal of Economic History* 34 (1), P. 8-35
- Ashtor, E. (1976), "A Social and Economic History of the Near East in the Middle Ages, Berkeley", University of California Press, PP. 58-63
- Adam Smith: On March 9, 1776, "An Inquiry into the Nature and Causes of the Wealth of Nations", **Publisher:** W. Strahan and T. Cadell, London
- Crone, Patricia (2005), *Medieval Islamic Political Thought*, Edinburge University Press, pp. 308-9, ISBN 0-7486-2194-6
- David Ricardo: *Principles of Political Economy and Taxation* (1817): London: John Murray, Albemarle-Street
- Dorfman R: *Prices and Markets*: **Publisher:** Prentice-Hall; 3rd edition (1978)

- Edmund Burke (2009), “Islam at the Center: Technological Complexes and the Roots of Modernity”, Journal of World History, University of Hawaii Press, 20 (2), 165-186
- Hanna, Sami A, George H, Gardner (1969), Arab Socialism: A Documentary Survey, Leiden: E. J. Brill, p. 273, retrieved 23 January, 2010
- J.S. Mill: Principles of Political Economy (1848): **Publisher:** John W. Parker
- Judith Tucker (1975), “Islam and Capitalism by Maxime Rodinson”, MERIP Reports 34, pp. 31-32
- John Maynard Keynes: The General Theory of Employment, Interest and Money: Publisher: Palgrave Macmillan
- John M. Hobson, (2004), The Eastern Origins of Western Civilisation, P. 29-30, Cambridge University Press ISBN 0- 521-54724-5
- K. K. Dewett, “Modern Economic Theory”, S. Chand & Company Ltd. Ram Nagar, New Delhi.
- Kindleberger & Lindhert P. H: International Economics, 1982
- Matthew E., Falagas, Effie A. Zarkadoulia, George Samonis (2006), Arab Science in the Golden Age (750-1258 C.E), FASEB Journal 20, p. 1581-86
- Mehmet Asutay “The Political Economy of Islamic Moral Economy”, Durham University, UK presented at the seminar held on 30 January 2009 on ‘Comparative Development of the Islamic Economic Model in context of current market conditions’, organized by KPMG, London, UK.
- Malthus T.R. Principles of Political Economy (first edition, 1820),
- Edwin Cannan (1924), Modern theory of population or The Optimum Theory
- Marshall A (1890): Principles of Economics
- Musgrave R.A: Public Finance in Theory and Practice, **Publisher:** McGraw Hill Education; 5 edition (1 July 2017)
- O Brion D P (1975): The Classical Economists, **Publisher:** Oxford University Press
- Paul Baran (1957): The Political Economy of Growth (Monthly Review)
- Peters, Edward, (1983), Europe and the Middle Ages
- Qurran: Religious Book of Islam (Authentic books of Tafaseer on ***Quran***/ English Translation: By [Maulana Muhammad Ali](#))
- Roman K. Kovalev, Alexis C, Kaelin (2007), “Circulation of Arab Silver in Medieval Afro-Eurasia: Preliminary Observations”, History Compass 5 (2), pp 560-80.
- Shatzmiller, Maya (1994), Labour in the Medieval Islamic World, Brill Publishers, P. 66, ISBN 90-04-09896-8.
- Shatzmiller, Maya (1997), “Women and Wage Labour in the Medieval Islamic West, Legal Issues in an Economic Context”, Journal of the Economic and Social History of the Orient 40 (2), P. 174-206

Shadi Hamid (2003), "An Islamic Alternative? Equality, Redistribution Justice and the Welfare State in the Caliphate of Umar", *Renaissance: Monthly Islamic Journal*, 13 (8), retrieved 2017.

Subhi Y. Labib (1969), "Capitalism in Medieval Islam", *Journal of Economic History*, 29 (1), pp. 79-96

Tyabji, Amini (1991), "The Muslim Private Sector in Southeast Asia" *Social Issues in Southeast Asia*, ISBN 981-3016-10-8.

Hosseini Askari & Roshanak Taghavi, 2005. "[The principle foundations of an Islamic economy](#)," [Banca Nazionale del Lavoro Quarterly Review](#), Banca Nazionale del Lavoro, vol. 58(235), pages 187-205.

Copyrights

Copyright for this article is retained by the author(s), with first publication rights granted to the journal.

This is an open-access article distributed under the terms and conditions of the Creative Commons Attribution license (<http://creativecommons.org/licenses/by/4.0/>)