

# Chapter One: Introduction to Islamic Economics

Dr. Md. Arif Billah<sup>1</sup>

## Basic Problems of an Economy

In every economic system, what to produce, how to produce, for when to produce and efficiency of the resources used or efficient use of resources are major problems. These problems are peculiar to every system being it socialism, capitalism or mixed economy. The following points highlight the basic problems of an economy:

### The First Economic Problem: What to produce?

The first central problem of an economy is to decide what goods and services are to be produced and in what quantities. This involves allocation of scarce resources in relation to the composition of total output in the economy.

### The Second Economic Problem: How to produce?

The next basic problem of an economy is to decide about the techniques or methods to be used in order to produce the required goods. This problem is primarily dependent upon the availability of resources within the economy.

### The Third Economic Problem: For whom to produce?

The third basic problem to be decided is the allocation of goods among the members of the society. The allocation of basic consumer goods or necessities and luxuries comforts and among the household takes place on the basis of among the distribution of national income.

## Islamic Solution of all Human Economic Problems

No economic system of the world has been so far able to put forward any satisfactory solution of the economic problems of humanity. It is only the Islamic economic system which puts up a beautiful solution of all human economic problems. Holy Qur'an, which reads as follows:

يَسْأَلُونَكَ عَنِ الْخَمْرِ وَالْمَيْسِرِ قُلْ فِيهِمَا إِثْمٌ كَبِيرٌ وَمَنَافِعُ لِلنَّاسِ وَإِثْمُهُمَا أَكْبَرُ مِن نَّفْعِهِمَا<sup>١</sup> وَيَسْأَلُونَكَ مَاذَا يُنْفِقُونَ قُلِ الْعَفْوَ<sup>٢</sup>  
كَذَلِكَ يُبَيِّنُ اللَّهُ لَكُمْ الْآيَاتِ لَعَلَّكُمْ تَتَفَكَّرُونَ

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<sup>1</sup> Associate Professor of Economics under the Faculty of Shariah at IIUC & Executive member of Research Panel at Islamic Economics Research Bureau (IERB) of Bangladesh & President of Poverty Reduction Economic Movement (PREM)

They ask thee concerning wine and gambling. Say: "In them is great sin, and some profit, for men; but the sin is greater than the profit." They ask thee how much they are to spend; Say: "What is beyond your needs." Thus doth Allah Make clear to you His Signs: In order that ye may consider- (Al-Baqarah 2:219)

يَا أَيُّهَا الَّذِينَ آمَنُوا أَنْفِقُوا مِمَّا رَزَقْنَاكُمْ مِنْ قَبْلِ أَنْ يَأْتِيَ يَوْمٌ لَا بَيْعَ فِيهِ وَلَا خُلَّةٌ وَلَا شَفَاعَةٌ ۗ وَالْكَافِرُونَ هُمُ الظَّالِمُونَ

O ye who believe! Spend out of (the bounties) We have provided for you, before the Day comes when no bargaining (Will avail), nor friendship nor intercession. Those who reject Faith they are the wrong-doers. 2: 254

مَثَلُ الَّذِينَ يُنْفِقُونَ أَمْوَالَهُمْ فِي سَبِيلِ اللَّهِ كَمَثَلِ حَبَّةٍ أَنْبَتَتْ سَبْعَ سَنَابِلٍ فِي كُلِّ سَنَابِلَةٍ مِائَةٌ حَبَّةٌ ۗ وَاللَّهُ يُضَاعِفُ لِمَنْ يَشَاءُ ۗ وَاللَّهُ وَاسِعٌ عَلِيمٌ

The parable of those who spend their substance in the way of Allah is that of a grain of corn: it groweth seven ears, and each ear Hath a hundred grains. Allah giveth manifold increase to whom He pleaseth: And Allah careth for all and He knoweth all things 2:261

وَمَثَلُ الَّذِينَ يُنْفِقُونَ أَمْوَالَهُمْ ابْتِغَاءَ مَرْضَاتِ اللَّهِ وَتَثْبِيئًا مِنْ أَنْفُسِهِمْ كَمَثَلِ جَنَّةٍ بِرَبْوَةٍ أَصَابَهَا وَابِلٌ فَاتَتْهُ أَكْثَرُهَا ضِعْفَيْنِ فَإِنْ لَمْ يُصِبْهَا وَابِلٌ فَطُلٌّ ۗ وَاللَّهُ بِمَا تَعْمَلُونَ بَصِيرٌ

And the likeness of those who spend their substance, seeking to please Allah and to strengthen their souls, is as a garden, high and fertile: heavy rain falls on it but makes it yield a double increase of harvest, and if it receives not Heavy rain, light moisture sufficeth it. Allah seeth well whatever ye do 2: 265

يَا أَيُّهَا الَّذِينَ آمَنُوا أَنْفِقُوا مِنْ طَيِّبَاتِ مَا كَسَبْتُمْ وَمِمَّا أَخْرَجْنَا لَكُمْ مِنَ الْأَرْضِ ۖ وَلَا تَيَمَّمُوا الْخَبِيثَ مِنْهُ تُنْفِقُونَ وَلَسْتُمْ بِآخِذِيهِ إِلَّا أَنْ تُغْمِضُوا فِيهِ ۚ وَاعْلَمُوا أَنَّ اللَّهَ غَنِيٌّ حَمِيدٌ

O ye who believe! Give of the good things which ye have (honourably) earned, and of the fruits of the earth which We have produced for you, and do not even aim at getting anything which is bad,

in order that out of it ye may give away something, when ye yourselves would not receive it except with closed eyes. And know that Allah is Free of all wants, and worthy of all praise.2:267

إِنَّمَا الصَّدَقَاتُ لِلْفُقَرَاءِ وَالْمَسْكِينِ وَالْعَامِلِينَ عَلَيْهَا وَالْمُؤَلَّفَةِ قُلُوبُهُمْ وَفِي الرِّقَابِ وَالْغَارِمِينَ وَفِي سَبِيلِ اللَّهِ وَابْنِ السَّبِيلِ فَرِيضَةً مِّنَ اللَّهِ وَاللَّهُ عَلِيمٌ حَكِيمٌ

Alms are for the poor and the needy, and those employed to administer the (funds); for those whose hearts have been (recently) reconciled (to Truth); for those in bondage and in debt; in the cause of Allah. and for the wayfarer: (thus is it) ordained by Allah, and Allah is full of knowledge and wisdom. 9:60

لِّلرِّجَالِ نَصِيبٌ مِّمَّا تَرَكَ الْوَالِدَانِ وَالْأَقْرَبُونَ وَلِلنِّسَاءِ نَصِيبٌ مِّمَّا تَرَكَ الْوَالِدَانِ وَالْأَقْرَبُونَ مِمَّا قَلَّ مِنْهُ أَوْ كَثُرَ ۚ نَصِيبًا مَّفْرُوضًا

From what is left by parents and those nearest related there is a share for men and a share for women, whether the property be small or large,-a determinate share 4: 7

يُوصِيكُمُ اللَّهُ فِي أَوْلَادِكُمُ لِلذَّكَرِ مِثْلُ حَظِّ الْأُنثَيَيْنِ ۚ فَإِنْ كُنَّ نِسَاءً فَوْقَ اثْنَتَيْنِ فَلَهُنَّ ثُلُثَا مَا تَرَكَ ۚ وَإِنْ كَانَتْ وَاحِدَةً فَلَهَا النِّصْفُ ۚ وَلِأَبَوَيْهِ لِكُلِّ وَاحِدٍ مِّنْهُمَا السُّدُسُ مِمَّا تَرَكَ إِنْ كَانَ لَهُ وَلَدٌ ۚ فَإِنْ لَمْ يَكُنْ لَهُ وَلَدٌ وَوَرِثَهُ أَبَوَاهُ فَلِأُمِّهِ الثُّلُثُ ۚ فَإِنْ كَانَ لَهُ إِخْوَةٌ فَلِأُمِّهِ السُّدُسُ ۚ مِنْ بَعْدِ وَصِيَّةٍ يُوصِي بِهَا أَوْ دَيْنٍ ۚ آبَاؤُكُمْ وَأَبْنَاؤُكُمْ لَا تَدْرُونَ أَيُّهُمْ أَقْرَبُ لَكُمْ نَفْعًا ۚ فَرِيضَةٌ مِّنَ اللَّهِ ۚ إِنْ كَانَ اللَّهُ عَلِيمًا حَكِيمًا

Allah (thus) directs you as regards your Children's (Inheritance): to the male, a portion equal to that of two females: if only daughters, two or more, their share is two-thirds of the inheritance; if only one, her share is a half. For parents, a sixth share of the inheritance to each, if the deceased left children; if no children, and the parents are the (only) heirs, the mother has a third; if the deceased Left brothers (or sisters) the mother has a sixth. (The distribution in all cases ('s) after the payment of legacies and debts. Ye know not whether your parents or your children are nearest to you in benefit. These are settled portions ordained by Allah. and Allah is All-knowing, All-wise. 4:11

✚ It means whatever you earn, you should full your needs out of that and the surplus should be spent in the way of Allah. In the broader sense the golden principle emanating from this sacred verse would be:

- ✚ You should earn wealth through fair and lawful means. You should, then, satisfy your genuine and legitimate needs in a moderate and prudent way. After doing so whatever you have, you should spend it for the cause of Allah for the welfare of the poor and less fortunate people.

If the above-mentioned golden principle is acted upon devotedly and most faithfully, it would bring about the following situation:

- ❖ Every citizen would be earning his livelihood through fair (Halal) means which have been permitted by the Quran and the Sunnah.
- ❖ Thus, the illegal, unlawful and immoral means of earning wealth like interest, bribery, smuggling, theft, embezzlement, business malpractices would automatically stop. It is these unfair (Haram) ways of earning which give rise to the concentration of wealth in few hands and thus create wide disparities in the distribution of income and wealth in the society.
- ❖ After earning wealth through lawful means, every citizen would satisfy his needs which are genuine, fair, moral and religiously permitted. Expenditure on these needs would be modest and not lavish as the extravagance has been severely condemned by the Quran and the Sunnah.
- ❖ Whatever is left with a citizen after satisfying of his needs, he would not hoard it, but would spend it in the ways, which have been permitted, like spending for the poor, for Jihad, for the cause of Allah, for education and learning, for travelers, for relieving the debtors, for freeing slaves, and for help to orphans, destitute, needy, etc.
- ❖ The state is today the only organization, which performs all such welfare activities, maintains social services, provides health care and education, wages Jihad against the foreign aggression, provides employment, maintains communications like railways, road, waterways, bridges, etc., provides protection to the individual in respect of his life, honor and property and above all performs so many other useful functions. So whatever remains with a person after satisfaction of his needs in a moderate way, he would hand over this surplus to the state.
- ❖ After having obtained sufficient finances, the state would need no taxes and no loans. So all the taxes except Zakat shall be abrogated. Equipped with sufficient funds, the state would be able to provide for basic necessities of life such as food, clothing, shelter, education and healthcare to every citizen at a reasonable standard. It would provide employment to all those who are jobless. The state would discharge all of its duties of welfare state and would set up all big projects for economic development.

## Constitutes of Islamic Economics

The concept of Islamic Economics stems from the Holy Quran and Sunnah. Over time, it has been tweaked by Muslim scholars to adjust for changes in the socio-political and economic circumstances without sacrificing the basic principles laid out in the Holy Quran and reinforced by the Holy Prophet, peace and blessings of Allah be upon him.

The Holy Quran provides a framework for mankind teaches man his obligations towards Allah and the following constitute the basic building blocks of Islamic Economics:

### **Equity & Justice**

Islam provides every individual with some basic socio-economic rights, such as the right to access factors of production – land, labor and capital (economic justice), the right to be heard and redress of grievances (legal justice), and the right to safety, education, satisfaction of basic needs, access to public property, etc. (social justice). It is incumbent upon the rulers of the time to ensure that the socio-economic rights of individuals are respected and fulfilled.

### **Property Rights & Concept of Ownership**

As Muslims, we firmly believe that God Almighty is the real and ultimate owner of all property on this planet and man as His vicegerent is entrusted with this property, which man must use according to His instructions.

### **Prohibition of Interest**

Interest, or *riba*, is defined as the excess over and above the principal amount lent or borrowed. *Riba al-nasiah* is the excess, which is given/taken by the borrower/lender when the principal amount is returned with a delay (term to maturity. Term to maturity of a loan refers to the time period for which the money has been lent. In conventional economic systems, lenders get paid interest for providing the loan facility for a specified period of time.)

### **Riba in the Qur'an**

Different verses of the Quran related to Riba are given in the following:

#### **First Revelation (Sura Ar-Rum, verse 39)**

The earliest revelation of the Quran related to Riba is preceded by a verse enjoining to give his right to the relative, the needy and the wayfarer, which clearly indicates the spirit of the Islamic Economic System.

وَمَا آتَيْتُمْ مِّن رَّبًّا لِّيَرْبُو فِي أَمْوَالِ النَّاسِ فَلَا يَرْبُو عِنْدَ اللَّهِ وَمَا آتَيْتُمْ مِّن زَكَاةٍ تُرِيدُونَ وَجْهَ اللَّهِ فَأُولَٰئِكَ هُمُ الْمُضْعِفُونَ

*And whatever you give for **Riba** in order that it may increase in people's wealth, it will not increase in the sight of Allah; and whatever you give for Zakat, seeking Allah's pleasure, it is they who are the multipliers (to get manifold reward) Al-Quran 30/38-39*

### **Second Revelation (Surah an-Nisa', verse 161)**

The verse 161 of Sura An-Nisa alludes that Riba was prohibited for the Jews but they did not comply with the prohibition in their practical lives.

فَبِظُلْمٍ مِّنَ الَّذِينَ هَادُوا حَرَّمْنَا عَلَيْهِمْ طَيِّبَاتٍ أُحِلَّت لَّهُمْ وَبِصَدِّهِمْ عَنِ سَبِيلِ اللَّهِ كَثِيرًا وَأَخَذِهِمُ الرِّبَا وَقَدْ نُهُوا عَنْهُ وَأَكْلِهِمْ أَمْوَالَ النَّاسِ بِالْبَاطِلِ وَأَعْتَدْنَا لِلْكَافِرِينَ مِنْهُمْ عَذَابًا أَلِيمًا

*So, because of the injustice committed by those who followed the Jewish faith did We deny unto them certain of the good things of life which [aforetime] had been allowed to them; and [We did this] for their having so often turned away from the path of God, and [because of] their taking **Riba** although it had been forbidden to them, and their wrongful devouring of other people's possessions. And for those from among them who [continue to] deny the truth We have readied grievous suffering. (Al-Quran 4/160-161*

### **Third Revelation (Surah Ale 'Imran, verses 130)**

The following verse of Surah Ale-Imran contains a clear prohibition of *Riba* in express terms:

يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُّضَاعَفَةً وَاتَّقُوا اللَّهَ لَعَلَّكُمْ تُفْلِحُونَ

*O you who believe! (Do) not eat Riba doubled, re-doubled. And consciously revere Allah so that you may (be) successful. (Al-Quran 3/130)*

Just a couple of verses followed by the above verse (Ale-Imran 3/130), there is a strong exhortation for doing charity both in prosperity as well as in adversity. This again highlights the spirit behind the prohibition of Riba, which is helping the poor and needy rather than lending them money on interest.

وَسَارِعُوا إِلَى مَغْفِرَةٍ مِّن رَّبِّكُمْ وَجَنَّةٍ عَرْضُهَا السَّمَاوَاتُ وَالْأَرْضُ أُعِدَّتْ لِلْمُتَّقِينَ

الَّذِينَ يُنْفِقُونَ فِي السَّرَّاءِ وَالضَّرَّاءِ وَالْكَاطِمِينَ الْغَيْظَ وَالْعَافِينَ عَنِ النَّاسِ وَاللَّهُ يُحِبُّ الْمُحْسِنِينَ

*And vie with one another to attain your Sustainer's forgiveness and a paradise as vast as the heavens and the earth, which has been readied for Al-Muttaqeen, those who spend (in charity), both in prosperity and adversity, who restrain their anger and are forgiving towards people. God loves those who do good works. Al-Quran 3/133-134*

#### **Fourth Revelation (Surah al-Baqarah, verses 275-81)**

The fourth set of verses is contained in Surah Al-Baqarah where the severity of the prohibition of Riba has been elaborated in detail.

الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ الَّذِي يَتَخَبَّطُهُ الشَّيْطَانُ مِنَ الْمَسِّ ذَلِكَ بِأَنَّهُمْ قَالُوا إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا فَمَنْ جَاءَهُ مَوْعِظَةٌ مِنْ رَبِّهِ فَانْتَهَى فَلَهُ مَا سَلَفَ وَأَمْرُهُ إِلَى اللَّهِ وَمَنْ عَادَ فَأُولَئِكَ أَصْحَابُ النَّارِ هُمْ فِيهَا خَالِدُونَ

*The standing of those who eat Riba is like standing of the one who is confounded by Devil's stroke – that's because they say trade is just like Riba, whereas Allah has permitted trade and forbidden Riba. Hence those who have received the admonition from their Lord and desist, may keep their previous gains, their case being entrusted to Allah; but those who revert shall be the inhabitants of the fire and abide therein forever. Al-Quran 2/275*

#### **Prohibition of Maisir/Qimar**

*Maisir* and *qimar* refer respectively to the acquisition of wealth by chance or game of chance. Islam strictly prohibits indulgence in gambling and speculative activity, where one spends little in the hope of earning significantly more. For example, playing the lottery, betting, purchasing items unnecessarily in the hope of winning a big prize (some airport duty-free shops offer this) and indulgence in any other game of chance is all prohibited. The money spent on such activity is a loss to the better and loss to the society as it could have been donated for charitable purposes.

“Satan intends to excite enmity and hatred among you with intoxicants and gambling, and hinder you from the remembrance of Allah, and from prayer; will ye not then abstain?” (Surah al-Maidah, Ch.5: V.90)

#### **The Sanctity of Promises and Trust**

The cornerstone of success of any relationship is the timely fulfillment of promise/s, which then creates trust in that relationship. A socio-economic relationship is a contract, and contracts in Islam are legally binding on all parties to the contract. If promises made by all parties in a contract are

fulfilled in letter and spirit in a timely manner, the contract becomes trustworthy and the relationship flourishes. If promises and obligations go unfulfilled, trust and confidence are dented and the socio-economic relationship flounders. In its true sense, this concept underlies the fulfillment of our spiritual obligations – taqwa and belief in Allah (*huququallah*) – and fulfillment of our social obligations – equity and justice (*huququul-ibad*).

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### **Lawful Wealth Accumulation**

Wealth can be acquired in two ways: it may be earned through the use of land, labour and capital or it may be acquired through legal modes of transfer, such as inheritance, gift or bequest. The laws of inheritance have been discussed in detail in the Holy Quran (Ch.4: V.12, Ch.2: V.19 and Ch.5: V.107).

### **Zakat and the Concept of *Qarz al-Hasan***

In the context of fulfillment of their social obligations, Muslims are strongly encouraged to participate in charitable giving and philanthropic acts aimed at reducing the gap between the “haves” and the “have-nots”. Hence, the notion of Zakat was introduced whereby every Muslim must allocate 2.5% of their net wealth (wealth in excess of their consumption needs) to be distributed among the poor and needy (Surah al-Taubah, Ch.9: V.60).

### **Islamic Economics**

"Islamic Economics is that branch of knowledge which helps to realize human well-being through an allocation and distribution of scarce resources that is in conformity with Islamic teachings without unduly curbing individual freedom or creating continued macroeconomic and ecological imbalances.”<sup>2</sup>

"Islamic economics is a social science which studies the economic problems of a people imbued with the values of Islam<sup>3</sup>."

To me, Islamic economics is an Islamic philosophy based social science which states the need based economic problems of all human beings based on Islamic norms.

Therefore, Islamic Economics is not just explaining the facts only, but also it has to explain what should be done, and what should be ruled out (avoided).

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<sup>2</sup> ILYASLI, Omer (Apr 17, 2013). "What is Islamic Economics?". Islamiceconomy.net. Retrieved 14 July 2015

<sup>3</sup> (Mannan, 1986, p. 18). Mannan, M. A., 1986. Islamic Economics Theory and Practice. New Delhi: Idarat-I Delhi.



## Sources of Knowledge of Islamic Economics

The primary sources of Sources of Knowledge of Islamic Economics are the Quran and Sunnah and the secondary sources are Ijma (consensus opinion), Qiyas (analogical reasoning/ fresh thinking)

### The Qur'an

The Quran, the holy text of Muslims and the word of Allah, is the primary source of Islamic law. The Quran was revealed in the Arabic language over approximately 23 years in fragmented texts addressing the needs of the time as well as providing solutions to different problems that arose at the time. Qur'anic texts were always written during revelation by a team nominated by the Prophet (ﷺ) for this purpose. During the Prophet's (ﷺ) time, the Qur'an was in a written form. However, it was not compiled in one copy, which was done during the period of Abu Bakr (RA), the first of the four celebrated rightly guided Caliphs. During the time of Uthman (RA), the third Caliph, copies were made of the master copy and were distributed throughout the Islamic world. The Quranic text, in use today, is precisely the same that was distributed 1,400 years ago in the seventh century by Uthman (RA)<sup>4</sup>. Allah describes the Quran in the Quran. The following are some of the descriptions about Quran within the Quran asserting its authority as a divine book revealed for the entire humanity at large.

### Sunnah

Sunnah is also considered a primary source of Islamic law. The Sunnah contains three elements; sayings, deeds (collectively called Ahadith) and approval of others' acts by the Prophet (ﷺ). There is a difference in Islam between the Quran and hadith in that the Quran is the word of God while the Prophet's (ﷺ) sayings are not. However, in Islamic jurisprudence, the significance of Sunnah is equal in importance to Quranic injunctions as the Prophet (ﷺ) was inspired by Allah in whatever he said and did, a theme supported in the Quran (53:3–4).

During the time of the Prophet (ﷺ), companions wrote his sayings, which they also conveyed to others. However, concerted efforts to collect and edit Ahadith started in the mid-eighth century (around 100 years after the Prophet's (ﷺ) death). In order to maintain the authenticity and accuracy of Ahadith, a unique referencing method (called *isnad*) was developed by the researchers, which meant that every hadith was to be supported by a chain of informants where the first person would be the one who heard or saw the Prophet (ﷺ) saying, doing, or approving something. Various compilations of hadith were made afterwards; six of these are considered to be the most authentic (*Sihah al-Sittah*).<sup>5</sup>

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<sup>4</sup> Hamidullah, M. 1981. Khutbat-i Bahawalpur. Bahawalpur: [Islamiyyah University](#).

<sup>5</sup> The six most authoritative collections are: Sahih Bukhari, Sahih Muslim, Sunan an-Nasa'i, Sunan Abi Dawud, Sunan Ibn Majah, and Jami' at-Tirmidhi.

The Qur'an establishes that the Prophet, peace be upon him, must be referred to when disputations occur. The Prophet peace be upon him is a legislator and does not speak out of whim. The Qur'an cannot command Muslims to follow the Prophet without making a means for them to know and follow him. If his teachings are not preserved, then the Qur'an would be commanding Muslims to follow something that does not exist. From this we understand that part of the preservation of the Qur'an is the preservation of the Sunna itself

### Ijma (Consensus of Opinion)

*Ijma* is defined as an agreement among the Muslim jurists in a particular age on a question of law. Ijma and the other sources of law are to be used only when there is no clear guideline or explicit rule in Quran and Sunnah on the matter under consideration. The core of all the sources is the Quran and Sunnah. Ijma is acceptable only when there is a general agreement among Muslim jurists/ scholars, and this agreement is applicable only to secular matters. An Ijma among the jurists cannot change fundamental rituals and rules of worship.

### Qiyas (Analogical Deduction)

*Qiyas* is the fourth source of Shari'a, and it is used only when a matter has never been discussed under the above mentioned three sources. It is a process of deducing a rule from the earlier sources. It is the extension of a Shariah ruling from an original case to a new case because the new case has the same effective cause as the original case. *Qiyas* (a form of Ijtihad) is also validated by the Quran and Hadith.<sup>6</sup> He replied: I shall judge in accordance with Allah's Book. He asked: (What will you do) if you do not find any guidance in Allah's Book? He replied: (I shall act) in accordance with the Sunnah of the Messenger of Allah (ﷺ).

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<sup>6</sup> It is narrated in Sunan Abi Dawud, "When the Messenger of Allah (ﷺ) intended to send Mu'adh ibn Jabal to the Yemen, he asked: How will you judge when the occasion of deciding a case arises?

## **Benefits of the Islamic economy**

Under the Islamic economy, the following benefits are to be achieved:

### **Reducing the economic disparity**

The Islamic Laws do not prohibit accumulation of wealth earned lawfully, which helps in promoting awareness regarding the problems faced by the poor people. For example; Zakat is payable in Shariah, which contributes towards helping the needy people. Likewise, Sadaqah (Charity) is also paid to the poor people. This plays an important role in reducing disparity among the people.

### **Promoting simplicity and transparency**

The Islamic financial products being easy to understand, people happily accept the contracts focusing on assets. In this regard, they rely on the Religious Scholars (Ulema) for guidance.

### **Financial markets and economic activity**

The individuals and the institutions investing in the Islamic financial products who are buyers and sellers or partners, in fact support the Islamic economic transactions. This ensures proper economic activities in the markets.

### **Avoiding economic crises**

According to Jakhongir Imamnazarov (2011) in his paper, "Changing Europe Summer School", the Islamic financial industry has an inherent "anti-crises code" which is a tool for eliminating the economic bubbles". He states that during the 2007 – 2008 financial crises, the Islamic financial industry has proved to be an anti-crises organization.

### **Economic development**

The way the Islamic financial institutions work is effective to some extent but they must ensure investment on the Shariah compliant products, being linked to the economic growth. These institutions should make efforts to shift the movement of money from the rich people to the poor, as in the shape of Zakat and Sadaqaat to the needy people for their better economic life.

### **Encouraging Long-term Investment**

People who invest in the Islamic financial Institutions, avoid investing in the companies dealing with the transactions which are harmful for people and the environment, eliminating the unlawful and risky practices. As such, the investors prefer Long-term investment. Reducing the impact of

harmful products and practices Since the unlawful activities and transactions like interest, gambling, speculation, cloning and Weapons of mass destruction are prohibited by Shariah, such practices are avoided by the Muslims. This reduces the impact of harmful products and practices.

### **Striving for greater stability**

As the people understand that the Conventional financial system has failed to deliver, specially in the days of economic crises, there is need for the positive change, they want the system which would be responsible and transparent. It should only be favorable for the rich people but also help poor people, creating employment opportunities, promoting real products and economic activities.

## **Principles of Islamic Economics**

The basic principles of Islamic economics are primarily derived from Quran and Sunnah and secondarily from the Ijmah and Qiyas. For making the Islamic Economics paradigm, these principles are of crucial significance. The overall economic principle in an Islamic perspective is stated thus:

Some of the fundamental principles are now discussed.

### **Principle of Integration of Economic and Socio-moral Values**

This principle owes its origin to the Qur'anic doctrine of *Tawhid* which implies that all life is one: means commitment to none but Allah. Therefore, no separate sphere can version of man that harmonizes his economic, social, political and biological activities society (Mannan 1970, p.60). This necessity of integrating economic, social and moral aspects of human behavior are actually recognized by conventional economists too but, because of the complexity arising out of this integration, they strive to get rid this by using such simplistic clause as *critic paribus* (other things being equal).

### **Principle of co-operation**

In Islamic economics, mutual cooperation, rather than unrestricted competition, is regarded as an important principle. As the Quran says, But let there be amongst you traffic and trade by mutual good will [Nisa 4:29] or Help one another in righteousness and pious duty [Maida 5:2]. The economic implication of these Quranic dictates is, among others, that stress is to be given on the use of the technique of co-operative forces in achieving equilibrium in different sectors of the economy (Mannan 1984, p.36).

## **Principle of Helping the Poor and the Destitute**

The principle is also derived directly from the Quran which says, 'And in their wealth the bigger and the outcast had due share [Zariyat 51:19]'. The implication of this principle is that in the Islamic economic system, there should be some institutional arrangement through which it should be possible to divert resources from those who have excess to those who have little or nil. *Zakat* and *Sadaqa* can play an important role in this regard.

## **Principle of Own Earning**

As the Quran categorically urges all men to disperse in the land and seek bounties of Allah after each Morning Prayer [Jumuah 62:10]. One Hadith says, 'A man has not earned better income than that which is from his own effort' (IbnMajah). In Islam, work is considered a virtue and idleness a vice. 'Charity is Halal neither for the rich nor for the able-bodied' (Tirmidi). The Quran addresses the Prophet, telling him: '...and say (to the muslim): Work, soon Allah will see your work, and His messenger and the believers' [Towbah 9:105].

## **Principle of Earning Through Agriculture**

In the Quran, while referring to His bounties and favors to man, Allah mentions the principle of earning through agriculture in the following words. 'And it is He Who sends down water from the sky. With it We then bring forth vegetation of all kinds; from some We produce green (crops) out of which We produce grain heaped up at the harvest....' [Anam 6:99]. And again, '...And We have made means of sustenance in it for you and for those for whom you are not the providers....' [Hijr 15:20]. Thus, there is a Quranic encouragement to engage in agricultural activity, for it has been made easy for him by divine favor. By engaging in agriculture, he gets an additional benefit as can be seen from the Hadith: 'When a Muslim plants a plant or cultivates a crop, no bird or human being eats from it being accounted as a (rewardable) charity for him' (Bukhari and Muslim). Agriculture, in Islam, is regarded as the primary source of livelihood.

## **Principles of Earning Through Industries and Professions**

From the Islamic point of view, it would be extremely undesirable if people limited their economic efforts solely to agriculture. The prophet has warned the Muslims not to confine their activity only to agriculture and pastoral pursuits, otherwise they would be exposed to various dangers such as defeat, humiliation, and even loss of religious freedom. As one Hadith says, 'if

you deal in usury, calling it by others name, and hang onto the tails of cows, being satisfied with cultivation and ceasing to perform Jihad, Allah will inflict a disgrace upon you which will not be removed until you return to your religion` (Abu Daud).

### **Principals of Self-reliance**

This principle actually strengthens the previous one ( c ). The Quran says that Allah will never change the condition of a people until they change it themselves. [Rad 13:11]. Its economic implication is that in the Islamic economic system, it is considered to be not worthwhile to make any effort to help a people unless and until they themselves come forward to put in hard labor in order to change their own socio-economic circumstances.

### **Principle of Just Distribution**

In order that it (wealth) may not (merely) make a circuit between the wealthy among you [Hashar 59:7]. This urges that in the Islamic economic system there must be some provisions for the allocation or distribution of funds exclusively for the benefit of the poor and the needy as Grameen Bank has been doing in the country (although not in the Islamic way).

### **Principle of Just Distribution**

In the present free market economy, the government's role would appear to be very much limited. In the Islamic economic system, government is assumed to play a very active role. The activities would, among others, include: (i) perform those activities which are beyond the capabilities (e.g. construction of roads, bridges, or maintenance of environmental balance), and (ii) guarantee the minimum education and health, shelter and food so that the poor can be productive and make their own minimum standard of living through their own efforts.

### **Principle of Equality**

Islamic economics believes in equality of man irrespective of their sex, region, color, or race. In fact, the whole Quran is revealed in order to `bring forth mankind from darkness to light` [Ibrahim 14:1]. Allah has created men from a single pair of a male or female and made them into nations and tribes so that they may know each other [Hujurat 49:13]; and again, to men allotted what they earn and to women that they earn` [Nisa 4:32].

### **The principle of Research & Development**

The door of *Ijtihad* is not, as normally believed, closed in the Islamic world. Rather, it is one of the fundamental principles of Islamic economics. As the Quran says, And He has subjected to you, as from him, all that is in the heavens and on earth; behold, in that are signs indeed for those who reflect [Jathiya 43:13]. While elaborating this injunction, Abdullah Yousuf Ali in his *The meaning of the Glorious Quran* says, Allah, in His infinite mercy, has given man the faculty to subdue the forces of reason and insight.

### **Principle of Risk and Uncertainty**

Last, but not necessarily the last in order of importance, is the principle of risk and uncertainty. The essence of this principle is that the future is unknown.

As the Quran says, Lo! Allah! With Him is knowledge of the Hour. He sendeth down the rain, and knoweth that what is in the wombs. No soul knoweth what it will earn tomorrow, and no soul knoweth what land it will die. Lo! Allah is knower, Aware [Lukman 32:34].

This principle prevents Muslim economists from making uncertain outcome certain. For instance, if somebody makes an investment, it is certain that its return would be uncertain. It is, therefore, natural that fixed and predetermined rate of interest should be treated as unIslamic.

### **The goals of Islamic Economy**

The goals of an Islamic economy are as under:

- Establishment of Adl (justice), to attain Hasanah (good) and Falah (welfare) in this life and the life hereafter.
- To establish Ihsan (gracious conduct or kindness) in economic affairs.
- Establishment of Maroof (proper or good acts, institutions) in economic life.
- Elimination of Munkar (evil, wrong or injurious practices) from economic life.
- Freeing humanity from unwanted burdens and shackles and to make life easier for them.
- Achieve maximum economic growth.
- Maximize employment to ensure maximum distribution of wealth in society.
- Achieve universal education
- Encourage co-operation in society
- Favoring weaker sections to establish them in life.

# Assumptions of Islamic Economics

**Belief in Islamic Shariah**

**Belief in Allah's Sovereignty**

**Belief in Dual Accountability**

**Belief in Equal Human Dignity**

## **Belief in Islamic man as opposed to an Economic Man**

Islamic socio-economic paradigm calls for the presence of 'Islamic man'; evolution of Islamic consciousness and consequent establishment of Islamic production. Islamic man is conceived as economic and moral maximiser, presumed to be individualistic, co-operative and socially responsible. It rejects the classical doctrine of 'economic man', considered to be highly individualistic and competitive, motivated by self-interest and maximizing profit.

## **Lack of harmony of interest**

To me, the very fact that the Quran declares that everything between heaven and earth belongs to Him is indicative of the fact that Islam believes in human limitations and frailties. The chances of exploitation of the weak by the rich is not ruled out.

## **Relative ownership of private property**

Islam allows private ownership of property, but subjects the owner to restrictions preventing him from using the property as a tool of exploitation of the poor. His ownership of anything and everything is relative, not absolute. This makes Islam highly revolutionary and dynamic force. Under Islamic state, anybody who is using the private property as a tool of exploitation may be deprived of his ownership in special circumstances.

## **Disbelief in historical materialism**

Islam rejects the Marxist materialistic interpretation of history, according to which the economic event determines the forces of social and political life. The idea of inevitability of the historical process leading to the fulfillment of predestined end finds no counter-part in Islam which recognises the existence of different classes of people and differences in income among them.).

## **Disbelief in consumer's and producer's sovereignty**

Islam disapproves both the consumer's and the producer's sovereignty. The exploitation of resources or their use is conditional in the sense that both producers and consumers benefit themselves equitably, not for exploiting or holding others in subjection. Islam maintains a balance between exaggerated opposites.



### **Limited state enterprise**

Islamic economy is expected to work at the inter-section between the price system and planning. This economic planning in Islam, seems to provide a realizable synthesis: incentive to work is retained by recognizing the restricted private ownership of property and perfectly socialistic effects are produced by providing compulsory distribution of excess of income and property. The structure of the Islamic economy appears to be capitalistic in outline, though largely restricted by social institutions. Worldly occupations are recommended again and again both in the Quran and the Sunnah.

### **Positive attitude towards history and beyond**

Great concern of history tends to increase state involvement in various shares of life. Islam once again provides a link between Marxist and neo-classical paradigm by giving due emphasis on both history and universality of approach to socio-economic problems. The universality of approach is retained by emphasis on the unity of God.

### **Dual stress on evolutionary and structural change**

Islam believes neither in the marginal change stressing on status quo nor in the structural change. Given an Islamic society, it advocates change and reform through 'consensus' operating within the frame- work of Shariah, thereby leaning towards the 'institutionalist' school of thought which advocates that economic activity is the reflection mainly of habit, custom, tradition and the technological process. It is further argued that self-interest is culturally determined.

### **Built-in-flexibility and rigidity of laws**

Details are subject to change depending on the dimensions of human poverty. Last, not the least, Islamic economic laws are both flexible and rigid at the same time. They are flexible, for, Islam allows to change from period  $t_1$  to  $t_2$  through fresh interpretation and consensus. They are rigid, for, this flexibility of Islamic laws must, however, be consistent with the spirit of unalterable laws as expressed in the Quran. Islamic laws are then both hypothetical and definitive at the same time. For example, that the rich must pay Zakah and the items on which it is to be spent are fixed once for all, but its operational.<sup>7</sup>

## **Features of Islamic Economics**

### **Allah is the owner of wealth, while the man is the Caliph (ruler) of wealth.**

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<sup>7</sup>Mannan, M.A. (1970), The making of Islamic Economic Society, International Association of Islamic Banks, Cairo, Egypt, and International Institute for Islamic Banking and Economics, Turkish Federated State of Kibris (Turkish Cyprus), PP 23-29

The wealth that we have today, in essence, belongs to God. Why is that? Because God has created everything. We as humans are given the opportunity by God to make the best use of it.

As stated in Surah Al Baqarah [2:284] *"Allah is the sole proprietor of everything in the heavens and on earth."* Also, in Surah Al Hadid [57:7] that Allah also says that humans spend part of the wealth that God has given. The Prophet also said: *"This world is green and sweet. Allah has made you the caliph (ruler) in the world. Therefore, you should discuss how to rule the wealth in this world."*

### **Economics is bound by *aqidah*, sharia (law) and morals**

In every part of our lives, including in our economic activity, the connection with *aqidah* is very close. We know that the foundation of all activities is unity and the purpose of human beings is to worship.

### **The balance between spirituality and materiality**

Can Muslims think of worldly activities? Do we always have to pray and leave other activities such as study, work? Of course not. Islam does not separate the life of the world from the hereafter. The balance between the two is essential for the happiness of a Muslim. Allah says in Surah Al Qasas [28:77] ;

*"But seek, through that which Allah has given you, the home of the Hereafter; and [yet], do not forget your share of the world. And do good as Allah has done good to you. And desire not corruption in the land. Indeed, Allah does not like corrupters."*

### **Justice and balance in protecting the interests of individuals and society**

Islam sees a balance in the social system. Islam does not recognize absolute rights and freedoms, because everything has limitations, including property rights. To prosper in life, humans must not sacrifice the interests of others.

### **Individual freedom guaranteed in Islam**

Everybody in this world is given the freedom to move to achieve their respective goals. The principle is not to violate the rules of the Islamic law that have been set out in the Qur'an and Hadith. Allah has said in Surah Al Baqarah [2:188] ;

*"And do not consume one another's wealth unjustly or send it [in bribery] to the rulers in order that [they might aid] you [to] consume a portion of the wealth of the people in sin, while you know [it is unlawful]."*

Islam has halal-haram restrictions, consequently impacting human life both in the world and in the hereafter. Thus, our activities as Muslims must not violate the halal and haram restrictions.

## **State Authority in the Economy**

Can we imagine how it would be like if the economy is not regulated in this country? How can basic needs be met by everyone?

Islam authorizes the state to regulate its economy. This is done to fulfill the needs of the community. The state is obliged to protect the interests of the public from injustice both by the individuals and groups, institutions, or even other countries. The community's security to live well and properly is also a state obligation. The state should be able to fulfill basic needs in terms of food, education, and health of its population.

## **Consumption guidance**

Luxury and excessive things are prohibited in Islam. In addition, feeling above the law is also prohibited. There are many examples of how modern law can be traded by wealth. Allah SWT said in Surah Al A'raf [7:31]

*"O children of Adam, take your adornment at every masjid, and eat and drink, but be not excessive. Indeed, He likes not those who commit excess."*

## **Investment Guide**

The investments made must not conflict with Islamic law. There are five things that can be used as guidelines in assessing investment projects, namely:

- A project is good based on Islamic principles
- Wealth must be distributed as broadly as possible to the community
- Eradicate paganism, improve income, and wealth
- Maintain and develop assets
- Protect the interests of the community

## **Zakat**

Zakat is one of the economic characteristics of Islam that does not exist in other economic systems. The wealth that we have is essentially God's property, so we need to spend this treasure to provide for the Islamic cause. The purpose of zakat is to cleanse the soul of envy, misery, and revenge. From every property that we have, not only must we pay taxes, but we are obligated to pay zakat if it reaches its limit (*nishab*), this zakat is called zakat mal (wealth). However, the zakat fitrah must be paid by every Muslim during the month of Ramadan.

## **Prohibition of usury**

Usury is additional money obtained without sacrifice. For example, we lend our money, then ask for more interest when the money is returned. Islam strongly emphasizes the function of money

as a means of transaction and valuation of goods, not commodities. Misappropriation of money from both functions will usually cause transactions to be usury. One example is bank interest.

### **Special concept of ownership**

As per the Islamic teachings ALLAH (SWT) is the actual owner of all things. The Quran says: "To Allah belongs everything is in the earth". (Al- Imran). though, Allah in His kindness permits humans to take over economic resources, to own and use subject to His laws as indicated from the following verses: i) The land belongs to Allah. He allows it, to be inherited by whom so ever he pleases. (Sura Araf, Ayat: 128). ii) Do they not see that we have created for them ----- among the things fashioned by us-- --- cattle of which they become owners? (Sura Yasin, Ayat: 29). That is the reason, Islam allows man as Vicegerent, to inherit from Allah (the actual owner) of economic resources. This is definitely a conviction for proper utilization.

### **Prohibition of Interest**

It is a known fact that interest is strictly prohibited in Islam but to implement that concept an overall restructuring of the economy is to be undertaken. The practicability of Islamic banking has been accepted by the experts of economics and finance.

### **Distribution of inheritance**

The property distribution system of Islam is based on economic and social well being of all. This religion has given a distribution model of inheritable property among various groups of people: i) Children ii) Husband/Wife iii) Parents iv) Brothers and sisters in certain 4 situations. This sharing takes care of diverse groups forecasting responsibility of each member of society, needs and closeness of affinity relationships. For those who remain outside the list of inheritors. Islam has kept a provision for wasiat (will) for all such family members if they are in a distressed condition.

## **Imperatives of Islamic Economics**

### **Ideological imperatives**

Quran and Hadith and Sunnah (i.e., the sayings and tradition of the Prophet) but also from «Ijma» (i.e., consensus based on agreed practice) and «Ijtihads (i.e. fresh thinking).

In the dynamic law, the Quran has its own identity, but Sunnah, Ijma, and Ijtihad stand in very intimate relationship to one another. The Sunnah and Ijma especially, although distinct, pass into one another. The bridge, the inalienable link, is the «Ijtihad» or «Qiyas.» This principle of systematic thinking, which not only interpreted the Sunnah of prophet (be peace on him) into law but also integrated the new social and administrative institutions and practices with the

Sunnah into «living tradition» «Again, the Ijtihad, through the eternal process of compromise, adjustment and rejection, gradually crystal- lised into Ima which exerts a tremendous influence in solving the conflicting requirements of material and spiritual life». (Mannan 1970,p-27).

### **Economic imperatives**

The study of Islamic economics arises out of the practical necessity of resolving the crisis and conflict of development and modernization process which has started in the Muslim world. Muslim economists need to find out Islamic solutions to the modern problems of development economics and finance, for, the establishment of Islamic Development Bank (IDB) is in fact an economic agreement among all the Muslim states intended to promote economic development co-operation among Muslim countries in conformity with the principles of Shariah. The emergence of IDB and other local Islamic banks in the 70s' presupposes a structural change in the pattern of investment strategies not only between the Muslim countries but also between Muslim world and the rest of the international community.

### **Social imperatives**

The need for the study of Islamic economic arises because of Islam's emphasis on social concern in economic development and planning. The fact is that, if the success of economic institutions depends to a large extent on the nature of whole culture in which they are embedded, the study of the complex forces underline economic development involving production, distribution and exchange processes is to be distinctive to Muslim societies. The distinct character of the study arises from its integrated approach for ethical and social issues involved in economic problems.

### **Moral and ethical imperatives**

In a day when self interest, nationalism, materialism, totalitarianism threaten our every existence, Islamic economic analysis starts from the premise that absolute sovereignty of overall resources between heaven and earth belongs to God and God alone, and that every body has a right to share. This right to share implies equitable distribution of income and resources among all human beings and living creatures. This moral and ethical imperative must be reflected in economic decision making processes.

### **Political imperatives**

The fact is that the emergence of most of the Muslim states in the past thirty years after the successive stages of political decolonization, the Organization of Islamic Conference and the consequent establishment of Islamic Development Bank and a number of other local Islamic banks in the 70's are indeed encouraging signs of the revival and rediscovery of Islamic values in the Muslim world.

### **Historical imperatives**

The Muslim countries became victims of historical decline and colonialistic imperialism which has successfully prevented the process of evolution of a modern egalitarian Islamic society which could meet the Islamic challenges of all-sided development in which Islamic economic analysis integrating positive and normative values 'becomes possible. Despite the fact that Muslims themselves share their part of responsibilities for the loss of Islamic momentum of social and economic ethics and their creative values, the successive stages of colonization of the great part of the Muslim world did create an evolutionary trap and gap in the process of natural evolutionary equilibrium.

### **International imperatives**

So far, we have discussed the positive factors in favour of the study of Islamic economics, the two negative factors: failure of the existing capitalistic and communist economic systems to solve the problem of massive under-development and poverty in the Muslim World in particular and other developing third world countries) in general, and the failure of the North-South Dialogue , unfortunate as it is, unambiguously call for attention to the great need for the serious study of Islamic economics which should enable the Muslim economists to identify the common areas of economic-co-operation among Muslim countries to find their socio-economic solutions from within as a starting point for eventual growth and formation of Islamic Common Market.

