

**THE INTERNATIONAL INSTITUTE
OF ISLAMIC THOUGHT
NIGERIA OFFICE (IIIT)**



ISLAMIC ECONOMICS: A BOOK OF READINGS

Edited by

Sulaiman Abdullahi Karwai

Aisha Garba Habib

Binta Tijjani Jibril

Chapter One

ISLAM, ITS WORLDVIEW AND THE ISLAMIC ECONOMIC SYSTEM

By

Dr. R. Ibrahim Adebayo

&

Aminu Muhammad Fagge

Introduction

The search for efficiency and equity in the distribution of resources becomes a serious concern for economists all over the world, as many theories have been propounded to ensure this. One of the systems adopted in the world is the capitalist economic system where all factors of production are privately owned and controlled, and the individual or group has absolute right to engage in any type of business he or they desire. Capitalism was brought forth by many economic principles, one of the most important being the principle of the scarcity of resources.

Muslim economists do not totally support the theory of the scarcity of resources, as it implies the imperfection of nature and Allah's plan. The Qur'an states that Allah has provided an abundance of everything that humankind needs in order to subsist. The limitations of mankind's productive capacity are what cause scarcity. The outcome of what is dubbed "the economic problem" is the same when viewed by capitalists and Islamic economists, though they arrive at the same point through different arguments (Nomani, 1994: 83-84).

Another shortcoming of this economic system, as shown by Marx, is that capitalism is based on exploitation of the working class by the owners of capital whose profits come from the difference between the wages of labour and the value of the product. The

system also poses the problem of equity in goods distribution and exposes women who are supposed to be the first teachers at home to all sorts of businesses, which do not befit their feminism; while children, orphans, widows, the handicapped and the aged with little or no bargaining power suffer the consequences. Apart from this, the system fails to realise the unity of life by over-emphasising man's material values at all costs and gives no consideration for spiritual value. The worship of money and the lust for material acquisitions thus lead to all sorts of corruption, looting, and exploitation at all means.

In order to check the exploitative nature of capitalism, resource misallocation and the inequitable distribution characteristic of modern mixed economies, socialism or communism was propounded and adopted by some nations. The economy is centrally controlled that the state takes grasp of everything by owning and managing all the factors of production, while all the citizens of the country are regarded as employees of the state. However, the shortcoming of this economic system lies in the fact that it creates a wide gap between man's material desires and his spiritual aspiration. Though it restores equilibrium in the distribution of income and wealth, it succeeds in destroying the most fundamental equilibrium in the distribution of political and economic power. Not this alone, the concentration of power in the hands of the state or the ruling elites seems to have violated the principle of free-will, as it reduces man to a mere cog in a gigantic social machine. Apart from this, it goes against human nature, as men are not equally endowed and so cannot be equally remunerated or compensated, hence, socialism or communism cannot totally do without resorting to capitalism. Conversely, it is difficult to get a state which is purely capitalistic to the extent that governmental non-interference in the machinery of business and the market is at zero level.

The wobbling of mankind within multifarious economic theories and practices is a welcome development as long as these exercises are operated within the limits of divine guidance sent through the

prophets. Such theories become faulty and ineffective when their protagonists decide to leave aside the divine guidance and so opt for their own personal whims and caprices. The Islamic economic system therefore becomes an alternative system, which considers the operation of economics in the realm of divine authority for the purpose of attaining felicity in this life and the hereafter.

Conceptual Framework

Islam

The term 'Islam' is an Arabic word derived from the word '*salam*', which literally means peace or submission, surrender and obedience. By extension, it implies peace with one's Creator, one's self and other creatures. By maintaining peace with the Creator, it means complete submission and total obedience to His will and, through this, he himself achieves peace of body and of mind, and this consequently leads to peace in the society at large. To maintain peace with Allah, a Muslim realizes that Allah is his Creator, Sustainer and Nourisher of the world, and He has power over everything, and so deserves to be worshipped. Everybody therefore has no option than to abide by Allah's rules and abstains from what He prohibits. A person is also at peace with other human beings by engaging in plain and faithful interaction with them in all human endeavours. He abstains from any transaction that can harm him and others. He equally maintains justice in his dealings with them. The manifestation of this quality in him could however be facilitated and enhanced through better understanding of Islamic worldview through the Islamic conception of God, Life and the Universe.

Iman

Islam could be broadly divided into two – the theoretical and the practical. The theoretical aspect of the pillars of Islam is faith and its articles, while the practical includes all that a Muslim is required to do physically. The theoretical aspect is called *Iman*, which is literally translated as faith or belief. A believer is therefore called a *Mu'min*, meaning one who has come into peace or security "because he has accepted the principles, which bring

about peace of mind or security from fear" (Muhammed Ali, 1971). The Qur'an further describes the believers as those who only believe in Allah and His Messenger, then, they doubt not and struggle hard with their wealth and their lives in the way of Allah (Q.49:15). *Iman* (Faith) is therefore a sort of inner revolution, which reforms man and links him to his Creator. Chapra (2008) emphasizes the role played by faith in any economic system when he writes:

Wealth is, however, a trust from God and needs to be developed and used honestly and conscientiously for removing poverty, fulfilling the needs of all, making life as comfortable as possible for everyone, and promoting equitable distribution of income and wealth. Its acquisition as well as use needs to be primarily for the purpose of realizing the *maqasid*. This is where faith has a crucial role to play through its values and its motivating system. Without the values that faith provides, wealth would become an end in itself. It would then promote unscrupulousness and accentuate inequities, imbalances and excesses, which could ultimately reduce the well-being of most members of both the present and future generations.

'Amal

The practical aspect of Islam is what is known as '*amal*', which means deed. As such, *iman* is not merely expressed in words, but becomes manifest when it reflects in the act of righteousness. Thus, a man cannot claim to esteem Allah if he does not esteem his fellow men. A Muslim therefore cannot claim to believe in Allah and observe all the religious rituals if he does not carry out other activities along the dictates of Allah. This makes it difficult to compartmentalize his actions into the religious and the mundane. As a Muslim, all his actions are religious, and so, he has to follow the dictates of Allah in his socio-political and economic activities.

Therefore, *mu'amalat* is expected to be regulated by Islamic rules. In other words, the behavior of individuals and society in the course of their production, consumption and distribution of goods should be permeated by Islamic values.

Ihsan

The Prophetic tradition, which succinctly describes the meaning of *ihsan*, is where the Prophet describes it as "to worship Allah as if you see Him, for even though you could not see Him, He sees you." Expounding further on the linkage between faith and righteous deeds the Qur'an says:

Serve Allah, and join not any partners with Him; and do good – to parent, kinsfolk, orphans, those in need, neighbours who are strangers, the companion by your side, the way-farer (you meet), and what your right hands possess; for Allah loves not the arrogant, the vainglorious (Q.4: 36).

The Islamic Worldview

The Islamic Concept of God

The Islamic conception of God is better understood in the Islamic theological framework of *Tawhid*, which is categorised into three, namely, *Tawhid ar-Rububiyyah*, *Tawhid al-Uluhiyyah* and *Tawhid al-Asma' was-Sifat*. By *Tawhid ar-Rububiyyah*, we mean belief in the Lordship of Allah (S.W.T) through His providence to mankind and His other handiwork. The Qur'an for instance says on this:

Say (O Muhammad!) "Who provides for you from the sky and the earth? or who owns hearing and sight? and who brings out the living from the dead and brings out the dead from the living? And who disposes the affairs?" They will say: "Allah". Say "Will you not then be afraid of Allah's punishment." (Qur'an 10:31).

In another verse, the Qur'an says:

Say: "whose is the earth and whosoever is therein? If you know." They will say: "It is Allah." Say, "Will you not then remember?" Say "Who is the Lord of the seven heavens and the Lord of the Great Throne?" They will say "Allah." Say "will you not fear Allah." Say: "In whose Hand is the sovereignty of everything? And He protects (all), while against whom there is no protector, if you only know? They will say, all that belongs to Allah!" Say "How then are you deceived and turned away from the truth." (Q23: 84-89).

By *Tawhid al-Uluhiyyah*, we mean the Godhood of Allah (S.W.T.) wherein man realizes that no other person deserves to be worshipped but Him, and as such all acts of worship such as prayers, fasting and others should be directed to Him alone and with all sincerity. *Tawhid al-asma' was-sifat* implies that all that has been mentioned in the Qur'an regarding Allah's names and attributes must be established and affirmed for Allah (S.W.T.) alone. Describing the attributes of Allah (S.W.T.), the Qur'an refers to Him as the First and the Last, the Evident and the Immanent (Q57:3). Some of the attributes of Allah (S.W.T) could be identified in the following Qur'anic verses:

He is Allah, beside Whom none has the right to be worshipped but He, the All-Knower of the unseen and the seen. He is the Most Gracious, the Most Merciful. He is Allah beside whom none has the right to be worshipped but He, the King, The Holy, the One free from all defects, the Giver of security, the Watcher over His creatures, the All-Mighty, the Compeller, the Supreme. Glorified is Allah! (High is He) above all that they associate as partner with Him (Qur'an 59:22-23).

With these attributes of Allah (S.W.T.), it is clearly evident that He is self-sufficient, and so deserves to be worshipped. In fact, the major purpose of creating humans and other beings is for them to worship Him. Since the primary aim of human creation is for him to worship Allah (S.W.T.), it therefore implies that the worship must be total; it should be carried out in all human endeavours – the social, the economic, the political and other aspects of his life. A Muslim is therefore seen demonstrating his belief in God even while engaging in his commercial and economic activities. He conducts his transactions vividly in line with the dictates of Allah, his Creator. In the words of Al-Tantawi (N.D.), for someone to be admitted into the fold of Islam, such a person must have the knowledge of its system; believe in its principles; adhere to its regulations; and conduct himself in everyday life according to those principles and regulations.

In economic discussions, the importance of *tawhid* is extremely relevant in the discussion of the scarcity of resources, as will be explained later. The germane nature of *tawhid* (the unity of Allah) is stressed further by Khan (1996: 396) when he writes:

The theme of unity is fundamental in Islam and runs through the Qur'an. *Tawhid*, in a broader sense, means divinity and also incorporates the concept of brotherhood of the *ummah*. Brotherhood implies a relationship of mutual care and universal welfare in which all Muslims are treated as one *ummah*, community, or nation, as well as the collective responsibility of ensuring the well-being (*falah*) of each individual. It obligates humanity to maintain *amanah* (trust) among the *ummah* and to refrain from *fasad* (mischief, animosity, and corruption) (Qur'an 2: 205), especially since all resources are in abundance, are for the welfare of all and not for just a few, and have to be utilized equitably for the well-being of all (Qur'an 2: 29).

The Islamic Concept of Life and the Universe

A vivid description of the concept of life from the perspective of a Muslim economist is given by Chapra (1998) when he writes:

When a Muslim economist talks of 'life', he will not get into its biological, genetic and medical aspects. He will rather talk about those aspects of resource allocation and distribution that help in the development of the total human potential and the enrichment of life on earth. This will get him into a discussion of the kind of consumption, production, income distribution and collective goods (including education and health) that will enrich life by enabling a Muslim to fulfil his obligations towards God, himself and his society.

From the above, the Islamic conception of life could be appreciated. Apart from the fact that Islam sees Allah (S.W.T.) as the Source of life, it also sees Him as the One who can determine the purpose of life. As can be seen from the above, jinns and mankind are created purposely to worship Allah. Other activities of mankind on earth therefore are secondary. He carries out his economic activities to achieve the primary aim of being on earth. It could therefore be inferred that the most important basis of Islamic economic system is *tawhid*, the unity of Allah (S.W.T.). Not only does *tawhid* espouse that there is no other god than Allah, but it also holds that Allah's plan for the universe is perfect.

It should however be noted that man tends to transgress the boundary set for him by his Lord by forgetting his primary assignment on earth, concentrating on excessive and unlimited love of material wealth and focusing on the adornment of the world. God says in *Surat al-Imran*,

Fair in the eyes of men is the love of things they covet: women and sons; heaped-up hoards of gold and silver; horses branded (for

blood and excellence); and (wealth of) cattle and well-tilled land. Such are the possessions of this world's life; but in nearness to God is the best of the goals (to return to). Say: Shall I give you glad tidings of things far better than those? For those that fear God are, with their lord, gardens underneath which rivers flow, therein dwelling forever, and spouses purified, and God's good pleasure; for in God's sight are (all) His servants (3:15-16).

The transgression of man makes him attribute to himself what does not belong to him. The Qur'an testifies to this, saying: "Nay, but man doth transgress all bounds in that he looked upon himself as self-sufficient" (96:6-7). By extension, man started to design for himself certain ideological principles with little or no consideration for the rules of his Creator. The recent global economic meltdown is an indication of the repercussion of such self-designed and mundane economic principles, which give no regards to divine laws.

Conventional and Islamic Economic Systems: A Comparative Analysis

Islam uniquely considers distribution as the economic problem, and Muslims do not share the obsession of capitalists and communists with production. Because Islam differentiates between the basic needs and luxuries, there exists no concept of relative scarcity of resources in Islam. The resources available on earth are sufficient to secure the basic needs (food, clothing, and shelter) of man. Such a misunderstanding has concealed the reality that starvation, poverty, and economic backwardness result from the mal-distribution exasperated by man-made laws and systems.

The conventional economic systems have created a club of institutions - such as the IMF (the International Monetary Fund) and the World Bank, that employ tactics such as loans and structural deficit replanning to siphon off the world's resources to

the so-called developed nations, leaving behind a gross inequality in the distribution of wealth. The world order has resulted in a bleak scenario in which most of the world chokes from the exploitation of a few elitist nations that continue, under the protection of laws and systems designed to serve their interests, to squander the wealth of the world and systematically tighten their control of societies around the globe.

Unfortunately, the current systems cleverly mask inequality in the wealth that they produce by assessing the wealth and productivity by the GNP (Gross National Product) or the average income per capita, deceptively duping the observer into regarding the total production as a means of measuring the well being of each citizen when, in reality, such figures give no indication of the status of the individuals. America, for example, sucks up over a third of the world's resources, yet poverty in America has escalated to such levels that a new class of people - the "fourth" or under class - has emerged. In Cairo, the average income obscures the fact that while some reside in penthouses, others settle for the night in cemeteries. Such a contradiction results from the current systems that fail to differentiate between "economic system" and "economic science," and, as a result, view human beings not as humans, but as statistics and figures on the stock market.

By using labels like "Third World" and "First World," this economic conspiracy has worked behind a deceived populace who fail to realize that the "Third World" countries are actually First World in terms of resources. While organizations like Mercy International and the UNICEF keep the masses content under the circus act of "humanitarian aid," the capitalist machine works behind the stage to gobble up the resources of the world.

The implementation of the Islamic economic system eliminates the stranglehold by which the elites control the police of the world and milk its resources. Unlike the current systems, Islam does not impose any limits on the amount of wealth that an individual can acquire, thus creating and maintaining an incentive to work. The

short-sightedness of limiting production stems from the man-made ideologies that fail to understand the nature of creation. Because the Islamic system reflects the wisdom of the Creator, then the implementation of Islam provides a society conducive to life that will address the needs of humanity based on the correct understanding of life.

In Islam, public revenue from oil and natural resources should be used to secure the needs of the whole Muslim *Ummah*, and not to line the pockets of casino owners. The *Khilafah* provided public and vital resources without charge to cover the needs of every individual and family, and the monopolies that multinational corporations maintain to dictate the lives of the people dissipated.

The *Shari'ah* also defines certain rules that regulate company structure, effectively preventing abuse and corruption. For instance, Islam forbids monopolies by outlawing the hoarding of wealth (*Al-Ihtikar*) that would open the avenue for potential monopolies to develop. Also, Islam protects the ownership of businesses and companies by restricting the ownership of companies only to those who contribute both capital and effort to the company or business, thus effectively putting the seal on such concepts as "corporate takeover" from ever becoming a reality.

In the systems of today, the stock market offers no such protection and allows for any outsider to secure a share in any business or corporation and impose his policies on the company agenda, even if that individual puts no effort or work into the business. Today, food manufacturers have cultivated the art of burning surplus food and dumping surplus milk into the ocean to artificially inflate prices by creating "scarcity," an art that would cease to exist with the implementation of Islam.

Unlike the conventional system, which opens all doors for anyone to access wealth by any means, Islam categorizes wealth in a systematic way that both protects the right of individuals to access wealth and, simultaneously, protects the society and secures the

needs of the *Ummah* (the Islamic community). Islam mandates vital and natural resources as public property while allowing for unlimited access to luxury items. Also, Islam protects the society in ways that corrupt man-made systems have overlooked by defining certain needs as "prohibited needs." For instance, to protect the honor (*ird*) of a woman, Islam outlaws all forms of prostitution and pornography, or any type of sexual bombardment that exploits the charms and physical attractiveness of women. In addition, Islam prohibits alcohol and gambling, killing every industry and institution derived from such filth that has seeped the Capitalist Nations in a downward spiral of corruption, social turmoil, and moral devastation.

In addition, by backing the currency with resources of real value, Islam creates a stable medium of exchange and eliminates the concepts of linking currencies that allow nations to manipulate currencies and maintain a monopoly over the financial markets of the world.

Definitions of Islamic Economics

Muslim economists have defined Islamic economics from different perspectives. According to Chapra (2001), it may be defined as "that branch of knowledge which helps 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." Another notable scholar in economics, Khurshid Ahmad (1992), defines Islamic economics as "a systematic effort to try to understand the economic problem and man's behavior in relation to that problem from an Islamic perspective." According to Najatullah Siddiqi (1992), it could be defined as "the Muslim thinkers' response to the economic challenges of their times. In this endeavour, they were aided by the Qur'an and the Sunnah as well as by reason and experience." This is equally the stand of Naqvi (1994) who sees Islamic economics as the representative of Muslim behavior in a typical Muslim society. Chapra (2001) further quoted Hassanuz Zaman's

definition as "the knowledge and application of injunctions and rules of the *Shariah* that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah and the society." He also cited Mannan (1986) saying Islamic economics is a "social science, which studies the economic problems of a people imbued with the values of Islam."

A cursory look at all the definitions of Islamic economics given by the Muslim economists shows that it focuses on the realization of human well being in this world which in turn will facilitate *falah* in the hereafter. It therefore aims at using the endowed resources on earth not only for the individuals in the society, but also for the generality of the inhabitants of the earth, without jeopardizing their attainment of felicity in the hereafter. It also focuses on checking human extremism of behaving in a purely self-interested manner and of not behaving in an ideal or altruistic manner (Chapra, 2001).

Most of the Muslim economists have proposed relatively a wider scope for Islamic Economics on the basis of comprehensive and integrated viewpoints of human life. According to Ahmad, the scope of Islamic Economics is wider because it treats cultural factors like attitudes, tastes, motives, and social customs as amenable to policy manipulations. He writes, "The scope of Islamic Economics is wider than that of secular economics. Its approach has to be more global and holistic. The widening of the scope takes place at both levels, horizontal as well as vertical or inter-temporal".

Mohsin Khan like other writers also proposes a wider role for Islamic Economics. He states, "it deals with a wide-ranging set of issues, such as property rights, the incentives system, the allocation of resources, types of economic freedom, the system of economic decision-making and the proper role of government. According to him, it deals with both positive and policy areas with a view to achieving the overriding goal of the Islamic economic system, such

as social justice and specific patterns of income and wealth distribution. He opines, "Aside from the issue of zero interest rate, Islamic Economics also offers fairly precise guidelines on, for example, tax policy and the orientation of government expenditure".

Mannan (1986) argues that in one sense, Islamic Economics is more restricted; in other sense, it is more comprehensive than modern economics. He argues:

It is restricted because it is concerned only with those people who have faith in the Oneness of Allah and His moral teachings, as reflected in the Noble Qur'an and the Sunnah. It is also restricted because the Islamic state cannot encourage any and every economic activity... It is comprehensive because Islamic Economics takes cognizance of non-economic factors like political, social, ethical and moral factors.

Thus, the scope of Islamic Economics seems to become the administration of scarce resources in human society in the light of the ethical conception of welfare in Islam. Khan Akram Khan (1983) also visualizes a broader scope of Islamic Economics. In his view, the extension of the scope occurs, firstly, due to the inclusion of a high content of normative economics. He notes, "In a Muslim society, caring for others, preferring others over one's own interest, looking after orphans, widows and invalids, hospitality to guests, mutual cooperation at moments of distress are great virtues and accepted as norms of behaviour." Secondly, consideration for the Hereafter extends the perspective of an economic agent to infinity. Arif (1985) restricts the scope of Islamic Economics to the studying of the behaviour of a true Muslim in *falah* maximizing framework. However, he precludes the behaviour of non-practicing Muslims or non-Muslims from its scope.

Conclusion

The foregoing discussion clearly shows the extended boundary of Islamic Economics relative to secular economics. The extension has occurred through the introduction of normative, non-economic, and *al-Akhirah* (Hereafter) factors into the subject matter. Of course, these factors are quite relevant to the Islamic economy. Beside their identifications, and their integration, the economy is an important task, which still needs to be done. Additionally, their causative role needs to be thrashed out and developed in the form that will be beneficial to both economic profession and general readers.