

# 1. INTRODUCTION TO ISLAMIC ECONOMIC SYSTEM

## Introduction

One of the forms of capitalism which has been flourishing in non-Islamic societies is interest-based investment. There are normally two participants in such transactions. One is the Investor who provides capital on loan and the other the Manager who runs the business. The investor has no concern whether the business runs into profit or loss; he automatically gets interest (Riba) in both outcomes at a fixed rate on his capital. Islam prohibits this kind of trading and the Prophet (Allah bless him and give him peace) enforced the ruling, not in the form of some moral teaching, but as the law of the land.

It is very important to know the definition and forbiddance of Riba and the injunctions relating to its unlawfulness from different angles. On the one hand, there are severe warnings of the Quran and Sunnah and on the other, it has been taken today as an integral part of the world economy. The desired liberation from it seems to be infested with difficulties. The problem is very detail oriented and has to be taken up in all possible aspects.

First of all we have to deliberate into the correct interpretation of the Quranic verses on Riba and what has been said in authentic ahadith and then determine what Riba is in the terminology of the Quran and Sunnah, what transaction it covers, what is the underlying wisdom behind its prohibition and what sort of harm it brings to society. We will start from looking at the economic philosophy of Islam vis-à-vis interest.

## The Economic Philosophy of Islam vis-a-vis Interest

The economic philosophy of Islam has no concept of Riba because according to Islam, Riba is that curse in society which accumulates money around a handful of people, and it results inevitably in creating monopolies, opening doors for selfishness, greed, injustice and oppression. Deceit and fraud prospers in the world of trade and business. Islam, on the other hand, primarily encourages the highest moral ethics such as universal brotherhood, collective welfare and prosperity, social fairness and justice. Due to this reason, Islam renders Riba as absolutely haram and strictly prohibits all types of interest based transactions.

The prohibition of Riba in the light of the economic philosophy of Islam can be explained with the cost of distribution of wealth in a society.

## Distribution of Wealth

Distribution of wealth is one of the most important and most controversial subjects concerning the economic life of man, which has given birth to global revolutions in today's world, and has affected every sphere of human activity from international politics down to the private life of the individuals. For many a century now, the question has been the center not only of fervent debates, oral and

written both, but also of armed conflicts. The fact, however, is that whatever has been said on the subject without seeking guidance from Divine Revelation and relying merely on human reason, has had the sole and inevitable result of making the confusion more confounded.

## **Islamic Perspective of Distribution of Wealth**

In this chapter, we propose to state as clearly and briefly as possible the point of view of Islam in this matter, such as we have been able to deduce from the Quran, the Sunnah and the writings of the “Thinkers” on the distribution of wealth in the Islamic context.

Before explaining the point, it seems to be imperative to clarify certain basic principles which one can derive from the Quran, and which distinguish the Islamic point of view in economics from the non-Islamic systems of economy.

### **1. The Importance of Economic Goals**

No doubt, Islam is opposed to monasticism, and views the economic activities of man as quite lawful, meritorious, and sometimes even obligatory and necessary. It approves of the economic progress of man, and considers lawful or righteous livelihood an obligation of the secondary order. Notwithstanding all this, it is no less a truth that it does not consider “economic activity” to be the basic problem of man, nor does it view economic progress as the be-all and end-all of human life.

Many misunderstandings about Islamic economics arise just from confusion between the two facts of considering economics as the ultimate goal of life and considering it as a necessity in order to have a prosperous life through lawful means. Even common sense can suffice to show that the fact of an activity being lawful or meritorious or necessary is separate from it being the ultimate goal of human life and the center of thought and action. It is, therefore, very essential to make the distinction as clear as possible at the very outset. In fact, the profound, basic and far-reaching difference between Islamic economics and materialistic economics is just this:

According to materialistic economics:

*“Livelihood is the fundamental problem of man and economic developments are the ultimate end of human life.”*

While according to Islamic economics:

*“Livelihood may be necessary and indispensable, but cannot be the true purpose of human life.”*

So, while we find in the Quran the disapproval of monasticism and the order to: “Seek the benevolence of Allah.” At the same time we find in the Quran to restrain from the temptations or delusion for worldly life. And all these things in their totality have been designated as “Al-Dunya” (“the means”) — a term which, in its literal sense, does not have a pleasant connotation.

Apparently one might feel that the two commands are contradictory, but the fact is that according to the Quranic view, all the means of livelihood are no more than just stages on man's journey, and his final destination lies beyond them. That destination is the sublimity of character and conduct and,

consequently, the felicity of the other world. The real problem of man and the fundamental purpose of his life is the attainment of these two goals. But one cannot attain them without traversing the path of this world. So, all those things too which are necessary for his worldly life become essential for man. It comes to mean that so long as the means of livelihood are being used only as a path leading towards the final destination, they are the benevolence of Allah, but as soon as man gets lost in the mazes of this pathway and allows himself to forget his real destination, the very same means of livelihood turn into a “temptation, or delusion,” a “trial”: *“And know that your possessions and your children are but a trial” (8:28).*

The Quran has enunciated this basic truth very precisely in a brief verse:

*“Seek the other world by means of what Allah has bestowed upon you” (28:77).*

This principle has been stated in several other verses too. This attitude of the Quran towards “the economic activity” of man and its two aspects would be very helpful in solving the problems of man in Islamic economics.

## **2. The Real Nature of Wealth and Property**

The other fundamental principle, which can help to solve the problem of the distribution of wealth, is the concept of “wealth” in Islam. According to the illustration of the Quran “wealth” in all its possible forms is a thing created by Allah and is in principle His “property.” Allah delegates the right of property over a thing, which accrues to man, to Him. The Quran explicitly says:

*“Give to them from the property of Allah which He has bestowed upon you” (24:33).*

According to the Quran the reason for this philosophy is that all a man can do is invest his labor into the process of production. But Allah alone, and no one else, can cause this endeavor to be fruitful and actually productive. Man can do no more than sow the seed in the soil, but to bring out a seedling from the seed and make the seedling grow into a tree is the work of someone other than man. The Quran says:

*“Have you considered what you till? Is it you yourselves who make it grow, or is it We who make it grow?”*

And in another verse:

*“Have they not seen that, among the things made by our own hands. We have created cattle for them, and thus they acquired the right of property over them?” (36:71).*

All these verses throw ample light on the fundamental point that “wealth,” no matter what its form, is in principle “the property of Allah,” and it is He who has bestowed upon man the right to exploit it. So Allah has the right to demand that man should subordinate his exploitation of this wealth to the commandments of Allah.

Thus, man has the “right of property” over the things he exploits, but this right is not absolute or arbitrary or boundless, it carries along with it certain limitations and restrictions, which have been

imposed by the real owner of the “wealth.” We must spend it where He has commanded it to be spent, and refrain from spending where He has forbidden. This point has been clarified more explicitly in the following verse:

*“Seek the other world by means of what Allah has bestowed upon you, and do not be negligent about your share in this world. And do good as Allah has done good to you, and do not seek to spread disorder on the earth” (28:77).*

This verse fully explains the Islamic point of view on the question of property. It places the following guidelines before us:

- (1) Whatever wealth man does possess has been received from Allah.
- (2) Man has to use it in such a way that his ultimate purpose should be the other world.
- (3) Since wealth has been received from Allah, its exploitation by man must necessarily be subject to the commandment of Allah.
- (4) Now, the Divine Commandment has taken two forms:
  - a) Allah may command man to convey a specified production of “Wealth” to another man. This Commandment must be obeyed because Allah has done good to you, so He may command you to do good to others - “do good as Allah has done good to you.”
  - b) He may forbid you to use this “wealth” in a specified way. He has every right to do so because He cannot allow you to use “wealth” in a way which is likely to produce collective ills or to spread disorder on the earth.

This is what distinguishes the Islamic point of view on the question of property from the Capitalist and Socialist points of view both. Since the mental background of Capitalism is, theoretically or practically, materialistic, it gives man the unconditional and absolute right of property over his wealth, and allows him to employ it as he likes. But the Quran has adopted an attitude of disapprobation towards this theory of property, in quoting the words of the nation of Hazrat Shu’aib. They used to say:

*“Does your way of prayer command you that we should forsake what our forefathers worshipped, or leave off doing what we like with our own property?” (11:87).*

These people used to consider their property as really theirs or “our property,” and hence the claim of “doing what we like” was the necessary conclusion of their position. But the Quran has in the chapter “Light” substituted the term “the property of Allah” for the expression “our possessions,” and has thus struck a blow at the very root of the Capitalistic way of thinking. But at the same time, by adding the qualification “what Allah has bestowed upon you,” it has cut the roots of Socialism as well, which starts by denying man's right to private property. Similarly, a verse in the Chapter “Seen,” explicitly affirms the right to private property as a gift from Allah.

## **Difference Between Islam, Capitalism and Socialism**

Now we are in a position to draw clear boundary lines that separate Islam, Capitalism and Socialism from one another:

Capitalism affirms an absolute and unconditional right to private property.

Socialism totally denies the right to private property.

But the truth lies between these two extremes - that is Islam admits the right to private property but does not consider it to be an absolute and unconditional right that is bound to cause “disorder on the earth.”