

## 2. FACTORS OF PRODUCTION IN ISLAM

### THE CAPITALIST VIEW

In order to understand the Islamic point of view fully, it would be better to have a look at the system of the distribution of wealth that is obtained under the capitalist economy. This theory can be briefly stated like this: wealth should be distributed only over those who have taken a part in producing it, and who are described in the terminology of economics as the factors of production. According to capitalistic economics, these factors are four:

1. **Capital:** which has been defined as "the produced means of production" - that is to say, a commodity which has already undergone one process of human production, and is again being used as a means of another process of production.
2. **Labour:** that is to say, any exertion on the part of man.
3. **Land:** which has been defined as "natural resources" (that is to say, those things which are being used as means of production without having previously undergone any process of human production).
4. **Entrepreneur, or Organization:** The fourth factor that brings together the other three factors, exploits them and bears the risk of profit and loss in production.

Under the capitalist economy, the wealth produced by the cooperation of these four factors is distributed over these very four factors as follows: one share is given to capital in the shape of interest, the second share to labor in the shape of wages, the third share to land in the shape of rent (or revenue), and the fourth share (or the residue) is reserved for the entrepreneur in the shape of profit.

### THE SOCIALIST VIEW

On the other hand in a socialist economy, capital and land instead of being private property, are considered to be national or collective property. So the question of interest or rent (or revenue) does not arise at all under the philosophy of this system. Under the Socialist system, the entrepreneur too is not an individual but the state itself. So profit as well is out of the question here - at least in theory. Now there remains only one factor, namely labor. And labor alone is considered to have a right to wealth under the Socialist system, which it gets in the shape of wages.

### THE ISLAMIC VIEW

The Islamic system of the distribution wealth is different from both. From the Islamic point of view, there are two kinds of people who have a right to wealth:

1. Those who have a primary right that is to say, those who have a right to wealth directly in consequence of participation in the process of production. In other words, it is those very

“factors of production” which have taken a part in the process of producing some kind of wealth.

2. Those who have a secondary right, that is to say, those who have not taken a direct part in the process of production, but it has been enjoined upon the producers to make them co-sharers in their wealth.

Let it be made clear that we are here concerned with the basic philosophy of socialism, and not with its present practice, for the actual practice in socialist countries is quite different from this theory.

## ISLAMIC THEORY

*Those who have a primary right to wealth*

As indicated above, the primary right to wealth is enjoyed by “the factors of production.” But “the factors of production” are not specified or technically defined, nor is their share in wealth determined in exactly the same way as is done under the capitalist system of economy. In fact, the two ways are quite distinct. From the Islamic point of view, the actual factors of production are three instead of being four:

1. **Capital:** That is, those means of production which cannot be used in the process of production until and unless during this process they are either wholly consumed or completely altered in form, and which, therefore, cannot be let or leased (for example, liquid money or food stuff etc).
2. **Land:** That is, those means of production which are so used in the process of production that their original and external form remains unaltered, and which can hence be let or leased (for example, lands, houses, machines etc).
3. **Labor:** That is, human exertion, whether of the bodily organs or of the mind or of the heart. This exertion thus includes organization and planning too. Whatever wealth is produced by the combined action of these three factors would be primarily distributed over these three in this manner: one share of it would go to capital in the form of profit (and not in the form of interest); the second share would go to land in the form of rent; and the third share would be given to labor in the form of wages.

## Socialism and Islam

As we said, the Islamic system of the distribution of wealth is different from socialism and capitalism both. The distinction between the Islamic economy and the socialist economy is quite clear. Since socialism does not admit the idea of private property, wealth under the socialist system is distributed only in the form of wages. On the contrary, according to the Islamic principles of the distribution of wealth, which we have outlined above, all the things that exist in the universe are in principle the property of Allah Himself. Then, the larger part of these things is that which He has given equally to all men as a common trust. It includes fire, water, earth, air, light, wild grass, hunting, fishing, mines, un-owned and un-cultivated lands etc., which are not the property of any individual, but a common trust. Every human being is the beneficiary of this trust, and is equally entitled to its use.

On the other hand, there are certain things where the right to private property must be recognized if only for the simple reason that without such a recognition it would not be possible to establish the practicable and natural system of economy to which we have alluded while discussing the first object of the distribution of wealth. If the socialist system is adopted and all capital and all land are totally surrendered to the state, the ultimate result can only be this: we would be liquidating a large number of smaller capitalists, and putting the huge resources of national wealth at the disposal of a single big capitalist - the state, which can deal with this reservoir of wealth quite arbitrarily, thus, leading to the worst form of wealth concentration. Moreover, it produces another great evil. Since socialism deprives human labor of its natural right to individual choice and control, compulsion and force becomes indispensable in order to make use of this labor, which has a detrimental effect on its efficiency as well as on its mental health. All this goes to show that the socialist system injures two out of the three objects of the Islamic theory of the distribution of wealth, namely, the establishment of a natural system of economy and securing for everyone what rightfully belongs to him.

These being the manifold evils inherent in the unnatural system of the socialist economy, Islam has not chosen to put an end to private property altogether, but has rather recognized the right to private property in those things of the physical universe which are not held as a common trust. Islam has, thus, given a separate status to capital and to Land, and has at the same time made use of the natural law of "supply and demand" too in a healthy form. Hence Islam does not distribute wealth merely in the form of wages, as does socialism, but in the form of profit and rent as well. But, along with it, Islam has also put an interdiction on the category of "interest," and prescribed a long list of the people who have a secondary right to wealth. It has thus eradicated the great evil of the concentration of wealth, which is an essential characteristic inherent in capitalism, an evil which socialism claims to remedy. This is the fundamental distinction of the Islamic view of the distribution of wealth, which sets it apart from socialism.

### **Islam and Capitalism**

It is equally essential to understand fully the difference that exists between the Islamic view of the distribution of wealth and the capitalist point of view. This distinction being rather subtle and complicated, we will have to discuss it in greater detail.

By comparing and contrasting the brief outlines of the Islamic and the capitalist systems of the distribution of wealth, we arrive at the following differences between the two:

1. The entrepreneur, as a regular factor, has been excluded from the list of the factors of production, and only three factors have been recognized instead of four. But this does not imply that the very existence of the entrepreneur has been denied. What it means is that the entrepreneur is not an independent factor, but is included in any one of the three factors.
2. It is not "interest" but "profit" that has been considered as the "reward" for capital.
3. The factors of production have been defined in a different manner. Capitalism defines "capital" as "the produced means of production." Hence, capital is supposed to include machinery etc. as well, besides money and foodstuff. But the definition of "capital" that we have presented while

discussing the Islamic view of the distribution of wealth, includes only those things which cannot be utilized without their being wholly consumed, or, in other words, which cannot be let or leased - for example, money. Machinery is to be excluded from "capital," according to this definition.

4. In the same way, land has been defined in a more general way. That is to say, all those things have been brought under this head which do not have to be wholly consumed in order to be used. Hence, machinery too falls under this category.
5. The definition of labor too has been generalized to include mental labor and planning.

Let us now go into the details of this discussion. Under the capitalist system, the most important characteristic of the entrepreneur (which entitles him to "profit") is supposed to be that he bears the risk of profit and loss in his business. That is to say, from the capitalist point of view, "profit" is a kind of reward for his courage to enter into a commercial venture where he alone will have to bear the burden of a possible loss, while the other three factors of production will remain immune from loss, for capital would get the stipulated interest, land the stipulated rent and labor the stipulated wages.

On the other hand, the Islamic point of view insists that the ability to take the risk of a loss should, in reality be inherent with capital itself, and that no other factor should be made to bear the burden of this risk. Consequently, the capitalist, in so far as he takes the risk, is an entrepreneur too, and the man who is an entrepreneur is a capitalist as well.

Now, there are three ways in which capital can be invested in a business venture:

1. **Private business:** The man who invests capital may himself run the business without the help of any partners or shareholders. In this case the return which he gets may be called "profit" from the legal or popular point of view; but, in economic terms, this "reward" would be made up of (1) "profit," in as much as capital has been invested, and (2) "wages," as earnings of management.
2. **Partnership:** The second form of investment is that several persons may jointly invest capital, jointly manage the business and jointly bear the risk of profit and loss. In the terminology of Fiqh, such a venture is called "Shirkat-al-Aqd" or partnership in contract.

According to the terminology of economics, in this case too all the partners will be entitled to profit in so far as they have invested capital and are also entitled to wages in so far as they have taken part in the management of the business. Islam has sanctioned this form of business organization too. This form was quite common before the time of the Prophet (Allah bless him and give him peace) until he permitted people to retain it, and since then there has been a consensus of opinion on its permissibility.

3. **Co-operation of Capital and Organization (Mudarabah):** The third form of investment is that one person may invest capital while another may manage the business, and each may have a share in the profit. In the terminology of Fiqh, it is called Mudarabah. According to the terminology of

economics, in this case, the person who invests his capital (Rabb-al-Maal) will get his share in the form of profit, while the person who has actually managed the business will get it in the form of wages. But if the person who has been managing the business (Mudarib) eventually suffers a loss in the business, his labor will go wasted just as the capital of the investor would go wasted.

This form of business organization too is permissible in Islam. The Prophet (Allah bless him and give him peace) himself has made such an agreement with Hazrat Khadijah before their marriage. Since then there has been a complete consensus of opinion on this too among the jurists of Islam.

### **Money Lending Business**

The fourth form of investing capital, which has ever since been practiced in non-Islamic societies is the money lending business. That is to say, one person lends out capital in the form of a debt, and a second person puts in his labor; if there is a loss it has to be borne by labor, but, profit or loss, interest does accrue to capital in any case. Islam has interdicted this form of investment.

*“O, believers, fear Allah, and give up what is still due to you from the interest (usury), if you are true believers” (2:278).*

The Quran also says:

*“If you do not do so, then take notice of war from Allah and His Messenger. But, if you repent, you can have your principal. Neither should you commit injustice nor should you be subjected to it” (2:279).*

In these two verses, the phrases “what is still due to you from the interest” and “you shall have the principal” makes it quite explicit that Allah does not condone the least quantity of interest, that “giving up the interest” implies that the creditor should get back only the principal. Thus, one can clearly see that Islam considers every rate of interest (except zero%) to be totally inadmissible. In the pre-Islamic period, certain Arab tribes used to carry on their trade with the help of money borrowed on the basis of interest from other tribes. Islam puts an end to such transactions altogether. Ibn Juraij says:

*“In the pre-Islamic period, the tribe of Banu Amr bin Auf used to take interest from the tribe of Banu-al-Mughira, and the Banu-al-Mughira used to pay this interest. When Islam came, the latter owed a considerable amount of money to the former.” And further on: “The Banu-al-Mughira used to pay interest to the Banu Thaqif.”*

Let it be understood that the position of every Arab tribe was like that of a joint company, carrying on trade with the joint capital of its individual members. So, when a tribe would borrow collectively from another tribe, it would usually be for the purposes of trade. The Quran prohibited even this practice.

Thus, under the Islamic system of economy, if a man wants to lend his money to a businessman for being invested in business, he will have to first decide clearly whether he wishes to lend this money

in order to have a share in the profit, or simply to help the businessman with his money. If he means to earn the right to a share in the profit by lending his money, he will have to adopt the mode of “partnership” or that of “cooperation” (Mudarabah). That is to say, he too will have to bear the responsibility of profit or loss - if there is eventually a profit in the enterprise, he shall have a share in the profit; but if there is a loss, he shall have to share the loss too.

On the other hand, if he is lending this money to another person by way of help, then he must necessarily regard this help as no more than help, and must forgo all demand for a “profit.” He will be entitled to get back only as much money as he has lent out. Islam considers it not only unjust but also meaningless that he should fix a rate of interest and thus place all the burden of a possible loss on the debtor.

This discussion makes it clear that Islam places the responsibility of “taking the risk of loss” on Capital. The man who invests capital in a risk-bearing business enterprise shall have to take this risk.