An Introduction To Islamic Economics

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Markazi Maktaba Islami Publishers

New Delhi - 110025

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بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِيمِ

In the Name of Allah, the Beneficent, the Merciful!

Islamic economics

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

There are two arguments put forward to prove this premise. The first being that Conventional economics is based on universal laws and theories, which like nature is immutable and shall continue till eternity. Conventional economics is applicable to all societies irrespective of their ethos, culture and civilization. Earning a livelihood is the natural need of every human being. The ways and means that are adopted to earn a livelihood may be deemed to be nothing more than tools like the sickle of a farmer and the hammer of a blacksmith. The second argument is that human priorities are universal. Man wants to satisfy his needs, wants and desire for luxuries and is generally affected or influenced when he pays those who provide him that utility. The science or art of economics is the study of these transactions and choices and then formulating those observations into universal laws and theories. Thus, these economic laws and theories are like laws of nature and hence cannot be classified as Islamic or un-Islamic. They are purely of scientific temperament and are independent of one's belief, values and culture. Islamic economics therefore becomes a futile and meaningless exercise. At the most it can be awarded the status of a body of knowledge supplementary to Conventional economics. However, the claim of Conventional economics to be completely objective is false, as can be made out from the subsequent text.

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

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

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

Conventional economics

Conventional economics is the analytical study of economic activity at the level of an individual and at the public or collective level. Conventional economics developed under a specific ethos and culture and has naturally been influenced by it. One of its key ideas is that resources are limited; they are not unlimited so as to satisfy the needs and wants of the entire population. Economists term it as scarcity of resources. As resources are limited it follows that every individual will struggle to gain and acquire resources. This struggle to acquire or own resources is called competition and success therein depends on (how good one is in) one's ability to do work; something that economists call efficiency. Whoever is more efficient will be more successful under competitive market conditions. In a world of scarcity, the best distribution of resources is through the combination of competition and efficiency.

The above fundamental (economic) theories are not objective; rather, on deeper analysis you can see glimpses of Western ethos and imperialism embedded within them. Man is defined and looked at in a specific manner.

This individual exemplifies the (Western) civilization that has seen great progress in modern sciences. Classical economists have defined this specific nature of man. (But) they have neither derived this nature of man from human psychology nor verified it against contemporary facts and statistics. Their objective was merely to raise the foundations of a body of knowledge which is similar to modern science. They therefore briefly studied the animal world and concluded that the basic aim of every living creature is to find food to satiate his hunger. Animals attack their prey, with the powerful devouring the weak. After studying the (animal) world in a very superficial manner they applied their observation (about the animal world) to human society. They concluded that the primary aim of every human being is to acquire and gain utility[1]. That utility must be (capable of being) measured and expressed in the form of monetary value. They further established that every person wants to maximize utility by expending minimum work or energy.

In order to make their assumption "scientific" (logical and based on facts) the experts of Conventional economics floated various theories pertaining to utility and "diminishing returns" and formulated various laws related to demand and supply. They also concluded that since every person wants to maximize utility, competition is a natural outcome of this precept. If markets are competitive and everybody tries to maximize their utility then the entire society stands to benefit. The best distribution of national income is that which is borne out of this competition. The one having superior capabilities and who understands how to utilize market conditions to one's benefit deserves success in the

[1]utility is a measure of preferences over some set of goods (including services: something that satisfies human wants); it represents satisfaction experienced by the consumer of a good or service (Editor)

market. Just as expertise and capability is required to survive and succeed in the natural world in the same way it is also needed in the world of economic activity (business and commerce). And just as you encounter both the weak and powerful species of creatures in the world of nature, you can come across the rich and the poor in the economic system. Just as a powerful animal feeds on the weak, the rich and the capitalists prey on the poor. Both these phenomena are natural and obvious. They should not be measured against the scale of ethics and morality. There should be only one criterion to judge competitive markets and that is to find the amount of increase (growth) in national income that they generate.

In a bid to allow competitive markets to play their true role, economists gave primary importance to open or free markets in which everyone would have complete freedom to carry out economic activities. But this would only succeed if capitalists were also free to carry out their own activities, markets would be free and there would be no (price control) restrictions on the price the seller demands and the buyer is ready to offer. The concept of private ownership was emphasized for this premise to succeed. Every individual shall have the right to private ownership so that he may have the freedom to use that ownership in whichever manner he desires. Neither society nor the government should have any right to interfere in it. If any of the two or both interfere in that freedom then competition would not be able to play its true role and national income or economic growth would be negatively impacted. Profit should be the sole motive of any economic activity or enterprise.

The Price of Goods (and services)

The price of goods (and services) plays a decisive role in a free economy. The price and expected profit (after the sale of these goods and services) together determine their projected or expected demand. This then further decides which goods should be produced and in which quantity. These two (price and profit) also fix the share of the individual and the group (participating in the production of those goods). They fix the share of labor and the capitalist. The advocates of this theory were economists like Adam Smith, David Ricardo, John Stuart Mill and those belonging to their school of thought like Alfred Marshall. Conventional economists have based their approach on these theories in determining the factors or elements that govern economic activity. For example, what is the difference between wealth and income? What are the elements of labor, how are their wages fixed, what is the role of capital, what is investment, what is the co-relation between price, demand and supply? What is the definition of consumption and labor? What is the relationship between money supply and inflation? They studied the motives of producers and consumers retrospectively and came out with various theories regarding the same.

Elements of economic development

A theory that co-related with the above fundamental theory and which had analyzed the various factors that constitute economic development is as follows. Mainstream economists thought that economic development depends on capital and capital creation is not possible with savings. Individual saving and public saving is that portion of income which is not spent on consumer goods and services but is diverted towards capital formation. In the category of consumer goods and services you have consumables and other categories of daily usage like housing, clothing, transport, healthcare, education etc. Things that are part of capital include machinery, factory and the expenses on irrigation which enhance agricultural production. Savings are achieved by those whose incomes exceed the amount required to meet their basic needs. Common men and labor have an extremely low capacity for savings. In fact, many a time their expenses exceed their incomes. The income of capitalists is very high. Hence their ability to save is also high. If a society wants to progress economically then it must undertake such ideas that enable its distribution of resources to be expended in favor of the capitalist. Various theories were formulated to lend credence to these hypotheses. Take for example the wage-fund theory which simply put says that in every society, a portion of the income and resources is allocated to wages. If the number of laborers increases then wages would decrease. Openly supportive of this argument was the Malthus theory related to population which tried to prove that nature has kept the rate of growth of the human population to be twice, thrice or four times the amount of production.

One of the notable things in Conventional economics is that it declared man to be an "economic agent" who is oblivious of his surrounding environment and who, denying and ignoring everything else, wants to earn more profit and maximize utility. In fact, going one step further it has defined rationality as the maximization of profit or utility with minimum cost. Another achievement of Conventional economics is that it formulated such an automated and machine-like model about demand, supply, price, income, capital and production that the human element took a back seat (in this entire process). His income, emotions, feelings, objectives and priorities and consciousness all became part of economic laws. Price, demand and supply constituted its real and actual elements. What is produced by a particular society? How is demand and supply finalized? What are the elements that constitute economic enterprise? All this was now decided by the nation's monetary policy, by the supply and price of capital, though banking policy, via its schemes and strategies related to import and export. As a result, the character, emotions, feelings and nature of an individual were overlooked. Two phenomena followed as a consequence:

One is that the Western citizen was taken as a sample representing the entire world and then these policies (applicable in the Capitalist West) were also adopted by the Third World developing nations. Naturally these policies turned out to be a failure in most of these countries. A very good analysis of this failure was done by the renowned economist G. Myrdal and even some organizations of the United Nations. The second result was that the trust on the science of economics was eroded (and it lost significant credibility). Economic slowdown, recession, loss of capital, unemployment, economic oppression and exploitation, corruption, lack of education and health facilities engulfed the Third World countries in such a way that there seemed to be no way out of this morass.

Some important efforts

There have been some important efforts to humanize and bring close to reality the almost automated and economic personification of man. But the role of these efforts remained as miniscule as the footnotes of a book. For example, it was clarified that the role or objective of an individual is not merely to seek profit and utility. His aim may be non-economic too. This observation was presented as supplementary to the main economic theory. Thus the fundamental economic theory remained the same with the simple addition of a few footnotes. It was also accepted that justice should be added as one of the aims or benefits of economic enterprise. However this was merely a half-hearted effort to rectify the fundamental economic theory.

In the same way it was also accepted that the distribution of national production should not be dependent on (market) demand (which is an extension of disposable income). Rather, it should be based on need. However this amendment too could not acquire any relevance or significance to a degree where it was considered worthy of being incorporated in public policy.

Thus, the fundamental economic theory remained the same. Equity was co-related to efficiency. But in an open market the role of efficiency (performance and expertise) in the distribution of income and production remained the same. Equity and justice still remain confined to the periphery as can be seen in the new economic policy in India[1].

Modern economics

Modern economics has two parts. They are Microeconomics and Macroeconomics. Microeconomics is the study of individual economics entities. For example: studying a consumer, a market, a factory or supply / demand / price of a single good or service. These entities are the foundations or the key components which constitute the economy. After the era

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[1] This paper was read in October1995 - Editor

of classical economists and their followers, John Maynard Keynes arrived on the scene, after which Macroeconomics began ruling the roost. But now Microeconomics has again grown in importance and is being improved. Microeconomics presents man in a manner that has been explained in the above paragraphs. The job of Macroeconomics is to provide it with a theoretical footing and analyze it at the collective level. Thus, both Microeconomics and Macroeconomics have the same philosophy regarding the economic nature of man and the concept of utility. Their rationality can be affected by various factors but remains fundamentally the same. One must give due consideration to them at the time of framing public / economic policy. It assumes that society is a collection of people who are always in search of enhancing their personal utility and profit and their aim is to maximize profit with maximization of utility at minimum cost.

What is Islamic economics?

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

The foundations of Islamic economics

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

وَمَا مِنْ دَآبَّةٍ فِي الْاَرْضِ اِلَّا عَلَى اللّٰهِ رِزْقُهَا

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

وَلَقَدْ كَرَّمْنَا بَنِيْٓ اٰدَمَ وَحَمَلْنٰهُمْ فِي الْبَرِّ وَالْبَحْرِ وَرَزَقْنٰهُمْ مِّنَ الطَّيِّبٰتِ

وَفَضَّلْنٰهُمْ عَلٰى كَثِيْرٍ مِّمَّنْ خَلَقْنَا تَفْضِيْلًا ۝٧٠

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

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

But the facts seem to be otherwise. If you look at the increase in human population in the last 100 years, you can also note that the standard of living of countries has gone up. If the rich and developed countries had supported and helped the poor developing nations and if the rich countries had succeeded in controlling their criminal and thriftless consumption then there would have been a significant reduction in poverty. But the Modern theory of population has blamed the growing population of poor countries for their poverty.

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

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

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

وَفِىٓ أَمْوَٰلِهِمْ حَقٌّ لِّلسَّآئِلِ وَٱلْمَحْرُومِ ﴿١٩﴾

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

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

Islamic economics – Role, Trends and Objectives

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

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

The three basic questions posed by Modern economics and their answers

Modern economics discusses three basic questions:

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

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

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

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

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

1. Demand has primary importance; not need.
2. The financial cost of production has primary importance in the supply of goods and services; not the use of non-financial welfare and charity schemes for society.
3. Who will and how much will each contribute in the Total National Production will be decided by the output of the various factors of production.

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

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

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

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

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

The philosophy of life

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

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

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

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

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

The Humanitarian Investor

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

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

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

Islam is not merely a fantasy

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

The Contemporary Economic System

In the contemporary economic system usury or interest opens the door for artificial sources of income because of which it becomes possible that the individual earns wealth through stocks and equities which is much more than the value of real production. In the contemporary economic system the calculation of gross national income is based on the assets produced in a limited period of time. But because assets are of different types hence their estimate is calculated on the basis of market price and their balance is computed. But the estimate of the assets is not calculated like real goods and products; instead, it is calculated according to the shares of the production unit and the price of their stocks. In this entire process the expected profitability of any unit determines the price of its stocks and shares. This means that the hope and expectation permeates in and forms the basis of the entire business of the stock exchange. Expected profit is a psychological state or an emotional sentiment which is far removed from reality and the real world. The situation in the stock exchange is that it can come crashing down even if there is a small tremor or anxiety (about a particular political event or financial situation) in the (stock market) trading circles and can rise with very little amount of hope and expectation. In this way the wealth of thousands can increase or decrease in a matter of minutes. The production capacity and future of those industrial units (manufacturing plants/factories) whose price has fallen in the market is also impacted. Hence, the entire process of investment is completely founded on sentiments and expectations. In the same way the Gross National Income and the estimate of expected income keeps fluctuating. The estimate of national income and assets is to a large extent merely a chimera and illusion. You may have often heard that scores of people committed suicide because of the fluctuation in the price of stocks and shares in the stock exchange. The expected profit generated by stocks and shares severely impacts real investment. In this entire shady business, the role of the real produce / production is secondary. To understand what may be the amount of fraud and deception in this process, we need to study the entire system which is not possible in this article. The rate of interest over which this entire edifice is built often gyrates, because of which the system of investment becomes unstable. There is a lot of variation in the cost of production. The entire system of production becomes unstable. Hence this interest based economic system is always experiencing fluctuations and is very unstable.

Interest based financial system

Besides the stock exchange in the banking and non-banking financial institutions, the rate of interest plays a key or pivotal role. In fact, those acquainted with it know that the expected price of shares and the supply of capital depend upon the rate of interest. The interest based system directly breaks the relationship between real production and financial sources and an economic system is created in which stability is impacted severely. In the current system of investment, the condition to provide loan / credit is based on the capacity of repaying interest and collateral by the debtor. The result is that talented individuals (entrepreneurs) who cannot provide any collateral will be deprived of investment and loan is provided to those people and those factories that are financially strong and possess the ability to repay their loans. Thus, the flow of investment is in the direction where the financial resources already exist. Hence there is an acute accumulation of wealth and resources and income disparity increases and the system of unjust distribution of wealth becomes more entrenched. In the supply of interest based finance it is 0not seen where the debtor (person taking loan) or investor is applying those 'loaned' financial resources. Rather the focus is merely on the expected profit through investment. The estimate of this profit is based on financial parameters. The result of this attitude is not healthy for society and creates a rift within society.

Provision of finance on the basis of profit and loss

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

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

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

1. Economic liberty has been considered to be a fundamental right. But this right cannot be used only for generating personal profit and is subject to the larger public good.

2. In this system although private profit has importance, but this is not merely financial profit and it has the clause of 'Success in the Hereafter (life after death)' added in such a manner that it becomes part and parcel of that system which creates a fundamental difference though the change (it brings about) and (also through its own) nature.
3. In this system, capital and assets have secondary importance. The character of the individual and public expediency has primary importance.
4. In this economic system justice is regarded and kept as a primary and necessary goal and then the necessary laws and institutions are created for its achievement.
5. In this economic system a social and ideological climate is created which results in the distribution of resources and production in such a manner that the fulfilment of basic necessities of life gets primary importance. After that the luxury items gets secondary priority only by means of consumption and production.
6. This economic system creates a direct correlation between real production and actual financial resources and is not like the contemporary economic system that links the two indirectly. This gives allowance only to profit and risk but not to interest / usury.
7. In this economic system the system of yields and income depends only on labor, production and risk. Trading of capital and manipulation of stocks is ruled out. In this system money is not tradable but is simply a source or medium of exchange.
8. This suggests such standards of investment that when implemented, both the individual and society

benefit and which in fact strengthens the profit of the individual with the profit and benefits accrued to society. It does not depend merely on ideology (religious obligations) to achieve this but derives and establishes formal regulations and public institutions which build investment according to these standards.

9. In this system, the combination of demand and needs is formed in such a manner that performance, humanitarian considerations and justice all become elements of economic activity / enterprise. The faults that are found in the market demand and the unjust inequitable distribution of produced goods is corrected by making them dependent on the comprehensive and collective needs of society and for that purpose it influences the mind of the investor and puts in place such laws and institutions that aid in the achievement of these objectives. For this purpose, it takes a certain moderate quantum of resources and makes legal provision for distributing it to the poor and the needy. It also makes it the responsibility of the government that by way of policy and planning it manages to allocate the required financial resources for the same.

10. In this economic system as the government is not actually the producer but simply acts as a regulator to remove the (market) distortions hence it does not need extraordinary resources to fulfil its own mandatory expenses (minimum government maximum governance). To enable the equitable distribution of resources the government does not have to levy huge rate of taxation as some oppressive regimes do; nor does the government have to take large loans from the Central Bank. In this way the government avoids becoming a source of inflation. Hence in this economic system the levying of

taxation would be least and the need for the creation of wealth will also be reduced. Hence the tendency of the prices of basic commodities to keep on increasing will be limited.

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