Economic System in Islam

Introduction

As a complete way of life, Islam has provided guidelines and rules for every sphere of life and society. Naturally, a functioning economic system is vital for a healthy society, as the consumption of goods and services, and the facilitation of this by a common medium of exchange, play a major role in allowing people to realize their material and other goals in life.

Islam has set some standards, based on justice and practicality, for such economic systems to be established. These standards aim to prevent the enmity that often occurs between different socioeconomic sections. Of course, it is true that the gathering of money concerns almost every human being who participates in transactions with others. Yet, while these standards recognize money as being among the most important elements in society, they do not lose sight of the fact that its position is secondary to the real purpose of human existence, which is the worship of God.

Islam views life as a compact whole and does not divide it into many separate and conflicting parts. The economic aspect is one of the most important parts of our life, while not being the whole of it. The Islamic system is balanced and places everything in its right place. Islam has given detailed regulations for the conduct of our economic life which concerns mainly the earning and use of wealth.

Man needs bread to live but he does not live for bread alone. This means that earning and spending money is essential for our living, but we do not live only for this. We have a greater purpose in life. We are Allah’s agents (Khalifah) on earth. We not only have a body but we also have a soul and a conscience. Without our soul and conscience, we would be considered little more than animals.

Everything in Islam is for the benefit and welfare of mankind. The economic principle of Islam aim at establishing a just society wherein everyone will behave responsibly and honestly, and not as ‘cunning foxes’ fighting for as big a share of something as possible without regard for honesty, truth, decency, trust and responsibility.

Capitalism, Communism and Mixed Economics system has purely a materialistic approach in which human social life has no importance. But in Islamic System, followers of Islam are required to lead a material life in such way that it becomes a source of happiness and respect of others in this world for making secure himself for next world.

Islamic Economic System consist of institutions, organizations and the social values by which natural, human and manmade resources are used to produce, exchange, redistribute and consume wealth? goods and services under the guiding principles of Islam to achieve "FALAH" in this world and also other it.
The triple nature of possession:

Capitalism views private possession as a basic need which voluntarily fulfils the community's desires and requirements rather than being in conflict with it. Capitalists consider Nationalization as exceptional cases of remedies for temporary crisis of the Nationalized economy. It argued that nationalized sectors of economy can be de-nationalized after that crisis has disappeared.

Socialism, on the other hand, claim collective ownership as the fundamental concept in its economic system. Private capitals must be nationalized according to Socialism. But the Socialists were confronted in the field of application with difficulties and were forced to recognize private possession. That attitude was a temporary cure for their economic problems. It is argued that when the difficulties have gone, then the private sectors are re-nationalized again.

Islam recognizes three kinds of possessions:

(a). Private Possession

"O ye who believe! Eat not your property among yourselves in vanities: but let there be amongst you traffic and trade by mutual good will." (Qur'an, 4:29)

"But if ye turn back, ye shall have your capital sums: deal not unjustly and ye shall not be dealt with unjustly?"

(Qur'an, 2:279)

The Prophet (pbuh) said: "The possession of a Muslim is illegal to his brother except whom he willingly offers to him."

(b). Collective Possession

This field covers the national wealth which belongs to all people of the Islamic State, irrespective of their financial status. The bulk of the wealth is expended and utilized in building schools, hospitals, etc. The sources or incomes of this sector of economy are specific and noted. For example, the so-called (Kharaj land) is one source which is a land naturally productive. Prophet Muhammad (pbuh) said: "People are to share three .things, fire, water, and grass." All Muslim thinkers throughout the Islamic history accepted the generalization of this statement to include all natural resources to be under collective ownership. There are many other examples of income to the collective possession, which can be consulted in the Islamic legislation books.

(c). State's Possession

State's possession differs from other kinds of possession not only in the sources of income but in utilization and fields of expenditure also. There are specific sources of income to this economic sector, like the so-called (Dead land). The evidence of this in the Qur'an is the following verse: "They ask you concerning "Anfal" (accessions) say "Anfal" is at the disposal of God and the Apostle." (Qur'an, 8:1).
The Prophet is mentioned here as a representative of the Islamic Government. The ways in which this wealth is used are many. One of the basic channels is helping poor people to work, by offering small capital or building a factory for their employment.

**Sources of Islamic Economics**

The fundamental sources of Islam - the Quran and the Sunnah of the Prophet - provide guidelines for economic behavior and a blueprint of how the economic system of a society should be organized. Therefore, the values and objectives of all “Islamic” economic systems must necessarily conform to, and comply with, the principles derived from these fundamental sources. The purpose of these articles is to outline the most salient characteristics of an economic system based on the fundamental sources of Islam. The focus here is on the principal features of the Islamic system.

The Islamic economic system is defined by a network of rules called the Shariah. The rules which are contained in the Shariah are both constitutive and regulative, meaning that they either lay the rules for the creation of economic entities and systems, as well the rules which regulate existing one. As an integral part of the revelation, the Shariah is the guide for human action which encompasses every aspect of life – spiritual, individual, social, political, cultural, and economic. It provides a scale by which all actions, whether on the part of the individual agents, society, and the state, are classified in regards to their legality. Thus there are five types of actions recognized, namely: obligatory; recommended; permissible; discouraged; and forbidden. This classification is also inclusive of economic behavior.

The Islamic Economic System is based on the following fundamental principles:

1. **Earning and expenditure by Halal means.**

Islam has prescribed laws to regulate earnings and expenditure. Muslims are not allowed to earn and spend in any way they like. The must follow the rules of the Qur’an and the Sunnah:

   a. Any earnings from the production, sale and distribution of alcoholic drinks are unlawful (Haram), as are earnings from gambling, lotteries and from interest (Riba) transactions (5:90-91, 2:275).
   b. Earning by falsehood, deceit, fraud, theft, robbery and burglary is unlawful. Deceitful acquisition of orphans' property has been particularly banned (2:188, 4:2, 6:152, 7:85, 83:1-5).
   c. Hording of food stuff and basic necessities, smuggling and the artificial creation of shortages are unlawful (3:180, 9:34-35).
   d. Earnings from brothels and from such other practices which are harmful to society are also unlawful (24:23).

Islam strikes at the root of the evil and wants to establish a just and fair society. A Muslim must earn his living in Halal ways and he should always bear in mind that whatever he does, it is known to Allah. He will be accountable for his actions on the day of judgment. He cannot hide anything from Almighty Allah.
Unlawful expenditure is also not allowed in Islam. It does not at all befit a Muslim to spend money irresponsibly. His actions should be responsible and meaningful. Extravagance and waste are strongly discouraged (7:31, 17:26, 19:27-31, 25:68).

2. Right to property and individual liberty

Islam allows a person to own his earnings. The Islamic state does not interfere with the freedom of speech, work and earnings of an individual provided this freedom is not harmful to the greater good of society. Every individual will be answerable to Allah swt for his or her actions (4:7, 36:71, 16:111).


Compulsory payment of Zakah is one of the main principles of an Islamic economy. Every Muslim who owns wealth more than his needs must pay the fixed rate of Zakah to the Islamic state. Zakah is a means of narrowing the gap between the rich and the poor. It helps the fair distribution of wealth. It is a form of social security. The Islamic state is responsible for providing the basic necessities of food, clothing, housing, medicine and education to every citizen. No-one should have any fear of insecurity or poverty (9:69, 103, 98:5).

4. Prohibition of interest (Riba).

An Islamic economy is free of interest. Islam prohibits all transactions involving interest. Interest is neither a trade nor a profit. It is a means of exploitation and concentration of wealth. The Qur’an says:

"They say, trade is like interest and Allah has allowed trade and prohibited interest." (2:275).
"Whatever you pay as interest, so that it may increase in the property of (other) men, it does not increase with Allah."(30:39).
"O you who believe, do not take interest, doubling and quadrupling, and keep your duty to Allah, so that you may prosper." (3:130).
"O you who believe, observe your duty to Allah and give up what remains (due) from interest, if you are believers. But if you do not do it, then be warned of war from Allah and His messenger; and if you repent, then you shall have your capital. Do not exploit and be not exploited." (2:278-279).

Interest is the basis of modern capitalism. It is completely opposite to Zakah. Zakah channels wealth from the rich to the poor while interest takes away wealth from the poor and hands it over to the rich.

Modern economics are so inter-linked with interest that people may think it is impossible to go without it. The situation is really very complex. But, we must aim at getting rid of interest. Unless people fight against the tyrant rulers and establish an Islamic state -the problems will still be there.
Further, until Islamic state established, it will make us feel impossible to solve this Riba (interest) problem.

Allah swt has not imposed on us something impossible. An interest-free economy will be a boon for all peoples of the world.

5. Law of Inheritance (Mirath).
The Islamic law of inheritance is a wonderful system of stopping the concentration of wealth. It provides very detailed laws regarding the rights of dependents over the property of the deceased person. Suratun Nisa (chapter four) of the Qur’an deals with the law of inheritance in great detail(4:7-12, 4:176).

Social Justice: Islamic State

There are two means for achieving social justice in Islam:

(a). Islamic Social Insurance:

This is partly the duty of all Muslims in the Islamic State. For they are responsible for their brothers and sisters in Islam. The Prophet (pbuh) said: "He who sleeps the night not caring about Muslims welfare is not one of us". He also said: "He is not one of us, who sleeps the night while his neighbour is hungry." It is clear then that if the State's possession is not enough to satisfy the necessary needs of the poor people, it has the right to pass laws on rich people in order to help the poor.

The State's duty is not providing the essential requirements of her citizens only. This is the minimum which should be given, but the State ought to Endeavour for higher standard of living, whose degree is decided by the economic progress of the Muslim community.

Imam Musa ibn Ja'far (al-Kazim) said: "The Muslim governor should distribute the national wealth according to the directions made by God. It should be divided into eight shares, for the poor and the needy. He should distribute it among them so that they will be satisfied during the year without hardship or concealing their need. If something is left it should be returned to the governor, but if it was not enough so that they are not yet content, the Governor ought to supply them from the reserves according to their need till they become satisfied."

(b). Islamic Social Balance:

The Islamic State strives to limit and lessen material differences among Muslims. Although it recognizes natural differences among people due to environment, education, and personal gifts, etc. On the other hand, Capitalism approves and contributes to widen the gap between two extreme classes in the society. One class have all the wealth, while the other is empty handed. Socialism denies any natural difference among people and forces its "concept of equality" on the society.
"And it is He who made you (His) viceregent in the earth and raised some of you above others in grades, that He may try you in what He gave you: Verily your Lord is quick in the requital (of evil) and He is most surely the Forgiving, the Merciful”. (Qur'an, 6:165).

The ways of conceiving social balance are two:

(1) The Islamic State provides equal opportunities for all members of the society to work, develop and utilize their powers.

(2) The Islamic State endeavours to lift up the standard of the poor, on one hand, while it closes the revenues and causes of capital inflation, on the other. This action would limit and gradually converge the gap between the poor and rich people, which prevent any class-consciousness.

There are many examples by which the Islamic State secures social balance in the society. It has been already mentioned that a large sum of the national economy is taken under collective and State ownership.

Conclusion

In conclusion, we can say that the Islamic Economic system is based upon the notion of justice. It is through justice that the existence of the rules governing the economic behavior of the individual and economic institutions in Islam can be understood. In addition to the above basic principles Islam has laid down many more rules about economic life. An Islamic state must bring all productive resources into use, including unemployed man-power, unused land, water resources and minerals. An Islamic state must take steps to root out corruption and all harmful pursuits even if they are economically lucrative. Individual freedom may have to be sacrificed for the social good.

Islam encourages simplicity, modesty, charity, mutual help and cooperation. It discourages miserliness, greed, extravagance and unnecessary waste. Islam has a very important advantage which other principles do not have. Islam binds man to God. It makes him think of God's satisfaction, reward, and punishment too. Islam starts from the depths of the human conscience, and proceeds in its endeavours to secure a happy life for all.

TREND ANALYSIS

ISLAMIAT

"Islamic Economic System"

Q: Describe the economical responsibilities of State in Islam.(2000)
Q: While defining Zakat, examine its socio-economic significance ion Islamic Society.(2002)
Q: state guiding principles of economic system is Islam ? how can it be implemented in modern times?(2005)