

## Toward Islamic Economics

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In this paper, I shall confine myself to the development of a basis for an economic system within an Islamic state. By Islamic state, I mean that state which believes in and applies Islamic injunctions and teachings in all spheres of life. The aim is to formulate a general theory for a system of Islamic economics that, once defined, can help researchers to begin their analytic studies without difficulty.

All Muslims at present are living under governments that do not observe the *Shari'ah* and whose laws are mainly derived from non-Islamic doctrines. A new awareness however, among Muslims urges them to proclaim the application of their Islām.

Any economic system is derived from the general ideology that prevails in a the society that applies it as a means to achieving the goals promised by that ideology. Accordingly, the realization of the Islamic economic system is dependent on the adoption of an Islamic doctrine (*Shari'ah*) or ideology in the political, social, and aesthetic spheres of life. All these different spheres of human life are interdependent; it is impossible to completely separate one sphere from the other. To treat one of them on its own is only a means of facilitating the study.

### Methodology

#### *Subject*

To study Islamic economics, we have to consider two main issues: (1) the relationship of economics to the other spheres of secular life within Islamic ideology; and (2) the principles of Islamic economics.

As to the first issue, economics represents the material element that unites with the spiritual to constitute the human being. The classical Muslim jurists cited its contents under the expression *mu'āmalāt*, meaning all material dealings. This encompasses all rules administering the material dealings among

individuals and the exchange of goods for the purpose of mutual benefits. In this sense, economics has its effects on, and is likewise affected by, the political, social, and moral aspects of individuals and their collectivity.

The second issue constitutes the core of this study.

### *Means of Research*

To study the two above-mentioned issues, one should consider the following:

1. All Qur'ānic and *Sunnah* texts touching upon the subject must be identified. Further, the study must clarify the *raison d'être* behind the texts.
2. Reference to classical *fiqh* must be invoked to help interpret the texts and apply them in our times.
3. Full benefit must be drawn from the science of *uṣūl al fiqh*.

Such criteria should be applied within wider Islāmic rules (*al kulliyāt*), the most important of which is that of general license (*al ibāḥah*). Modern contractual dealings should not necessarily be expressed in old forms. It is necessary to adapt *uṣūl* instruments in judging modern dealings.

## **The Economic System in an Islāmic State**

### *Subject of Economics*

In Islamic system, economics comprises two elements:

1. *Al Mu'āmalāt*, the study of human activities related to the exchange of utilities to the satisfaction of material needs as regulated by Islamic rules.
2. The study of the behavior of individuals and society in the course of their production, consumption, and distribution of goods.

When studying *al Mu'āmalāt*, we have to bear in mind that we are not bound to limit ourselves to the various forms and modules our ancestors established to suit their requirements. On the contrary, one should establish new forms and new formulae to adopt to the exigencies of our complicated modern lives.

Moral values per se should not be considered a quantum in our new concept of Islamic economics. They have to be reflected in economic behavior as the “motives” behind material activities and transactions. In the ideal Islamic state, Islamic moral values have a great impact on individuals’ every-day transactional behavior. To emphasize Islamic moral values, to describe them as a distinct characteristic feature of Islāmic economics, and to try to quantify them in the guise of factors or coefficients is futile. Supply and demand curves, market movements, productivity—all these phenomena carry the traits of Islamic values and accordingly are influenced by them.

The Western principles of utilitarianism or materialism are not the only motivation behind each and every economic activity in the West. Individuals and societies have other motives and incentives, and psychological factors also affect transactional behavior. One should also be careful not to exclude the material motive from Islamic analysis, since there is nothing against it in Islam. In fact, it is natural that the investor wants to maximize his profits and that the consumer wants to maximize his benefits and satisfaction.

The basic principles on which Islamic economics is founded are derived from moral values that do not contradict or negate the maximization criterion. On the contrary, I see them as conducive to the maximization of profit and utility without a harmful effect on the dealings among individuals as collaborating members of their societies or between individuals and their collectivity. After all, moral values are the subject of study in disciplines other than economics.

### *Zakāh*

*Zakāh* is the essence of Islamic economic philosophy and the frame of its functional system.

As a philosophy, it propounds the fact that Allah is the Lord and Creator of all beings and the Original Owner of all wealth. In this capacity, He imposes a tax on all fortunes in the hands of His servants.

*Zakāh* also implies that everything depreciates and vanishes except the Eternal Allah. All material wealth, including money, must depreciate by the lapse of time. Unless wealth is invested, it depreciates in value or in substance. These two major principles—the origin of ownership and depreciation—constitute the corner stones of Islamic economic doctrine from which the basic principles of the system are derived. The first is herein called ritualistic *zakāh* (*zakāt al ta’abbud*), while I refer to the second as the transactional *zakāh* (*zakāt al mu’amalāt*).

## **Principles of Islamic Economic System (Transactional Zakāh)**

### *Principle of Vicegerency (Istikhlāf)*

This principle is derived from the cardinal Islamic principle of Tawhid. Allah is the Lord of all beings (*Rabb al 'Ālamīn*). Accordingly, ownership in Islam belongs to Allāh, Who entrusted man with all wealth on earth with a view to exploiting it according to Allah's will. Private ownership is recognized by Islām but only as *per pro*—as a delegation from the original Lord to His agent man. Thus, man cannot dispose of whatever is in his possession without restrictions, or in a manner discordant with the terms inscribed by the Lord.

Private ownership is *not* a social function, nor is natural wealth the property of the society or collectivity. All wealth belongs to Allah alone and private ownership is only a metaphoric expression. There are three main restrictions on private ownership:

1. Ownership must be acquired by legitimate means.
2. Private ownership should not jeopardize the public interest. Accordingly, if public interest requires the acquisition of a private property, the owner must be fully and fairly compensated.
3. The owner must invest and utilize what he owns in a satisfactory manner and without violating the stipulated laws.

### **The Law of Depreciation**

Again, this is a principle derived from Tawhīd, and it is universally acknowledged as a law of existence. Economists apply this law in their calculations of the gross national product of any society and, indeed, in every calculation of any assets. It is important to note that money is exempt from this law in non-Islamic concept, while it is not in Islam.

Islam, by considering money as a means to procure economic satisfaction, does not recognize it as a genuine good. Nevertheless, it can be taken as a “representative of goods,” and hence it can bear some qualifications ascribed to goods. If so, and if all goods do depreciate by the lapse of time, money cannot be considered a “super-good,” nor can it be immune from depreciation.

Once this law is put into practice, the entire system of economic concepts and models that prevails in the non-Islamic West takes a completely different shape.

If money were subjected to depreciation, as it should be, nobody would be interested in holding it back. It would be put back into circulation as soon as it were received, causing more demand on available goods. Continuous effective demand would lead to boosting production to increase supply, leading to more employment and higher wages. Higher wages would lead to higher demand and more supply, and so on.

### Work and Reward

No work should be done without reward, and no reward should be distributed without work. Productive work is imperative, according to Qur'ānic injunctions, and to reward it is only a law of existence.

Except in cases of inheritance, grants or gifts, and payment of *zakāh* to those who deserve it, no "reward" should be legitimized unless it is genuinely earned. Interest as a reward for saving money is usury and is categorically prohibited. Even rent for agricultural land without any contribution of the landlord to the tilling of the land is considered by most to be unearned income and is forbidden. As a corollary, the reward must be commensurate to the work. Fair reward is characteristic of an Islamic system. Authorities' intervention is least needed to enforce this rule if the system—as a whole—is adopted.

### Loss for Gain

Besides the *hadīths* that propound this principle, it can also be deduced from the general concept of justice in Islam. In fact, it is almost axiomatic to say that those who hope for gain out of any transaction must also be ready for a comparable loss.

There is consensus among Muslim jurists that this principle is basic all Islamic transactions. Any contractual dealing that stipulates an assured gain without possibility of loss is illegal and therefore void. Even if in such a contract the principal is guaranteed in case of loss, the contract is null and void.

On the basis of this principle, *muḍārabah* and all forms of joint ventures and association have been formulated and sanctioned since the dawn of Islam.

### No Harm or Hurt

This *hadith* is essential for delineating the rights and obligations of persons—natural or moral—when dealing among themselves. No one is allowed to inflict harm on himself or others when exercising any economic activity.

There are certain injunctions citing harm. For instance, dealing in alcohol, pork, obscene material, or narcotics, is strictly forbidden. Other fraudulent or harmful dealings have to be defined by the authorities and obviously differ from place to place and from time to time.

If we apply the above-mentioned five principles, we take many moral values into consideration in our everyday material dealings. Our economic decisions, whether on the individual or on the societal level, should be administered by these principles, which are essentially moral but effectively practical and actually imparted in our material economic activities.

### **The Role of the State in the Economic Order**

In Islam, the individual is originally free. He enjoys political, social, moral, and economic freedom as defined by Islam. As human freedom cannot be absolute, however, an independent entity is formed, not to deprive individuals of their freedom but to defend this freedom and allow it to function within the framework of Islamic rules and regulations.

The *Shari'ah* allows the state to interfere in all societal activities of its citizens, but only within the narrowest limits and mainly in order to apply the basic principle of "enjoining the good and forbidding the wrong," to safeguard citizens' rights, to defend the country, and to provide public services and utilities when individuals are not in a position to undertake such responsibilities. Accordingly, nationalization as a general policy and as applied by any Muslim country is neither Islamically legitimate nor warranted.