

IN PERSON:

Islamic Economics: Journeying on a straight path

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Present day Islamic economics is about 60 years old and takes its foundation to be the Qur'an as well as the way (sunnat) of Prophet Muhammad (pbuh). Views of Muslim scholars vary considerably regarding Islamic economics, from considering it to be:

- a) branch of conventional mainstream economics;
- b) a discipline that is neither capitalist nor socialist;
- c) a discipline that is guided by Islamic law in all its aspects.

There have not yet emerged concepts or principles that are widely accepted by Muslim scholars as the foundation of Islamic economics and finance. The main advance made so far has been in Islamic finance, a branch of Islamic economics, where a number of rules are commonly accepted. These are: a) the prohibition of riba (interest), rishwah (bribery, corruption) gharar (deception), jahl (profiting from others ignorance) and mysir (gambling and speculation) in all financial contracts; b) all investments must be made in the permissible sector of the real economy—with the investor sharing in the profit, loss and risks of the enterprise.

Economics is the discipline that studies the social organization for sustaining the material life of human beings. The subject of Islamic economics is still in its formative stage. The time seems appropriate to try and address Islamic economics from first principles.

Why Islamic economics?

To start with, there is no such subject as Islamic mathematics or Islamic science. So why should there be a subject termed as Islamic economics?

Mathematics, similar to reason and logic, is a purely mental construct that does not refer to any entity outside of human consciousness. The rules of mathematics are independent of personal views and beliefs—in this sense it is similar to human languages. Mathematics can be applied to all branches of human knowledge, including Islamic economics and finance.

Natural sciences study the laws of Nature and, in particular, do not study human behavior or phenomena based on social relations. Natural sciences are empirical disciplines: the sole criterion of scientific truth is experiment. Natural sciences are quite unlike the social sciences where the validity or otherwise of a statement—for example, a painting is beautiful—depends on one's social system and one's world view, and which stems from one's ethical, moral, religious and social values.

Economics is defined to be a social science that is concerned with the factors that determine the production, distribution, circulation and consumption of commodities (goods and services). Economic systems are based on social relations that reflect the dominant ethical, legal, moral and religious value of a social system, and which differ vastly from society to society. Islamic economics studies economies that adheres to the principles of the Qur'an and Sunnah. One would expect an Islamic economic system to be quite distinct

and different from a capitalist economy, even if they have some apparent similarities.

Capitalist Economies

Capitalist economies arose in the West: the primary objective in undertaking any economic activity under capitalism is to obtain the maximum profit for capital. Capitalist economies have currently spread throughout the world, including to many Muslim majority countries. The subject of capitalist economics, as taught in Western countries, considers society to be constituted by individuals, each of whom has a set of preferences for consumption, and which is expressed in what is called the utility function.

Each individual maximizes one's utility function--constrained by the amount of money one possesses. According to capitalist economics, the constrained maximization of the individual's utility function gives rise to prices of commodities, through the mechanism of supply and demand--and which in turn leads to the production and consumption of these commodities.

The description of capitalist economics based on the utility function sounds very reasonable--so why shouldn't Islamic economics be the same as capitalist economics? The reason the two are fundamentally different arises from the conception of what is an 'individual' and, in particular, what the economic role of an individual is.

A Straight Path

The starting point of Islamic economics is radically different from capitalist economics.

In Islam, the individual is the fusion of the soul of every person with the person's body. On death, the body is annihilated and the soul continues its eternal journey in the Unseen. The Qur'an teaches that the purpose of the journey of the soul in this world is to face the tests that Allah (swt) subjects every soul to: the highest purpose of every Muslim is to pass Allah (swt)'s tests.

The best Way for a Muslim to make the journey of life would be to strive to travel on a straight path (siratun mustaqeemun). What is a straight path? This is the path of thy Lord, a straight path. (6:126) Lo! my Lord is on a straight path. (11:56) A straight path is a path that is in harmony with Allah (swt), in accord with His divine principles and laws; it is a path of righteousness and of God-consciousness.

The divine rules and laws that the Qur'an has ordained are for guiding the believers to a straight path, and to inspire the believers to continue to adhere to it. The journey on a straight path entails both a spiritual as well as a physical journey. The Qur'an has laid down guidance for both the spiritual and material journey, and the Way of the Qur'an has been exemplified by the Prophet (pbuh).

There are two aspects to a person's material life – as an individual and as part of a community. The Qur'an enjoins



“The main form of modern hoarding is to accumulate wealth as paper money”

ideal means for the believers to travel on a straight path. One of the underlying principles of Islamic economics is to establish an economic system that sustains the material life of both the individual and of society at large so as to facilitate one's journey on a straight path.

Qur'an's guidance on the economy

The Qur'an provides a complete code of life, and which includes guidance on how to conduct one's economic activity. There is a vast corpus of literature on the verses of the Qur'an that pertain to the economic life of Muslims. A few of these are discussed to further our understanding of what would be the salient and concrete features of an Islamic economic system.

Spending: Squandering and Hoarding

Believers are enjoined to spend according to the wealth that Allah has bestowed on them. Let him who hath abundance spend of his abundance, and he whose provision is measured, let him spend of that which Allah hath given him. Allah asketh naught of any soul save that which He hath given it. (65:7)

Qur'an reveals that there is a stable equilibrium (firm station) between on the one hand, reckless spending, and on the other hand hoarding and being miserly. And those who, when they spend, are neither prodigal (squandering) nor grudging (hoarding); and there is ever a firm station between the two (25:67).

Deviations from the firm station in spending could be said to lead to some of the major flaws and vices of modern capitalism such as wasteful consumption, great disparity of wealth, the destruction of the environment and so on and briefly discussed below.

Consumerism: Wasteful consumption

Consumerism is the life style of buying commodities for which one has no real need or requirement. Consumerism is induced on the people by the capitalist mass media and serves the drive of corporations to maximize their profit. Lo! the squanderers were ever brothers of the devils (17:27). Many consumers and households have sunk deep into debt--some even facing ruin and bankruptcy--for sustaining their excessive spending.

Overconsumption, especially by the rich nations, has had a devastating effect on the environment, and is counted amongst the leading causes for the depletion of global resources and is now endangering all of mankind. Corruption doth appear on land and sea because of (the evil) which men's hands have done (30:41).

Finance capital; Concentration of wealth

Hoarding of wealth is another major vice of modern capitalism. Hoarding is withdrawing wealth from circulation and production with the purpose of making windfall profit by speculation. And let not those who hoard up that which Allah hath bestowed upon them of His bounty think that it is better for

them. Nay, it is worse for them (3:180). The main form of modern hoarding is to accumulate wealth as paper money--and as financial assets in general. (Other forms of hoarding such as commodities are minor compared to hoarding money-capital).

The concentration and accumulation of wealth in the form of money-capital has led to great income disparity, where a small fraction of the population owns more than 90% of society's wealth. Money-capital has led to the rise of modern finance capital -- which is based on hoarded (accumulated) interest bearing money-capital. The destructive effect of the entire interest-based financial system is becoming more severe by the day, as is evidenced by the ongoing cyclical crisis of international finance capital.

The Qur'an has the following laws and rules that go against hoarding, and against the concentration of wealth.

- Everyone has to spend of one's wealth to pay zakat (poor-due): Establish worship, pay the poor-due (2:43).
- Charity (sadaqa) is to expend one's wealth in the way of Allah and spreads society's wealth. Lo! ye are those who are called to spend in the way of Allah, yet among you there are some who hoard (47:38).
- Islamic inheritance law divides and spreads the wealth of the deceased amongst many. It is prescribed for you, when one of you approacheth death, if he leave wealth, that he bequeath unto parents and near relatives in kindness (2:180).
- The ban on Riba (interest) is, amongst other things, a mechanism to block the returns on hoarded wealth.

Property

Capitalism is based on private ownership of the enterprise, and in this sense looks similar to an enterprise in the Islamic economic system.

However, there are fundamental differences between the two.

In capitalism, private property can be dispensed off as decided by the owner; this is especially the case of the wealthy, who squander vast fortunes on themselves for leading profligate life styles. Wealth is also used by the capitalist for buying influence, as in lobbying in the USA -- for obtaining benefits for the capitalist and at the expense of others.

This lobbying was dramatically exemplified by Glass-Steagall act: enacted in 1934 by the US Congress to protect the depositors, it was repealed in 1999 of by investment bank lobbyists spending US\$300 million; the repeal resulted in huge losses for the depositors in the 2008 financial meltdown.

In contrast to capitalism, the exercise of ownership of private property in the Qur'an has limits. And eat not up your property among yourselves in vanity, nor seek by it

“Islamic economics the primary purpose of the enterprise is to provide livelihood for society”

to gain the hearing of the judges that ye may knowingly devour a portion of the property of others wrongfully (2:188). Both, the vainglorious and profligate life style of the rich are forbidden--as is the buying of influence by the capitalist for devouring the property of others.

Entrepreneur and Labor

Under the capitalist system, labor employed in an enterprise is merely another input to the production process, along with other inputs like energy, raw materials, machinery and so on. The price of labor is the wages that the worker is paid. Moreover, the capitalist pays the worker as little as possible so as to maximize the profit on capital. The worker and his or her labor is just another commodity to the capitalist, a thing that is no different from other commodities.

In the event of an economic downturn, the peoples' salaries, wages and benefits are the first items to be reduced, with the protection of capital being the primary consideration. For example, in 2015, Greece owed €323bn to private banks--mostly German and French--and investors who had bought Greek sovereign bonds. The loans themselves were disbursed under questionable circumstances. When the Greek government could not service the loans, a bailout package was given to the Greek government--of which over 90% went to the creditors and little to the population. The population was and continues to be subjected to severe austerities, with drastic cuts in salaries, pensions and social benefits.

The Qur'an supports entrepreneurship while at the same time is against profiteering as well as the dehumanization and commodification of the worker. Is it they who apportion their Lord's mercy? We have apportioned among them their livelihood in the life of the world, and raised some of them above others in rank that some of them may take labor from others; and the mercy of thy Lord is better than [the wealth] that they amass (43:32).

One of the ways of apportioning (allocating) livelihood to members of society is for Allah (swt) to raise some above others. The entrepreneur is an example of a person who has been raised above others so that he

We have given thee Abundance (108:1). For those on the path of the devils, their provision will be narrowed. Lo! thy Lord enlargeth the provision for whom He will, and straiteneth (it for whom He will) (17:30).

Capitalist economies are based on the premise that there is a scarcity of resources and that all individuals are competing against each other for these scarce resources. For those who follow the firm station in spending that which Allah (swt) has bestowed on them--and are not driven either by consumerism or by hoarding--there is abundance from Allah (swt).

Islamic versus capitalist economics

“Capitalist economies are based on the premise that there is a scarcity of resources and that all individuals are competing against each other”

or she may take labor from others – and in doing so provide livelihood for those who are employed in the enterprise.

Unlike capitalism, where the primary purpose of the enterprise is to maximize profit, in Islamic economics the primary purpose of the enterprise is to provide livelihood for society. Profit can be used as a gauge of the efficiency of an enterprise, but profit is not the primary purpose of an Islamic enterprise. The precise measure of a just rate of profit depends on the specific nature of the enterprise.

The entrepreneur enters a direct human relationship with worker, since, as the Qur'an points out that entrepreneurs take labor from others--and does not treat the worker as a commodity. The verse further states that the mercy of thy Lord is superior to the wealth that the entrepreneur may amass. This verse cautions the entrepreneur against engaging in profiteering at the expense of the workers--by denying the workers their due share of the wealth generated by the enterprise.

Provision is from Allah (swt)

So seek your provision from Allah, and serve Him, and give thanks unto Him (29:17). For those who adhere to the straight path and seek their sustenance from Allah (swt), there is blessing and plenty from Allah (swt). Lo!

If we take stock of the conceptions of the individual and society in Islamic and capitalist economics we have the following differences.

- The individual in capitalist economics is taken to be an isolated and individualistic material being. In contrast, in Islamic economics the starting point is an individual who is a spiritual as well as a material being. A being who is inseparable from, and in fact, is one with the rest of humanity. Your creation and your raising are only as a single soul. (31:28)
- The owner of capital in capitalist economies maximizes the profit of capital; in contrast, in Islamic economics the entrepreneur's economic activity is for primarily supporting the livelihood of society, and not for profit maximization.
- In capitalist economics, the individual is an 'economic agent' solely defined by one's own utility function. In contrast, in Islamic economics, the individual's higher purpose is reflected in the economic choices that one makes--and which cannot be reduced to solely economic criteria.
- In capitalist economics, the isolated individual makes decisions for the benefit of the individual's own self. In Islamic economics, it is necessary for the individual's own spiritual and material development that the rights of others be on par with one's own rights and duties. The entire

society at large, as well as the environment, has rights on a Muslim.

Given the Islamic spiritual perspective of the material world, there is a mistaken view that one need not outperform and shine in this world – with some Muslims justifying their failures by deriding the importance of life in this world. In fact, a Muslim's spiritual underpinning and foundation is demonstrated in the material world by his or her excelling in this world.

The constraints imposed by social laws are unlike laws of Nature, since social laws can be violated by the free will of individuals. The significance of rules and laws in Islamic versus capitalist economics are quite different. In the capitalist legal system, laws are manmade --and in many cases favor certain races, groups and classes who hold economic and political power. This was recently evidenced in the 2008 financial crisis, when trillions of dollars of US taxpayer's money were handed over, by no less than the elected leaders (sic), to privately-owned too-big-to-fail banks and financial institutions.

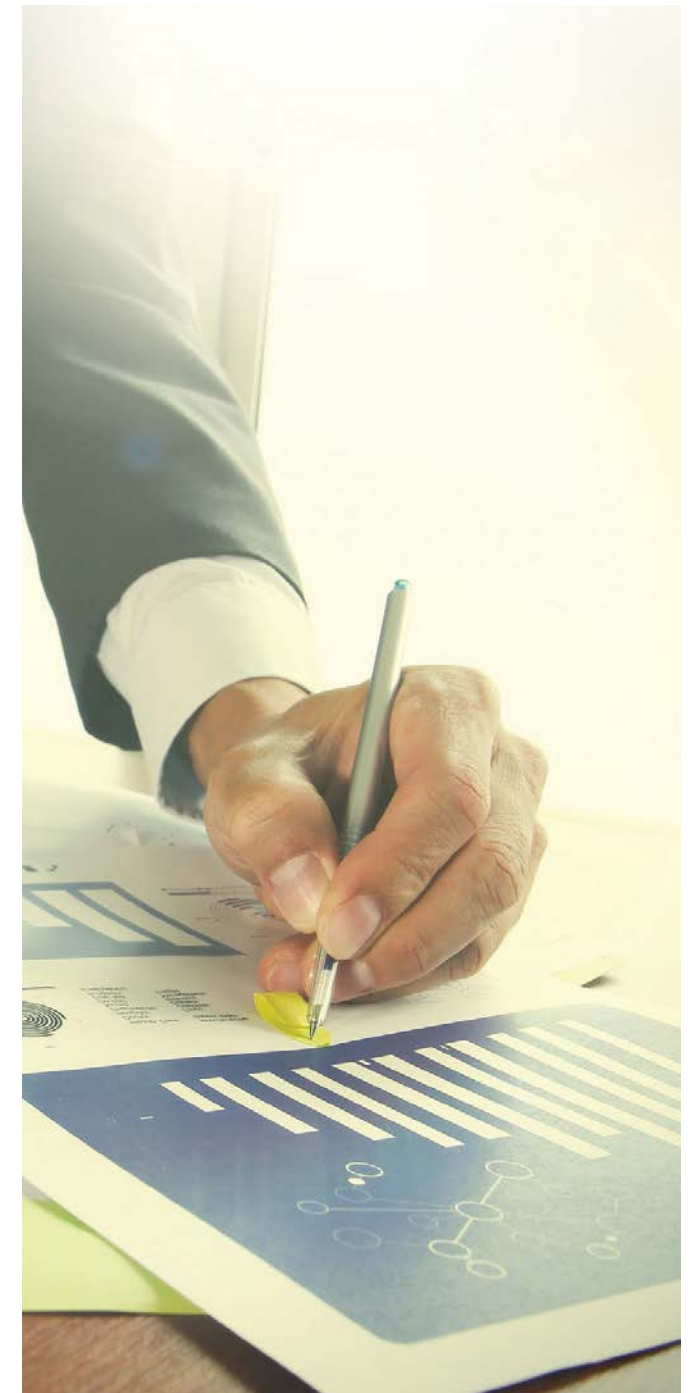
In contrast, the divine laws laid down by the Qur'an are meant for guiding all believers towards leading a righteous and God-fearing life. The Qur'anic laws, including laws pertaining to the economy, result in the establishment of a just and equitable society.

Principles of Islamic economics

Recall the fact that economics depends on the social system. This is the reason that, as one can see from a reading of the verses of the Qur'an, that an Islamic economy is fundamentally different from both the capitalist economy based on profit maximization and as well as from a socialist centrally planned economy. The primary purpose of an enterprise in Islamic economics is to provide livelihood for society's members; and the organization of production is left to the personal initiative of the entrepreneur.

So where should the study of Islamic economics begin? The precursor and model for a modern day Islamic economy is the economic system set up by Prophet Muhammad (pbuh) and continued by the four rightly guided Khalifas. The basis of their economic system was both spiritual and material--being guided by the divine teachings of the Qur'an. The economic system lost its spiritual moorings on the establishment of Muslim dynastic rule, which were feudal in nature – with royalty ruling society and succession being determined by the blood line.

Islamic economics needs to re-spiritualize the study of economics so as to take into account both the spiritual and material dimensions of a human being. The starting point, in my view, should be a community of Muslims who are making a spiritual journey in this world, with the Akhirat (Hereafter) as their final purpose and destination; an Islamic economy should ideally provide the material means to the believers for making this journey on a straight path. Again, in my view, this



“The Qur'anic laws, including laws pertaining to the economy”

underlying principle of Islamic economics; the rules and laws for Muslim economies that have been laid down by the Qur'an can be viewed in this light.

The isolated individual of a capitalist economy needs to be replaced by an individual who is essentially linked with, and at one with, all the other individuals of society and to the rest of Allah (swt)'s creation. A possible approach for constructing a quantitative model for Islamic economics is for the utility function of capitalist economics to be superseded by something analogous to a 'utility function', but which is constituted by the social, spiritual and material dimensions of the entire community.

There needs to be a 'grand social-spiritual-material functional' that is at the foundation of Islamic economics, and which incorporates the contribution of all individuals, of the entire of society as well as of the environment in the functioning of the economy. The laws and rules laid down by the Qur'an for organizing the economy need to be encoded in the social-spiritual-material functional.

The expectation of Islamic economics is that the maximization of the grand social-spiritual-material functional will simultaneously optimize the wellbeing of society as well as of the individual--and create the spiritual and material conditions for all members of the community to be able to travel on a straight path. Furthermore, it is expected that Islamic economics would provide the optimum framework for innovations by entrepreneurs, for the efficient mobilization and deployment of capital, for the protection of the environment--and would lead to a stable economic system that is just and equitable. An Islamic economic system is a theoretically ideal system that all Muslim societies need to strive for, and aspire to achieve.

Any economic system finally consists of the production and consumption of commodities. Islamic economics needs to be formulated quantitatively so that, in particular, the prices of commodities can be derived from its principles. Quantitative tests need to be designed to empirically study the validity of many of the expectations of Islamic finance--as well as the assumptions that constitute its theoretical pillars. One major consequence of the formulation of Islamic economics and finance would be the ability to do an empirical ranking of Muslim majority and other countries--to determine how close they are to an ideal Islamic economy.

Summary

In summary, a society following the teachings of the Qur'an and the sunnah of Prophet Muhammad (pbuh), should ideally evolve an economic system that provides for the livelihood of all its members as well as facilitates and empowers Muslims to optimize their spiritual and material journey in this world.

The Islamic economy is based on private property--but is far from the vices and flaws of capitalism. The edicts of the Qur'an guide the economic system to be organized so that the laborer, the entrepreneur, society and the environment are all in harmony. All provision comes from Allah (swt) and one must strive to be deserving of Allah (swt)'s bounty.

In conclusion, the main purpose of an Islamic economic system should be to provide the material means so as to empower the believers for making the journey of life on a straight path. The discipline of Islamic economics should ideally embody and encode principles and laws that form the basis of such an economic system.

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