

Q: CSS-2020

How Islamic financial and economic system is a solution to human financial problems?

Explicating Islamic Financial System as a Solution to Human Financial Problems

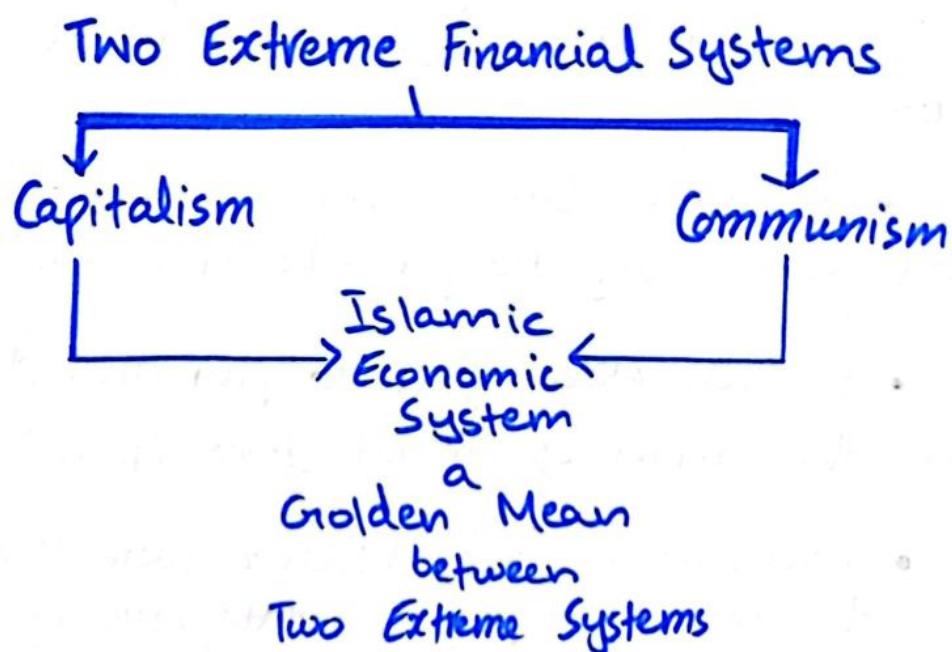
Economic system is defined as "the management of scarce resources for a maximum population. It is a combination of production and consumption of resources to control demand and supply of resources". In modern era, the humans are suffering from numerous financial problems like poor economic growth, high inflation, poverty, labor exploitation etc. Mainly, these problems are caused by the two extreme financial systems i.e. capitalism and communism. But Islam has been referred to as "Deen" that not only provides political and social guidance but also gives financial system that can solve all the financial problems of humans.

Allah Almighty says about Islam in Glorious Quran following words:

"Surely, the true Deen in the sight of Allah is Islam." (Surah Ale Imran - Verse 9)

Islamic Financial System - a Golden mean between Capitalism and Communism

There two extreme financial systems that are prevalent in this modern era. One is Capitalism and second one is Communism. Most of the world is inclined towards western capitalist financial system. This is leading towards accumulation of wealth in fewer hands, labor exploitation, interest based businesses that are causing ever-lasting impacts on lower and middle class of society. On the other hand Communism leads toward absolute monarchy. But Islamic financial system is a golden mean between two extreme systems. It has features of both Capitalism and Communism.



⇒ Capitalist Clause of Islamic Economic System

Islam is the only religion that has called earning a worship. Islam has encouraged expansion of wealth but unlike capitalism Islamic financial system has defined some constraints and norms for business activities.

Allah Almighty says that:

“And we have certainly established you upon the Earth and made for you therein ways of livelihood. Little are you grateful.”

(Al-A'raf 7:10)

⇒ Communist Clause of Islamic Economic System

As communism is mainly focussed on the fulfillment of basic needs of the society like food, shelter, clothes, education. In west, this concept was given by Karl Marx in 1848. But Islamic economic system ^{has} promoted social welfare even many centuries before this Marxist ideology.

- Concept of Bayt al Maal (house of wealth) was given by Holy Prophet (P.B.U.H.).

- Stipends were given to poor and disabled in the reign of Hazrat Umar (R.A.).

- Education, food, shelter were thought to be the responsibilities of state during the rule of Holy Prophet (P.B.U.H.) and his Caliphs.

Highlighting the Financial Problems of Humans and their Solutions prescribed by Islamic Economic System

In modern era, the humans are suffering from high inflation rates, poverty levels and reduction in purchasing power parity of humans all over the world. For instance: Three in five Americans (61% of total population) say that recent price hikes have caused financial hardship for their household. Similarly, Pakistan is^s going through its most severe economic ups and downs. IMF report of July 2023 says that the country's economy had been rocked by significant shocks over the past year that caused damage of more than \$30 billion. These economic crisis are leading to towards chronic level poverty in country. But all these problems of humans can be overcome by the implementation of Islamic economic system.

- i. **Accumulation of Wealth in few hands of Society:** - One of the prevalent financial problem^s of humans is accumulation of wealth in few hands. Due to which rich becomes richer and poor becomes poorer. The society becomes highly

stratified between two classes i.e. elite class that controls the superstructure of society and the lower class that are even trying hard to make their living.

According to a ²⁰²³ report of World Bank: 40% of the population of Pakistan are living below poverty line. Similar sort of condition is prevailing in US now a days. According to 2022 report of US Census Bureau : 37.9 million people lived in poverty in 2022. These reports show the financial problems of humans in these two capitalist societies.

Concept of Circulation of Wealth in Islamic Economic System :

Islam has given the concept of circulation of wealth by introducing policies of Zakaat, Sadqat (voluntary donations), Ushar, laws of inheritance. Islam has considered Zakaat one of the pillars of Islam. This system of Zakaat prevents accumulation of wealth in few hands.

Allah, the Exalted, says in ^{Holy} Quran:
Alms are for the poor and the needy and those employed to administer the (funds); for those whose hearts have been (recently) reconciled (to Truth); for those in bondage

and in debt ; in the cause of Allah ; and for the wayfarer ; (thus it is) ordained by Allah and Allah is full of knowledge and wisdom. (Surah Taubah Verse 60)

ii. Exploitation of labor:

It has become very common to exploit the labor community. This exploitation emerged with the rise of capitalism in the world. Now in modern world, with the advancement of science and technology it has become a common practice for (high) most influential firms to exploit labor for making their own profit. Recently, in October 2023 many Amazon workers in KSA reported that they were exploited by labor supply and recruiting firms. (nbc news, exploitation of labor by Amazon, October 2023).

Promulgation of labor Rights in Islamic financial system:

Islam was the first religion of the world that has promulgated labor rights. Islamic economic system mainly focussed on the dignity of labor, their rights related to compensation in case of over-burdening them

them, their right to take rest and abolition of slavery of labors. The Holy Prophet (P.B.U.H.) gave respect to labor and promoted their right^{-5.}

Hadith:

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You should pay the laborer his wages before his sweat dries."

(Sunan Ibn Majah, 2443)

iii- Lawlessness in Business Activities

Now a days, it is a common practice to implement unlawful methods for making profit. The rich businessmen use their power to take the land of the poor for their projects. The strong and influential retailers exploit the poor farmers in trade.

In October 2020, it was reported that the sons of Malik Riaz assault villagers amidst land grabbing. Similarly, Peshawar's Bahria town and City housing are operating without NCC. These companies, in this way, cheat the innocent citizens of Pakistan and make their profit. But these illegal and unethical ways of earning money are strictly prohibited in Islam.

Moral Norms defined by Islam for business activities : -55

Islam is a religion that revolves around the "Human". Islam forbids every measure that could harm humanity. In business activities, Islam teaches its followers to inform the buyer about the defect of the product. Even writing down a transaction is highly encouraged especially a credit transaction.

Hadith:

"There should be neither harming nor reciprocating harm."

(Ibn e Majah)

In Holy Quran, Allah Almighty warns ^{all} those wealthy businessmen who do not fulfill their agreements and cheat their customers.

"O you who believe! Fulfill your commitments." (Al. Maidah, Verse 1)

iv. Injustice in Trade:

The injustice in trade is prevalent not only at local level but also at national and international level. This concept began several centuries ago in Europe. When colonizers colonize rich lands, they used to

take the raw materials from the colonized lands and manufacture luxury items for their exports.

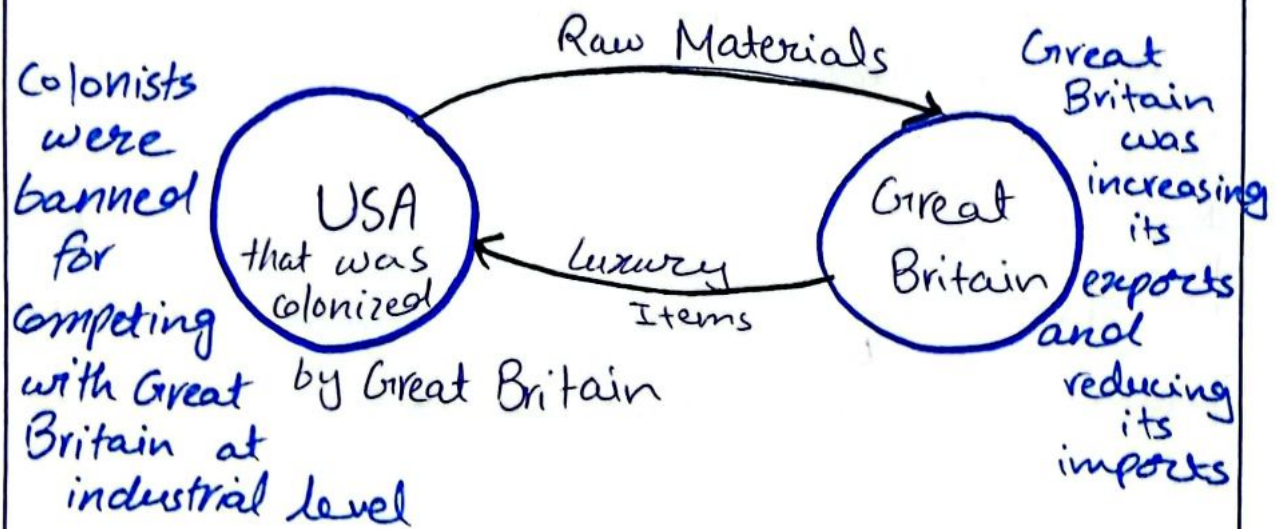


Fig: Process of Mercantilism

In modern times, European countries still follow the same process for increasing their exports. Pakistan is extremely rich in minerals and resources. But due to this mercantilist system, Pakistan has always been dependant on (export) imports. According to Pakistan Bureau of Statistics (PBS), due to this imbalance between imports and exports the trade deficit was \$18 billion for the fiscal year 2022 to 2023. This led to abnormal increase in **inflation rate** in the country. In July 2022 to July 2023, it was nearly 28%. From July to August 2023, it was 48%. This led to rapid increase in the poverty level in Pakistan.

Prohibition of Injustice^{in business} by Islamic Economic System

Islam encourages trade and business activities even with non-Muslims. But it has defined a specific criteria for both Muslims and non-Muslims so that neither could cheat one another. Islamic economic system promotes welfare of ^{both parties} (all people) that are involved in doing business.

for instance : The Prophet (P.B.U.H.) concluded a contract with the people of Khaibar to utilize the land on the condition that the half of the products of fruits or vegetables would be their share. (Bukhari)

(v) Prevalence of Extravagance in Society

Due to hold of capitalists on the superstructure^{-ure} of society, it has become a common practice to spend lavishly on useless events and occasions of life. All these capitalists are sitting on dominant positions like parliament, executive and judiciary. They use the revenues generated by taxes of people on their security protocols or to raise their standards of living. Recently, it

is reported that the government has budgeted total current expenditure at Rs 13,320 billion for fiscal year 2024 which is 53% higher than the last year's budgeted figure.

(dawn news, budget for FY 2024, at 2023)

Promotion of a Balance between Extravagance and Stingy Lifestyle by Islam

Islamic economic system promotes a moderate lifestyle that is a balance between extravagance and stingy lifestyle. Islam prohibits waste of money even by rulers. During the reign of Hazrat Umar (R.A.), at the time of appointment, every officer was required to make the oath:

- He would not ride a Turkish horse (which was a symbol of pride).
- He would not wear fine clothes.
- He would not eat sifted flour.
- He would not keep a porter at his door.

Caliph Hazrat Umar (R.A.) himself followed the above postulates strictly.

vi) Interest based Economy

One of the major financial problems of human society is interest based economy. This leads to numerous financial problems of the nation. This interest is strictly forbidden in Islamic economic system as it leads to social injustice.

Interest ↑ → Accumulation of wealth ↑ → Unemployment ↑ → Crime rate ↑

In December 2023, state Bank of Pakistan maintained interest rate at 22%. that is extremely high and has also led the nation towards devastating chaos.

Promotion of Interest Free Economy by Islamic financial System

Islam strictly prohibits interest based economy because interest always leads to accumulation of wealth in few hands. It gives profit to one party only. Rich becomes richer and poor becomes poorer.

Allah, the Exalted, says in glorious Quran:

“Riba constitutes war against Allah and His Messenger.”
(Al-Baqarah 2:279)

(vii) Monopoly of Capitalist Class in Price-Setting Decisions

Although it is the responsibility of government to set prices for all commodities but capitalist class also intervene in these decisions. While in communism, due to absolute monarchy the influential and power^{ful} figures make policies that perfectly suits their interests.

For instance: The federal government of Pakistan issued a price control order 2021, that brought market distortions. Then the produce started lobbying with political forces for^{RS} price-setting decisions. (tribune, price-controlling in Pakistan, December 2023). This led to price hike of all commodities in Pakistan.

Discouragement of Monopolistic behavior in Islamic Economic System

Islamic financial system discourages all economic policies that go against the welfare of people. Islam prohibits all activities or policies that creates imbalance. Because due to such unlawful activities or policies, long-lasting repercussions occur for the the middle class. Islamic economic system is focussed on the welfare of whole society

and Allah Almighty warns all wealthy elite who consider them immortal because of their wealth and give harm to others while using their authority.

Allah Almighty warns such unjust wealthy class in following words:

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Woe to every backbiter, slanderer, who amasses wealth greedily and counts it repeatedly, thinking that their wealth will make them immortal!"
(Al-Humazah, Verse 1-3)

Concluding Thoughts

In this contemporary world, humans are suffering from numerous financial problems that are caused by two prevalent economic systems i.e. capitalism and communism. But Islamic economic system is a golden mean between these two extremes. All the financial problems of humans can be sort out by implementing the principles of Islamic financial system. Because this is the only financial system that considers social welfare and economic prosperity equally important.