

What are the <sup>main</sup> principles of Islamic Economics. How do these principles provide solutions to contemporary challenges?

### Introduction

Islam is a complete code of life, it presents its followers with a system of economics, politics, judicial processes and administrative processes mechanism. The world is governed by the rules and laws of the western capitalist order. In the last century, the world has seen two economic orders capitalism and communism. Both ideologies are poles apart with varying opinions on ownership of capital. However, the world has seen these two systems fail in the form of the financial crashes of the present and past centuries. Islam presents a different viewpoint altogether with an emphasis on capital ownership and social protection. It presents a moderate economic system between capitalism and communism. In this era of economic turmoil, Islam presents an economic system that is the solution to all the contemporary problems/hardships.

## PRINCIPLES OF ISLAMIC ECONOMIC SYSTEMS

### a) Recognition of Private Ownership

Islam recognizes the right of an individual to own wealth. However, this ownership is coupled with a belief that everything a person owns is



actually owned by Allah (swt). The person is also bound in using his wealth; within the realms of Shariah. In this regard, the almighty in His Book has said

"For men is a share of what they have earned, and for women is a share of what they earned." (An-Nisa)

Try to add the Arabic of quranic ayats

## b) Circulation of wealth:

Islam prohibits the accumulation of wealth in the hands of a privileged few of society. It is a religion that emphasizes on the circulation of wealth in society. In this regard, Allah (swt) says in Furo

"Woe to every slanderer backbite who gathers wealth and counts over it over. Thinking that his wealth has made him immortal."

(Al-Humazah)

Societies fall when the top has concentrated all the wealth and the lower classes have no access to that wealth.

## c) Wealth Generation through Asset Based Activity:

Islam is very clear on the principle of 'Money cannot be created out of money'. It promotes generation of wealth; however, it looks that generation with some asset based activity. The practice of 'Interest' or 'Usury' or 'Riba' is the process of creating money out of money. It forbids this practices as it debilitates someone to the right



of sustainable wealth generation.

## d) Techniques of Wealth Generation

Use more specific and self-explanatory headings

After linking wealth generation with asset based practices the question arises oh how to earn/generate wealth.

In this regard, Islam lays down two techniques of wealth generation

(i) Investments & Earning through those investments - Various financial tools/instruments can be used to invest in a venture and extract dividends from the investments. Some are Musharakah, Mudarabah etc.

(ii) Provide Services & Earning through those services - Islam encourages asset-backed wealth generation. This method is straight-forward and self-explanatory. The services and goods produced can used to leverage decent gains; provided they fall in the limits of Shariah.

## e) Moderation of the Lifestyles

Islam promotes a balance of lifestyles. It discourages a lifestyle that is based on flaunting of wealth and is extravagant. While on the other hand, it also discourages a lifestyle that is miserly, stingy. It advocates a balance between the two. It promotes its followers to spend their wealth and not hoard it for Allah (SWT) says in the Quran about the people who choose a balanced life

"And for those who <sup>when they</sup> spend, are neither wasteful or stingy but choose a middle path/course between that." (Al-Furqan)



## f) No benchmark for Profits

Islam recognizes the right and need to earn profits from a transaction. However, there is a condition that is attached to those profits. These gains must not be earned on the basis of deception or fraudulent practices. In this regard the Holy Prophet  $\text{ﷺ}$  advised against these five transactions:

- ① "Do not go out to meet the riders (on a trade caravan),
- ② Do not urge buyers to cancel a sale transaction to make a new one with you
- ③ Do not bid against one/each other (to fool another bidder)
- ④ A townsman must not buy on behalf of the Bedouin
- ⑤ Do not tie up the udders of camels and cheeps (so that they appear to have a lot of milk)." (Muslim)

The first transaction (his  $\text{ﷺ}$  told to) resonates of unjust profiteering as the trader buying away the town shall receive a lesser purchase price. The third transaction is of the price wars or artificial escalation in price. The last is clearly forbidding deceptive/fraudulent practices.

## g) Islamic Code of Ethics in Business

Islam presents a code <sup>of Ethics</sup> for every sphere in life. Similarly, it has also laid down some key principles for carrying out financial/economic activities. In this regard some salient features are

- i) Informing the buyer of a defect in a product
- ii) Avoiding to sever  $\text{ﷺ}$  in order to sell a product
- iii) Agreements and transactions are encouraged to be



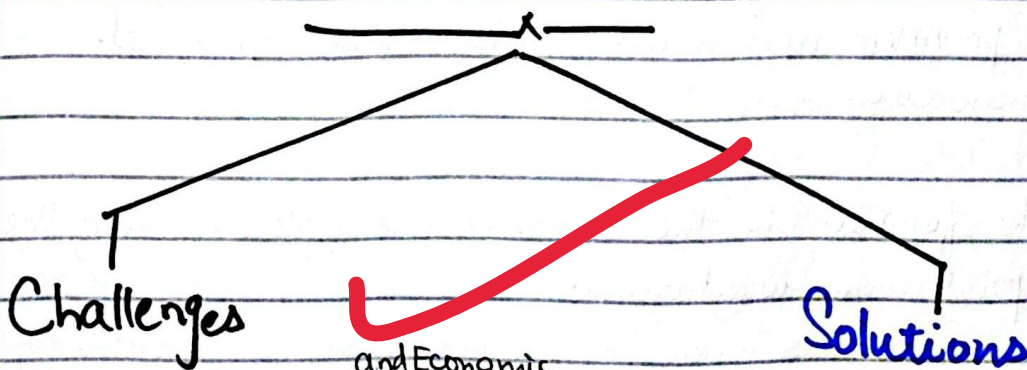
In a formal and written manner

- iv) Abiding by the contract/agreement is also emphasized.
- v) Loss should be split, so as to protect (both) parties from the loss alone.
- vi) Accepting to cancel a transaction/agreement
- vii)

## Other key aspects of Islamic Economics

- i) Sources are defined for a state to collect Revenue.
- ii) Recognition of Economic Inequalities
- iii) Recognition of Economic Activities with Non-Muslim Entities (Individuals/Countries)
- iv) Policies to promote welfare in Society

## CONTEMPORARY CHALLENGES AND SOLUTIONS IN LIGHT OF ISLAMIC ECONOMICS AND ITS PRINCIPLES



- (i) Contemporary Banking Practices <sup>and Economic</sup> → Shift from traditional Banking focus on Interest-lead Growth with all the activity generated from the <sup>practice of</sup> fractional-reserve Banking to asset-based real activity and <sup>full</sup> real-reserve based system of banking.
- (ii) Contemporary practices emphasize → Incorporating and

Discuss this part in detail by giving headings and subheadings; along with references



- profits over the welfare of the general workforce and public as a whole
- regulating business owners to prioritize the welfare of the general public and employees
- iii) Contemporary concepts such as Trickle-down economics have failed miserably resulting in a wealth bulge at the top. → Ensuring Adequate circulation of wealth through measures such as progressive taxation and zakat.
  - iv) Speculative practices in the market, leading to growth of economies → Linking growth and wealth creation with asset based activities as mentioned above.
  - v) Contemporary practices are intertwined with fraudulent and deceptive practices. → Implementing the code of Business Ethics as envisaged by Islam.
  - vi) Speculative Practices also leads to economic crashes, → Practices to be linked with assets and phasing out of the present.
  - vii) Unjust profiteering and Price gouging has become a norm. → Deceptive practices and fraudulent activities to be discouraged and implementation of the code of Ethics.
  - viii) Hoarding and Creation of Artificial Shortfall leads to prevalent now more than ever. → Enforcement of strict punishment and implementation of the code of ethics as a must to avoid.

The following is the comprehensive explanation of the points mentioned above:

Today's economic system is based on creation of wealth/money from money. This is one of the most plaguing issues of the modern times. As this practice leads to the creation of money out of thin air. Moreover, earning money from money is a practice that leads to debt traps and economic hardships for the debtor. Islam envisages

Keep the description of a single heading brief and divide it into subheadings



a system where wealth generation is backed by hard (concrete) assets. By assets, it is meant goods and services. Moreover,

Islam, is a religion that is deeply concerned with the welfare of its followers. In this policy mechanisms or framework that go contrary to the welfare of the general public or the workforce of that business are prohibited. It encourages the creation of framework that keep welfare and profits hand in hand.

Trickle-down economics is a concept that after the privileged earn their fair share, wealth will trickle down the economic hierarchy. However, this has failed miserably as wealth gets concentrated in the hands of the privileged few. In this regard, progressive taxation and zakat and the circulation of wealth are advocated by Islam.

Speculative practices are rampant in the market. The creation of overnight winners and losers is a phenomenon that is all too common in the modern world. In this regard, Islam promotes practices that are based on assets creation and generation, and further utilization.

Nowadays, fraud either in the market or at the individual level has taken hold. Islam, however, prescribes a code of ethics for both buyers and sellers. This code reinforces the trust between the parties and resultantly in the market as a whole.

As mentioned above, creation of wealth from speculative practices will benefit in the short-run but the impacts will (terrible) tremendous in the long-run. The 2008 financial crisis is a clear example of this. Companies/firms made huge profits in the short-run, only to apply for Chapter 11 bankruptcy in later on. with

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market based wealth generation all of the above could be avoided.

In a run/bid to earn more profits, today's business (practices) environment have turned to the deceptive/fraudulent practices of price gouging to earn a quick buck. In this regard, the code of business ethics laid down about represents the contract between the buyer and seller. Moreover, regulators are needed to enforce and implement laws which prevent such malicious activities.

Lastly, hoarding and creating shortfalls is nothing. In this regard, Islam has decreed the punishments for those who hoard and set mechanisms in the form of administrators to deter those who wish to indulge in this practice.

## CONCLUSION

Islam's economic system is a balance between the contemporary economic systems. It encourages and recognizes the right to earn profits and private ownership, all while in the limits imposed by Shariah. In today's economic world, many problems trace their source to the interest-based economic system. For this, Islam already has given an alternative. For many ills and ails of the system, there is a solution ranging from charities (sadaqah) to new forms of financial instruments. These instruments aim to benefit both users and the general public.

Improve the structure of the answer, references and the paper presentation pattern