

# Islamic Economic System

Q: Write down the main principles of Islamic Economics. How do these principles provide solutions to contemporary challenges?

Q: Islamic Financial & Economic System is the solution of human financial problems. Discuss.

## Rationale of Islamic Economic System:

Economics is a science concerned with production, distribution and consumption of goods, services, wealth and resources. It plays a significant role in social structure of Islam, so significant that ALLAH did not leave the economic aspect of life to be determined by pure human intellect and experience, but made it the subject of Revelation. The Quran categorically promises peace and plenty for those who follow the Divine Code and for those who turn away from it, it promises scarcity.

“But whosoever turns away from my Message, verily for him is a life narrowed down, and We shall raise him up blind on the Day of Judgment.” (Al-Quran)

In this verse the term **maceeshat** has been used from which comes the word **mashiyat** the translation of economics recognised by all. Islamic economics is a system based on the principles derived from the Quran and Sunnah, aimed at ensuring justice, equity, and social welfare. The central focus of Islamic economics is the harmonious relationship between individuals, society, and nature, under the guidance of divine laws. It contrasts with both capitalist and socialist models by incorporating moral and ethical dimensions into economic decision-



## Main Principles of Islamic Economics:

The following are main principles of Islamic economics.

### ① Tawhid (Oneness of ALLAH):

The belief in the oneness of Allah (Tawhid) is the foundation of all Islamic teachings. It asserts that all resources and wealth ultimately belong to Allah and humans are mere stewards or trustees. This view shapes the ethical and moral framework for economic activity in Islam.

“To Allah belongs the dominion of the heavens and the earth and whatever is within them.” (Al-Quran)

**Impacts on Economics:** All economic decisions and actions must align with the moral code of Islam, emphasizing accountability before Allah. It rejects any form of exploitation, oppression, or excessive greed.

### ② Justice and Fairness (Al-Adl wal-Ihsan):

Justice in distribution and fairness in economic transactions is central to Islamic economics. Islam promotes equity in resource distribution, prohibiting unjust practices like interest (Riba) and fraud.

“Indeed, Allah commands you to render trusts to whom they are due and when you judge between people to judge with justice.” (Al-Quran)

The Prophet (PBUH) said:

“He who deceives is not of us” (Al-Hadith)

**Impact on Economics:** Islamic economics promotes the just distribution of wealth through mechanisms like Zakat and prohibiting exploitative practices such as Riba (interest) and Gharar (excessive uncertainty in contracts).

### ③ Prohibition of Riba (Interest):

Islamic economics strictly prohibits Riba, which



is any guaranteed, predetermined return on capital (interest). Islam emphasizes trade and equitable profit-sharing models such as Mudarabah (profit-sharing) and Musharakah (joint venture).

“O you who have believed, do not consume Riba, doubled and multiplied, but fear Allah that you may be successful.” (Al-Quran)

**Impact on Economics:** The prohibition of interest ensures that wealth circulates justly and that capital is invested in productive ventures. It encourages entrepreneurship and equitable risk-sharing rather than debt accumulation and exploitation.

#### ④ Zakat (Obligatory Charity):

Zakat is one of the pillars of Islam and refers to the mandatory charity that Muslims must give to the poor and needy, typically 2.5% of their wealth annually. Zakat serves as a redistribution mechanism to reduce poverty and inequality.

“Take from their wealth a charity by which you purify them and cause them to increase and invoke blessings upon them.” (Al-Quran)

**Impact on Economics:** Zakat creates a safety net for the poor, promotes social welfare, and prevents the concentration of wealth in the hands of a few. It encourages a culture of giving, reducing the gap between the rich and the poor.

#### ⑤ Prohibition of Gharar (Excessive Uncertainty):

Islamic economics prohibits Gharar, which refers to transactions with excessive uncertainty or ambiguity. This principle ensures transparency in business dealings and protects all parties from potential exploitation.

The Prophet (PBUH) prohibited sales with excessive



uncertainty, such as selling goods not in the seller's possession.

**Impact on Economics:** The prohibition of Gharar ensures fair, transparent, and risk-conscious transactions. It prevents speculative activities like gambling and emphasizes ethical business practices.

### ⑥ Encouragement of Trade and Risk Sharing:

Islam encourages trade and legitimate profit-making through equitable risk-sharing. Islamic finance promotes partnership-based models like Mudharabah (profit-sharing) and Musharakah (joint venture), where risks and profit are shared equally.

“O you who have believed, do not consume one another's wealth unjustly or send it (in bribery) to the rulers... But only (in lawful) business by mutual consent.” (Al-Quran)

**Impact on Economics:** Risk-sharing mechanisms align economic activities with ethical principles, preventing exploitation and fostering a collaborative, socially responsible economy.

### ⑦ Economic Freedom with Social Responsibility:

Islam grants individuals the freedom to earn, own, and spend wealth. However, this freedom is balanced with a sense of social responsibility to ensure that economic activities do not harm others or lead to injustice.

“And spend (in the way of Allah) from what We have provided for you” (Al-Quran)

**Impact on Economics:** Islamic economics encourages individuals to engage in lawful economic activities while maintaining a sense of responsibility toward society and ensuring the well-being of others.



### ⑧ Moderation and Prevention of Waste (Israf):

Islam promotes moderation in consumption and condemns wastefulness. The concept of Israf (extravagance) is discouraged, and the balance between material and spiritual well-being is emphasized.

"Indeed, the wasteful are brothers of the devils, and ever has Satan been to his Lord ungrateful." (Quran)

**Impact on Economics:** This principle encourages responsible consumption, sustainable use of ~~from~~ resources, and discourages hoarding or excessive luxury. It promotes environmental stewardship and long-term economic sustainability.

### ⑨ Earth Not the Property of Any Individual:

It is the principle that earth can't be the property of any individual. It is a means of production and shall remain available for the needy in equal manner.

"And We have provided therein means of subsistence, - for you and for those for whose subsistence ye are not responsible." (Al-Quran)

It is clear that land, like water, air, heat and light is God's gift to all men. For a man to claim proprietary rights of them is tantamount to claiming equality with God.

### ⑩ Islamic Concept of Division of Labor:

It is the principle of the Quran that no one shall subsist on the earnings of another and that excepting those who have become injured everyone shall work. The Quran calls them **Mutrafreen** who lead an easy life on the earning of others and mentions three groups. One group consist of those who take with even balance and give less (with an un-even balance). Another group comprises those who inherit money,



land, property etc. by reason of birth and collect more wealth as a consequence.

“And ye love wealth with inordinate love!” (Al-Quran)

The third group is made of priest-craft. Surah Tauba refers to such clerics and says that the majority of them eat up the earnings of others without having any right to it and thereby stand in the way of the benefit of humanity.

“They take their priest to be their lords in derogation of Allah, and Christ the son of Mary; yet they were commanded to worship but One ALLAH: there is no god but He. Praise and glory to Him: (Far is He) from having the partners they associate (with Him).” (Al-Quran)

In respect of the earnings of women, the Quran says that they have full rights over what they earn.

## Solutions to Contemporary Challenges through Islamic Economics:

### ① Poverty Alleviation:

Islamic economics provides a robust framework for poverty reduction through mechanisms such as Zakat, Sadakah (voluntary charity), and waqf (endowment). These instruments directly address income inequality and provide social security for the poor.

**Example:** Zakat redistributes wealth to the needy, helping to reduce poverty and ensure that wealth is not concentrated among the rich.

### ② Elimination of Economic Exploitation:

By prohibiting Riba (interest), Islamic economics eliminates exploitative lending practices and encourages ethical investment through profit-sharing. This system



ensures that both parties in a financial transaction share risk and reward equally, unlike conventional interest-based systems that disproportionately burden borrowers.

**Example:** Islamic banking and finance promote equity-based financing like Musharakah and Mudharabah which protect borrowers from falling into debt trap.

### ③ Economic Justice and Equity:

Islamic economics emphasizes fair distribution of wealth and access to resources. It ensures that wealth circulates throughout society, preventing economic inequality from destabilizing.

**Example:** The prohibitions of monopolistic practices and Gharar (uncertainty) ensures fairness and transparency in the marketplace.

### ④ Addressing Environmental & Resource Depletion Issues:

Islamic economics encourages moderation and responsible consumption, which can counteract the overexploitation of natural resources and environmental degradation. The principle of avoiding Israf (wastefulness) is particularly relevant in today's context of environmental concerns.

**Example:** Sustainable practices aligned with Shariah can guide the management of natural resources, promoting ecological balance and long-term economic stability.

### ⑤ Financial Stability:

Islamic finance provides a stable financial system by avoiding speculative and high-risk activities which have led to financial crises in conventional systems. The risk-sharing model encourages prudent



investment and prevents economic bubbles.

**Example:** Islamic banking has shown resilience during global financial crises because of its asset-backed and risk-sharing structures.

## ⑥ Concept of Social Security:

Islam, in contrast to the modern concept of welfare state, holds the individuals as much as the state responsible for the welfare of all members of society, particularly those close as relatives or in physical proximity as neighbours. The joint responsibility of the state and the individual makes the system more effective and comprehensive.

It is in the Holy Quran:

“Never shall you attain to righteousness unless you spend out what you love; and whatever you spend Allah surely knows it well.” (Al-Quran)

“And spend out of that with which We have provided you before death comes upon one of you and he says, ‘My Lord! If Thou wouldst grant me respite for a little while then I would give alms and be among the righteous.’” (Al-Quran)

The Holy Prophet (PBUH) said:

“Charity wipes out sins as water extinguishes fire.” (Al-Hadith)

It is not the quantum of charity that is important but the spirit behind it. Every Muslim, regardless of his means, is expected to participate in this act of virtue. It is in the Holy Quran:

“Let him who has abundance of means spend out of his abundance, And let him whose



means of subsistence are ~~straitened~~ <sup>straitened</sup>, spend out what Allah has given him. Allah burdens not any soul beyond that what He has given it. Allah will soon bring about ease after hardship." (Al-Quran)

The Islamic welfare society, for that matter any effort in the name of Islam can never see success without the implementation of basic Islamic values of life. The most important of these are unshakable faith in the existence of All-Powerful God (ALLAH), transitory life on earth, accountability of every thing big or small on the Day of Judgement, and reward by the All-Aware according to the real motive of every human action.

## Islamic Economic System Vs. Conventional Economic System:

### ① Focus:

Conventional system prioritize profit maximization, Islamic economics emphasizes social welfare and moral responsibility. It focuses on achieving both economic growth and social justice by ensuring that wealth is used to benefit the entire society.

### ② Ethical Considerations:

Islamic economics imposes ethical constraints on economic activities, prohibiting activities harmful to society.

Conventional systems often ignore these ethical considerations, leading to exploitation, environmental degradation, and social inequality.

### ③ Justice and Equity:

Islamic economics aims to create an equitable society where wealth is fairly distributed and everyone has access to basic necessities. In contrast, conventional systems can exacerbate inequality, with the rich becoming richer and the poor being left behind.

### Conclusion: