



Munich Personal RePEc Archive

# **Economic Problems and the Teaching of the Qur'an**

Islahi, Abdul Azim and Ausaf, Ahmad

Idarah Ulul al-Quran, Aligarh, India

2010

Online at <https://mpra.ub.uni-muenchen.de/53466/>

MPRA Paper No. 53466, posted 12 Feb 2014 12:07 UTC

**ECONOMIC PROBLEMS AND THE  
TEACHINGS OF THE QUR'AN**

**Selected Papers**

**Presented at an international seminar on  
Economic problems and the Teachings of the Qur'an  
organized by the Idarah Ulūm al-Qur'an held at  
Aligarh during 6-7 November 2010**

**Edited by  
AUSAF AHMAD  
ABDUL AZIM ISLAHI**

**IDARAH ULUM AL-QURA'N  
PO.BOX, NO: 99, SHIBLI BAGH  
ALIGARH, U.P. (INDIA) 202002  
Ph. No. (0571) 2720311 [www.alquran.in](http://www.alquran.in)**

Name of Book: Economic Problems and the  
Teachings of the Qur'an

Edited by : Ausaf Ahmad  
Abdul Azim Islahi  
Pages : 160  
Printed at :  
1st Edition : 2011  
Quantity : 1100  
Price : Rs.150/-

Copyright © Idarah Ulum al-Quran

**Published by**  
**IDARAH ULUM AL-QURA'N**  
**PO.BOX, NO: 99, SHIBLI BAGH**  
**ALIGARH, U.P (INDIA) 202002**  
**Ph. No. (0571) 2720311 [www.alquran.in](http://www.alquran.in)**

## CONTENTS

<b>Preface</b>	
Abdul Azim Islahi	5
<b>Introduction</b>	
Ausaf Ahmad	7
<b>Presidential Address</b>	
Irfan Ahmad Khan	19
<b>Economic Doctrines of the Qur'an: A System Framework</b>	
P. Ibrahim	27
<b>Qur'anic Perspective of Compensation Principle</b>	
Afzal Peerzade	47
<b>Economic Justice: Islamic Economic System versus Capitalism (An overview based on the Qur'an)</b>	
Fareed F. Khoja	63
<b>The Qur'an and the concept of scarcity</b>	
Israrul Haq	85
<b>Role of Informal Institutions in the Redistributive Scheme of the Qur'an</b>	
Abu Shariq	103
<b>Economic Challenge and its Qur'anic Solution</b>	
Hifzur Rab	123
<b>An Investigation into the Relation between <i>Riba'l-Qur'an</i> and <i>Riba'l-Hadith</i></b>	
Abdul Azim Islahi	141

## Contributors

**Abdul Azim Islahi**, *Professor, Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Kingdom of Saudi Arabia*

**Ausaf Ahmad**, *Former Head, Special Assignments, Islamic Research and Training Institute, Islamic Development Bank, Jeddah, B-89 Sector 27 Noida, India*

**Irfan Ahmad Khan**, *Eminent scholar of the Qur'an, Chicago, USA*

**P. Ibrahim**, *Professor, Department of Economics, Pondicherry University, Pondicherry, India*

**Syed Afzal Peerzade**, *Chairperson, Department of Economics, Karnataka State Women University, Bijapur, Karnataka, India*

**Fareed Khojah**, *Head, Department of Business Administration, SRK Institute of Management and Computer Education, Sapeda, Kachch, Gujarat, India*

**Israrul Haque**, *Senior Lecturer, Batterjee Medical College, Faculty of Healthcare Administration, North Obhur, Jeddah, Kingdom of Saudi Arabia*

**Abu Shariq**, *Senior Lecturer, Zanzibar University, Zanzibar, Tanzania*

**Hifzur Rab**, *Chief chemist, ONGCL, MS, 11 High, Mumbai, India*

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

## PREFACE

We bow our head with a sense of profound gratitude before Almighty Allah who made it possible for us to present first ever work in English from Idarah Ulum al-Qur'an (the Institute of Qur'anic Sciences), Aligarh. This will hopefully pave the way for the presentation of the fruits of its researches in English in future as well, *in-sha-Allah*. Idarah organised a seminar on 6-7 November 2010 on the theme of "Economic Problems and Qura'anic Teachings". It was for the first time that a seminar organised by Idarah Ulum al-Quran saw multi-lingual presentations. This volume consists of a selection of the papers presented in the seminar in English. The Urdu and Arabic papers are being published under separate cover. It may be noted here that this seminar was fourth in a series of seminars organised by the Idarah on themes related to the Quranic Studies. Earlier it organised seminars on "Qur'anic Studies in the Twentieth Century", "Problems of Our Time and Qur'anic Solutions", and "Family System and the Qur'anic Teachings". In view of the importance that Qur'an gives to the economic aspect of human life and the quite detailed teachings and some basic principles that it provides on the issue, this theme was only a natural choice particularly in the backdrop of the serious economic crisis affecting the entire world. *Al-hamdulillah*, it received overwhelming response from both paper contributors and participants. I take this opportunity to thank Dr. Ausaf Ahmad who not only delivered the key note address to the seminar but very generously cooperated with us in the task

of editing these papers. He was kind enough to write a valuable introduction to the volume. I am also grateful to the members of Academic Committee of the Seminar that comprised of Prof. M. Izhar Ahmad, Department of Economics, Prof. S. M. Imamul-Haq, Department of Commerce, and Prof. Valeed Ahmad Ansari, Department of Business Administration, all from Aligarh Muslim University, Aligarh. We are particularly obliged to Mr. Muhammad Munir Khan who sponsors this annual seminar. Last but not the least, my thanks are due to the President of the Idarah, Professor Ishtiyah Ahmad Zilli, and my colleagues in the Idarah, Prof. Zafarul Islam Islahi, Dr. Muhammad Rashid, Mr. Ashhad Jamal Nadwi, Mawlana Sultan Ahmad Islahi, Dr. Abu Sufian Islahi, Dr. Safdar Sultan, as well as friends and students like Mr. Naseem Ahmad Khan, Dr. Abuzar Mateen, Muhammad Ismail Islahi, Zubair Alam Islahi, Abu Saad Islahi and Saifullah Islahi. All of them worked tirelessly to make this seminar a success. May Almighty Allah accept their services and reward them profusely. *Wa'l-hamdulillahi awwalan wa akhira.*

Abdul Azim Islahi  
Convener of the Seminar

## INTRODUCTION

Ausaf Ahmad

Islamic economics is now fast developing into a distinctly different and alternative paradigm of contemporary economics. Historically speaking, various developments regarding Islamic economics started taking place in the last quarter of the twentieth century. Several Muslim countries declared the establishment of an Islamic economic system a professed goal of economic policy in their respective countries. A number of Islamic financial institutions, including Islamic banks, investment companies, Islamic insurance companies etc. have made appearance in some Muslim and non-Muslim countries. Students in American and European universities, including some of the Ivy League universities, are writing their dissertations for their graduate degrees on themes related to Islamic economics. Some professional journals have also appeared which regularly publish scholarly articles and contributions made to the subject. Some very reputed publishers in the profession have published treatises on various themes of Islamic economics. A number of research institutes and centers of excellence have also been established to promote the subject.

All these developments have given birth to enthusiasm among those, who are already committed and to curiosity among the uninitiated. Even those people who know next to nothing about Islam and its values or couldn't care even less, but have a professional interest in economics, are raising questions like: Does Islam have an economic system of its own, distinctly different from capitalism and



socialism? Can Islamic economics have the solutions for intricate economic problems of modern day industrial societies that have defied many theories and philosophies? Does Islamic economics have a proper institutional framework and motivational mechanism to succeed where others have failed? These and similar other questions agitate the minds of people whenever Islamic economics is mentioned. Some of these people even doubt the validity of any expression like Islamic economics. They plead that economics is a secular subject. Is there any possibility to have an Islamic economics any more than to have Islamic mathematics or Islamic Physics? Shall the principles, theories and policies based on Islamic economics be applicable to Muslims alone? How it shall be relevant to societies which are not Muslim?

Islamic economics does not hide any of its assumptions or for that matter, even its value judgments. It does not make any unsubstantiated tall claims about its value neutrality, positivity or universal application. It is obvious that value system of Islamic economics is based on Qur'an and *Sunnah*. The Qur'an is Divine. It is the word of God, which was revealed to Prophet Muhammad (pbuh). Muslims believe that injunctions stated in the Qur'an are obligatory for them but its guidance is for the whole humanity. *Sunnah* is the narration of Prophet's (pbuh) deeds and words. It is contained in *hadiths*. The Qur'an is unique among the world's known religions and their sacred texts as it contains many injunctions about the economic behavior of man, something totally absent elsewhere.

It is against this background that Aligarh based Institute of Qur'anic Sciences (*Idarah Ulum al-Qur'an*) decided to hold an international seminar on Economic Problems and the Teachings of the Qur'an. The seminar, in which a large number of economists, historians, social scientists, and religious scholars from different parts of

India and abroad participated, was held in Aligarh during 6-7 November 2010. The seminar was bi-lingual in the sense that papers written in Urdu and English were presented and discussed. The discussions were conducted in both of these languages. This collection is based on selected papers presented in English language. It is being presented to the general public and interested readers in the hope that it would be able to provide a systematic view on the economics of Qur'an.

This volume, besides this introduction and a summarized account of the presidential address, consists of seven papers:

1. Economic Doctrine of the Qur'an: A System Framework
2. Qur'anic Perspective of Compensation Principle
3. Economic Justice: Islamic Economic System Vs. Capitalism
4. Qur'an and the Concept of Scarcity
5. Informal Institutions and the Redistributive Scheme of the Qur'an
6. Economic Challenge and Its Qur'anic Solution
7. An Investigation into Relation between the *Riba 'l-Qur'an* and *Riba 'l-Hadith*.

It has already been mentioned that Islam is not a religion in ordinary sense of the term, but a complete system of life. While other religious codes provide guidance only for the relation between Man and his Creator (the spiritual aspects), Islam does provide guidance on the norms which govern temporal existence of Man. Thus, Islam covers the spiritual, moral and material aspects of human existence into a unified whole, which is a reflection of its concept of oneness of God (*tawhid*).

The economic doctrines of the Qur'an have been examined by P. Ibrahim, adopting a system approach. He pleads that each economic system has three elements: philosophy, principles and institutions. A society's economic philosophy is a subset of its general philosophy. It outlines the aim and purpose of human life. Economic principles are derived from general social Philosophy. As for Islam is concerned, its philosophy and principles may be stated as follows:

1. God is the owner and creator of all that exists on earth and in it. Hence, he is the owner of all wealth. Man is not its owner. He has been given only the right to use it as vicegerent of Allah. Man is only the trustee.
2. It follows from that the ownership rights enjoyed by Man are limited and not absolute. For, most jurists (*fuqaha*) are of the opinion that owners of the resources do not have the right to destroy them.
3. All men have been created equal. Hence, there are no distinctions based on caste, creed, geographic origin, colour or race.
4. Time horizon of a believer is expanded to include the hereafter.
5. The basic purpose of economic activity in the society, according to Qur'an is to achieve and maintain *al-'adl wa'l-ihsan* (justice and fairness). It is a common knowledge these days that contemporary economic system does not ensure justice and fairness.

If justice and fairness are made the objectives of the economic system, then, one would need an economic

system which is drastically different from the one currently in vogue. Probably, redistribution of income and wealth would occupy a higher value in such a society. Not only this, such a society will also have to provide the institutions, policy instruments and mechanism through which the aim of redistribution of income and wealth could be attained. In a Qur'anic society, *zakah* is such a redistributive tool which has been examined by Afzal Peerzade within a perspective of compensation principle.

The compensation principle belongs to welfare economics. Peerzade points out that in recent years compensation principle has become an important part of development economics. It is maintained that it is rarely the case that a development project, or policy or process creates only the winners. In one form or the other, displacement also takes place. The displaced persons are the losers. Hence, they must be compensated for their loss. Peerzade views the Qur'anic scheme of *zakah* as a scheme of compensation where the winners (*zakah* payers) compensate the losers (*zakah* recipients) through the payment of *zakah*. In process of doing so, Peerzade also discusses the Qur'anic concept of welfare. He brings out the following dimensions of welfare. According to the Qur'an, the author argues, welfare constitutes of:

1. Freedom from fear (fear of hunger, poverty, suffering, deprivation, exploitation) etc.
2. Provision of Protection (protection from internal and external security threats and dangers.
3. Human Advancement in material and Spiritual spheres
4. Balance, Justice and fairness in all social and economic dealings.

Thus, in Qur'an we find a Divine Strategy of compensation. The Qur'an also identifies the target groups

of beneficiaries out of which poor and needy constitute the dominant element. The main responsibility to put these compensation principles into action lies with the State. The author recommends that governments of the Muslim countries must implement the functions of *zakah* and *infaq* as a part of state apparatus. Peerzade concludes that accruing of more income to the poor and needy, shall lead to an improvement of welfare levels in the society. It is rather unfortunate that despite making tall claims about their development orientation, they have done very little in this direction, if anything at all.

It has been mentioned that Islamic economic system accords a high value to attainment of justice and fairness amongst its entire people. The concept of economic justice has been juxtaposed between Islamic economic system and a capitalist system by Fareed F. Khoja who looks at the Islamic and capitalist system in terms of three parameters: Scarcity, value of a Product and pricing system. There is no doubt that all the three parameters selected by Khoja are vital to the working of both systems. However, there are important differences also, at least philosophically, which must be noted. One must also note, a fact that Khoja also recognizes, that Islamic system points out to an ideal toward which the economic system must always move, while the capitalist system does not deal with an ideal situation which should prevail but describes a real situation.

Let us now turn to three parameters between the two systems. While both systems recognize that scarcity is foundation stone on which the edifice of economic issues stands, there are philosophical differences. Islamic economic system does not accept the notion of absolute scarcity as Qur'an maintains that Allah has created all the resources required by Man in a just manner, they cannot fall short of human need. It must be human mismanagement of resources that is responsible for the

temporary scarcity found in actual human life. Hence, Islamic view of scarcity is by definition temporary and relative. On the other hand, a capitalist thinker would hold the absolute nature of scarcity ('niggardliness of nature' in the words of David Ricardo) is the main cause of emergence of economic issues. Khoja also rejects the notion of material needs. He rightly points that human needs are not confined only to materialistic needs. It is true that man cannot live without bread but it is equally true that bread alone is not able to sustain human existence. There are social, moral and spiritual aspects of human needs. Different civilized, semi-civilized and uncivilized societies provide for satisfaction of these needs. Irrespective of the ways of satisfying and the level of development of these societies, satisfaction of these non-material needs requires expenditure and allocation of economic. Hence, it will be incorrect to assume that needs are only material.

Furthermore, scarcity, a concept so cherished and respected in economics, is not absolute. Scarcity is not an attribute of any specific good. It is an attribute of situation. It is possible that a particular commodity is found in plenty in one situation and in another situation, it may become scarce. It is not very difficult to think of examples which may be in abundance. Think of water on the bank of a large river. It may not fetch you a price as it may be in plenty. But a glass of clean and drinkable water in the city may fetch you a good price. Same glass of water in a desert, particularly when one is feeling thirsty, may cost a fortune, so to speak. The paper by Fareed Khoja examines these and many other issues in greater details. It also deals with the impact of capitalism on the situations of poor people in poor and rich countries. It outlines an economic system based on teachings of Qur'an which the world is yet to understand, implement and benefit from.'

The issue of scarcity has been examined in greater depth by Israrul Haque in his paper on 'The Qur'an and the Concept of Scarcity'. He recognizes that problem of scarcity arises when limited resources are faced with unlimited needs. This was recognized even by early Muslim scholars who not only recognized it but also presented a solution. Authors like al-'Izz Ibn 'Abd al-Salam (d.660 AH) and al-Mawardi (d. 450 AH.) thought that if a person or even a state is faced with the issue of paucity of resources, then, the principle of determining the priorities must be followed i.e. the most pressing needs must be attended to first. This position resembles the modern principle of equi-marginal utility which states that the needs with the higher marginal utilities must be satisfied first, and it must continue, so long the marginal utilities from each of the competing needs become equal.

Haque also reiterates the well-known position that there is no place of the concept of absolute scarcity in the Islamic view. It is beyond the Kindness of Allah to have created resources which would not be sufficient for satisfying human needs. He cites the example of what is known as exhaustible resources, like petroleum and coals etc. While, it is possible to discover new resources, and further push the frontiers of known ones, even then presently proven reserves are sufficient for meeting all human needs. If there is any problem, it must be attributed to mismanagement of these resources, through higher rate of use. We do need to adopt prudent policies to ensure their more rational use. Hence rationalization of policies is called for, and not the inevitability of absolute scarcity. Haque maintains that starvation, poverty and economic backwardness are all the results of misdistribution.

The informal institutions also play a vital role in the redistributive scheme of Qur'an. It has been examined by Abu Shariq in his paper entitled, 'Role of Informal

institutions in the Redistributive Scheme of the Qur'an.' It is held that economic behavior of individuals is molded by institutions which may be classified using different criteria, like formal and informal institutions, social and economic institutions, educational and non-educational institutions, legal and non-legal institutions, market and non-market institutions etc. These schemes are not mutually exclusive. Therefore, any specific institution may be covered into more than one category. Abu Shariq looks at the institutional setup of Islamic economy from the view point of incentive structure. He points out that both types of institutions, formal and informal, are available in an Islamic economy which also has institutional mechanism for interaction between them. Then, he proceeds to examine the role of informal institutions in the redistribution scheme of Islamic economy as understood in the light of Islamic teachings. He pleads that in order to make its redistribution scheme relevant to all settings and times, Islam places greater emphasis on informal and necessary precondition for ensuring distributive justice in the economy.

There is no doubt that the prevailing economic system all over world is full of deficiencies and shortcomings, as is the human society itself, which needs rectification and improvement. While dealing with "Economic Challenge and its Qur'anic Solution", Hifzur Rab must not forget that present economic system is a human effort. It has to remain vulnerable. We have reached here by a long journey of trial and error. The march still continues. Every system, even the Divine one, is implemented by human beings. Hence, they are likely of being "manipulated". Therefore, saying that the present system has degenerated into a "manipulated system" is no criticism at all. However, it is hoped that the reader will appreciate the spirit behind this article which aims at overhauling the entire economic system by rectifying the monetary system and abolition of interest.



The last paper included in this volume is more technical. It is by Abdul Azim Islahi and titled, "An Investigation into the Relation between *Riba'l-Qur'an* and *Riba'l-Hadith*." It is well known even to a layman that Islam prohibits interest. However, things are not that simple to the specialist. A number of issues are to be resolved to make the prohibition of interest operational. The issues are not merely academic. They have important bearing on most of the practical issues. Since interest is forbidden, we have to know what are the goods, and processes that involve forbidden interest. So that those goods and processes may be avoided.

It is also well known that the word used in Qur'an is an Arabic word *riba*. The word '*riba*' comes out of *raba* (past tense) *yarbu* (present tense) which means to grow. As a *fiqh* term, *riba* refers to additional amount due or paid over the principal in a loan contract. It is also that *riba* is prohibited on the grounds of Qur'anic injunctions and the instructions of *hadith*. The *riba* mentioned in the Qur'an has been christened with various names. It has been called *riba al-jahiliyah* (*riba* prevailing in the period before Islam), *riba al-dayn* (*riba* of the debt), *riba al-nasi'ah* (*riba* involved in dealings for a certain period of time). They are all one and the same thing. Each of them has been given a name emphasizing a particular characteristic. It shall be good to remember that:

1. It is called *riba al-jahiliyah*, because it is this *riba* which was in prevalence when Qur'an was revealed. Anything which resembles it must also be *haram* like the original.

2. It is called *riba al-dayn* because it was concerned with the dealings involving deferred payment. In contrast, there are transactions which are hand to hand with immediate payment and delivery. There is no *riba* in such transactions. *Riba* occurs only in such transactions in which

a future claim, over and above the principal amount is created.

3. It is called *riba al-nasi'ah* because it involved certain period of time. It is reported that a creditor in the period of *Jahiliyah* would approach his debtor and ask him, "Do you pay my debt or do you want more time?" If the debtor requested for more time, the creditor would say, "Then, the amount due is doubled". If the debtor asked for a further extension of time to repay the debt, the amount was further re-doubled. This practice was described in the Qur'an as *ad'afan muda'afah* (doubling and redoubling) and was prohibited. Modern day scholars interpret it as purchase of time against money and as such consider it to be prohibited.

Another concept of *riba* is mentioned in *hadith*. This is called *riba'l-fadl*. It is said that this *hadith* prohibits barter system of trade in which there is greater possibility of injustice. It has been reported by Abu Sa'id Khudri (May Allah agree with him) that:

*The Prophet (pbuh) said: Gold for Gold, Silver for silver, wheat for wheat, barley for barley, dates for dates, and salt for salt. (Exchange them) like for like, hand to hand, whosoever, gave or took extra, indulged in riba. Giver and Taker being equal (in sin).*

There is difference of opinion amongst the Islamic scholars over interpretation of this *hadith*. Major ideas that have emerged may be summarized as follows:

1. This *hadith* discourages barter system of trade. It is reported that a companion of the Prophet presented him good quality dates. When the Prophet enquired about the source of these dates he found that presenter had exchanged them against ordinary dates. The Prophet instructed him first to sell his dates for gold [*dinar*] or silver [*dirham*] and then buy good quality dates with the proceeds.

2. Some scholars think *riba* is confined only to six commodities mentioned in this tradition, all others goods may be exchanged in unequal measure.

3. Some other scholars argue that there are two groups of commodities mentioned in the tradition. Gold and Silver constitute one group while the other groups consists of food items. On this basis, they argue that money should be exchanged in equal measure and hand to hand. The scholars in this group, generalize the eatability (*ta'miyah*) characteristic of food stuff and argue that injunction is applicable to all food stuffs.

4. Some other scholars argue that all of the six commodities mentioned in *hadith* have served as medium of exchange (money) at one point of time or the other, in human history. Therefore, *hadith* is really prohibiting deferred payment in exchange of money for money. However, its sale may be permitted if it is on the spot, hand to hand and by equal measure.

Islahi explains the concepts of *riba* in Qur'an and *hadith* respectively He points out that *riba al-fadl* or *riba al-Hadith* is a preventive measure because it may develop into *riba al-Qur'an*.

The papers included in this volume shed light on various dimensions on Economics of the Qur'an which offers invaluable insights into working of Islamic economics. At the end, the editor seeks the refuge of Allah and requests Him to maximize the benefit from these papers and minimize any intended or unintended damage from it.

Verily, only Allah is the source of all successes.

## ECONOMIC DIMENSION OF *TAWHID*

Irfan Ahmad Khan

*[The Presidential address at the seminar was delivered by Dr. Irfan Ahmad Khan, an eminent scholar and translator of the Qur'an. He had delivered his address with the help of some notes, which are being published here. It is hoped that publication of this note shall help the readers to appreciate the ideas presented in this address. English translation of the verses from the Holy Qur'an, have been taken from Khan, Irfan Ahmad: Reflections on the holy Qur'an, if the quotations are from Surah al Fatiha and Surah al Baqarah. For all other quotations from the Qur'an, translations have been taken from A. Abdullah Yusuf `Ali, , . Editors]*

1. *Tawhid* is the central Qur'anic theme. Totality of the economic teachings of the Book is an organized system. Its nature is that of Economic Dimension of *Tawhid*.

2. But what is *tawhid*? Let us consider the Qur'an on this point, which says:

*It is He Who created for you all that there is on the Earth; He then turned to the sky and ordered it into seven firmaments . And of all thing He has (perfect) knowledge.. [2:29]*

This verse (*ayah*) classifies all beings, basically, into three categories: God Himself, Human beings and all things other than human beings.

All beings other than 'The Being of God'. All

Creations of God may be broadly divided into:

- (a) 'persons' e.g. human beings
- (b) 'beings other than persons'

[due to lack of a better name this type of creations may be called 'things']

The concept of *Tawhid* straightens not only the 'Man - God' relationship and thereby also 'Man - Man' and 'Man - Things' relationships. Man is servant (*'abd*) of One God alone. *'Uluhiyah* (Divinity) as well as *Rububiyah* (Lordship) belongs to One God alone.

Lordship of Man over Man is a misguided trend which corrupts human life. The same is true of worship of (goddess of) wealth or power.

As the *ayah* (2: 29) makes it clear, 'things are for persons: persons are not for things'. This explains the nature of relationship between 'Man - Thing'.

The context of the address in the verses 2: 21-29; refers to all human beings. They are all accountable for the use of Divine blessings kept at their disposal. However, if certain blessings have been given *to some humans only*. it does not mean that these are *for* them.

3. Consider the following verse:

Allah doth command you  
To render back your Trusts  
To those to whom they are due  
And when ye pledge  
Between man and man  
That ye pledge with justice  
Verily how excellent  
Is the teaching which He giveth you.  
For Allah is He Who heareth  
And Seeth all things (4: 58)

This verse (*ayah* 4:58) further clarifies that whatever is

given to us from our Creator is a *trust*. Their benefits belong to the real beneficiary. May be something which is given *to* us is, in fact, *for* some other persons.

The later part of *ayah* makes it further clear that 'beings other than persons' are categorically different from persons. This part of the *ayah* states the fundamental principle which governs 'Man - Man' relationship; just as the first part of the *ayah* explained the nature of 'Man - Thing' relationship.

The later part of *ayah* states the following fundamental principle:

"There should be no discrimination and no injustice while making a judgment related with 'Man - Man' relationship. As *co-'ibad* or fellow-servants of God all human beings should be treated equally".

4. What is important, at a number of places, the Book itself explicitly states what it views as social (which includes **economic**) **implications of *tawhid***.

Mainly consider the following *verses* “

(i)  
*And remember We took  
 A Covenant from the Children  
 Of Israel (to this effect)  
 Worship none but Allah  
 Treat with kindness  
 Your parents and kindred  
 And orphans and those in need;  
 Speak fair to the people:  
 Be steadfast in prayer  
 And Practice regular charity  
 Then did ye turn back  
 Except a few among you,  
 And ye backslide( even now)*

( 2: 83)

(ii)

*Serve Allah, and join not  
 Any partners with him:  
 And do good-  
 To Parents, kinfolk,  
 Orphsns, those in need,  
 Neighbours who are near  
 Neighbours who are strangers,  
 The Companions by your side,  
 The wayfarer (you meet)  
 And what you right hand possess  
 For Allah loveth not  
 The arrogant, the vainglorious.*

(4:36)

(iii)

*Say: “ Come, I will rehearse  
 What Allah hath (really)  
 Prohibited you from: join not  
 Anything as equal with Him;  
 Be good to your parents;  
 Kill not your children  
 On a plea of want – We  
 Provide sustenance for you  
 And for them – Come not  
 Nigh to shameful deeds.  
 Whether open or secret;  
 Take not life, which Allah  
 Hath made sacred, except  
 By the way of justice and law.  
 Thus doth He Command you  
 That ye may learn wisdom.*

(6:151)

(iv)

*Thy Lord hath decreed  
 That ye worship none but Him,*

*And that Ye be kind  
To parents. Whether one  
Of both of them attain  
Old age in thy life,  
Say not to them a word  
Of Contempt, nor repel them,  
But address them  
In terms of honour.*

(17:23)

These verses, particularly the first and last verses, lay down the foundation of an important principle in the field of mutual human relationship, This is *tawhidic* principle of '*ihsan*' or doing 'good' .

The Qur'anic elaborations also make it clear 'what amounts to doing good in human relations'. These verses also pinpoint important categories of persons and personal relations which are, in fact various considerations of virtue or *ihsan*.

5. However it is very clear that the Qur'an repeatedly underlines believers' standing up for justice or *qist* e.g. see following verses:

*O ye who believe  
Stand out firmly  
For Justice, as witnesses  
To Allah, even as against  
Yourselves, or your parents,  
Or your kin, and whether  
It be (against) rich or poor  
For Allah can best protect both,  
Follow not the lusts  
(Of your hearts). Lest ye  
Swerve, and if ye  
Distort (justice) or decline  
To do justice, verily*



*Allah is well acquainted  
With all that ye do.*

(4:135)

At another place, Allah says:

*O you who believe !  
Stand out firmly  
For Allah as witnesses  
To fair dealing and let not  
The hatred of others  
To you make you swerve  
To wrong and depart from  
Justice. Be just: ' that is  
Next to Piety and fear Allah  
For Allah is well acquainted  
With all that ye do.*

(5:8)

Mainly the verse 4: 135 implicitly underlines that when there is a conflict between the demands of doing 'good' and 'justice' the demands of 'justice' shall prevail.

The question arises 'why in the above *ayat*, 'justice' is not mentioned as first and foremost demand of *tawhid* in our dealings with other human beings?' To answer the above question, we have to think of a horizontal line: to go higher and higher in *ihsan*, we have to go vertically above this line. However, unlike *ihsan* which is a positive concept, *zulm* is a negative concept which goes vertically below.

*Tawhid* keeps its believers above horizontal line while *shirk* calls toward *zulm*.

**'Adl is the horizontal line.** *Tawhid* calls essentially toward *ihsan*. *Adl* is the minimum demand - 'at least do this much'. Likewise, *adl* is elimination of all *zulm*.

6. The Qur'an endorses common men's concern for a happy and prosperous life. The point which we are trying to

make in the above cannot be appreciated without understanding this basic reality. 'Doing of *ihsan*', 'keeping away from *zulm*' and 'maintaining/establishing *'adl/qist*' are natural offshoots of *tawhidic* approach.

7. *Ummah wahidah* is a state of human society; just as *al-nafs al-mutma'innah* is a state of human self. The opposite of *ummaḥ wahidah* is *ummaḥ mutafarriqah*. *Tawhid* brings humanity back to the concept of *ummaḥ wahidah*. People again develop mutual respect, mutual concern and sharing of their resources. They may again become **one family**.



## **ECONOMIC DOCTRINES OF THE QUR'AN: A SYSTEM FRAMEWORK**

P. Ibrahim

The contemporary economic systems, familiar to the world, are capitalism, socialism, (including its command and market variants) and mixed economy. During the last couple of decades considerable number of writings have also appeared on another system i.e., economic system of Islam'- although it is yet to find a prominent place in mainstream economics literature. Some of the developments at the global level such as the collapse of socialist systems, continuing crises in the capitalist world, the successful survival of the Islamic Republic of Iran even as it rejected both the capitalist and socialist models, the mushrooming growth of the interest free banks in many parts of the world, and the persistent demand in several Muslim Countries for the establishment of the socio economic order of Islam, have created an unprecedented interest in recent times in the economic system of Islam. It may be noted here that the basic sources of Islam do not present a full-fledged economic system as it is understood today by social scientists. However the basic sources of Islam viz. the Holy Qur'an, *hadith* of the Holy Prophet and the works of the Islamic jurists do provide basic ingredients of an economic system. The objective of this paper is to present basic economic system whose features are ascribed in primary sources of Islam in a system framework

### **The Concept of an Economic System**

Every society irrespective of its nature and level of development is confronted with a familiar but crucial problem of satisfying unlimited wants of its individuals with scarce resources at its disposal. Since scarce resources have alternative uses on the one hand and wants are unlimited, on the other, individuals as well as society have to make choices in allocating these scarce resources in satisfying competing ends. Different societies make different arrangements or adopt different institutions for making economic choices and deciding among the alternatives. The complex of such arrangements and institutions that a society adopts is usually referred to as an economic system.

Relative scarcity of means in face of unlimited wants gives rise to three familiar fundamental economic problems viz. (1) what goods and services are to be produced, (2) how these are to be produced and (3) how the produced things are to be distributed amongst the claimants. Bornstein<sup>1</sup> defines economic system as a set of arrangements by which a community determines what to produce, how to produce and for whom to produce.

Solving these economic problems is a gigantically complex task, more so in the modern societies characterized by extreme specialization which involve interdependence and even vulnerability. In order to enable each individual to survive, the activities of all individuals have to be coordinated if disastrous consequences are to be avoided. Thus, modern societies have developed complex set of institutions to solve issues of what, how and for whom to produce. These institutions attempt to ensure co-ordination of economic tasks being carried out daily in order to prevent economic paralysis.

### **Constituent Elements of An Economic System**

There are three elements that constitute an economic system:

#### **a) An economic philosophy**

It is the economic philosophy which determines a society's approach to ownership and use of resources, undertaking of economic enterprises, and the ends and means of the economic development. Economic philosophy is only a subset of the society's overall philosophy which governs its thinking on the goals of the man's life on earth, the relation between man and God, between man and man and between man and nature.

#### **b) Economic principles**

Economic principles follow from economic philosophy. These are principles concerning property ownership, nature and extent of freedom allowed in economic enterprises, and regulation regarding the processes of consumption, production and distribution. Some of the economic principles of capitalism are (1) individuals have unlimited and unhindered freedom to own and use property (2) production of anything saleable or profitable is socially desirable (3) governmental intervention in economic activities is detrimental to social interest and hence should be reduced to the minimum possible. Economic principles of socialism include (1) existence of private property leads to the exploitation of property-less people and leads ultimately to the class war between the haves and have-nots. Hence, socialist philosophy recommends social ownership of means of production. (2) social ownership of means of production will maximize social welfare (3) profit motive is an outcome of an unequal system based up on private property and will disappear when private property is abolished and all means of productions are brought under social or state ownership.

**c) Economic institutions**

These are mechanisms chosen by a society for the purpose of putting in to practice economic principles derived from the economic philosophy. In a socialist economy, most important economic institution is the Central Planning Board. Corresponding functions in a capitalist economy are discharged by market mechanism. Economic instruments such as monetary, fiscal, price, income and licensing policies usually followed by all modern economies also could be included in this category.

**Economic systems basis for classification**

Economic systems differ among themselves in terms of the economic philosophy chosen, the ways of finding solutions to the economic problems, and the institutional mechanisms evolved for the purpose. Economists have developed certain criteria for distinguishing among economic systems. The generally accepted criteria are (a) the nature of ownership of property or means of production: public vs. private ownership, (b) the basis of decision making: individual vs. collective, and (c) mechanisms for allocating resources and goods among competing uses: market vs. command. In terms of these criteria the following categories of economic systems have been identified in the literature:

- The socialist market economy
- The capitalist market economy
- The socialist command economy and
- The mixed economy

### **Economic ideas of Islam: a system frame work**

I shall now present the economic ideas of Islam within the broad framework of the system constituents already explained.

The first and foremost element of an economic system is economic philosophy. There are several references about economic philosophy of Islam in the Qur'an and the *hadith*. The basic tenet of this philosophy is that God is the real and absolute owner of all resources in the universe. The Qur'an says; To Allah belongs everything in the sky and on earth<sup>2</sup>. Caliph Umar<sup>3</sup> is reported to have stated:

“All wealth belongs to Allah, and all human beings are Allah’s servants”. Man according to the Qur'an is the vicegerent of God on earth and is assigned only the role of a trustee in regard to the use of the resources in the world.

The Qur'an says: “and spend of that where He hath made you trustees”<sup>4</sup>(57:7). The notion of trusteeship implies that man, the trustee, is to manage the trust i.e. wealth according to the directives, likes and dislikes of the real owner, God. In fact, He has created the world’s resources to meet the requirements of the entire humanity. To appreciate fully Islam’s concept of ownership it may not be out of place to note the interpretation given by Mahmud Hasan Deobandi to the Qur'anic verse; “It is He who created for you everything on earth” (2:7)<sup>5</sup>. According to this verse everything in the universe is the property of Adams’s progeny and nothing in its nature belongs to any person. It is to facilitate the utilization of resources without dispute and quarrel that proprietary rights were allowed to individuals. The proprietary rights in course of time came to be deemed as ownership rights and so long as one is in rightful possession of something no one could deprive him of its legitimate use and enjoyment<sup>6</sup>. Thus the ownership



rights enjoyed by an individual in an Islamic system are limited. This is different from the absolute ownership that an individual enjoys under pure capitalist system and so called proletarian state enjoys in a socialist system. In an Islamic system real and absolute ownership is vested with God while man is granted only limited and conditional property rights.

Another tenet of Islamic system is that all men are equal as the creatures of a single creator and the children of one and the same parents. Qur'an says, *"Human beings, We created you all from a male and a female and made you into nations and tribes so that you may know one another. Verily the noblest of you in the sight of Allah is the most God-fearing of you. Surely Allah is all knowing, All-aware"* (49:13).

Hence distinctions based on caste, creed, nation, color and race do not stand. It follows from this that all individuals in an Islamic system enjoy equal opportunities for education, employment and other economic endeavors. This means that practices of reserving specific jobs for specific castes as in India of early times, or limiting the university admission to the children of graduate parents as in pre-world war England cannot be tolerated in Islamic system<sup>7</sup>.

Another aspect of Islamic philosophy is the faith in the Day of Judgment after death. The Qur'an says:

*"We shall surely raise the dead to life and We record what they did and the traces of their deeds that they have left behind. We have encompassed that in a Clear Book (15:12).*

*("You shall come to know that") when He will assemble you on the Day of Gathering. That shall be the Day (to determine) mutual gains and losses. Whoever believes in Allah and acts*

*righteously Allah will have His deeds expunged and will admit him to Gardens beneath which rivers flow. There in they shall abide for ever that is the supreme triumph. As for those who disbelieve and gave the lie to Our signs they shall be the inmates of the Fire and will abide in it. That is a woeful resort (64:9-10).*

In life after death man is accountable to God for all his deeds on earth. The implication of this belief is that the economic choices are to be judged not merely in terms of material cost benefit calculations but also in terms of the gains and losses that it will fetch him in the Hereafter. Needless to say this thinking will influence investment avenues and production methods chosen by individuals and society.

Let us now come to economic principles of Islam. Rooted in its overall philosophy Islam has enunciated a few broad economic principles. Some of them pertain to ownership or use of property. It has already been mentioned that man is allowed only limited ownership rights in property. Even these limited rights are subject to several limitations. Ownership rights would remain legally valid only so long as the commodity in question is used for the intended purposes e.g. In the case of land which has always been the most important asset, one would lose ownership rights if he leaves cultivable land uncultivated for more than three years. Incidentally it may also be mentioned that this law is far more progressive than the French law which entitles one to be the legitimate owner of a piece of land if he has been keeping it under his possession for 15 years, no matter he cultivates it or not<sup>8</sup>. The evidence for the Islam's law of land ownership could be found in the saying of the prophet that "one who erected a wall will have no ownership after three years<sup>9</sup>". What is meant here by erecting the wall is preventing others from

utilizing cultivable land. Ownership rights will end with the death of a person. In his lifetime an individual possesses at the most the right to prepare a will stipulating the conditions in which his wealth is to be transacted or partitioned after his death. In the case of certain forms of wealth, Islam has totally prohibited private ownership. For example, public utilities like large streams, bridges, land around the town for common use and certain natural resources like water, fire and salt. These things have been explicitly mentioned in prophet's traditions; "people will have equal rights in pasture, water and fire".<sup>10</sup> Islamic jurists have included by implications other things having similar characteristics, things which do not entail much effort and cost for the purpose of exploitation (e.g. Natural meadows, forests and some minerals and properties whose private ownership will cause hardship to general public (e.g. Rivers, embankments, and public paths) be kept under public ownership. Another condition in regard to ownership is that individuals have no right to hold anything in excess of their genuine needs. "They ask thee how much they are to spend. Say, what is beyond your needs" (2:219). A report from Abu Sa'id al-Khudri sheds more light on this "if anyone possesses more than what is required let him give it to the needy. If anyone holds excess food let him hand over it to the needy. Thus the prophet listed all conceivable forms of wealth over and above his genuine needs."<sup>11</sup>

One basic principle of Islam having great economic implication is that of equilibrium or balance. Islam is a religion of moderation, a religion which has attempted to do justice to both spiritual and material demands of man. Asceticism and crass materialism have been decried. Qur'an has given the Muslims the appellation of a middle nation, in modern parlance a centralist nation moving neither to extreme left nor to extreme right. Both miserliness and prodigality have been equally despised.

Islam repeatedly and enthusiastically urges its adherents to liberally spend money for noble and charitable purposes, but at the same time it disapproves of spending beyond a limit even for such purposes.<sup>12</sup>

The approach of balance is kept between private sector and public sector and in the conduct of economic enterprises. While private property is permitted in innumerable areas, ownership of certain forms of wealth is exclusively vested in the public sector. While individuals have been allowed to invest in so many areas, in a few it has been strictly forbidden, e.g. gambling, speculation, trade in liquors, narcotics, prostitution, etc. One of the principles having great significance for social balance is that the poor has a legitimate right in the wealth of the rich. Qur'an says "and in their wealth there is a due share for the beggar and the deprived."<sup>13</sup>

On this point, Islamic principle is much more progressive than Marxism. According to the latter, a laborer is entitled to a share in the wealth of capitalist only if he has contributed in the production of that wealth. According to Islam every poor man of a locality is entitled to a share in the property of every rich man of that locality, irrespective of his contribution to the latter's wealth. Economic principles of Islam demand that if social imbalances or economic inequalities persist, the concerned governments should restore social equilibrium through deliberate and if necessary drastic measures. Under such conditions jurists have approved even nationalization of economic assets.<sup>14</sup>

Another principle of Islamic system pertains to justice. The idea of justice has been repeated several times in the Qur'an. It has been mentioned more than thousand times- next only to the idea of God and knowledge.<sup>15</sup> The teaching of Qur'an is to deal justly under all circumstances and even

in matters relating to one's enemies.<sup>16</sup> In all economic activities and transactions, fair dealing should be ensured. Islam has prohibited all kinds of transactions and trades having slightest possibility for fraud, treachery and exploitation. Adulteration, hoarding, profiteering, unreal advertisements, false weights and measures, are treated as offences in Islam. Some more principles having economic implications may also be mentioned. Islam is for equitable distribution rather than equal distribution. "God has favoured some of you above others in provision".<sup>17</sup> Since human beings differ in terms of abilities, efficiencies and aptitudes-inherent as well as acquired- Islam's view appears to be more realistic and natural. It is not effective demand or saleability that should be major determinant of production, but social necessity and Divine permissibility.

As mentioned earlier, third component of an economic system is laws, rules and regulations, mechanisms and policy instruments made by a society for the implementation of economic principles. These are meant to regulate economic processes such as production, consumption and distribution. In the choice of investment avenues as well as economic activities, Islam has imposed certain stringent restrictions. Though, basically, an individual is free to choose any area for his investment, or accept any kind of job, entry in to some areas has been strictly prohibited (lending money for interest, trade in intoxicants, prostitution, gambling, black marketing, etc.). These prohibitions are equally applicable to the state also. Economic assets of those who fail to utilize them productively might be confiscated after a stipulated time. For instance, agricultural land which remains uncultivated for more than three years might be taken over by the state from its owners and redistributed to those who are willing and ready to bring under the plough<sup>18</sup>. In the case of consumption, though the individual has been given basic

freedom to consume anything of his choice, in view of ethical, moral, and health considerations of the individual and society more importance in this regard also. The injunctions against consumption of pork, carcass, blood and use of utensils made by gold and silver may be cited as examples.

In order to ensure social justice and equity, Islam has laid down several measures and instruments, most important of which is undoubtedly “*zakah*”. *Zakah* is a permanent fiscal measure aimed at collecting fixed shares from the wealth of the rich and distributing them to the poor and the needy in terms of production equipments, food or money. If *zakah* proceeds fall short of requirement of society, the states can resort to other measures such as taxes, public borrowing etc.<sup>19</sup> Another instrument which merits mention in this instance is Islam's law of inheritance, according to which, an individual's wealth, upon his death gets divided among his wide circle of relatives.

### **Performance of Islamic Economic System**

Having given the outline of Islamic economic system, the paper now attempts to evaluate the performance of Islamic economic systems. Economists have developed a number of criteria for judging the performance of alternative economic system. It may be noted here that it is extremely difficult to agree upon a set of a set of universally accepted economic criteria because of interrelationship between economic and social institutions and the possible conflict between economic and social values. Gregory Grossman and Morris Bornsterin<sup>20</sup> consider the following as the most important among a host of criteria:

- level and growth of output
- economic efficiency and stability

- economic security
- equity (distributive justice)
- economic freedom

For an aggregate evaluation of an economic system's performance, it is necessary to have a utility or welfare function according to which different criteria can be assigned weights to the various performance criteria. Such a sophisticated and a comprehensive performance evaluation is beyond the scope of this paper. Hence, the attempt here is limited to a performance analysis on the basis of two crucial parameters, namely output growth and distributive justice. Needless to say that the production and the distribution are the two major functions of an economy and the overall welfare of the society depends to a large extent on the efficiency with which these two functions are discharged.

### **Output growth**

First of all the potential for output growth in an Islamic economy may be examined. Output is essentially a function of investment. Islam opens out numerous avenues for investment, almost as numerous as a capitalist economy, barring a couple of areas specifically prohibited. But, some such prohibitions are in a vogue in capitalist and socialist economies as well, e.g. ban on production of narcotics. But presence of potential investment opportunities is not a sufficient condition for actual investments to take place. In the absence of necessary incentives, investments may not be forthcoming in adequate doses. Islam has introduced several measures for ensuring actual undertaking of investments in the economy. One measure of far reaching significance is the prohibition of interest. Investment, as rightly pointed out by Keynes,

depends on two variables, current rate of interest and marginal efficiency of capital or expected profit. Investment will take place only if expected profit exceeds the rate of interest. The very existence of interest means that investment will be confined to such areas in which the expected profit rates would be greater or equal to current interest rate. On the basis of this argument investment would flow more to an interest less economy than an interest ridden one.

Thus, theoretically speaking, an Islamic economy has a greater potential to attract investments than a capitalist economy. It may be noted that excess of profit rate over interest rate need not necessarily ensure investment flows. What is equally important is that investors must be able to enjoy the fruits of their efforts. In other words, investors should be assured of adequate incentives. One pronounced advantage of capitalist economy is the extent of incentives it offers to the individuals. The enormous economic potential that capitalist system can achieve on account of incentives has been appreciated by even Marx. The most important incentive in the capitalist system is profit motive by allowing private property and private enterprise. Islam also accepted profit motive a reality but within limits. The biggest mistake committed by socialism was that it attempted to annihilate profit motive. The experience of socialist economies bears ample testimony to disaster that elimination of profit motive may cause to an economy. The most important reason for the colossal failure of soviet system was the absence of incentives provided by profit motive. In order to capture the positive impact of the individual ownership and profit motive just one statistics from Soviet Union will do. In the late sixties, of the total agricultural production of Soviet Union, as much as one third was contributed by family farms which accounted only for two per cent of the total agricultural land.<sup>21</sup> The



contribution of collective farms and state farms to production on the other hand was far short of their relative shares in cultivated land. It was in recognition of miracle that profit motive can bring about in production and productivity of nation that increasing privatization was introduced in almost all the socialist economies in the late eighties, resulting ultimately in the total disintegration of the socialist economies.

With a view to ensuring unhindered growth of productive investment, Islam has introduced certain legislative measures for which no parallel can be found in other systems. One is imposition of 2.5 per cent yearly tax on idle cash balances and accumulations of gold and silver. Prohibition of speculations in the finance and commodity markets and of gambling is another measure.

Islamic system also had taken care of the problem of deficiency of effective demand, which may stand in the way of sustained growth of output. In economics with dominant private sector and unequal distribution of income, shortage of aggregate demand arising out of inadequate purchasing power is a recurring phenomenon. According to Marx, what obstructs continued growth and even leads to the eventual collapse of capitalist economy is under consumption arising out of low purchasing power of the bulk of population. In the Islamic system, *zakah* is an antidote for the emergence of under consumption, as a sizeable chunk of national income is redistributed inevitably every year, among low income sections, whose propensity to consume is comparatively very high. What cannot be achieved through legislative means and institutional mechanism Islam attempts to realize through ethical teaching and moral suasion. As rightly pointed out by Muhammad Baqir al-Sadr in his celebrated work "*Iqtisaduna*" the extraction of every article of usefulness in the universe is an ideological goal of Muslim society.<sup>22</sup>

The prophet is reported to have stated that if someone gets a chance to cultivate something he must do it even if it is in the last day of the world. Another *hadith* is that if a person cultivates something and its produce is eaten away by men, animals or birds it will be reckoned by God as a charity on the part of the person concerned. Islam's basic sources are replete with exhortations eulogizing the virtues of diligence and enterprise and indicting the vices of idleness, laziness, lethargy and irresponsibility.

This suggests that Islamic system has more potential for output growth than socialist system, as the former admits of private property and profit motive, unlike the latter. It also has greater potential than a Capitalist system, as investment avenues would be more due to the non existence of interest institution and as scope for productive investment would be larger due to the unattractiveness of hoarding and speculation.

### **Distributive justice**

However, large economic potential and faster growth rates of the economy do not ensure that the fruits of growth and development in terms of output and employment will accrue to all sections of the population. The experience of several Third World economies has unmistakably shown that along with the growth of output and income of these economies, poverty and unemployment have also grown. Social scientists became aware of incompatibility between growth and poverty or growth and social justice only in seventies when the paradoxical experience of third world countries became manifest. Until then, it was believed that the poverty of a nation could be eliminated by increasing the size of the national cake. But, in fact, what happened is that in the absence of necessary mechanisms, the fruits of economic development did not trickle down to the lowest

echelons of society. It was in the wake of this realization that direct poverty eradication programs came to be implemented in the view of indirect methods. The change in the thinking of economists during the seventies is summed up by Mahbubul-Haq as “we were taught to take care of our G.N.P. as this will take care of poverty. Let us reverse this and take care of poverty as this will take care of G.N.P.”<sup>23</sup>

The accentuation of growth of unemployment and poverty in the midst of growth of output and income is largely due to failures of concerned governments to give adequate attention to the problems of distribution. In fact, economic science itself is guilty of neglecting distribution side for long. Drawing attention to this neglect by economists Irving Fisher wrote in 1922 that although the problems of distribution are of great interest and concern to humanity than any other problems, the studies on distribution are few and far between while compared to the other problems.<sup>24</sup> This neglect can be understood from the fact that about 1500 articles published in *Economic Journal* and *American Review* during sixties, out of which, only about 100 articles were concerning distribution.<sup>25</sup> The sum and substance of what has been mentioned is that modern economics had neglected the problem of distribution till the seventies and this was primarily the reason why the countries were till recently banking on production oriented strategies with the result that the poverty and unemployment accentuated.

That growth per se will not bring about distributive justice and that there can be a conflict between growth and justice was realized only by the turn of 1970s. Islam from its early days had addressed to the problem of distributive justice. One fundamental teaching of Qur'an about wealth is that it is not to be concentrated in a few hands but to be circulated among the people. The core of distributive

justice, according to Islam, is that everyone should get enough to meet his/her basic needs. The Islamic concept of basic needs include clothing, shelter, fuel, travel, marriage and repayment of debt, if any. Guaranteeing basic needs has been made fundamental duty of an Islamic government. In order to ensure distributive justice, Islam has laid down a wide array of distributive measures which include, *inter alia*, restriction on investment choice, rationing and price control, prohibition of unearned incomes, taxes, Islamic law of inheritance and *zakah*. Of these *zakah* is the most important.

The *zakah* is a unique instrument in the fiscal tool kit of Islam. It is a compulsory religious levy. Technically, *zakah* can be termed a compulsory tax levied on all forms of income, assets, cash and bullion, stocks and inventories, agricultural produce, mineral wealth, cattle, etc. In practice, *zakah* is similar to a proportionate tax, the rate of which varies depending up on nature of income and assets. It may, however, be wrong to consider it as a tax in the ordinary sense. *Zakah* is a devotional act (*ibadah*) whereas a tax is not. The rates of *zakah* are Divinely determined and even the ruler of a nation cannot alter it. Further, *zakah* proceeds must be spent under specified heads mentioned in the Qur'an and not for another purposes.

These days, in most situations *zakah* has deteriorated to mere charity or alms giving. Strictly, according to Islam, *zakah* is the rightful share that the poor has been entitled to in the wealth of rich, which the state will forcibly take over if the rich are reluctant to voluntarily part with it. In most places in India *zakah* is distributed on a person to person basis though Islam does not approve such a practice. According to the direction of Qur'an and *Sunnah*, *zakah* dues are to be collected from the rich by the state and distributed to the poor and needy and for other specified purposes under the initiative of the state. In the distribution

of *zakah*, Islam has incorporated some unique principles (1) the economic status of recipients, including the nature and extent of their wants, their skills, professional backgrounds and educational qualifications are to be considered. (2) While distributing *zakah* revenues, the overriding consideration should be to make the recipients economically self sufficient in future and (3) though *zakah* proceeds can be distributed in terms of capital goods or production equipments.<sup>26</sup> Islamic scholars have listed illustrated examples in this regard.

A deserving agricultural laborer is to be given agricultural land sufficient for making a descent life. If a recipient is well versed in jewelry business, then as much as money capital as would be necessary for this business need to be paid. An individual who is trained in tailoring is to be provided with a tailoring machine and one who knows driving with an automobile.

To an individual who does not know any work or trade whatsoever, what is to be given as *zakah* must be enough provision that would enable him to lead a reasonably descent life and the quantum of this provision is to be determined by taking in to consideration the average life expectancy and normal standards of living of the region concerned.<sup>27</sup>

From the foregoing discussion, it follows that Islam has an economic system which is different from capitalism and socialism. The Islamic economic system offers better conditions for sustained economic growth as compared to other two systems. Islamic system has laid down several schemes for ensuring distributive justice, an aspect completely neglected by modern economists till recently.

### Notes and References

1. Morris Bornstein(ed.): *Comparative Economic System: Models and cases*, Richard D. Irwin. INC, 1979, Homewood, Illinois USA.
2. Qur'an (2:284)
3. Quoted by C.N. Ahmad Moulavi in his *Distributive schemes of Islam* (Malayalam) al-Huda Book Stall, Calicut. 1988, p.23.
4. Qur'an (57: 7)
5. Qur'an (2:7)
6. C.N. Ahmad, op. cit. p. 5.
7. P. Ibrahim, *Economics in an Islamic Perspective* (Malayalam), Al-Huda Book stall Calicut, 1995, p. 26.
8. P. Ibrahim, "Distributive Justice in an Islamic Economy", *Journal of Objective Studies*, Vol.4, No.2, December 1992
9. Quoted by C.N. Ahmad, op.cit. p. 26.
10. Quoted by Dr. Monzer Kahf in his "*The Islamic Economy: Analytical study of the functioning of the Islamic economic system*", The Muslim student association of the United States and Canada: Plainfield, Indiana, p.29.
11. Quoted from Ibn Hazm's *Muhalla* by C.N. Ahmad in his *Distributive schemes of Islam* (Malayalam), op. cit. p. 9.
12. Yusuf- al-Qaradawi, *Economic security in Islam*, Islamic Book Service New Delhi 1992.
13. Qur'an(61:19)
14. Zubair Hasan: "Distributional Equity in Islam," in Munawar Iqbal (ed.), *Distributive Justice and Need fulfillment in an Islamic Economy*, International institute of Islamic Economics, International Islamic University, Islamabad

15. P. Ibrahim, *Economics in an Islamic Perspective* op. cit. p. 28.
16. The holy Qur'an says " Oh ye who believe stand out firmly for Allah, as witnesses to fair dealing and let not the hatred of others to you make you swerve to wrong and depart from justice. Be just: that is next to piety and fear Allah. For Allah is well acquainted with all that you do (5:8).
17. Qur'an (16:71)
18. Ahmad H. Mustafa and Hussein G. Askari, "Economic implications of land ownership and land cultivation in Islam", in Munawar Iqbal (ed.) op.cit.
19. Muhammad Qutb, *Social Justice in Islam* (Malayalam Translation) Islamic Publishing House, Calicut.
20. Gregory Grossman, *Economic System* (second edition), Prentice Hall India, New Delhi, 1984.
21. Ibid.
22. Muhammad Baqer al-Sadr, "*Iqtisaduna*" Beirut, Dar al-Fikr, 1968.
23. Mahbubul-Haq, *The Poverty Curtain: Choices for the Third World*, Oxford University press, 1983.
24. Irving Fisher, *Elementary Principles of Economics*, New York, McMillan, 1912.
25. Aitken A.B. *Economics of Inequality*, Clarendon Press Oxford, U.K. 1975.
26. Muhammad Qutb op. cit.
27. Ibid.

## QUR'ANIC PERSPECTIVE OF COMPENSATION PRINCIPLE

Sayed Afzal Peerzade

### Notion of Compensation Principle

In order to evaluate alternative economic situations, economists have developed some criteria of welfare. Jeremy Bentham argued that the welfare is improved when "the greatest good is secured for the greatest number." According to this criterion, welfare of an economy is measured by aggregating the utilities of the individuals;

$$W = (u_1 + u_2 + u_3)$$

However, after a change  $U_1 + U_2 > U_3$  such that utility of 1 and 2 has increased, but  $U_3$  has decreased, then  $W$  will increase but with a decrease in  $U_3$ .

Italian economist Wilfred Pareto (1848-1923) laid the foundation of welfare economics by developing a criterion that welfare is maximized when a change in economic policy makes someone better off without making any others worse off. This criterion does not apply to those changes, which harm someone and benefit others. The experience, however, has proved it difficult to design such a policy measure. Changes in economic policy do affect every one; some feel better off, some feel no change and some others feel worse off. The reality, however, is that because of unequal distribution of wealth and unequal commands over resources, the weaker and marginalized sections of the society do not feel any substantial material improvement in their economic condition even though the economy may be



growing fast. This is an admitted fact that the benefits of development have not tricked down effectively.

During the last seven-eight decades, several explanations have come forward suggesting means to improve the welfare levels.<sup>1</sup>

Most sterling contribution in this area is that of Kaldor<sup>2</sup> and Hicks who have made efforts to evaluate changes in social welfare resulting from any economic reorganization, which benefits some, and harm others. These economists have sought to remove indeterminacy in the analysis of Pareto optimality. They have put forward a criterion known as the “compensation principle”.

Nicholas Kaldor was the first economist to give a welfare criterion based on compensation payment. According to Kaldor’s criterion, if a certain change in economic organization and policy makes some people better off and others worse off, then that change will increase “social welfare” if those who gain from the change compensate the losers and still be better off than before. Another noted economist J.R. Hicks supported Kaldor for employing compensation principle to evaluate changes in social welfare. In the words of Hicks, Kaldorian criterion states that if A is made so much better off by the change in economic policy that he could compensate B for his supposed loss and still will have something left over, then, the reorganization is an unequivocal improvement. Hicks has given his criterion from the losers’ point of view while Kaldor has formulated his criterion from gainers’ point of view. Thus, the two criteria are really the same though they are clothed in different words.

In the recent years, the compensation principle has become an important part of development economics. It is maintained that it is very rare that a development project, policy or process only creates winners. The displacement theme brings to centre stage the losers. One form or another of displacement is often a part of the development footprint. Technological change displaces workers in traditional activities. Dams displace families from their homes and villages. Interaction with the outside world displaces, or at least threatens to displace, long established cultures. All these call for suitable courses and doses of compensation.

### **Qur'anic Concept of Welfare**

The Qur'anic concept of welfare is similar to and yet distinctly different from the secular notion of welfare. The Qur'an maintains that the Almighty has created the World as a trial and as a test for men and women. They stay here in this world but for a short period. One has to prepare oneself for a longer journey, which begins at the death and culminates on the Day of Judgment. According to the *Qur'an*: *We have apportioned among them their livelihood in this world (in such a manner that) we have exalted some in ranks above others so that they can mutually serve each other". And better is thy Lord's mercy than what they are amassing.* The words "mutually serve each other" invite our attention especially in the context of compensation principle. The rich can serve the cause of poor and thereby the nation by regularly transferring a part of their resources in favour of poor. The poor can serve the cause of rich and thereby that of the nation at large by striving hard to get rid of their poverty, and not just depending upon the resources transferred to them as a matter of compensation.

The concept of welfare in Islam does not differ from the economics of individual consumer or producer behaviors as propounded by secular economists, except for being consistent to the Qur'an and the *Shariah*. Any move to compensate should be well within the permissible limits of *Shariah*. The fact is that the welfare criterion in Islam is quite different from other criteria, and is based on the economic, social and moral considerations of Islam. These considerations are intimately inter-linked in such a way that these must encompass the Qur'anic value judgments. These judgments encompass justice and virtue in allocation, production and distribution.

From the Qur'anic perspective, it is ethics that dominates economics; not the other way round. But, this does not mean that Islam does not take cognizance of the possessive and materialistic instincts of man; but only that these are re-defined in the Islamic scale of values. In particular, Islam integrates man's economic behavior with his ethical beliefs. "Both these aspects of man's life are combined to be one homogeneous whole, since the way to heaven passes through earth".<sup>4</sup> *'Our Lord! Give unto us in the world that which is good and in the hereafter that which is good.* The concepts of wealth and income are unique in Islam in the sense that these are not to be earned and accumulated endlessly or spent lavishly, but should be a source of charity, i.e., for the welfare of needy and deprived.

### **Dimensions of Qur'anic Welfare and Methodology**

Certain dimensions of Qur'anic welfare can be deduced from several verses of the Qur'an; for example:

1. Freedom from fear (fear of hunger, poverty, suffering, deprivation, exploitation, etc.). "Let them adore the Lord of this House who provides them with food against hunger and with security against fear [of danger],

(106: 3-4). According to the Qur'an, the phenomenon of poverty is threatening and therefore not desirable. For example, it appears in the Qur'an: "The Evil one threatens you with poverty and bids you to conduct unseemly", (2:268).

2. Provision of protection (protection from internal and external threats and dangers). Mention of preparedness for war and obedience to the men in authority is found in the Qur'an. This helps in the establishment of an orderly society ensuring peace on one hand and economic growth on the other. These two are the prerequisites of human welfare. The Qur'an demands: "Help ye one another in righteousness and piety. But help ye not one another in sin or rancor; fear God and God is strict in punishment" (5:3).

3. Advancement (human advancement in material and spiritual spheres) is possible only when there is abundance of goods and services, when people feel comforted in an atmosphere of freedom, peace and tranquility. Here certain inference can be drawn from the following Qur'anic verse: "God sets forth a parable, a city enjoying security and quiet, abundantly supplied with sustenance from every place...." (16:112)

4. Balance and justice (in temporal and inter-temporal affairs) is another dimension of the concept of welfare in Islam. There are several warnings in Qur'an against transgression of different types.

Thus, the contours of Qur'anic notion of welfare are loud and clear as they speak of material as well as spiritual advancement in a balanced way. Methodologically, the conventional and Islamic economic systems agree, in the context of promotion of aggregate social welfare, that there is always a room for compensation in the face of poverty, unemployment, hunger and exploitation. While there is a broad agreement in respect of the need for compensation,

there are certain perceived differences in respect of methodology. In conventional system, the emphasis is on material welfare of individuals and communities. The emphasis in the Qur'anic system, on the other hand, is on the welfare of “hereafter” although the material welfare is also one of its dimensions.

### **Need for Compensation**

The Holy Qur'an has designed an in-built mechanism of compensation. This mechanism, however, is not an after-thought of pro-poor role of modern governments. It is a recent phenomenon that the governments have started responding to the needs of poor and vulnerable sections. Till the first half of 20<sup>th</sup> century, the governments across the world were mostly apathetic towards the needs of poor for the simple reason that they were still under the hanger over of the policy of laissez faire and efficiency of market forces. They had a firm belief in the effectiveness of invisible hands, an idea propounded by Adam Smith. A few events in the beginning of twentieth century, however, paralyzed invisible hand. These developments made governments pro-active and pro-poor.<sup>5</sup>

What is the need for compensation? It is now widely recognized that a substantial section of the population, particularly the economically disadvantaged or vulnerable groups, continue to remain excluded from mainstream society and economy and that the benefits of development have bypassed them. As a result, their lives are characterized by hunger, disease, squalor, deprivation and suffering. This is on account of (1) market imperfections; (2) unequal resource-endowments and (3) system's apathy. It is, therefore, necessary that the whole issue should be approached in a compensatory and holistic manner.

It may be noted here that the notion of Qur'anic compensation was envisaged at a time when there was no governmental intervention to make the things better for poor and marginalized. Before the advent of Islam, the poor rarely enjoyed state support. More often, they were left to fend for themselves because their welfare was not on the agenda before any government. The only agenda commonly followed was territorial expansion for which poor faced the brunt. Even today in the absence of assured assistance from the state, the poor and marginalized sections of the society find themselves at the mercy of market forces.

### **Origin of Qur'anic Compensation Principle**

Historically, the notion of Qur'anic compensation may be linked to the economic difficulties of Muslims in the early Islamic era in particular and the moral and ethical obligations of the Islamic state in general. Before the migration of the Prophet from Makkah to Madinah in 622 CE, the economic condition of Muslims, except in the case of a few, was far from satisfactory. They were subjected to one or the other type of humiliation and exploitation. On the slightest pretext, the poor in general and slaves in particular were tortured and humiliated by Jews who were engaged mainly in the business of interest-based money lending. The Qur'an, in this most difficult and trying times, asked for compensating the poor followers of Islam through *sadaqah* for which there are at least a dozen verses in Qur'an. Although, to some extent, these mitigated sufferings of vulnerable poor Muslims, the entire process of compensation was not yet formalized.

When the Prophet migrated to Madinah and decided to settle there, a large number of his followers followed suit. The economy of Madinah and material resources of

Madinan Muslims came under a great stress. Even though the poor *ansar* (helpers) themselves were victims of Jewish financial exploitation, they voluntarily came forward to help their migrant brothers (*muhajirun*). These included a few rich persons who had come empty handed, leaving behind all their belongings at Makkah. Using his farsightedness and economic wisdom, the Prophet in due course of time changed the course of history of the world.

The Prophet summoned the *ansar* and *muhajirun* and paired every *muhajir* with a *nasir* as his brother. The *ansar* readily accepted the arrangement and shared their property, movable and immovable, with their brothers-in-Islam. The Prophet also appealed for donations for distribution amongst the needy and deserving migrants. The early Islamic history is full of examples of generous contributions, both in cash and kind. It may be, however, noted here that the donations were mainly occasional and there was no arrangement for a regular flow of funds to the treasury and in favour of poor. The poor followers of Islam continued to suffer at the hands of Jews. Thus, in the backdrop of above-mentioned scenario, the Prophet of Islam thought of compensating poor and marginalized sections of his followers on a regular basis.

#### **Aspects and Means of Compensation Principle.**

There are two principal dimensions of compensation: (i) compensation through the state-driven direct intervention (ii) compensation through the voluntary effort of the community. The government may facilitate compensation through direct and non-refundable means in the sense of direct cash assistance and or heavy subsidy on goods and services consumed by the poor. Voluntary efforts at the community level may involve both the individual and institutional contributions.

At this point, it is necessary to define the Qur'anic notion of compensation. It may be defined as a process whereby funds are made available to the poor and marginalized groups in such a way that they are able to tide over their economic difficulties, compensated against the odds and are rehabilitated, economically and socially. In this process, they have to pay neither the cost of rehabilitation nor repay funds made available to them.

The Prophet, following the Qur'anic prescriptions, arranged for the compensation at two levels, at the state level and secondly, at the individual and community level. At the first level, a regular flow of funds from rich to the state [public treasury and or officers of public treasury] and then from the state to the poor and needy was arranged. This entire process was accorded the place of *ibadah* and termed as *zakah*. For the first time in the history of religions of world, Islam accorded the place of a religious tenet to the entire process of compensating poor and needy either by the state or by individuals or both.

The second means of compensation is the practice of *infaq*, where there is a regular transfer of funds in favour of poor and needy all through the year. A distinctive aspect of *infaq* is that the volume of transfer is voluntary. In fact, in Qur'an, the word *infaq* is repeated more than *zakah*. The Qur'anic means of *zakah* and *infaq*, thus, provide a solid base to the process of compensation.

### **The strategy of *zakah***

As pointed out above, it was for the first time in the history of religions of the world that Islam institutionalized the entire process of transfer funds from rich to the poor through the state. The most significant aspect of *zakah*,



from the viewpoint of compensation, is that it is an earmarked levy. The Almighty Allah Himself has identified the beneficiaries of *zakah* which are: (1) poor; (2) needy; (3) *zakah* collectors; (4) persons whose hearts need reconciliation; (5) freeing of slaves; (6) debtors; (7) in the cause of Allah and (8) wayfarers [9:60].<sup>6</sup>

A close examination of arrangement of above-mentioned heads makes it abundantly clear that the poor and needy are accorded top priority in government spending programme and thereby compensation. This is a “Divine arrangement” representing the essence of Islamic concern for poor and needy. They need to be compensated because asymmetries and imperfections in the markets do not at all serve the cause of poor.

There are a few salient features of *zakah*. First, the rate of *zakah* is proportional. Secondly, except in case of *ushr* the basis of charge is capital. Thirdly, the overall system of levies indicates progression. Fourthly, recipients of *zakah* funds are clearly identified and *zakah* assumes the form of an earmarked levy. Fifthly, *zakah* does not establish any *quid pro quo* relation between the transferor of funds and the transferee. Sixthly, Divine multiplication of assets is guaranteed on which *zakat* is paid.

In brief, it can be said that *zakah* is a target-oriented, earmarked and specific levy. In this way, it very well fits into the broad scheme of compensation. It serves the purpose of compensation better than other interventions, monetary, fiscal and direct, because funds cannot be transferred from one head to the other. After the needs of recipients are fully satisfied then only transfer to other heads is allowed. Thus, men in charge of affairs cannot play with the “Divine enumeration” of heads of *zakah* based expenditure scheme.

### **The strategy of *infaq***

*Infaq* is a frequently used word in the Holy Qur'an. It appears at sixty different places whereas *zakah* and *sadqah* that are mentioned in thirty and fifteen places respectively. It is clubbed with the belief in the “unseen” and offering of prayers [2:3]. Thus, it becomes an integral part of Islamic faith. It may be defined as faith-based non- *zakah* expenditure in the cause of Allah. There are several verses in the Qur'an which highlight the importance and need for faith-based voluntary spending. "And Spend of your substance in the cause of God and make not your own hands contribute to (your) destruction, but do good, for God loveth those who do good"(2:195). Further: "O! Ye believe! Spend out of (the bounties) We have provided for you, before the Day comes when no bargaining (will avail) nor friendship nor intercession. Those who reject faith, they are the wrong doers" (2: 254 and also 14:31, 35:29). Those who do not spend are equated with persons rejecting the true faith (107: 1-7)

After noting the fact that there is sufficient scope for faith-based *additional* private spending, we proceed to identify certain salient features of *infaq*<sup>7</sup>: First, a quantitative and proportionate relation between the size of means owned and the amount of spending is not established. What is more important is the fact that there must be some spending, or in other words, there must be a transfer of funds favouring the poor (3:134, 65:7). Secondly, the scale tilts heavily in favour of a “progressive” transfer of funds when this Qur'anic verse is noted:"( And when) they ask thee how much they are to spend; Say: "What is beyond your needs" (2:219). Thirdly, *infaq* does not establish any *quid pro quo* relation between the transferor of funds and the transferee at least in this world. . The purpose of transfer of funds is defeated if the transferor in return expects some material gain or service.

Even a reminder nullifies the religious merit in its totality (2:264). On the contrary there is a good tidings to those who are altruist and do not hurt feelings of recipients (2:262). Fourthly, *infaq* never goes without a reward. Undoubtedly, there is a reward both in this world and in the hereafter. This reward is in no way in proportion to what is actually spent. There is no measure; it could be twice, thrice or even more. (2:274; 28:54).

The practice of *infaq* under the Islamic economic set-up leads to the emergence of what could be appropriately termed as the "merit sector". Of course, spending is purely faith-based, nonetheless, it has significant economic implications for a society, particularly for its vulnerable and deprived sections. Each dose of spending pumps in resources, real as well as monetary, having favourable backward and forward linkages.

The practice of *infaq* was formalized by the Prophet who used it in three different ways:

1. He nominated a certain person or group of persons to bear the physical or monetary cost of an assigned task.
2. He made a general appeal for "volunteering" by some persons to do a certain job.
3. He made a general appeal for "compulsory and maximum" physical and monetary contribution by all.

### **Who Needs Compensation?**

Without regard to the system, it is a universally acknowledged truth that the poor and marginalized are in need of compensation. It is, therefore, necessary to understand who really the poor are and who really are in need of compensation? Precautions are necessary as the funds at the disposal of authorities, monetary or

otherwise, are normally in short supply whereas requirements are huge.

The Islamic notion of the poor is integrated and dynamic. It has adopted a holistic view. A detailed study of different traditions of the Prophet brings to the notice three different perceptions<sup>8</sup>:

1. A person is not poor when he has food sufficient for two meals for himself and his immediate family.

2. A poor person is the one about whom three sane and well-informed persons belonging to his own clan should come forward to testify that the person concerned is really poor and starving.

3. A person is not poor who is in possession of assets worth four dinars (of gold) or one *auqiah* (of silver).

The first explanation is a narrow view of the poor where as the third explanation is relatively broad. The first one is an indicator of 'absolute poverty' whereas the third one explains the notion of 'relative poverty'. The Islamic wisdom is that the compensation should be prioritized; preference should be given to those who are living in near-starvation condition. Secondly, preference should be given to those who are not starving and yet are poor and about whom three sane persons of the same clan provide witness. Emphasis is placed on the "sanity of witness" in order to have a clear distinction between poor and non-poor.

Although the situation has changed, the challenges before Muslims community in most countries largely remain same. Poverty is deep, unemployment is rampant, sufferings and subjugation are universal. The victims of these evils are mostly poor. The Qur'anic prescriptions of *zakah* and *infaq* may be conveniently used at the state level and either individually or collectively to compensate the poor and marginalized persons who suffer on account of

market imperfections on one hand and system failure on the other .

### **Concluding Observations**

The Qur'an has presented before the world a Divine strategy of compensation. The target-based approach is followed whose primary beneficiaries are the poor and the needy. The onus of arranging compensation is greatly on the shoulders of the state which has to mobilize resources through *zakah*. At the same time, the Qur'anic teachings demand that efforts should be made to reorganize and revitalize the practice of *infaq* at collective level. The state in the Muslim countries should make use of *zakah* and *infaq* in order to ensure compensation to poor, needy and other marginalized groups. The underlying message is that we should compensate the poor and needy; the overall welfare level will improve. The Qur'anic teachings make it abundantly clear that it not just compensation principle but “compensation in principle” that needs to be recognised urgently. From the Qur'anic perspective “compensation in principle” is a better adage than “compensation principle”. This is definitely for the reason that there are several principles which are neither taken seriously nor implemented effectively.

### **Endnotes**

1. Compensation principle has its roots in the works of French engineer and economist J. Dupuit, Alfred Marshall and Vilfred Pareto.
2. Kaldor, Nicholas., “Welfare Propositions of Economics and Interpersonal Comparison of Utility”, *Economic Journal*, Vol.22, 1939.

3. Hicks, J.R., "The Foundations of Welfare Economics", *Economic Journal*, Vol.22, 1939.
4. Ishfaq, Muhammad, and Nadeem Inayat, "Welfare Economics: A New Frame Work", *Journal of Islamic Banking and Finance*, Vol.12, No.2, 1999, pp.7-17
5. Major developments were: (1) The Russian Revolution of 1917. (2) The Great Depression of 1929 and (3) Publication of Keynes' *General Theory*. The first provided political shock, the second provided economic shock and the third development generated academic shock damaging the old notion of non-intervention.
6. For a detailed discussion refer to Sayed Afzal Peerzade: *Islamic Public Finance and Policy*, Idarah i-Adbiyat i-Delli, Delhi, 2004.
7. Peerzade, Sayed Afzal., "Infaq and the Notion of Merit Sector", *www.iosminaret.org*, [on line Islamic magazine], Volume No. 3, issue No.22, 1-15th April 2009.
8. Peerzade, Sayed Afzal., "Definition and Measurement of Poverty: An Integrated Islamic Approach", *Pakistan Development Review*, Vol.36, No.1, 1997.



**ECONOMIC JUSTICE: ISLAMIC ECONOMIC  
SYSTEM VERSUS CAPITALISM  
An overview based on the Qur'an**

Fareed F Khoja

**Introduction**

The success or failure of an economic system may be measured by the direct impact on the humans who live under it. The level of security and satisfaction provided to the people further reinforces its impact. The security and satisfaction are further measured in terms of: Food security, Health security, Education security, Life expectancy, Moral, ethical, and ideological conviction and trust in the economic foundation

Two major systems have dominated the world arena in the last 100 years, namely capitalism and socialism. Socialism collapsed before the end of the 20th century. Presently, Capitalism dominates the entire globe, with different flavors and varieties implemented in different parts of the world. The dissatisfaction of people under socialism and the accompanying pain and suffering have ended, but they have been replaced by yet another type of pain and suffering. After the collapse of socialism, capitalism had entered the era of *global economy*, more officially called *globalization*,.

Let us first understand the theoretical foundations of capitalism and its impact on the people.



## **The Capitalist Economic System**

### ***Theoretical Foundations.***

Capitalism deals with man's needs and the means of satisfying those needs. It addresses the materialistic side of man's life and is established on three principles:

1. Relative scarcity of commodities and services in relation to needs.
2. The economic value of a product
3. The price mechanism, and its role in production, consumption and distribution.

### ***Relative Scarcity***

Man has needs that require satisfaction, so there must exist some means to satisfy them. These needs are purely materialistic, such as the need for food, clothing, medicine, education, and security. As for the moral needs such as pride and honor, or spiritual needs such as the sanctification of God's will, etc are not recognized in economics and as such these attributes have no significant place in economic analysis. Commodities and services are the means of satisfying the human needs. What makes commodities and services satisfy the needs is the benefit embedded within these commodities and services. This benefit is an attribute, which renders the thing desirable for satisfying a need. Since the need means an economic desire, an economically beneficial product is anything desired, whether it is essential or not. It is also possible that some people may consider it beneficial and others may regard it harmful. It is considered economically beneficial as long as there is someone who finds it desirable. Products may be considered beneficial from an economic viewpoint even if public opinion considers them of no benefit, or harmful.

Thus wine, tobacco, drugs, guns and apples are considered beneficial since there are people who desire and demand them. Stocks, interest rates are also considered beneficial as long as there is someone who would benefit from their use. The capitalist looks at the means of satisfaction, that is, the commodities and services, from the viewpoint that they satisfy a need, without taking any other factor into consideration. So, He considers wine in its capacity of having an economic value because it satisfies the needs of some people, and he perceives the wine maker as one who provides a service, considering this service as having an economic value, because it satisfies the need of some people.

As such, capitalism does not concern itself with the values and nature of a society, but with the economic material resources (economic commodities), as means of satisfying human needs. Therefore, the capitalist “economic system’s” primary function is to supply commodities and services i.e. to provide the means of satisfying man’s needs, irrespective of any other consideration. The commodities and services, which are the means of satisfaction, are considered to be limited, relative to man’s needs, which are unlimited and constantly growing. Capitalism recognizes that man has some basic needs, which must be satisfied. It also recognizes that needs continue to grow with growing urbanization. We must also not lose the sight of the fact that needs multiply and require complete satisfaction, a goal that cannot be fulfilled, no matter how much commodities and services are produced.

This basic principle of capitalist economic philosophy provides the basis for the definition of the economic problem under capitalism. In particular, the problem that capitalism attempts to resolve is the satisfaction of ever growing human needs using insufficient resources and means of satisfaction. This is the essence of relative

scarcity of products. The inevitable consequence of relative scarcity is that some needs are either partially satisfied or not satisfied at all. Which needs get satisfied and which are deprived, and whose needs are satisfied and whose are deprived is completely determined by the economic set of rules and policies, which are adopted by any given capitalistic society. These rules and policies define the manner of distributing the limited resources over the unlimited needs. It should be noted, however, that the problem is to make the resources available so as to satisfy the needs in a society, but not necessarily the needs of every individual. It is not surprising therefore, that the main focus of the economy under capitalism is the increase in the national production (GDP and GNP). Economic growth is viewed as a means of solving the problem of poverty. There are serious flaws with the principal of scarcity of products, some of which are described below:

### **Correlation between the needs and the means of satisfaction**

Under capitalism, the production of commodities and services, which are the means of satisfying the needs, together with the distribution of these commodities and services are considered to be a major subject. Thus, capitalism holds one view towards the economic science and the economic system without differentiating between them. In reality, there is a major difference between the economic system and economic science. The economic system is a set of rules and regulations, which define how to distribute the wealth, how to possess it, and how to spend or dispose it off. This system (set of rules) is based upon a particular viewpoint of life, or ideology. Therefore, the economic system of Islam, as guided in Qur'an, is different from that of socialism/communism and that of

capitalism, since each of these systems follows its own ideological viewpoint. Economic science deals with the production, its improvement, invention and improvement of its means. Economic science like other sciences, is universal to all nations and is not associated with a particular ideology. For example, the rules of possession and ownership under capitalism differ from the rules under socialism, and from those under Islam. On the other hand, the improvement of production is a technical issue, which is purely scientific, and does not depend on a particular ideological viewpoint. The integration between the production of the economic material and the manner of its distribution is a fundamental fault in the capitalist system which is bound to cause failure in the economy of capitalism.

#### **The human needs are not materialistic only**

The reference to the needs, which require satisfaction as being purely materialistic, is not correct and contradicts the natural reality of human needs. Human beings have moral, spiritual, and ethical needs that require satisfaction, which in turn require commodities and services for their satisfaction.

#### **Commodities and services relation to the society**

The Capitalist economy looks at the needs and benefits as they are, not as the society should be. Thus, man is viewed as a purely materialistic creature, with no relevance to his spiritual needs, ethical thoughts, and moral objectives. Capitalism does not give weight to any value, except to the material value of the product and the material nature of the human need. Cheating in the economic sense is valuable as long as it leads to profitability (Enron and

Arthur Anderson). Monopoly is feasible economically, while it can be maintained and supported (Microsoft). Under capitalism, feeding a poor (wealth distribution) may be done only if it brings a material benefit, such as a tax break. But it will not happen in response to an order from God or in pursuit of God's pleasure and satisfaction. The exchange of resources and efforts among people creates relationships among people, according to which the structure of the society is formed. Thus, viewing the economic commodity as a means of fulfilling a need, without caring for what the society should be, violates a fundamental rule of society structure. The effect on society should be perceived when considering the economic commodity. Therefore, it is incorrect to consider a thing as beneficial just because there is somebody who likes it, whether it is harmful or not, and whether it affects the relationships among people or not, and whether it is prohibited or permitted in the belief of the people in the society. Rather things should be considered beneficial if they are really beneficial in respect to what the society should be. Therefore, it is incorrect to consider alcoholism, cannabis, opium, explosives and the like as beneficial commodities and to consider them economic commodities just because there is somebody who wants them. Instead, the effect of these economic commodities on the relationships between people in society must be considered when considering the benefit of things i.e. when considering the thing as an economic commodity or not. Things should be viewed in relation to what the society should be. It is wrong to look at a product merely as it is, regardless of what the society should be. By including the subject of satisfying the needs within the subject of the means of satisfaction, and by viewing the means of satisfaction only as satisfying a need, and not by any other consideration, capitalism concentrates on production of wealth more than distribution of wealth.

**Poverty of individuals is the main economic problem**

The importance of distribution of wealth to satisfy the needs has become a secondary issue. Therefore, the capitalist economic system's main aim is to increase the country's wealth as a whole, and it strives to achieve the highest possible level of production. The achievement of the highest possible level of satisfaction for the members of society should come as a result of increasing the national income, or the gross national product. This should be achieved by raising the level of production in the country, and by enabling individuals to acquire wealth as they are left free to work and produce. So the economy does not attempt to satisfy the needs of the individuals and to facilitate the satisfaction of every individual in the community; rather it is focused on satisfying the needs of the community as a whole by raising the level of production and increasing the national income of the country as a whole. Through the availability of the national income, the distribution of income among the members of society occurs, by means of freedom of possession and freedom of work. So it is left to the individuals to acquire what they can of the wealth. Everyone strives to get his/her share of the wealth using whatever means, skills, or tools he/she can afford. Whether the individual is or is not able to satisfy his/her needs is not of concern to the economy, as long as the production of goods continues to grow, and the wealth continues to grow. This is the major principle of the capitalist economy. It is inherently wrong, and contradicts reality and does not lead to an improvement in the level of livelihood for all individuals, and does not fulfill the basic needs of every individual. It does not resolve the issue of poverty for the individuals, despite the massive increase in the production of goods and services. The hard fact in this reality is that the needs, which require satisfaction, are

individual needs. They are needs of particular people such as George, Maria, Hassan, Mohammad, and the like. The fact that the needs of George are satisfied does not make Maria any better, unless her needs are also taken care of. So these are needs of individuals and not needs for a group of human beings, a group of nations, or a group of people. Therefore, the economic problem must focus on distributing the means of satisfaction for all the individuals of a society. In other words, the distribution of the funds and benefits must reach every member of the nation or people. It is not sufficient to increase the wealth of the group, irrespective of the plight of every individual. Consequently, the study of the factors that affect the size of national production differs from the study for satisfying all the basic needs of all individuals personally and completely. The subject of study must be the basic human needs of man, as a human being, and the study of distributing the wealth to the members of society to guarantee the satisfaction of all their basic needs. This should be the subject of study, and should be undertaken in the first place. Moreover, the treatment of the poverty of a country does not solve the problem of poverty for individuals. Rather, the treatment of the poverty problems of the individuals, and the distribution of the wealth of the country among them, motivates all the people of the country to work towards increasing the national income. The study of the factors that affect the size of production and the increase of the national income should be discussed within the framework of economic science, rather than in the discussion of the economic system.

**Scarcity of resources is not the problem and human needs are limited**

Capitalism views the economic problem, which faces any society to be the scarcity of commodities and services. It claims that the human needs are steadily increasing, and the products continue to be too scarce to satisfy the growing needs of the people. This view is erroneous and in fact contradicts with reality. This is because the needs, which must be met, are the basic needs of the individual as a human (food, shelter, education, health and clothing), and not the luxuries, although they too are sought. The basic needs of humans are limited, and the resources and products, which they call the commodities and services, are certainly sufficient to satisfy the basic human needs. It is possible to satisfy all of the basic needs of mankind completely. The economic problem is, in reality, the distribution of these resources and services enabling every individual to satisfy all basic needs completely, and after that helping them to strive for attaining their luxuries. The basic needs of man as a human do not increase. The luxurious needs may increase and vary, due to urbanization improvement.

**Islamic Economic System As Guided in Qur'an:**

Before indulging in the discussion of the economic systems and their impacts on us as people, I would like to lay down a foundation regarding Islam.

***Islamic Sources.*** Islam is a religion in the sense that it is based on a belief in God (the Creator) and in the accountability to God on the Day of Judgment. Islam is also an ideology in the sense that it comprises an ideological foundation and a system of laws for the individual and the society. The Islamic systems cover the political, economic, and social systems. Islam is founded



upon the fundamental principle that man, life, and universe are all the creations of the eternal, one and only one God whose main name in Islam is Allah. Allah possesses many attributes, all of which are considered to be eternal and unbounded. Examples of these attributes are: The Merciful, The Beneficent, The Forgiving, The Almighty, The Peace, The Security Provider (Al-Mumin), The Great, The First, The Last, The Witness, The Life Giver, The Wealth Giver, The Death Giver, The Ruler, The Sovereign, and many others. The belief in the existence of Him, the Eternal Creator, is a rational process in Islam and an obligation upon the reasoning faculty of the human. The belief in God under Islam requires also the belief in all His attributes and functions. Belief in God, as such, requires the belief that there needs to be a channel through which God communicates to the people the means and ways to worship God. This channel is what is known as the Prophethood and/or Messenger. Worshipping God, under Islam, is the process of following the guidance revealed by God through His Messengers and/or Prophets. Islam considers the belief in the Prophethood and, henceforth the Prophets and Messengers, an essential principle of Islam. The Prophets include Adam, Ibrahim, Isaac, Moses, Jesus, Muhammad (Peace be upon them all) and many others. Islam, as a religion and an ideology, is based entirely on what is revealed to Muhammad (pbuh). The revelation to Muhammad has two forms. One form is the Qur'an, which comprises verses compiled into chapters. The wording and the meanings of the verses are written into the Qur'an exactly as revealed to Muhammad. The Qur'an was compiled and completely written during the life time of the Messenger Muhammad (PBUH). The other format of the revelation is, what is known in Arabic as, the "*Sunnah*" of Muhammad (PBUH). The *Sunnah* comprises statements, actions, and endorsement of Muhammad. The *Sunnah* is also a revelation from God to Muhammad, except that the

wording of the *Sunnah* is left to Muhammad. The *Sunnah* was compiled and authenticated after the death of the Prophet based on written statements and verbal narrations. For a view to be considered and Islamic one, it has to be validated through the Qur'an and the *Sunnah*.

In this paper, I will trace the Islamic economic system through the verses of the Qur'an and the statements of the *Sunnah*. This paper makes a definite distinction between the system of economy and the science of economy. The latter deals with the methods and tools used to increase wealth both in quality and quantity; i.e., it comprises the science of production. The system of economy deals with the human relation to the products and to the means of production, in terms of ownership, distribution, and accessibility.

### **The View of Islam towards the Economy as guide in Qur'an:**

*Allah created all resources in the world.* In the Qur'an, Allah states that all the resources in the world are created by Him, and made usable to the humans by virtue of the laws that Allah injected into the resources:

“It is He who created for you all that exists on earth.”  
[al-Baqarah: 29]

“Allah is He Who put at your disposal the sea so that the ships may sail by His command, and so as you may seek His bounty.” [al-Jathiyah: 12]

“He put at your disposal that which is in the heavens and that which is in the earth, all from Him.” [al-Jathiyah: 13]

“And We sent down iron, in which is great might, as well as many benefits for mankind.” [al-Hadid: 25]

“Let man consider his food. How We pour water in showers. Then split the earth in fragments. And cause the grains to grow therein. And grapes and fresh vegetation. And olives and dates, and enclosed gardens, dense with lofty trees. And fruits and grazes. Provision for you and your cattle.” [‘Abasa: 24-32]

Allah illustrated in these verses and others, that He created property and created man’s efforts, and He did not discuss anything else that may be linked to them, which indicates that He did not interfere in the property or in man’s effort, except that He showed that He created them for people to utilize. He also did not interfere in the production of wealth; there is no *Shari’ah* text (divine legal text) which denotes that Islam interferes in the production of wealth. On the contrary, we find the *Shari’ah* texts indicate that the *Shari’ah* has left to the people the matter of extracting the property and improving man’s effort. It was narrated that the Prophet said in the issue of manual pollination of date trees: “You are more aware of the routine issues of your daily life .” It is also narrated that the Prophet (pbuh) sent two of the Muslims to Jurash of Yemen to learn weapons manufacturing. These examples indicate that the *Shari’ah* has left the matter of production of wealth to the people, to be produced according to their experience and knowledge. Thus, it is apparent that Islam focuses on the economic system and not economic science.

### **Economic Policy in Islam.**

The economic policy is the objective of the laws, which deal with the management of human basic needs (food, shelter, education, health, security). Prophet Mohammad (pbuh) is narrated to have said: “He who ends his day with security at home, with healthy body, and with food at home has acquired his needs in this life”. Also, he

states: “Allah breaks covenant with any group of people living in close vicinity, whereby one of them goes to bed while hungry”.

The economic policy in Islam aims at securing complete satisfaction of all basic needs for every individual, and to enable each individual to satisfy his luxuries as much as he can, as a person living in a particular society, which has a certain way of life. So Islam looks at every individual by himself rather than the total of individuals who live in the country. It looks at him as a human being first, who needs to satisfy all of his basic needs completely, and then it looks to him in his capacity as a particular individual, to enable him to satisfy his luxuries as much as possible. Islam looks to him at the same time, as a person living in a society with other people just like him who have similar needs. The purpose of the economic policy in Islam is not to only raise the standard of living in the country without looking to secure the rights of life for every individual completely. Nor is it just to provide the means of satisfaction in the society, leaving people free to take from such means as much as they can, without securing the right of livelihood for each individual. This is achieved by obliging each capable person to work, so as to achieve the basic needs for himself and his dependants. Islam obliges the children or the heirs to support the parents if they are not able to work, or obliges the State Treasury (*bayt al-mal*) to do so, if there is nobody to support them. As such, Islam requires that the individual secures for himself and his dependants the satisfaction of the basic needs i.e. adequate foodstuffs, clothing, education, medication and housing. Islam then encourages the individual to secure the luxuries of life as much as he can. Islam also prevents the government from taking property through the imposition of taxes, except in cases where it is obligatory upon all Muslims to care for e.g.

famine. Tax then is taken only on the wealth which exceeds that which each individual normally uses to satisfy his basic needs and luxuries. In this way, it achieves the right of livelihood for everyone individually, and facilitates the securing of the luxuries. At the same time, Islam sets certain limits within which the individual can earn in order to satisfy his basic needs and luxuries. So Islam prohibits the production and consumption of wine by Muslims, and it does not consider it an economic material. Islam prohibits the taking of *riba* (usury, interest, etc.) and its usage in transactions for everyone who holds Islamic citizenship. It does not consider *riba* as an economic commodity, whether for Muslims or non-Muslims. So Islam considers what the society ought to be when utilizing any property as a fundamental basis for utilizing the economic commodity.

Islam did not detach the individual from being human, nor the human-being from being a particular individual. Furthermore, Islam does not consider what the society ought to be separate from the issue of securing the satisfaction of the basic needs for every individual, and enabling him to satisfy his luxuries. Rather, Islam makes the satisfaction of the needs and what the society ought to be, as two inseparable matters from each other, but by making what the society ought to be as a basis for satisfying the needs. For the sake of satisfying all the basic needs completely, and to enable satisfaction of the luxuries, the economic commodity should be available to people, and it will not be available to them unless they strive to earn it. Therefore, Islam urges people to earn, seek the provision and strive. And it made striving to earn the provision compulsory upon Muslims. Allah says:

“So walk in the paths of the earth and eat of His sustenance which He provides.”[al-Mulk: 15]

Many *Ahadith* came to encourage the earning of property. In one *hadith*, the Prophet Muhammad shook the hand of Sa`d Ibn Mu`adh (ra) and found his hands to be rough. When the Prophet asked about it, Sa`ad said: "I dig with the shovel to maintain my family." The Prophet kissed Sa`d's hands and said: "(They are) two hands which Allah loves." The Prophet said: "Nobody would ever eat food that is better than to eat of his own hand's work." It was also narrated that Umar b. al-Khattab (RA) passed by some people, who were known as readers of the Qur'an. He saw them sitting and bending their heads, and asked who they were. He was told: "They are those who depend (*al-mutawakkilun*) upon Allah." Umar replied: "No, they are the eaters who eat the people's properties. Do you want me to describe those who really depend upon Allah (*al-mutawakkilun*)?" He was answered in the affirmative, and then he said: "He is the person who throws the seeds in the earth and then depends on his Lord the Almighty, The Exalted."

Thus, we find that the verses and the *Ahadith* encourage striving to seek provision, and working to earn property, just as they encourage the enjoyment of the property and eating of the good things. Allah said:

"Say: who has forbidden the beautiful gifts of Allah, which He has provided for His servants, and the things, clean and pure, (that He has provided)?" [al-A`raf: 32]

"And let not those who are niggardly, who withhold the gifts which Allah has given them from His Grace; think that it is good for them. Rather it is worse for them. That which they hoard will be their collar on the Day of Resurrection. To Allah belongs the heritage of the heavens and the earth, and Allah is informed of what you do." [Al Imran: 180]

“O you who believe! Spend of the good things which you have earned, and of that which We bring forth from the earth for you.” [al-Baqarah: 267]. And:

“O you who believe! Do not prohibit the good things which Allah made halal for you.” [al-Ma'idah: 87]

These verses, and the like, denote clearly that the divine rules related to the economy, aim at acquiring property and enjoying good things. So Islam obliged individuals to earn, and ordered them to enjoy wealth that they earned, so as to achieve economic growth in the country, to satisfy the basic needs of every person, and to enable the satisfaction of his luxuries. However, the economic progress through motivating every capable individual to work, assigning properties to the State and the investing of public property, all that is a means to satisfy the needs, not for the sake of having property for itself, nor for boasting, nor to spend it in sin, nor for arrogance and oppression. The Messenger of Allah said: “Whosoever sought the life (matters) legitimately (*halal*) and decently he will meet Allah with his face as a full moon; and whosoever sought it arrogantly and excessively he will meet Allah while He is angry at him.” The Prophet also said: “Do you have, son of Adam, of your property except that which you ate and consumed, that which you wore and exhausted, and that which you donated and kept (for yourself)?”

Allah the Supreme said:

“Don't commit *israf* (spending or going beyond the limits imposed by Islam); surely He does not like those who condone *israf*.” [al-A'raf: 31]

Islam made the aim of owning property a means towards satisfying the needs and not for the purpose of boasting. It also made managing the economy as a whole according to Allah's orders obligatory. It ordered the

Muslim to seek the Hereafter through what he earns and not to forget his share of this worldly life. Allah said:

“But seek the abode of the Hereafter in that which Allah has given you, and do not neglect your portion of worldly life, and be kind as Allah has been kind to you, and seek not corruption in the earth” (al-Qasas: 77).

Islam secured the observance of the rules by motivating the Muslim to adhere to this economic policy through the fear of Allah (*taqwa*), and the abiding of the people, in general, to it through the legislated laws which the State implements upon the people. Allah said:

“O you who believe! observe your duty to Allah and give up what remains (due to you) from *riba*, if you are (in truth) believers” (al-Baqarah: 278).

The analysis of the divine rules related to the economy, shows that Islam addresses the issue of enabling people to utilize wealth. This is the Islamic view regarding the economic problem of society. When addressing the economy, it deals with the initial acquisition of wealth, its disposal and its distribution amongst the public. The rules that deal with the economy are thus based on three principles:

1. Initial ownership,
2. Disposal of the ownership, and
3. Distribution of wealth amongst the people.

With regard to the issue of ownership, it belongs to Allah, since He is the Owner of all the Dominion (*Malik al-Mulk*). He has stated in the texts that property (*mal*) belongs to Him. He said:

“And give them from the property of Allah, which He gave to you” (al-Nur: 33).



Property, therefore, belongs to Allah - alone. However, He has put mankind in charge of property, provided them with it, and has given them the right to own it.

Allah, the Exalted said: “And spend from what He put you in charge of” (al-Hadid: 7).

“O you who believe! Observe your duty to Allah and give up what remains (due to “And He has provided you with properties and offspring” (Nuh: 12).

Islam defined three types of ownership:

1. Individual ownership
2. State ownership
3. Public ownership

Through the management of these types of ownership, the economy of both the society and the individuals are completely satisfied.

### ***Zakah and poverty***

Islam has waged a war on poverty by all means. It is the poverty of the individual people that Islam is concerned with, in addition to the poverty of the nation as a whole. Islam has instituted the charity, called in Islam the “*zakah*” in a manner that eliminates poverty altogether. “*Zakah*” in Islam is a means of worship. It is one of the pillars of Islam as much as the prayer is. The Islamic system aims at eliminating poverty from the society, rather than managing the poor. One of the companions of the Prophet Mohammad (PBUH) and also one of the Rightly Guided Successors of Him, Ali Ibn Abi Talib stated: “if poverty were a man, I would certainly kill him”. Practically, after a few years of implementing Islam in the society, the notion of poverty was gone altogether. It is narrated that during

the era of the Khalifah Omar Bin Adel Aziz, there was not a single poor person within the Islamic State who would accept the charity of the “*Zakah*”. Tabri has reported it in his *History of the Muslims* a statement by Prophet Muhammad (PBUH). He says: “Allah breaks covenant with any group of people living in a close vicinity, whereby one of them goes to bed while *hungry*”. The Islamic economic system defines the main problem to be solved by the system as the poverty of the individuals.

The economic index, thus in the Islamic State, would be the percentage of people who live below poverty line. The economic strength and growth will be measured by the actual well being of the individuals rather than by the well being of NASDAQ or DOW JONES. What good would it do to the stomach of a poor person, if the NASDAQ gains or losses points?

The Islamic Economic Index is based on the food that is available to each and every human soul in the society. The Islamic economic system reserves the vital resources of the State for the well being of the people. One or more companies under Islam for example, will not own the oil. The fact that a certain company was able to drill and exploit oil fields in Texas does not give those people the right for the oil. The oil exists in fields that go beneath the houses and lands of millions of people. In Islam, the oil belongs to all the people in the state. This is not to be mistaking with socialism that dictates that all means of productions belong to the people.

Thus, the Islamic system ensures that the vital resources that belong to the people be actually returned to the people. As such, poverty will never exist in any society that has vital resources.

**Usury – Interest – *Riba***

Islam categorically prohibited the use of money to grow money, i.e., usury. Loans in Islam are given to others and considered a means of worship. Allah (SWT) declares that whoever gives a loan (no interest) to another person is indeed giving a loan to Allah. In return, Allah multiplies the reward for the loan giver. Allah stated:

“Whoever gives a good loan to Allah; and Allah will multiply it to him many folds” .

**Islamic Economy: Reality**

The harsh reality that many people misunderstand today is that Islam as described in the Qur'an and *Sunnah* has been removed from the real life of the people (Muslims and non Muslims alike) for almost a century. The Islamic State has been the responsible entity for implementing the Islamic systems during and after the death of the Messenger Muhammad (PBUH). The Islamic State continued to function (with ups and downs) until 1924, when Mustapha Kamal of Turkey managed to abolish the state. Since then, the Muslims and non- Muslims in the entire world have been living under various secular systems, implementing capitalism in the economic life. Muslims continued to believe in Islam and practice those parts of Islam that pertain to the individual. However, for Islam to produce the results and objectives set forth in the Qur'an and the *Sunnah*, the full implementation of Islam is necessary. Without full implementation of Islam, the results could be counterproductive. As a result of the absence of Islam, the Muslims resorted to national bonds, ethnic traditions and values. Quite often, the Muslims mix their national values, national aspirations, and methods with

those of Islam. The truth of the matter though is that Islam was revealed as a set of laws, regulations and systems to guide and manage the behavior of the society as well as the individuals. The history of the life of Muhammad (PBUH) shows that the objectives of Islam, the resolutions of Islam, and the values of Islam started to materialize only after the establishment of the Islamic State in Madinah, 13 years after the beginning of Islam. In fact, most of the laws, regulations, and systems were not revealed to Muhammad except after his migration to Madinah where the state was established. The laws of the *zakat* (that I discussed earlier), *riba* (usury), ownership and wealth distribution were revealed after the state was created.

### **Conclusions**

Islam as a religion and ideology needs to be revisited by both Muslims and non-Muslims alike. It is a religion that should be looked at as a continuation of previous religions. As an ideology, Islam should be viewed as one that provides economic, political, and social systems that do not belong to the ideologies of materialism (both capitalism and socialism). After the fall and collapse of socialism, the people of the world resorted to capitalism as their only alternative. The collapse of capitalism is imminent. It is the responsibility and the duty of the people of the world to examine Islam with serious and sincere scrutiny, in order to consider it as the viable alternative to capitalism. Thus as guided in Qur'an the Islamic Economic System suggest the role of individual and the state in equal distribution of wealth.

## References

- Abbas Mirakhor, (2007), *Islamic Economics*, Islamic Research and Training Institute, Saudi Arabia, [www.irti.org](http://www.irti.org).
- Ali B. Panda, (2007), *Islamic Economy: Its Relevance to the Globalization of Economy in the Muslim Filipino Areas*.
- Monzer Kahf, (2007), *Relevance, Definition and Methodology of Islamic Economics*, page 8 -12
- Frederic L. Pryor, 'The Islamic Economic System', *Journal of Comparative Economics*, 1985, 9, 197–223.
- John R. Presley and John G. Sessions, '*Islamic Economics: The Emergence of a New Paradigm*',
- Mohammad Ariff, *Monetary and Fiscal Economics of Islam*, International centre for research in Islamic Economics, Saudi Arabia, International Seminar Research Papers.
- Muhammad Abdul-Rauf, 'The Islamic Doctrine of Economics and Contemporary Economic Thought' (American Enterprise Institute, 1979),pp. 1–21.
- Murat Cizakca, '*Awqaf in History and its Implication for Modern Islamic Economies*', *Islamic Economic Studies*, 1998, 6, 1, 43–73.
- S. M. Hasanuzzaman, 'Defining Islamic Economics', *Journal of Islamic Banking and Finance*, 1997, 14, 1, 12–22.
- Syed Abul A`ala Maududi, Prof Khurshid Ahmed, Riaz Hussien, (2002), *Economic System of Islam*, Islamic Publication Ltd, Lahore, 38 to 46 and 100 to 139.
- The *Economic Journal*, 1994, 104, 424, 584–96.
- V. Nienhaus, 'Islamic Economics, Finance and Banking: Theory and Practice', *Journal of Economics, Banking and Finance*, 1986, 3, 2, 36–54.
- Zaman, Asad, (2008), *Islamic Economics: Survey of Literature*. <http://mpa.ub.uni-muenchen.de/11024>

## THE QUR'AN AND THE CONCEPT OF SCARCITY

Israrul Haque

A fundamental fact of economic life is the reality of scarcity. Productive resources are apparently limited, yet human desires seem to be virtually limitless. Resources have, thus, been scarce since time immemorial and will continue to be so for all eternity. From that simple, self-evident fact a corollary hypothesis has arisen: as population and economies grow, resource depletion accelerates until physical limits are reached and resource exhaustion occurs. After all, if resources are fundamentally scarce, it stands to reason that increased demand for them hastens the day when they will disappear from the planet. Do any of these people know that if there were no limited resources, if all needs were limited, if competition for an ever higher standard of living between countries, families, and individuals was imaginary, and if the problem of scarcity was non-existent, then the need for economics would disappear, and this subject could be dropped from the curriculum?

Warnings of impending catastrophe, which have been around for almost 200 years, have arisen with increasing frequency in the 20th century. The population explosion in the third world, coupled with the dramatic postwar growth of the global economy since 1950, has increased the volume, pitch, and urgency of warnings that civilization is living on borrowed time. The gasoline lines and inflation of the 1970s brought warning voices from the intellectual wilderness squarely into the center of public debate.

International best sellers such as Paul Ehrlich's *The Population Bomb*, the Club of Rome's *Limits to Growth*, and the Carter administration's *Global 2000 Report* all helped convince millions of people that human civilization as they knew it, was on the verge of collapse.

### **Did Muslim scholars/economists recognize the problem of scarcity?**

For mainstream economists, the problem of scarcity occurs, when limited resources are competed for by unlimited needs. The problem of scarcity in this sense was recognized by Muslim scholars, in terms of its essence, its manifestation, and its solution. Our scholarly forebears have indeed recognized the problem of scarcity in particular instances, as a general phenomenon and as a problem for solution. They did this when they treated questions of expenditure (on children), or charity to the poor, or dealing with competing demands on the state treasury, legal shares in inheritance, debts or bequests. Here is the evidence.

### **The Essence of the Problem of Scarcity for Muslim Scholars**

If you take any old or modern book on Islamic jurisprudence, you will find in the chapters on analogy and public interest, and the problems they give rise to, the following saying: "Legal texts are limited, but the occurrences of life are unlimited."<sup>1</sup>

Texts here are like resources, and occurrences are like needs. *Mujtahids* have to make the texts grow (by generating meanings from obsolete texts) and by using analogy and other tools of *ijtihad*, in order to face the

numerous, various and increasing occurrences of life, and find solutions for them. A dominant view of economists is that economics is a study related to scarcity of resources that have alternative uses. From Islamic viewpoint the notion that resources are scarce is not acceptable in the absolute sense because Allah, the Creator, has provided resources in just, if not abundant, quantities. The scarcity arises on account of the unrestricted claims on the resources and the failure of human beings in their equitable distribution. Islamic economics aims at this distribution of resources ensuring well-beings (*falah*) and good lives (*hayat tayyiba*) of human beings. In conventional economics it is said that human society produces on the bases of four factors of production namely land, labour, capital and entrepreneurship and these four factors are paid back in the form of rent, salary, interest and profit. Islamic economics, on the contrary, negates the justification of interest as a payment against capital. Provision of capital is the responsibility of the entrepreneurship and so there is no justification of payment of any additional payment of interest over and above the profit. Profit, in Islamic system, takes care of all that the entrepreneur does, including arrangement of capital.

### **Manifestations of the Problem of Scarcity as Described by Muslim Scholars**

Muslim scholars raised the problem of scarcity in many jurisprudential situations:

1. Al-'Izz Ibn 'Abd al-Salam (d. 660 A.H), Shafi'i jurist demonstrated this problem when he said: "If two poor people meet and there is not enough to meet both their needs, ....".<sup>2</sup> In this case there are two needy people whose needs are greater than the resources available to a person



who wants to help them both. The same jurist demonstrated the same problem when he said: "If someone had two sons and was only able to support one of them."<sup>3</sup>

2. Al-Mawardi (d. 450 A.H), another Shafi'i jurist, demonstrated the problem when he said: "If two demands are made on the treasury, of which it is only able to meet one."<sup>4</sup>

3. Our scholars also demonstrated this problem when they spoke about inheritance, especially when dealing with the subject of the rightful shares due to family members and referring to the problem of *'awl*. Linguistically, the *'awl* is the excess, and, as an expression, it is the excess in the lawful shares of an inheritance. The simplest example of this is as follows. Assume we have three people inheriting; a husband and two sisters (whether full sisters or sisters from the same father). According to the *Surat al-Nisa'*, the husband receives half and the sisters receive two thirds, one third each.<sup>5</sup> If we add the sum of the shares due to the family members, it comes to more than one. ( $1/2 + 1/3 + 1/3 = 3/6 + 4/6 = 7/6$ . The total is  $7/6$  (i.e. more than one), whereas the total inheritance is one (which equals  $6/6$ ).

In ascertaining the shares, the problem of excess is solved by dividing the deficit proportionally among the inheritors that is in proportion to their shares. The estate is divided equally into the number of shares required, i.e. in this case seven. The husband is given  $3/7$  and the sisters  $2/7$  each. The overall total would then be  $3/7 + 2/7 + 2/7 = 7/7$ .

In fact, all inheritance is based on the fact that there is a limited resource, the total of the estate, and relations have competing claims on it. The estate is distributed among them on the basis of inheritance laws, depending on the closeness of the relationship existing, the points of competition, priority (of two types: precedence, where one

potential inheritor has a closer relationship to the deceased than another potential inheritor; and lack, where the inheritance is too small to be divided), disinheritance, burden of expenditure (between male and female), and the difference of shares.

4. We find the problem of scarcity demonstrated by our scholars when they speak about the subject of competing bequests. If someone made bequests to two people, to one a quarter of the estate, and to the other a third, a third of the estate is divided between them proportionately according to the size of their bequests. This is because total bequests should not exceed one third of the estate, unless the inheritors are willing to allow this provision to be waived. The solution for bequests here resembles that for the shares of family members. The same applies if bequests are made to one, or more than one, person, of sums which total more than a third, in cases where the inheritors do not allow the excess, or, where the inheritors do allow the excess, but total bequests amount to more than the total estate.

5. Scholars take a similar position when they speak about debts in the chapter on inheritance and bankruptcy (compiling debts). Debts have priority over inheritance concerning the estate. If the sum of the debts exceeds that of the total estate, the estate is divided proportionally between the creditors according to the value of the monies owed to each. The same applies if a man goes bankrupt, and the net value of his wealth is less than the value of the monies he owes. His wealth will be divided between his creditors according to the value of the monies owed to each one.

### **The Solution for the Problem of Scarcity Given by Muslim Scholars**

When needs compete for resources, or lawful shares for the estate, or bequests or debts compete for the wealth of the person being inherited from or the bankrupt, scholars, we have seen, the problem may be treated by giving proportions, or by observing priority, deservedness, or sufficiency, or by lot (regarded as the last resort when demands are equal, or when the inheritance is too small to be divided, or when it is impossible to divide it for some other reason).

Al-'Izz Ibn Abd al-Salam says : "The imam must give preference to necessities over needs when dealing with people's rights, and treat them equitably by giving the poorer preference over the less poor, and the urgent need preference over the lesser need." <sup>6</sup> This shows how needs are arranged as they compete for resources, and how they are given priority according to importance and urgency.

He also says: "If someone has two sons and he can only support one of them, then he should divide what he has equally between them. If half a loaf satisfies one, and meets half the hunger of the other, how should he settle the matter? I say: He settles it in such a way as to satisfy each one's hunger to the same degree, for the main purpose of food is to provide enough for the stomach." <sup>7</sup> This indicates that he satisfies a proportion of each one's need.

He also said: "If one of them is more worthy, such as a father or a mother, or a relative or a wife, or a saint, or a fair judge or a just ruler, the more deserving should have priority over the lesser." <sup>8</sup>

See also how al-Mawardi treated the problem in *al-Ahkam al-Sultaniyah* that occurs when the expenses of the state treasury exceed resources.<sup>9</sup> Sometimes debts can be rescheduled, and sometimes they may resort to borrowing.

### **The Problem of Scarcity is Raised even in the *Hadith* of the Prophet**

A man came to the Prophet (PBUH) and said, "I have a dinar." He said, "Spend it on yourself." The man said, "I have another." He said, "Spend it on your child." The man said, "I have another." He said, "Spend it on your family." The man said, "I have another." He said, "Spend it on your servant." The man said, "I have another." He said, "You know best how to spend it."<sup>10</sup>

In another *hadith*, he says, "Begin with yourself ..., and if anything is left over, use it for your family, and if anything else is left use it for your relatives, and so on."<sup>11</sup>

The point of these *hadiths* is that people's resources are limited, and their needs are unlimited, so they have to be arranged according to their importance. Perhaps, this *hadith* could also be used as a basis for research into consumer balancing in modern economics.

However, some Muslim economists believe that there would be no problem of scarcity if Islamic economics were applied. This is not correct because although there is no concept of absolute scarcity of unlimited resources in Islam as these resources available on earth may be sufficient to secure the basic needs (food, clothing, and shelter) of may be fifty billion human beings, however, you cannot live on them alone, in spite of their basic and critical importance in our lives, therefore resources are limited and as we are about to explain, while needs are unlimited, so the problem of scarcity is real but not the central.

But discussing any concept from Islamic or Qur'anic perspective we have to free ourselves from the western framework of thought and idea and base our opinion according to our own world view. To analyze the science of economics we have to build our own framework of analysis.

To me Islam uniquely considers distribution as the fundamental economic problem, and Muslims do not share the obsession of capitalists and communists who consider scarcity to be the central problem because Islam differentiates between the basic needs and luxuries. It is the Islamic world view and framework together with its moral and spiritual dimensions which distinguishes the Islamic concept of limited resources with unlimited resources.

Unlimited resources like air and light of the sun, of which we can obtain sufficient for our needs without paying a price (free goods). They are part of God's mercies upon His servants. Limited resources (economic goods), like wheat, cotton, iron, foodstuffs, and textile, chemicals, medicines, cosmetic and capital products etc, the scarcity of these are clearer on the national, family, and individual level than on the world level. Ideally, and on the world level, these resources may not be limited, but on a national (familial and individual) and realistic level, it is impossible to deny the evidence that these resources are limited but as a result of greed, monopolization, injustice, misdistribution, and disasters, the scarcity problem is aggravated. As long as these resources are limited, they must be well-administered.

The scarcity mindset encourages a decision making process founded on limitation, thereby allowing fear to override the logical mind. Scarcity can be abandoned only when it is exchanged for a mindset of innovation, which is

the foundation of a mindset focused on maximizing the range and quality of proactive options available. Innovation defeats all forms of scarcity, personal and societal. In seeking to abandon scarcity for innovation, we will achieve a new level of security and prosperity. So is it true, then, that civilization is teetering on the precipice of collapse due to resource exhaustion? No.

Qur'an says that ample provision on earth has been made for human life to survive, and that it is the entire community's duty to exploit this generosity. Just how far down have we drawn earth's material abundance?

So how does one explain the unprecedented abundance of natural resources today, an explosion of plenty in the very midst of record demands for resources? There are three means by which to judge the extent of our resource base: proven reserves, price data, and ultimately recoverable stock.

Malthus's prediction about population and food supply was inaccurate: food production has exceeded population growth. For most of the last two centuries, the increase in food production was the result of bringing more land under cultivation and farming existing land more intensively. The world today produces enough grain alone to provide every human being on the planet with 3,500 calories a day.' That's enough to make most people fat! Looking more closely at some of the world's hunger-ravaged countries and regions confirms that scarcity is clearly not the cause of hunger.

The disturbing, ongoing pattern of famine and drought in Africa and Asia has added credibility to the argument that the earth is approaching a point at which it will not be able to continue to feed the "teeming masses" of the planet. Yet by any analysis, this is a time of agricultural abundance unprecedented in the history of the world. Thomas De Gregory observes that "if there is hunger in the world-and

so there is, in abundance, even in wealthy countries-it is because of mal-distribution of food, not insufficient global production. "Ten times as many people died of famine in the last quarter of the 19th century as have died of famine in the third quarter of the 20th century, despite our much larger present population and the massive engineered famines in Cambodia during the 1970s.

### **Proven Reserves**

Abundance, not scarcity, best describes the supply of food in the world today. Increases in food production during the past 35 years have outstripped the world's unprecedented population growth by about 16 percent. Indeed, mountains of unsold grain on world markets have pushed prices strongly downward over the past three and a half decades. Grain prices rose briefly during the early 1990s, as bad weather coincided with policies geared toward reducing overproduction, but still remained well below the highs observed in the early sixties and mid-seventies. All well and good for the global picture, you might be thinking, but doesn't such a broad stroke tell us little? Aren't most of the world's hungry living in countries with food shortages— countries in Latin America, in Asia, and especially in Africa?

Thus, even most "hungry countries" have enough food for all their people right now. This finding turns out to be true using official statistics even though experts warn us that newly modernizing societies invariably underestimate farm production—just as a century ago at least a third of the U.S. wheat crop went uncounted. Moreover, many nations can't realize their full potential food production because of gross inefficiencies caused by inequitable ownership of resources. Finally, many of the countries in

which hunger is rampant export much more in agricultural goods than they import.

### **Lessons from U.S.**

Finally, in probing the connection between hunger and scarcity we should never overlook the lessons from the US. In the 1990s, over 30 million Americans could not afford a healthy diet, and 8.5 per cent of U.S. children are hungry and 20.1 per cent more are at risk of hunger. But who would argue that not enough food is produced? Surely not U.S. farmers who were responsible for overproduction and the U.S. government, which maintains huge storehouses of cheese, milk and butter, overproduction of food grain is their most persistent headache. In 1995, U.S. aid shipments abroad of surplus food included more than 3 million metric tons of cereals and cereal products, about two thirds consisting of wheat and flour. That's enough flour to bake about 600 loaves of bread per year for every hungry child in the U.S.<sup>12</sup> We can learn to see that hunger is real; scarcity is not. Only when we free ourselves from the myth of scarcity can we begin to look for hunger's real causes.

Even if natural resource commodities are becoming scarcer, it may be possible to sustain economic production using lower levels of resource inputs to produce equivalent levels of goods and services. This may be achievable through technological progress or the substitution of other more plentiful inputs. The question of what mechanisms can sustain an economy dependent upon an essential nonrenewable resource was examined with highly stylized optimal growth models in the 1970s, and the results were an important theme in *Scarcity and Growth Reconsidered*.<sup>13</sup> If the economy is patient enough to give technological progress the time to increase the effective resource stock, then positive economic growth is sustained.<sup>14</sup>



India ranks near the top among Third World agricultural exporters. In 1995, India exported \$625 million worth of wheat and flour, and \$1.3 billion worth of rice (5 million metric tons), the two staples of the Indian diet. While at least 200 million Indians go *hungry*.

Bangladesh. Beginning with its famine of the early 1970s, Bangladesh came to symbolize the frightening consequences of people overrunning food resources. Yet Bangladesh's official yearly rice output alone-which some experts say is seriously under-reported - could provide each person with about a pound of grain per day, or 2,000 calories. While Brazil exported more than \$13 billion worth of food in 1994 (second among developing countries), 70 million Brazilians cannot afford enough to eat.<sup>15</sup>

Africa. It comes as a surprise for many of us to learn that the countries of Sub-Saharan Africa, home to some 213 million chronically malnourished people (about 25 percent of the total in developing countries), continue to export food. Throughout the 1980s exports from sub-Saharan Africa grew more rapidly than imports, and in 1994, 11 countries of the region remained net exporters of food.<sup>16</sup>

Empirical evidence does not indicate a significant increase in the scarcity of natural resource commodities. Indeed, the historical evidence is that expansion into previously undeveloped lands and technological progress have enabled human economy to avoid the so-called Malthusian trap and to maintain adequate supplies of food, forest, and mineral products even as population and economic output increased substantially.

Population and economic growth into the next century will greatly increase the demand for natural resource commodities. Even though population growth has slowed, a population of six billion growing at 1 per cent adds the

same number of people as three billion people growing at 2 per cent per annum. The desire for a higher living standard in the developing world places additional demands on technological progress to prevent increasing scarcity of natural resource commodities.

However, the world's petroleum supply is finite and cannot last forever—some forecasts place the peak of world oil production within the next decade or two. Coal is more abundant than petroleum, but the environmental evils of energy from coal are generally greater.

There are several possible renewable substitutes, including solar, thermal and voltaic, wind, geothermal, and biomass energy. Whether these energy sources will allow the same standard of living as fossil fuels depends upon technological advances yet to be made. One can be optimistic or pessimistic about future possibilities, but there doesn't appear to be a significant shortage on the near horizon.

The first step is to correct the institutional failures that result in under-valuation of these goods and services. This step is necessary whether one views sustainability as an efficiency or equity issue, and it is a tremendous task in itself. We are far from an understanding of how ecosystems function, and the interdependence of their many elements makes it difficult to design simple remedies.

### **Price Data**

An examination of 15 representative agricultural commodities (barley, broilers, carrots, cattle, corn, cotton, eggs, milk, oats, oranges, rice, sorghum, soybeans, wheat, and wool) reveals that real prices in the United States dropped by an average of 38 percent from 1980 to 1990. When indexed to wages, the price of those foodstuffs has

declined 83 percent since 1950. Clearly, if the earth's agricultural productivity were being outpaced by voracious demand for food as a result of the population explosion, agricultural prices should be rising sharply rather than falling dramatically as the data indicate.

Likewise, it is clear that the agricultural output of the planet has increased exponentially over the past several centuries. Since 1960 technological advances in farm equipment, pesticides, fertilizers, irrigation techniques, bioengineering, and soil management have led to a doubling of world food production and 30 percent increases in farmland productivity. Technological advances have more than kept pace with the explosion in global population. Since 1948, world food production has surpassed population increases by about 1 percent a year. Although global population has doubled since World War II, world grain production has tripled.

The dramatic increase in the availability of foodstuffs occurred without any appreciable global increase in landmass committed to agricultural uses over the last 30 years. Since 1950, in fact, 200 million acres of U.S. farmland have been retired as a result of the unprecedented glut of agricultural commodities on the world market.

Agricultural abundance has translated into improved health for even the poorest of poor in the Third World. Whereas only 42 percent of all countries reported that average daily caloric consumption reached 100 percent of recommended levels in the mid-1960s, 66 percent of all nations reported caloric intake at those levels by the mid-1980s, a 56 percent increase in less than 20 years. Fully 81 percent of the world's countries, including China and India, now report average caloric intake of at least 90 percent of recommended levels.

Moreover, there is good reason to believe that the planet can feed tens of billions of people for many generations to come. Suitable agricultural land makes up 24 percent of the total ice-free landmass of the globe, well over twice the amount cultivated in recent decades and more than triple the acreage cultivated in any given year. Moreover, a great deal of the world's cropland is underused or cultivated using low-yield technologies and practices similar to those used in 1910. Obviously, agricultural productivity will skyrocket as high-yield technologies continue to advance throughout the developing world.

While generating massive abundance and wealth of resources by eliminating all restrictions and oppressive systems that prevent production, Islam will safeguard against abuses of exploitation in acquiring wealth by limiting the way in which wealth is acquired. For instance, Islam denies the "free" market of Capitalism which has led to the situation of "survival of the fittest". Such an unrestricted environment has led directly to the current situation where multinational companies have scavenged the resources of the world like parasites unrestricted in their "freedom."

### **Recoverable Stock**

By using labels like "Third World" and "First World," contemporary economic policy has worked behind a deceived populace who fail to realize that the "Third World" countries are actually First World in terms of resources. While organizations like Mercy International and UNICEF keep the masses content under the act of "humanitarian aid," the capitalist machine works behind the stage to gobble up the resources of the world.

The current systems have created a club of institutions – such as the IMF (International Monetary Fund), World Bank, and NGO's (Non Governmental Organizations) – that employ tactics such as loans and structural deficit planning to siphon off the world's resources to the so-called developed nations, leaving behind a gross inequality in distribution of wealth. The world order has resulted in a bleak scenario in which most of the world chokes from the exploitation of a few elitist nations that continue, under the protection of laws and systems that are designed to serve their interests, to squander the wealth of the world and systematically tighten their control of societies around the globe.

### **Conclusion**

Such a misunderstanding has concealed the reality that starvation, poverty, and economic backwardness, result from misdistribution exasperated by man-made laws and systems. Under the Islamic system, Nigeria alone could support the whole of Africa, as occurred in the past when, under the system of Islam, Africa sent food to relieve the famine in Medina during the rule of Umar Ibn al-Khattab.

### **Endnote:**

1. Younis, R. (1995) Did Muslim scholars recognize the problem of scarcity. *Journal Islam Today*. No. 13. <http://www.isesco.org.ma/english/publications/islamtoday/13/p2.php>
2. Ibn Abd al-Salam, al-Izz, *Qawa'id al-Ahkam fi Masalih al-Anam*, Beirut: Dar al-Ma'rifah, vol. 1, p. 69

3. Ibid.
4. al-Mawardi's (1978), *al-Ahkam al-Sultaniyah*, Beirut: Dar al-Kutub al-Ilmiyah, p. 215
5. *"In that which your wives leave, your share is a half if they have no child; but if they leave a child, you get a fourth of that which they leave after payment of legacies that they may have bequeathed or debts. In that which you leave, their (your wives) share is a fourth if you leave no child; but if you leave a child, they get an eighth of that which you leave after payment of legacies that you may have bequeathed or debts. If the man or woman whose inheritance is in question has left neither ascendants nor descendants, but has left a brother or a sister, each one of the two gets a sixth; but if more than two, they share in a third; after payment of legacies he (or she) may have bequeathed or debts, so that no loss is caused (to anyone). This is a Commandment from Allah; and Allah is Ever All-Knowing, Most-Forbearing."* (4:12)  
*They ask you for a legal verdict. Say: "Allah directs (thus) about al-Kalalah (those who leave neither descendants nor ascendants as heirs). If it is a man that dies, leaving a sister, but no child, she shall have half the inheritance. If (such a deceased was) a woman, who left no child, her brother takes her inheritance. If there are two sisters, they shall have two-thirds of the inheritance; if there are brothers and sisters, the male will have twice the share of the female. (Thus) does Allah makes clear to you (His Law) lest you go astray. And Allah is the All-Knower of everything."* (4:176)  
 All the translations of the Qur'anic verses cited in this paper are from *Dr. Muhammad Taqi-ud-Din Al-Hilali & Dr. Muhammad Muhsin Khan's translation of The Holy Qur'an*.
6. Ibn Abd al-Salam, al-Izz, *Qawa'id al-Ahkam, op cit. vol. 2*, pp. 33-34

7. Ibid. vol. 1, p. 69
8. Ibid.
9. Al- Mawardi, *al-Ahkam al-Sultaniya*, op. cit. pp. 214-215
10. (Abu Dawud 2 : 178; Al-Nisa'i 5 : 62)
11. Sahih Muslim with a commentary by Al-Nawawi 3: 35
12. The Myth – Scarcity, The Reality - There is enough food. *Third World Traveller*, [online]. Available from: [http://www.thirdworldtraveler.com/Global\\_Secrets\\_Lies/Myth\\_FoodScarcity.html](http://www.thirdworldtraveler.com/Global_Secrets_Lies/Myth_FoodScarcity.html) (30.10.2010)
13. Smith, V. Kerry (1979), *Scarcity and Growth Reconsidered*, Baltimore: John Hopkins University Press.
14. Simpson, David Ralph, Toman, M. and Ayres, Robert U. (2005) *Scarcity and Growth Revisited*. 1st. ed., Ch. 3.
15. Ibid.
16. Institute for Food and Development Policy: [www.foodfirst.org](http://www.foodfirst.org)

## **ROLE OF INFORMAL INSTITUTIONS IN THE REDISTRIBUTIVE SCHEME OF THE QUR'AN**

Abu Shariq

### **Introduction**

In Islam, the centre of economic activity is the welfare of humankind. The Qur'an says that human beings were created to be Allah's vicegerent. They alone, among all creatures, were taught all the names (2:30-31); hence they have superiority over all other creatures. The Qur'an refers to human power by pointing to the subjection of creatures to people; subjection that, of course; was established by Allah.<sup>1</sup> Keeping in view this privileged position of man in the world, the Qur'an does not encourage the treatment of humans as mere capital for economic growth. The Qur'an gives primary importance to the spiritual and ethical development of human beings and faith plays a key role in the process of development in Qur'anic framework, regulating the material development of man and society.

It is through mental and spiritual transformation of human beings that the Qur'anic concept of development is realised. Effectiveness of the Qur'anic scheme of redistribution depends on the pre-existence of adequately active Islamic society. The starting point of the Qur'anic scheme of redistribution is to develop an Islamic society which is ready to struggle for ensuring justice for human beings in an economy before realisation of the goal of a just political order. Even for the establishment of a just political order, presence of the Islamic society seems to be a precondition. It is the presence of the Islamic society which makes redistribution scheme of Islam relevant in all



settings - Islamic or otherwise. The Islamic institutions of redistribution will give their required results in an adequately active Islamic society.

### **The Basic Source of Economic Problem**

The basic source of economic problem, according to Qur'an, is the attitude of man himself, before anything else:

It is Allah who hath created the heavens and the earth and sendeth down rain from the skies, and with it bringeth our fruits wherewith to feed you; it is He who hath made the ships subject to you, that they may sail through the sea by His Command; and the rivers (also) hath he made subject to you. And He hath made subject to you the sun and the moon, both diligently pursuing their courses; and the Night and the Day hath He (also) made subject to you. And He giveth you of all that ye ask for. But if ye count the favours of Allah, never will ye be able to number them. Verily, Man is given up to injustice and ingratitude (14:32-34).<sup>2</sup>

These Qur'anic verses clearly show that Allah has pooled in this wide universe all the needs and beneficial things for man and has provided for him resources sufficient to meet his material and other needs. The economic problem is a creation of the ingratitude and transgression of man; that is to say, the ingratitude of "haves" towards Allah which implies contravention of the philanthropic norms that are schemed by Allah for the welfare of the "have-nots." Thus the injustice of man in economic field is constituted by misdistribution; and when this injustice in the social relations of distribution is corrected, the economic problem of man is almost resolved.<sup>3</sup>

According to modern economic theory, economic problems arise in human society due to scarcity of resources. Given the unlimited wants, it is important that a

society makes efficient use of resources. But according to Qur'an, Allah has provided sufficient resources to meet the needs of man. In this context, scarcity of resources may be attributed to the unjust distribution of fruits of economic growth at national and international levels. Moreover, the scarcity of resources may be the result of excessive consumerism promoted by modern materialistic society. Even with the given economic resources, a society can achieve the goal of distributive justice with reallocation of resources by changing its priorities and by transformation of worldview and attitudes of human beings. The emphasis of Qur'an on simple living and the spirit of mutual responsibility have potential for reallocation of economic resources in an economy.

### **The Basic Problem in Ensuring Distributive Justice**

The biggest hurdle in the way of achieving the goal of distributive justice is clash between self-interest and social interest of man. It is generally held that the man cannot realize a social organization that might ensure all his social benefits and also be compatible with his nature and general constitution. The reason is said to be the incapability of man to comprehend the social attitude with all its characteristics, and the human nature with all its contents. But even in cases where his social interests are fully comprehensible to him, he is often (mis)guided by his self-interest. Therefore, there is a necessity of bringing harmony between social-interest and interest of man.<sup>4</sup>

Two very important forces which control human behaviour are: an inner urge on the part of the individuals to fulfil their obligations on their own preference, and the presence of incentives and deterrents to induce them to do so. As far as the inner urge is concerned, it comes from the innate goodness of the human nature. However, since man

has freedom of will he may be tempted to act against his own nature. In order to control the self-interest behaviour of human beings, some incentives and deterrents are indispensable. But the practical problem is that incentives and deterrents may not succeed in every instance due to many clandestine ways to dodge the law enforcing authorities even if they are not corrupt and unfair. The other problem is that the creation of an elaborate and foolproof legal and bureaucratic mechanism for the effective enforcement of policies and schemes may increase transaction costs to an unbearably high level. Therefore, a social mechanism is required that can convince majority of the people to abide by the social norms voluntarily under all circumstances.

In order to bring harmony between social and self-interests the Qur'an places greater reliance on informal institutions that include conceptual behaviours, social norms, understanding and codes of conduct etc. The effectiveness of formal institutions, which include laws and regulations, usually depends on the informal institutions. Therefore, starting point of the Islamic scheme of justice including distributive justice is a proper development of informal institutions by transforming behaviour of individuals and developing a society which is ready and willing to follow Divine injunctions in totality. In the Qur'anic scheme of redistribution society plays pivotal role.

### **Reform and Development of Society in Islam**

A society is characterized by the synthesis of minds and thoughts and of wills and wishes of its individuals. Every society judges things according to its own standards. Every society has its own special way of perception and comprehension. It is the social atmosphere that moulds the tastes and perceptions of the individuals according to its

own value-system. When the value system of a society is deviated from righteous path there would be collective disobedience and opposition to truth.<sup>5</sup> Therefore, the first step in Islam to establish socioeconomic justice is to reform the society. In Qur'an, we find that all of the prophets of Allah started their mission with reforming society to counter the deviations from righteous path. For this they relied on strengthening the faith and changing the worldview of individuals on in line with Divine guidance because actions and deeds of human beings are mostly the reflections of their faith and worldview. This is a precondition for multidimensional progress and development of a society. As Qur'an says....

*Verily never will Allah change the condition of a people until they change what is in themselves ... (13:11)*

For a society to be fully developed in Qur'anic terms its individuals must become *muhsin*, that is, conscious of their final destination which is *akhirah* and act accordingly. *Ihsan* also plays an important role in an Islamic society which may be translated as ‘to do what is beautiful, or to make (something) beautiful.’<sup>6</sup> Strictly, *ihsan* is to act as if one is seeing Allah. *Ihsan* demands people to be aware of Allah’s presence in all circumstances and act appropriately. It is not enough for outward activity to be correct; rather inward thoughts and attitudes must conform exactly to outward activity. The human personality needs to be harmonious; balanced and free of tendencies and impulses of transgressions pulling in different directions.

The Qur'an portrays the picture of a developed community in following verses:

*“By the time, Verily man is in loss.  
Except such as have faith and do*

*Righteous deeds and (join together) in mutual enjoining of truth, and of patience and constancy". (103:1-3)*

These verses show that development in Qur'anic sense is not judged by mere material advancement of a community but by its faith, righteous deeds and commitment to the establishment of justice. Only those societies may be considered developed whose members exhibit above mentioned attributes.

The key to success in this life and the Hereafter is stated in above verse and at many other places in Qur'an. The Qur'an maintains that only "those who have faith and do righteous deeds" (in Arabic: *alladhina aamanu wa amilu al-saalihat*) will benefit from their earthly lives (Qur'an 2:25, 82, 277; 4:57, 122; 5:9; 7:42; 10:9; 11:23; 13:29; 14:23; 18:2; 18:88, 107; 19:60, 96; 20:75, 82, 112; 21:94; 22:14, 23, 50, 56; 24:55; 25:70-71; 26:67; 28:80; 29:7,9, 58; 30:15, 45; 31:8; 32:19; 34:4, 37; 35:7; 38:24; 41:8; 42:22, 23, 26; 45:21, 30; 47:2, 12; 48:29; 64:9; 65:11; 84:25; 85:11; 95:6; 98:7; 103:3.).

A partial list of righteous deeds may be composed from the Qur'an. It may contain those acts and attributes that are universally recognized as virtuous. One should show compassion (2:83, 215; 69:34), be merciful (90:17), forgive others (42:37; 45:14; 64:14), be just (4:58; 6:152; 16:90), protect the weak (4:127; 6:152), defend the oppressed (4:75), seek knowledge and wisdom (20:114; 22:54), be generous (2:177; 23:60; 30:39), truthful (3:17; 33:24; 33:35; 49:15), kind (4:36), and peaceful (8: 61; 25:63; 47:35), and love others (19:86).

The Qur'an says that one should teach and encourage others to practice these virtues (103:3) and by implication, learn and grow in them as well. One can find in Qur'an that prophets used to encourage their communities and families to adopt such ethics. In order to implement above

mentioned righteous deeds in a society Islam's method is based on two considerations: First, the human conscience which works within the human beings; and second a system of religious law, working in the social sphere. It unites these two factors by an appeal to the depths of feeling in the human consciousness. The Qur'an gives prime importance to reformation of human soul in all its aspects and from every side by strengthening his faith in Allah. The human conscience behaves as the guardian of the legal processes. For the observance of the considerable part of the Islamic laws, conscience alone is accountable. The Qur'an places great deal of reliance on an "educated" human conscience that makes a Muslim mindful of the fact that he is under minute observation of his Lord in all circumstances.<sup>7</sup>

### **Core Values of an Islamic Society**

The distributive scheme of Islam depends on core values of an active Islamic society through which Islam initiates the process of implementation of its distributive scheme. Those core values are the offshoots of righteous deeds elaborated in the holy Qur'an. Most of the righteous deeds elaborated in Qur'an are relevant for ensuring distributive justice in any human society. These core values of an Islamic society may be summarized as under:

### **Equality of Human Beings**

Allah has created man from dust and breathed His spirit in him. He measures out for him, the wealth and poverty, place of birth, family, tribe, nation, caste and ethnicity etc.<sup>8</sup> Therefore, man has no right to claim superiority on any of these bases. Allah has created man as His vicegerent and inscribed in his conscience the sense of

right and wrong and given him free will. It is by applying the free will and choosing the right path that a man can become honourable and close to his Lord. All other criteria of superiority are meaningless. As far as material welfare and other fundamental rights are concerned, Qur'an is not in favour of giving any special treatment to any one on the basis of religion, colour, tribe, caste, or social status.

### **Justice and Benevolence (*al-Adl wa'l-Ihsan*)**

The principle of justice and benevolence is mentioned in the Qur'an in following words:

*Allah commands justice, the doing of good,  
and giving to kith and kin...(16:90)*

Justice is a comprehensive term and may include all virtues that are legally binding and are the basis of the relationship between state and its people or between a system and the social and individual entities. The human relationships are governed, in Islam, by *ihsan* which is the doing of good deeds even where perhaps they are not strictly demanded by justice (or law) such as returning good for evil, or obliging those who in legal terms have no claim on the person concerned. The third item in this commandment is generosity towards one's kith and kin, which is fulfilling socially recognized claims of relations.<sup>9</sup> This claim is beyond legality and emphasised invariably in other places in the Qur'an as well as in *ahadith* under the title of *silah rahmi*. This social right is fulfilled not by having reciprocal relationships with one's relative and participating in familial ceremonies but is fulfilled only when one is mindful of the social claims his or her relatives might have on his/her property.<sup>10</sup>

### **Freedom with Responsibility**

The Qur'an grants individual freedom and human equality in most exacting sense. Society has its interests, human nature has its claims. To reconcile them, the Qur'an lays down the principle of mutual responsibility in various ways. In it we find the responsibilities which exist between a man and his soul, between man and his immediate family, between the individual and society, between communities, and between nations.<sup>11</sup>

The Qur'an legislates for mutual responsibility in society in all shapes and forms, these forms arise from the basic principle that there is an all-embracing identity of purpose between the individual and society, and the life as a whole is interrelated. So, the Qur'an lays down complete liberty for the individual, within limits, which will not injure him and will not favour society at his expense. It safeguards the rights of society, and at the same time, specifies its responsibilities. Thus it enables the life to progress on a levelled and even path.

### ***Shura* (Consultation)**

In the Islamic system, all matters are resolved by the mutual consultation under the guidance of Allah and His Messenger. The principle of *shura* is based on the following Qur'anic verse:

*And who (conduct) their affairs by mutual consultation... (42:38)*

The literal meaning of *shura* is consultation. The general principle is that believers are supposed to conduct their affairs by mutual consultation at every level and each area of life. The believers' conduct in life is open and



determined by mutual consultation, between those who are entitled to voice, e.g. in private domestic affairs, as between husband and wife; or other responsible members of the household; in affairs of business; as between partners or parties interested, and in state affairs, as between rulers and ruled, or as between different departments of administration, to preserve the unity of administration.<sup>12</sup> Thus the Qur'an advocates for the complete democratization of the society at different layers and levels.

### **Islamic Society and the Qur'anic Scheme of Redistribution**

In view of above discussions, it may be said that the basis of redistribution scheme of the Qur'an is a system mutual responsibility in the society. In Islam, charity begins at home. The basic institution in an Islamic society is the family. Family is the basic unit of the economy and its members are responsible to each other. If a person faces economic hardships, it is the duty of his relatives to take his care. There are several verses in Qur'an in this regard.<sup>13</sup> Every person is responsible to take care of his relatives according to his *economic position*.<sup>14</sup>

Beyond family relations Islam's aim is to convert each village and town into a unit in which every individual and family share happiness and sorrow of each other. The Qur'an orders people for good behaviour to their neighbours.<sup>15</sup> The importance of neighbour has been widely reported in *hadith*.<sup>16</sup>

The Holy Qur'an visualises special role for believers as active agents for establishing justice in the world. The responsibility of believers towards fellow human beings has been emphasised since the beginning of Islam. In the Makkan phase, believers were a microscopic minority living in a hostile un-Islamic setting. In this period,

Qur'anic verses revealed in Makkah calls for spending on the poor and needy and warned the violators:

*Every soul will be (held) in pledge for its deeds. Except the companions of the Right Hand (they will be) in Gardens (of delight); they will question each other, and (ask) of the sinners: "What led you into Hell Fire?" They will say: "We were not of those who prayed; nor were we of those who fed to indigent. (74:38-44)*

The Qur'an not only warned of the punishment in the Hereafter but also in this world for failing to fulfil the duties towards the poor and the needy. In this context, Qur'an relates a story of a few persons who were punished by Allah when they intended to deprive their share in their produce.

*Then there came on the (garden) a visitation from thy Lord (which swept away) all around, while they were a sleep. So the (garden) became by the morning like a dark and desolate spot (whose fruit had been gathered). As the morning broke they called out one to another. "Go ye to your tithe (betimes) in the morning if Ye would gather the fruits. So they departed conversing in secret low tones; (saying) "Let not a single indigent person break in upon you into the (garden) this day" And they opened the morning strong in an (unjust) resolve. But when they saw the (garden) they said "We have surely lost our way. Indeed we are deprived (of the fruit of our labour)!" Said one of them, more just (than the rest). "Did I not say to you, "Why not glorify Allah?" They said, "Glory to our Lord! Verily we have been doing wrong!"..... Such is the punishment (in this life); but greater is the punishment in the Hereafter. If only they knew. (68:19-33)*

It is not enough for a believer to spend his wealth for the poor and the needy but he should also encourage other individuals to take care of the poor and the needy. Failing to deliver on this account is an act of *kufr* and the person concerned will invite the wrath of Allah in the Hereafter.

*And he that will be given his record in his left hand will say "Ah! Would that my record had not been given to me! And that I had never realized how my account (stood)! Ah! Would that (death) had made an end of me! Of no profit to me has been my wealth! My power has perished me"! (The stern command will say): Seize ye Him, and bind ye him. And burn ye him in the blazing fire. Further insert him in a chain, where of the length is seventy cubits! This was he that would not believe in Allah Most High, and would not encourage the feeding of the indigent.(69:25-34)*

*Seest thou not who denies the judgement (to come)? Then such is the one who repulses the orphan. And encourages not the feeding of the indigent (107:1-3)*

A God-fearing society is that which gives priority to improving the living conditions of the poor. Negligence of the poor and the needy is the sign of an un-islamic (*jahili*, pagan) society.

*Nay, nay! But ye honour not the orphans. Nor do ye encourage one another to feed the poor. (89:17-18)*

The Qur'an enjoins the Muslims to strive for the cause of the deprived and asks them to play an active role for the establishment of justice. A significant point to be noted in this context is that, it never mentions their faith, culture, caste, creed etc. The verses which enjoin people for encouraging others to feed the poor and the needy imply

that, in any society, it is the responsibility of the Muslims to strive for the economic amelioration of the deprived. Most verses were revealed in Makkah where believers were a small minority living in a hostile environment. It means that the Qur'an is against the ghettos of the Muslims. Any effort for the development of a particular section of population is against the spirit of the Qur'an. The Qur'an is in favour of universal justice. Encouraging others to feed the poor and the needy implies that Muslims should encourage others individually and collectively.<sup>17</sup>

In the modern democratic setting, in countries like India, budgetary allocation of resources plays a crucial role in the redistribution. Moreover, government policies of public expenditure are also influenced by public opinion. In this context, it is the responsibility of the Muslims to mobilize the masses for influencing the policies of the government for the amelioration of economic condition of deprived section of population.

On the principle of cooperating with others on the issues of virtues and goodness, Muslims with the cooperation of like-minded people of other communities may develop as an active political force to change the political environment favourable to the poor and the needy. In the light of above arguments we can say Qur'anic scheme of socio-economic justice does not depend solely on the creation of Islamic state. The basic requirement for the establishment of socio-economic justice is the emergence of adequately active Islamic society whose members are willing and devoted to Qur'anic injunctions. It does not depend solely on the creation of an Islamic state. Islamic state is an offshoot of adequately Islamic society, a society whose conceptual behaviours, social norms, understanding, codes of conduct etc are based on divine guidance. To ensure distributive justice Prophet Muhammad placed greater emphasis on Islamic society

which is evident from his first public address after the establishment of first Islamic state

*“O people send forth (some good) for yourselves. By Allah, one of you will be certainly stunned leaving behind his sheep without a herdsman, then his Lord would say to him, Did not My Messenger come to you and convey (My message)? Islam granted you bountiful wealth and favoured you. So what did you then send forth for yourselves? Thereupon, he would look at the right and left and would find nothing there, and then he would look in front of him where he would see nothing but the Hell. Therefore any one could possibly save himself from the fire (of Hell) even though by the means of a portion of a date, he must do it. If he does not have (even) that, he (should secure safety from Hell) by uttering a pleasant word, because a good deed is rewarded from ten fold to seven hundred. May peace and God’s blessing and mercy be on you.”<sup>18</sup>*

The emphasis on informal institutions results into evolution of a culture where Muslims pay *zakah* and create *awqaf* and give other voluntary charity without any external pressure. Effectiveness of these institutions depends on the level of development of informal institutions. The emphasis on voluntary charity by Qur'an resulted into development of the institution of *waqf* which have been a very important instrument for the distributive scheme of Islam. For example the *waqf* development in the Muslim lands culminated into making a considerable proportion of cultivable lands and metropolitan real estates in the domain of *waqf* to the extent that *awqaf* property were estimated at over one third of the agricultural land in several countries including Turkey, Morocco, Egypt and Syria. This is in addition to the urban *awqaf* that represent a sizable portion

of total urban real estates.<sup>19</sup> A survey of land in Egypt in the years 1812 and 1813, shows that waqf property represented 600,000 *feddan* (570,000 acres) out of total 2.5 million *feddan*.<sup>20</sup>

### **Conclusion**

Islamic scheme of redistribution is universal and does not discriminate on the bases of caste, creed, colour and religion etc. In view of Qur'anic injunctions, believers are supposed to be an interactive community and remain active in their mission of ensuring universal peace and justice in all settings. The Qur'anic scheme of redistribution does not solely depend on the creation of Islamic state. Islam puts a great deal of emphasis on Islamic society for implementing its scheme of redistribution for welfare of human beings. Islam is mainly concerned with the transformation of behaviours of human beings in the light of Divine guidance, which results into the evolution of those values which are supportive to the weaker section of the population. By linking universally recognized righteous deeds with the faith, Islam ensures their greater possibility of implementation in societies without any external pressure. By inculcating the sense of responsibility in believers towards other human beings and making it condition for success in the hereafter, Islam gives a universal system for ensuring distributive justice in the world. With internalization of core values of Islam, the Muslim community is expected to emerge as a force in ensuring distributive justice for all, in different settings - predominantly Muslim or otherwise.

### **Endnotes**

1. Do ye not see that Allah has subjected to your (use) all things in the heavens and on earth? **(31:20)**

*Seest thou not that Allah has made subject to you (men) all that is on the earth? (22:65)*

Note: All the translations of the Qur'anic verses cited in this paper are from Abdullah Yusuf Ali's *The Holy Qur'an: English Translation of the Meanings and Commentary*, The Custodian of The Two Holy Mosques King Fahd Complex al-Madinah al-Munawwarah.

2. Muhammad Baqir al-Sadr has cited the above quoted Qur'anic verses in support of his argument that one of the causes of the economic problem of man is his thanklessness for the Divine bounties, by which he means neglecting the exploitation of the natural resources. He says: "...when injustice in the social relations of redistribution is wiped out and powers of man are pooled, to take advantages from nature and exploit it, the real problem disappears from the economic field". [As- Sadr, Muhammad Baqir (1982): *Iqtisaduna* Vol. 1 Part II. World Organisation for Islamic Services Iran, p. 112.] This interpretation of thanklessness is questionable. As far as the neglect of tapping natural resources is concerned, it can hardly be cited as a cause for the economic problem of man. As against its frequent exhortations towards expending in the cause of Allah, the Qur'an, too, never urges its believers to earn or produce. The Qur'anic verses that allude to the exploitation of natural resources actually conclude with the moral that man should be thankful for the subsistence he is provided with by the grace of Allah.
3. Al-Sadr, Muhammad Baqir (1982): *Iqtisaduna* Vol. I Part II, World Organization for Islamic Services, Tehran, Iran, pp. 78-91.
4. ....*And every People plotted against their prophet, to seize him, and disputed by the means of vanities, therewith to obliterate the truth: but it was I that seized them! And how (terrible) was My Requital.(40:5)*

5. Murata, Sachiko & William, C. Chittick (2000): *The Vision of Islam*, I.B. Tauris, London, p. 269.
6. *Seest thou not that Allah doth know (all) that is in the heaven and on earth? There is not a secret consultation between three, but He is the fourth of them, --nor between five but He is the sixth, --nor between fewer nor more, but he is with them, wheresoever they be: in the end will he tell them what they did on the Day of Judgment. For Allah has full knowledge of all things. (58:7).*
7. *It was We Who created man, and We know what suggestions his souls makes to him: for We are nearer to him than (his) jugular vein. Behold, two (guardian angels) appointed to learn (his doings) learn (and note them), one sitting on the right and one on the left. Not a word does he utter but there is a vigilant Guardian. (50:16-18)*

*If thou pronounce the word aloud, (it is no matter): for verily He knoweth what is secret and what is yet more hidden. (20:7).*

8. Ali, Abdullah Yusuf, (n.d.): *The Holy Qur'an: English Translation of the Meanings and Commentary*, The Custodian of The Two Holy Mosques King Fahd Complex al-Madinah al-Munawarah, p. 760.
9. Mawdudi, Sayyid Abul Ala (1981): *Ma`ashiyat-e-Islam* (Urdu), Compiled by Khurshid Ahmad, Markazi Maktabah Islami, Delhi, pp.169-170.
10. *Qur'an: 17:23-24 ; 31:14 ; 33:6 ; 2:333 ; 4:11-12 ; 4:176 ; 2:180 ;5:2 ; 3: 104 ; 69:30-34; 89:17-26; 8:25; 5:78-79; 4:75; 4:6.*
11. Ali, Abdullah Yusuf, *op. cit.*, p. 1487.
12. *But kindered by blood have prior rights against each other (8:75)  
Allah commands justice, the doing of good, and giving to kith and kin. (16:90)*



*Serve Allah; and not join any partners with Him; and do good- to parents, kinsfolk, orphans, those in need; neighbours who are of kin, neighbours who are strangers; the companions by your side; the way-farer (ye meet) and what your right hands possess. For Allah loveth not the arrogant, the vainglorious. (4:36)*

*And rendered to the kindered their due rights, as (also) to those in wants and to the way farer, but squander not (your wealth) in the manner of a spendthrift. (17:26)*

*So give what is due to the kindered the needy, and the wayfarer. That is best for those who seek the countenance of Allah, and it is they who will prosper. (30: 38). See also Qur'an 31:14; 17:23-24; 33:6; 2:233.*

*Allah puts no burden on any person what He has given him. (65:7)*

13. *Let the man of means spend according to his means and the man whose resources are restricted, let him spend according to what Allah has given him Allah on any person beyond what He has given him. (65:7)*

*But bestow on them (a suitable gift) the wealthy according to his means; and the poor according to his means. (2:236)*

*The mothers shall give suck to their offsprings for two whole years; for him who desires to complete the term. But he shall bear the cost of their food and clothing on equitable terms (2:233)*

14. *Serve Allah; and join not any partners with Him; and do good to parents kinsfolk, neighbour who are of kin, neighbours who are strangers; the companions by your side, the way farer (ye meet) and what your right hand possess, for Allah loveth not the arrogant, the vainglorious. (4:36)*
15. Islam gives great importance to the right of the neighbour irrespective of religion, caste, colour or creed etc. Islam

recognizes forty houses adjacent to one's house as neighbour. Few companions of Prophet are of the opinion forty houses of each four sides from the neighbour of a house. It is the responsibility of everyone to take care of his neighbours in all of their needs. There are various *ahadith* which indicate the importance to the right of neighbour. Few are as follows:

*“By Allah, he does not believe! By Allah, he does not believe! By Allah he does not believe! I was said, “Who is that O Allah’s Messenger! He said “That person whose neighbour does not feel safe from his evil”. (Sahih al-Bukhari, Vol. 8, The Book of Adab 29:45, p. 28.)*

*Any body who believes in Allah and the last Day should not harm his neighbour. (Ibid, p. 29, Sahih Muslim Vol 1 The Book of Adab 31:47, p. 321.)*

*Any body who believes in Allah and the Last Day, should serve his neighbour generously (Sahih al-Bukhari, Vol. 8, The Book of Adab, 31:48, p. 29; Also quoted in Sahih Muslim Vol. 1, p. 321.)*

*Gabriel continued to recommend me about treating the neighbours kindly and politely, so much so that I thought he would order to make them as my heirs.(Sahih al-Bukhari, Vol. 8, The Book of Adab 28:43 p. 27.)*

Next-door neighbour has more right than the far one. There is a tradition narrated by Aisha in this regard: *“I said, “O Allah’s Messenger I have two neighbours! To whom shall I send my gifts “He said “To the one whose gate is nearer to you. (Ibid., The Book of Adab 32: 49, p. 30.)*

16. For corroboration see the interpretation of the Qur'anic verse: *Then will be of those who believe, and enjoin patience, (constancy, and self restraint), and enjoin deeds of kindness and compassions. (90:17) in Mawdudi’s Tafhim al-Qur’an.*
17. Cited by al--Sadr, Muhammad Baqir (1982): *Iqtisaduna* Vol. I Part II, World Organization for Islamic Services, Tehran, Iran, p. 61. Parts of this tradition are variably reported in the following books of *hadith*: *Sunan Ibn Majah,*

*Kitab al-Zakah*, Chapter 28, *Hadith* No. 1843; *Sunan Tirmidi*, *Kitab Sifat al-Qiyamah*, Chapter 1, *Hadith* No. 2417; *Sahih al-Bukhari*, *Kitab al-Zakah*, chapter 8, *Hadith* No. 494.

18. Kahf, Monzer (1998): ‘Financing the Development of Awqaf Property’, paper presented at the Seminar on Development of Awqaf, Organized by Islamic Research Training Institute, Kuala Lumpur, Malaysia, March 2-4, p.8.
19. *The Oxford Encyclopedia of The Modern Islamic World Vol. 4* (1995): Oxford University Press, New York, p. 315.

## ECONOMIC CHALLENGE AND QUR'ANIC TEACHINGS

Hifzur Rab

### **Introduction**

This paper is mainly concerned with money and market with a focus on economic growth and welfare. In the prevailing economic system, Pareto's optimality is central to the decision-making. Interest rates restricts the right of the labour to demand just wages. Gross disparity of income and wealth created by the institution of interest and accompanied monetary manipulation are likely to cripple the market and cause a multidimensional continuum of crisis. Under such circumstances, the assumption of Pareto optimality does seem to be rather farfetched.

*Zakah* occupies a central position in Islamic economic system, which ensures social justice by adopting a number of measures such as banning interest, enforcing *zakah* and strongly motivating people to do good especially helping the poor. *zakah* motivates the owners of capital to invest. There is also strong motivation for charities and creation of *waqf* as estate of deceased gets distributed among heirs. *Zakah* ensures satisfaction of necessities and needs of the have-nots. It addresses the problem of shortage of purchasing power and exerts multiplier effect on the economy. Right to own resources ensures availability of sufficient motivating force to cause people to strive for excellence. Availability of *qard hasan* ensures cost-free supply of capital in deserving cases. The poverty and deprivation presently prevailing in Muslim societies may be due to a number of factors such as lack of sovereignty,

technical underdevelopment, weakening of faith and the complications produced by dominance of interest.

**Manipulation of currency is integral part of the system of interest**

The following example shows how interest is a means to exploitation. An amount lent at 15 per cent yearly compound interest doubles in less than 5 years, it multiplies 10 fold every 16½ years, 1000 fold every 49½ years and 11,743,13 fold every 100 years. Net output of the world does not multiply even 10 fold in 100 years. Thus, net real rate of growth of output is below 2.4 per cent. Therefore, even if capital worth 20 per cent of the total resources of the world could be invested at 12 per cent interest compounded yearly, the over all growth of the worlds economy will not be enough for clearing the interest only. Thus, interest is a killer for the economy especially for the economy of indebted nations. The amount payable in lieu of interest doubles and redoubles periodically and this redoubling continues. Therefore, debts created by interest-based finance can't be cleared. If 100 grams of a commodity is borrowed at 10 per cent interest per annum, amount payable to clear this loan grows to equal weight of earth in 695 years. Dues growing at the exponential rate cannot be cleared unless the unit of account is manipulated (depreciated). Normally economic transactions use medium of exchange as unit of account implying that the system of interest cannot be sustained without monetary manipulation.<sup>1</sup>

Wages that labour earns directly add to purchasing power of the economy. Labourers spend most of their earnings on necessities and need fulfilment that add to their earning capacity and thus consumption expenditure acts as a multiplier. It constitutes the biggest benefit that the

economy derives from economic activities.<sup>2</sup> Now it may be observed that recession tends to perpetuate itself. Its main cause is known to be the failure of aggregate demand to rise to match the productive capacity. It means that there is lack of growth of purchasing power. The economy fails to integrate labour wage and gains accruing to the masses<sup>3</sup> with the mechanism that decides whether or not the entrepreneurs will take up new investments and/or continue to run an economic activity. An efficient market must ensure that undue/unjust claims be rejected and any major crisis must not be precipitated.

At another occasion this author has shown that the purchasing power fails to rise to match the material productive capacity due to failure of money manipulating capitalism to integrate benefits accruing to the labour and the masses and resultant inability of the labour and the masses to effectively participate in the market mechanism that sets prices.<sup>4</sup> The pricing system is made more adverse by monetary manipulation. Thus the rich benefit at the cost of the poor and the middle classes. Consequently human capacity lags far behind material productive capacity and this further restricts growth of purchasing power which results in massive waste and unemployment of resources.

### **Full employment of material and human resources**

To keep the material and human resources efficiently employed is the primary function of an economy. Its stocks consist of different and varied human capacities, technical knowledge and material resources in different forms. Under system of interest, the risk is borne by entrepreneur who restricts fresh investment to enterprises that is expected to produce rate of return much above the rate of interest. Efficiency and Justice demand that capital provider should bear the risk. Full employment as a condition in which all

resources of the economy are fully employed and that economic activities with positive real productivity for the economy i.e., with profitability to owner up to 2.5 per cent per annum are viable.<sup>5</sup> Such economic activities could be sustained only in a *zakah* driven economy. Normally, system of interest cannot sustain any such activities as these require real rate of interest (lending) to be negative. Further massive concentration of wealth produced by it kills unorganized sector.

Islamic economic system uses *zakah* to ensure that capital is not withheld, and purchasing power does not lag behind productive capacity. *Awqaf* play a significant role in providing some important social services free or at a very low cost. It thus produces equitable distribution of income and wealth. Equitable distribution of income and wealth ensures that those, who fail to get employed by profit maximising firms, are able to gainfully employed. Further, it prevents the cases of market failure and reduces the possibility of profiteering by promoting competition/cooperation between a large number of producers/traders and discouraging formation of monopolies and cartels. Similarly, *qard hasan* provides cost free capital in deserving cases. All these factors maximise investment, employment and out put.

### **Critical review of the working of Interest- based System**

Considering that interest based system provides a fixed reward for capital provider, it is clear that it will be efficient only if all the investments in the economy produce same rate of return. However, rate of return of investment is spread over a wide range and system of interest is inefficient in distributing profit of the enterprise between entrepreneur and creditor. Profitability of investment is also spread over a wide range, which is a consequence of

operation of the natural laws. Mechanism of interest ensures that resources that are not expected to produce the rate of return significantly higher than the rate of interest must remain unemployed.<sup>6</sup> Elsewhere we have shown that it leads to massive unemployment of resources. Let average rate of return be 7.5 per cent per annum and rate of interest 2.5 per cent per annum then if all the invested capital were borrowed on interest and all loss making units were to shut down, unemployment rate comes to 19 per cent. Thus, even if average profitability is good and prevailing interest rate is most balanced, a significant proportion of enterprises employing relatively higher proportion of labour fails to produce surplus even to pay interest at prevailing rate. The Economy cannot afford to shut these units down nor can these be run without reducing burden of interest on the entrepreneurs. That can be done by increasing money supply but that may lead to manipulation (depreciation) of currency and inflation. The prevailing economic system is a system based on interest using Freely Floating Fiat Money (FFFM) as currency. No country is able to shun monetary manipulation completely. Monetary manipulation is supposed to be purely artificial and yet if it is abandoned, economies driven by interest, tend to collapse. Thus, theoretical as well as empirical evidences show that FFFM is being consistently manipulated to sustain the interest based system,.

### ***Essential Conditions for just determination of prices***

Just determination of prices is possible only if market is open and protected from fraud. The system that grants right to own resources cannot function efficiently without a free market as, there is no substitute to it especially if there is no other way to determine or set just prices without which there can be no justice in exchange. Further, there is



no other way to justly reward various agents/factors of production and to ensure efficient allocation of resources. Two other essential and fundamental conditions are:

**1. *Reliable and well known unit of wealth as currency:*** Effective participation of the masses in the mechanism of price determination is essential to enable the market to determine just prices. It is possible only if currency is well known, has a definite and known intrinsic worth as well as stable purchasing power.

**2. *Equitable distribution of income and wealth:*** Market determines prices by integrating preferences of the people. Individual preferences get recognition only when individuals buy or sell or negotiate in different markets. Active participation of most of the people is an essential condition for market to determine just prices and that requires equitable distribution of income and wealth.

Market records preferences of only those who participate in buying and selling. Gross disparity in the distribution of income and wealth prevents majority of people from entering the market. Viewed in this perspective, allowing gross disparity is equivalent to disallowing the poor from exercise of their choice in economic affairs. While setting prices market distributes the surplus produced by the economic activities among producers, labourers and consumers. Where distribution of income and wealth is equitable the market-determined prices are based on 'thorough market assimilation and integration of preference of all'. The prices so determined will be just and efficiency enhancing. However, if there is gross disparity of income and wealth market will not be able to generate and absorb participation of masses in respect of large number of goods and services and therefore fail to determine just prices. It is the root cause of most of social and economic problems. Further it produces corrupt

and unreliable data which results into o unreliable and incorrect inferences and wrong policy decisions.

### **Market in the system of interest**

Manipulation of currency and gross disparities in the distribution of income and wealth created by interest based system leads to subversion and corruption of the institution of market.<sup>7</sup> Add to this the fact that strong systemic inadequacies tend to destroy vital economic equilibriums and thus lead to systemic inability to employ significant proportion of available resources (Hifzur Rab, 2009, 2010). It should be clear by now that a dysfunctional market can neither determine just prices nor it can restore economic balances. Thus, market fails to guide the economy to full employment and to preserve vital economic equilibriums. It needs excessive regulation that has compelled most of the votaries of free open market to shut off their mouths. The regulators usually come from the rich elite class who manipulate the market not only to help it through difficult phases but also to serve their own vested interest. That leads to corrupted and totally manipulated market and produce massive crisis.

### **Monetary manipulation**

Monetary manipulation may be defined as reduction in quantity of what determines its purchasing power. Thus, it is reduction in quantity of what money is or what it symbolizes. General increase in price level is known as inflation. It is due to change in purchasing power of the medium of exchange. Purchasing power of currency is determined by the quantity of commodities/basket of national product that directly or indirectly (i.e., through market) determine it. Purchasing power is proportional to

quantity. Price level may change due to a change in purchasing power of the commodity/commodities that determines purchasing power of the medium of exchange, and/or due to a change in the quantity thereof (i.e., quantity of commodity/commodities that determines purchasing power of the medium of exchange).

Where the change in price level is due to first cause and is not due to hoarding or similar other crimes, it can be said to be a natural cause. Change in the quantity of what determines purchasing power of money (e.g., change in purchasing power of gold coin due to change in quantity of gold in the coin) is an artificial cause and a serious crime.

Thus, inflation can be due to monetary manipulation, due to criminal acts like hoarding or natural cause. When we compare price stability of our times with price stability a hundred or a thousand years earlier we see that earlier prices tended to be stable while now generally these continue to increase.<sup>8</sup> In view of scientific and technical advancement, instability of the prices ought to have been much reduced. The only significant cause for the prevailing gross instability is the changed nature of the medium of exchange. While earlier people were free in their choice of medium of exchange and adopted media of exchange that were stable, now these stand substituted by FFFM that is variable. These are neither technically acceptable as a unit nor expected to maintain price stability.

### **Freely floating fiat money (FFFM) and its manipulation**

In case of FFFM the purchasing power of money is determined by the market. Fiat of the government making it legal tender links it with the national product that is bought and sold using money as medium of exchange. People exchange money for goods and services. Suppose supply of FFFM is doubled but the quantity of commodities that it

can buy is the same. Those having more money will try to buy more but then others will have to buy less. When system approaches equilibrium, prices become doubled. Quantity theory of money leads to same inference (e.g., Friedman M.,1980) and it has also been empirically verified. Thus, money became equivalent to a basket containing half of the quantity that it contained earlier and has purchasing power that is half of its previous value. Thus money is equivalent to a basket of national products and increase in the money supply beyond the increase in national output causes the purchasing power of currency to fall as the quantity of the products in the basket that is equivalent to currency falls.

### **Shari`ah perspective**

Allah the Almighty grants highest level of importance to ‘correct measurement’ so much so that He appointed prophets with mandate to ‘correct measurement’ and His final book the Qur'an repeatedly commands us to weigh (measure) correctly:

‘He has set up the Balance (of Justice). In order that you may not transgress Balance. So establish weight with justice and fall not short in the balance.’ (Q55: 7-9)  
Give measure and weight with full justice (Q 6-152)

We may also refer to the following verses of the Qur'an 7: 85, 11: 84 and 85, 17: 35, 26: 181 and 83: 1-3. It follows that ‘to weigh/measure justly/correctly’ has been made mandatory. This relates to all measurements that include measurement of wealth. The verse strictly prohibits what will lead to wrong

measurement. Manipulation of unit corrupts measurement and therefore it is implied that manipulation of unit is strictly prohibited and that means that manipulation of common medium of exchange i.e., currency is strictly prohibited.

Purchasing power of prevailing fiat money falls as the quantity of the products in the basket that is equivalent to it falls. If a *dinar* weighs half as another *dinar*, 2 numbers of former will be exchanged for one bigger. When the weight of basket of national goods that money symbolises become half it becomes equivalent to just half of what it previously was. In case of *dinar* and *dirham* Shari`ah holds that these are equal (*mithl*) the gold / silver that constitute these. Accordingly fiat money is *mithl* the quantity of national products that it symbolizes. If increase in money supply reduces this quantity to half it is equivalent of reducing the quantity of gold constituting the coin to half and has to be treated equivalently. Divine command ‘Establish *wazn* [standards of measures and measurements] (Qur’an 55: 07)’ strictly prohibits any manipulation of measurement and thus, it prohibits manipulation of currency as it is the most important measure.

Freedom in exchange implies freedom to buy and sell using medium of exchange of choice. When people are forced to use a particular medium of exchange, any imbalance between its supply and the needs of the economy is bound to have adverse effect on price stability, price determination and economic justice. During the period of the prophet [may peace be upon him (MPBUH)] people used mediums of exchange of their choice and that shows that it is against Sunnah of the prophet to force the people to use a particular medium of exchange. Then gold and silver coins were used as common medium of exchange and Shari`ah enacted laws to strengthen stability of the purchasing power of these coins.<sup>10</sup> Justice and human

freedom are the basic objective of Shari`ah and stability of currency is an essential requirement for economic growth, justice, freedom and peace. Modern governments have usurped freedom and forced people to use an undefined free float as currency. That has crippled markets and created massive economic, social and political problems and has thus acted against human interest. Accordingly, those who try to justify FFFM on ground of *maslahah* (peoples welfare) or on ground that it is not prohibited by Shari`ah have nothing to stand upon. Enforcing a free float as a currency and not maintaining the quantity of the basket of national products that determines its purchasing power amounts to gross violation of Shariah. All such people are probably guilty of manipulation of currency that amounts to corruption of wealth measurement. May Allah the most merciful forgive those who know not. Amen.

#### ***Market in Islamic system***

Not only manipulation of unit but also interest is strictly prohibited in Islam; rather war is declared against it. Markets are free and strictly guarded against corruption so much so that some practices leading to market manipulation are considered to be interest, the worst crime. In absence of interest *zakah* propels economy maintaining balance leading to growth with justice. Islamic economic system enforces just measurement, ensures equitable distribution of income and wealth and protects market from fraud and corruption, ensuring its efficient functioning and thus gets full benefit of free open market. It ensures economic justice as well as efficient allocation of resources.

***Link currency with definite quantity of wealth***

Considering existing political and economic environment an important step for solving the problem is that the righteous should strive to persuade the governments to link currency with definite quantities of gold and silver, edible commodities from *amwal ribawiyah* and power with equal (i.e., one fourth) weightage to each on a properly selected date.

***Riba***

This discussion presents an integrated summary of authors works to clarify some important issues. Allah ordains us to shun *riba* and declares war against it. He has revealed, ‘O those who believe fear Allah and give up what still remains of the *riba* if you are believers. But if you do not, then listen to the declaration of war from Allah and His Messenger. *And if you repent, yours is your principal*’ (al-Baqarah 2:276-279).

The italicized part clearly shows that any increase over principal is *riba*. Further, Allah Almighty has revealed, ‘And whatever you give on Riba so that it may increase in the wealth of the people, it does not increase<sup>9</sup> with Allah’ (Surah 30: 39).

The verse relates more to the investment loans than to consumption loans. Thus, Qur'an addresses the question of investment loans. There does not exist anything as permissible rate of interest for any type of loan including investment loans as, it does not increase with Allah.

There is clear evidence to show that even during period of prophet (may peace be upon him) *riba*-based investment loans were made and after prohibition *riba* was written off.

Siddiqi states, “Historically one of the most important cases of large scale dealing in *riba* is that of Abbas bin Abdul Muttalib, the Prophet’s uncle. It is mentioned in the last sermon of the Prophet in which he declared:

*“All riba is annulled. But you will get back your principal amounts. Neither shall you wrong nor shall you be wronged against. Allah has decreed that there shall be no riba. The riba of Abbas bin Abdul Muttalib is cancelled. All of it”*.<sup>10</sup>

That clarifies that principal lent alone remains due and any increase is *riba* and that was annulled. Thus, it follows that prohibition of *riba* in the Qur'an covers investment loan and any excess over principal is *riba*.

It is the bank interest that involves largest number of people and despite clear evidence to the contrary many scholars try to argue that bank interest is not *riba*. A Hadith is quoted as, “*When the people will become involved in interest the Sovereign Lord will cause the price increase to be perpetual.*” [Tafsir Ibn Kathir ]

Our period is clearly characterised by perpetual price increase (normally referred as inflation) and thus the Hadith shows that the people are involved in *riba*. It is well known that the Riba that involves largest number of people relate to bank interest and therefore those who try to argue to the contrary seem to be wrong.

‘And Allah has permitted trading and prohibited *Riba*.’ (al-Baqarah 2:275)

*riba*-based transactions can be disguised as trading and thus this permission can be easily misused as a backdoor



for Riba, for example: one can sell a dollar now for say 2 dollar two years latter or a kg of copper now for say 2 kg of copper a year latter and thus make prohibition of *riba* redundant. Not only currency but anything that has sufficiently stable value can be used for this back door operation. As usual, the need for clarification this clarification is addressed by the Hadith:

"Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, salt for salt, must be equal on both sides and hand to hand. Whoever pays more or demands more (on either side) indulges in *Riba*."

The *Hadith closes the back door*. It further clarifies that *especially in case of the six commodities* that our *fuqaha* hold to be medium of exchange, the excess that is *Riba is, is the excess of weight (mass)*. The Hadith makes it mandatory that a gold and silver coins can be exchanged only with equal quantity of gold, silver respectively. Thus, Shariah lays down that that currency of gold/silver has same value as equal quantity of gold/silver. It shows that currency should have same value as its constituent. It also shows that Shariah relies on intrinsic value (that is determined by weight). This can be satisfied only if what makes currency has its own importance and value. What has no use has no value. Thus, the view that currency should have nil or negligible value (intrinsic) is not in accord with the Shariah and those who try to justify FFFM on account of its negligible cost of production have nothing in Shariah to support their view.

If difference in quality is made a ground to allow different quantities of all commodities to be exchanged then in case of loan Riba can be easily concealed on ground of difference in quality. Declaration of war against Riba does require that it should not be possible to disguise it with something permissible. When Riba is defined as an

excess over the principal, there must be clarity regarding the excess that is Riba. It is best to define it as excess of quantity. Now if lender is allowed to argue that 1 kg wheat he lent was *mithl* two kg of wheat that the borrower was returning to him (due to difference in quality), he will be justified in demanding 2kg for one kg lent. Clearly only just solution is to disallow any difference on the basis of quality and to mandate that the quality returned should not be inferior. Prophet (MPBUH) even recommended to voluntarily returning better quality /higher quantity.

The Hadith clarifies that all commodities are not alike and excess in terms of quantity that is Riba applies to select group of commodities. it is agreed that it applies to aforementioned six commodities but there is difference regarding others. Riba relates to wealth (*maal*). It is an excess. Only through measuring and accounting, we can confirm whether there is excess. Measurement is comparison with unit and a unit (Yard Stick of Measurement) is a precisely defined quantity of what it measures. If the transaction involves only one wealth form and its unit quantity could be used as unit (standard of wealth), any excess of quantity is an excess of Mal (wealth) and it will be Riba. People use as medium of exchange any commodity that is a reliable measure of wealth (i.e., has constant intrinsic worth and has fairly stable market value per unit mass and is easy to weigh/measure and to preserve (Hifzur Rab 2006, 2009). If people freely accept some thing as medium of exchange it is implied that a definite quantity of that commodity is a reliable measure i.e., unit of wealth. *Amwal ribawiyah* are those commodities which are reliable measure of wealth. Our *fuqaha* have held these to be *riba*-prone commodities as these are used as medium of exchange thus our understanding of cause of *riba* (to be discussed) as well as the excess (of weight) that is Riba fully conforms with the opinion of our *fuqaha*. Many

scholars consider *riba al-fadl* to be different from Riba proper however, this study presents a integrated view that shows all these issues are integrated and there is no conflict. Thus, the Hadith clarifies exact meaning of the said *ayah* of the Glorious Qur'an, prevents use of *hilah* (stratagem) of sale to indulge in Riba and clarifies that only what constitutes a reliable measure of wealth is subject to Riba.

“Deal not unjustly, and ye shall not be dealt with unjustly” (Al-Baqarah-279)

Riba is prohibited on the basis of the Qur'anic prohibition "no excess over the principal", and this is inseparably linked with "Deal not unjustly, and ye shall not be dealt with unjustly". Thus, the Qur'anic call to stand for justice presumes that people know and understand what justice is. Prohibition of *Riba* is directly and explicitly related to the issue of *zulm*. Those who argue that low rate of interest is not Riba argue that interest per se is not exploitative. However, to allow Riba is to make life of poor subject to right of the rich to withhold capital. It impedes the working of *zakah* driven Islamic system and leads to massive concentration of income and wealth. It causes manipulation of currency that corrupts all our dealings and makes it impossible to do justice. It assists fraud, corruption and deception. It leads to gross market failure and assists power centers created by it to enslave the humanity.

### **Conclusion**

Our economists do not understand properly the issue of FFFM and *riba*. Monetary manipulation and dominance of interest are major contributors to the problems humanity faces. There is no permissibility of monetary manipulation under divine law and its elimination does not involve any

significant cost and produces tremendous benefits. There is need to create mass awareness. Interest, monetary manipulation and misunderstanding are stifling emergence of just and efficient Islamic alternatives resulting in practices that are often a replica of the innovations of the system of interest and are not capable of solving economic problem of man.

System of interest cannot be sustained without monetary manipulation as it is in gross conflict with nature and that leads to unemployment as well as inefficient allocation of resources. This conflict results in gross economic imbalance. Manipulation of currency is a serious crime as it amount to manipulation of common medium of exchange as it leads to failure of market to determine just prices. Just measurement of prices is essential for existence of Justice in Exchange, for Rate of Return to relate to productivity of the enterprise for the economy and for Profit Motive to be an efficient driver of Investment. Gross disparity of income and wealth and fraud and corruption produced by system of interest exacerbate this market failure and reduces the economy into a grossly inefficient and manipulated system driving economy from crisis to more serious crisis. Together with interest monetary manipulation is root cause of most of the problems being faced by the humanity as these lead to massive injustice and exploitation and massive inefficiency and waste. The mechanism of interest itself is in massive conflict with nature. Man cannot change natural laws so we must reject that which is not in accord with it.

### **Endnotes**

1. Though in a different perspective, this problem has been widely discussed as inflation or money creation by the banking system. It has seen continuing conflict between

monetarists (led by M. Friedman and Keynesians. Hifzur Rab (1996, 1998, and 2006) has discussed its causes and consequences. Tarek El Diwany (1997) also provides good analysis.

2. For details refer to Hifzur Rab (1996), *Nizam-e-Sarmayadari aur Islami Maashiyat*, Islamic Fiqh Academy, Delhi; Hifzur Rab (1998) *Dominance of Interest and the way out*, Rahmani Foundation, Mazgaon, Mumbai.
3. Economic activities result in production and supply of products and services demanded by masses. Cheap supply lets them gain and supply at higher than just price cause them to be poorer.
4. details refer to Hifzur Rab (2010), Interest, Monetary Manipulation And Misunderstanding Are Stifling Emergence of Just And Efficient Islamic Alternatives, presented at 7<sup>th</sup> International Conference on The Tawhidi Epistemology: *zakah* and Waqf Economy, 6-7 Jan 2010 at ILIM, Bangi, Selangor, Malaysia.
5. Based on empirical studies economists hold that a natural rate of unemployment exists. Its real cause is interest as it restricts investment and employment.
6. See Hifzur Rab (1994), *Capitalist Economy and Islam*, published by Alhamd BSSL, Allahabad.
7. 'Golden Constant' by Prof. Roy Jastram from Berkeley University establishes constancy of purchasing power of gold coins for four hundred years up to 1976.
8. Hifzur Rab (2008), *Manipulation of Currency and Reality of Riba*, presented at 'International Conference on *Ijtehad* and *Ifia* in 21<sup>st</sup> century: Challenges and Prospects, Volume 1', Published by IIUM, Kuala Lumpur, Malaysia
9. For details see Hifzur Rab, 1996, 2006.
10. Siddiqi, M.N. (2004) *Riba bank interest and the rationale of its prohibition*, IRTI. Jeddah, pp. 38-39.

**AN INVESTIGATION INTO THE RELATION  
BETWEEN *RIBA'L-QUR'AN* AND *RIBA'L-HADITH***

Abdul Azim Islahi

Prohibition of *riba*<sup>1</sup> (usury/interest) is one of the most significant economic teachings of the Qur'an. It is this prohibition that has led to the evolution of a complete banking system in the present age commonly known as interest-free banking or banking without interest. Up to the end of 19<sup>th</sup> century, throughout Islamic history the Qur'anic term *riba* had been considered definite, clear and precise. No controversy existed regarding high or low rates, from whom it is charged, or purpose of the loan. From the early 20<sup>th</sup> century when the Muslim East freely met the politically, economically and intellectually dominating West, and the former was mesmerized by the flourishing banking and commercial networks of the latter, some Muslim leaders wrongly prescribed avoidance of interest as the main cause behind the economic and social backwardness.<sup>2</sup> The present paper, after clearly defining *riba* in the Qur'an, seeks to investigate into the relationship between *riba'l-Qur'an* (the conventional interest) and *riba'l-hadith* (prohibition of barter exchange of specific commodities with unequal quantity and/or time of delivery, termed as *riba'l-fadl* and *riba'l-nasiah* respectively). So that any attempt to dilute the severity of the prohibition of *riba* in the Qur'an by confusing it with the *riba* mentioned in the *hadith* could be eliminated. In this regard opinions of some prominent scholars have also been examined. In the concluding section, the paper emphasizes that both types of *riba* are directed to the same objectives: protection of

people from injustice and exploitation, disputes and deceptions, and the protection of economy from crisis and disorder.

### ***Riba* in the Qur'an.**

The literal meaning of the word *riba* is an increase. The Qur'an has used it as term for the rate or extra amount charged on lending money over a period of time equivalent to usury/interest. This practice was not particular to Arabs. It existed in many nations and was condemned by all right thinkers and in all revealed books. In *surat al-Nisa'* the Qur'an says:

"Because of the wrongdoings of the Jews We forbade them good things which were (before) made lawful unto them, and because of their much hindering from Allah's way. And their taking of *riba* though they were forbidden it and their devouring the property of people falsely. And We have prepared for the disbelievers from among them a painful torment." (*al-Nisa'* 4: 160-161)

It is clearly understood from this verse that charging *riba*, was prohibited to Jews also, and due to its violence they were cursed. There is a clear lesson and a warning in this.

In the Makkan period when Muslims were oppressed and were not in a position to freely practice or propagate Islamic teachings, general instructions were given on various social and economic behavior. In one of the earliest revealed chapters of the Qur'an the Prophet was asked not to do favor to anyone to demand more (*surat al-Muddaththir* 74: 6). By some of the interpreters 'to demand more' in this verse refers to interest.<sup>3</sup> If accepted this, it might be claimed that this is the first expression of Qur'anic

stand towards *riba*. In another Surah called al-Rum, revealed in Makkah, Muslims were told:

"And whatever you give as *riba*, so that it may increase on (other) people's property has no increase with Allah; and whatever you give as *zakah*, desiring Allah's countenance, has increase manifold" (30:39).

This verse declares that the increase in wealth sought through taking *riba* from people to whom it is given is not recognized by Allah.

When Muslims migrated to Madinah and gained some authority, clear cut prohibition of *riba* came in *Surat al-Baqarah*:

"Those who swallow *al-riba* cannot rise up save as he arises whom the devil has prostrated by (his) touch. That is because they say: Trade is just like *riba*; whereas Allah permits trading and forbids *riba*. He unto whom an admonition from his Lord comes and (he) refrains (in obedience thereto), he will keep that which is past, and his affair (henceforth) is with Allah. As for him who returns (to *riba*) such are rightful owners of the Fire. They will abide therein.

Allah has blighted *riba* and made almsgiving fruitful. Allah loves not the impious and guilty.

Lo! Those who believe and do good works and establish worship and pay the poor-due their reward is with their Lord and there shall no fear come upon them neither shall they grieve. O you who believe! Observe your duty to Allah and give up what remains (due to you) from the *riba*, if you are (in truth) believers. And if you do not, then be warned of war (against you) from Allah and His messenger. And if you repent, then you have your principal



(without interest). Wrong not and you shall not be wronged.

And if the debtor is in straitened circumstances, then (let there be) postponement to (the time of) ease; and that you remit the debt as alms giving would be better for you if you did but know." (2: 275-280)

In addition to a number of important points that have been established in these verses, most importantly the claim of equating *riba* with trade is also rejected because trade is mutually beneficial whereas the benefits of *riba* may well be confined to one party only.<sup>4</sup>

Next comes a verse in *surat Aal Imran*, to condemn the tendency of usurer to increase his money many fold, showing the way of success in abandonment of this practice:

O you who believe! Devour not *riba*, doubling and quadrupling (the sum lent). Observe your duty to Allah, that you may be successful. (3: 130)<sup>5</sup>

### **Was there a need to define *riba* in the Qur'an?**

Thus, prohibition of interest is clear and unambiguous. It has been condemned in the severest terms in the Qur'an. Interest has been known since ancient days: charging extra amount on loans in lieu of time given for use. There was no need to define it. The Qur'an forbade it and the believers refrained from it. Nobody questioned what is *riba*. It may be noted that there are numerous prohibitions that the Qur'an has not defined them because they were very obvious and well known to everyone, *riba* is one of them. Therefore, there has been no reason for Muslim thinkers to discuss what interest is, why it is paid, and how its rates are determined.<sup>6</sup>

***Riba'l-jahiliyah (Riba of the days of ignorance)***

However, there had been some outstanding interests arising out of debt from the period before Islam called *riba'l-jahiliyah*. The Prophet's uncle Abbas b. Abd al-Muttalib had many claims of such debts.<sup>7</sup> There was a question what to do with such outstanding interests which occurred through transaction of debts concluded in the period before Islam. In his last sermon the Prophet clarified and declared:

“*Riba* of the period before Islam stands nullified. And the first *riba* I cancel is our own *riba*, the *riba* owed to Abbas b. Abd al-Muttalib. It stands nullified, all of it.”<sup>8</sup>

What the Qur'an prohibited is generally known as *riba'l-qurud* (interest on loans). But in the period before Islam, because of the distinctive economic condition of Arabia, the predominant form of transactions involving *riba* was sale on credit in which case the deferred price was already higher than the spot price in lieu of deferment and the need for an explicit increase arose only in case of further postponement of payment. The categorical statement of some writers<sup>9</sup> that pre-Islamic (*riba'l-jahiliyah*) was an interest charged at the maturity of debt from 'interest-free loans' or credit sale is rather incorrect and misleading. What the later reporters explained as the *riba'l-jahiliyah* was just an example. Such loans might have arisen as a result of cash lending or credit sale / prepaid sale. It might have already an interest stipulated at the time of lending the amount<sup>10</sup> or it might have been imposed at the maturity date of the debt.<sup>11</sup> There is no doubt, that all kinds of extra money charged on loans or debts come under the *riba* prohibited in the Qur'an whether it is already stipulated or demanded at the time of repayment for further deferment.

As noted above, *riba* mentioned in the Qur'an is the same which is known to every people and in all ages. It has been called by some writers as *riba jali* (open and clear interest)<sup>12</sup> or *riba haqiqi* (real or proper interest)<sup>13</sup>. There is no ambiguity about it. However, some writers have tried to exploit non-existence of definition of *riba* in the Qur'an to legalize certain forms of interest charging what has been clearly prohibited through confusing *riba'l-Qur'an* with one of the interpretation of *riba'l-jahiliyah* or with various interpretations of *riba'l-hadith* discussed below:

***Riba'l- Hadith: Riba'l-fadl and riba'l-nasi'ah***

There are certain forms of exchange, mentioned in some *ahadith*, in which the incidence of *riba* may appear puzzling to many. As against *riba'l-qurud* (interest on loans) or *riba'l-duyun* (interest on debts), they are called *riba'l-buyu`* (interest in exchange or trading) as it takes the form of barter exchange. The Prophet (pbuh) is reported to have said (as stated by his companion `Ubadah b. al-Samit) that gold for gold, silver for silver, wheat for wheat, barley for barley, date for date and salt for salt be exchanged the same thing for the same thing, in equal quantity and hand to hand."<sup>14</sup> One who demanded extra or paid extra, he had indulged in interest.

The tradition further reports, "... when these kinds differ, then sell them as you like (with the difference of quantity) provided that it is hand to hand (that is, the transfer of ownership takes place at once)."<sup>15</sup>

The inequality or late payment, in this regard, is termed as *riba al-fadl* and *riba al-nasi'ah* respectively. It may also be called *riba'l-hadith* because prohibition of this kind of interest is known only by tradition (*hadith*) of the Prophet (peace be upon him).

The implication of constraining of exchanging of gold for gold or of silver for silver by the two conditions of simultaneity and equality clearly eliminates exchange of money now for *more* money in future, the well-known feature of *riba'l-Qur'an*. What the above mentioned *hadith* emphatically prevents is the exchange of money *now* for more money *now*. The question is why one would do that? And if no inducement for doing that why it was prohibited? Many scholars have tried to answer this. We may go out of context if we examine opinions of all of them. In fact Arab in those days did not have their own money. They used the Roman dinar, a gold coin, and the Persian dirham, a silver coin, as well as un-minted gold and silver. This kind of exchange is prohibited as a precautionary measure to protect people from deception, or to prevent it from becoming a source of interest proper. According to Prof. Siddiqi it would not be a matter of puzzle if one thinks over 'the non-standardized nature of money, even in the form of gold and silver, in use in that area in those days. There were differences in quality because of adulteration. There were also differences in weights of coins circulating under the same names. This made transactions very complex, especially for simple illiterate folk from rural areas who rarely handled gold and silver. Also, one could easily, but falsely, be persuaded to exchange gold with gold (bullion or coins) or silver with silver (bullion or coins) in unequal quantities on the pretext of differences in quality. By confining exchange to equal quantities these possibilities of injustice were eliminated'.<sup>16</sup> The view that this kind of prohibition is precautionary is also clear from the statement of Umar who said: " I am afraid you may indulge in *rama'* (i.e. *riba*)"<sup>17</sup>

The verses that prohibit interest also proclaim the permissibility of trade (*wa ahall-Allahu'l-bay` wa harram al-riba*). In the opinion of this writer, the key to understand

relation between *riba'l-Qur'an* and *riba'l-hadith* lies in understanding of this *ayah*. Let us reflect on the nature of a loan and the trade. The trade is done between two *different* goods. Only in this case the trading parties can benefit from the commodities of each other. And according to their valuation they can decide to pay more or less. This is supported also by the *riba'l-hadith*, quoted above, in which the Prophet (pbuh) said: "When these commodities *differ*, then sell as you like", that is, with the difference of quantity.<sup>18</sup> Exchange of the same good for the same good, such as money for money, is not a trade. Rather it is lending and any extra payment from a party in lending is termed as interest which is prohibited. Thus, dissimilarity of exchanging goods is the basis of permissibility of trade. On the other hand, homogeneity or being fungible is the basis of prohibition of extra charge, known as *riba*. This fundamental principle unveils the relation between *riba'l-Qur'an* and *riba'l-hadith*.

#### **Classification of the Commodities of *Riba'l-Hadith***

Let us substantiate it. A study of the six commodities (called *amwal ribawiyah*) mentioned in the *hadith* would show that first they can be divided into two categories - (a) precious metals, gold and silver and (b) foodstuffs, such as wheat, barley, dates, and salt. From within them, the following three forms of transactions may take place:

- a- Exchanging commodity is fungible and from the same group. It may be gold for gold, silver for silver, wheat for wheat, salt for salt, etc. Being fungible eliminates them from being a commodity of trade. So it is prohibited to exchange them with unequal quantity and deferment.

- b- Exchanging commodities are non-fungible but they are from the same group. It may be gold for silver (group a), or wheat for dates, etc. (group b). In this case difference of quantity is allowed as the two commodities have two different purposes. However, deferment is not allowed because they are closely related as being of the same genre.
- c- Exchanging commodities are non-fungible and not from the same a group, for example, silver for wheat, dates for gold, etc. That is, one commodity may be from a group (a) and the other commodity may be from a group (b). In this case they are not same or from the same group. Because of these differences they completely fulfill the condition of being a trade commodity, so in their exchange differences of quantity and time both are allowed.

**How *riba'l-hadith* may become *riba'l-Qur'an*, the interest proper?**

The fact that prohibition of *riba'l-hadith* in the exchange of six commodities is a preventive measure has been emphasized by many scholars. Especially, Ibn al-Qayyim has elaborated on it. A summary account of his analysis will be sufficient for our purpose. He calls it *riba khafi* (interest in disguise or the hidden interest)<sup>19</sup>. He tries to show how the transformation from *riba'l-hadith* into *riba'l-Qur'an* may take place when inequality in terms of quantity or of time of repayment would be allowed. He says, "...in precious metals and other commodities capable of interest (*mal ribawi*) when they are exchanged for the same commodities, it is forbidden to depart before the physical exchange of goods takes place. This is to prevent it from becoming a source of late payment which is the main cause of interest. In this way the Prophet (pbuh) kept the Muslims away from its outer limit by imposing the

condition that ownership must take place at once. Again to stop it from becoming a means of interest proper, the equality in the exchange of similar kind of commodities has been made obligatory even though they may be of different grades".<sup>20</sup> Thus, according to Ibn al-Qayyim the Prophet (SAW) prohibited *riba al-fadl* as he was afraid that it may take the form of *riba al-nasi'ah*. That is, when people sell one dirham with two dirhams, and this is done only because of difference in refinement, mint or alloy, etc., they will gradually move from present profit to a higher profit on deferred payment which entails interest. In this way disparity in quantity in hand-to-hand exchange will prove to be an immediate source of interest of late payment. It was wise of the Lawgiver to abolish this source and forbid people to exchange one dirham for two of them, on cash or credit.<sup>21</sup>

The above analysis is related to the exchange of gold for gold, silver for silver, or wheat for wheat, etc.). In case of difference in quality, people are advised to sell their possessions for cash and then buy what they want.<sup>22</sup> The reason lies in the uncertainties involved in the assessment of difference in quality. "Moreover, if it were allowed, it would have led to the same consequence, that is, to the exchange of the same kinds of grains with deferred delivery, hoping for further increase in quantity, because a man likes to earn more and it gives him pleasure to have more profit".<sup>23</sup>

The other case is the exchange of gold for silver or one kind of food grain for another (That is, different commodities of the same group, for example, wheat for barley). In this case, only deferred payment is prohibited, because there is much reason to allow disparity in their quantity, as the nature, quality and use value of the two kinds of goods will be very different. But they are not

allowed to depart before handing over to each other.<sup>24</sup> In this respect Ibn al-Qayyim observes:

"If people were allowed to exchange foodstuffs on credit, none would do it except when it was profitable and they would never sell their goods instantly (*hallah*) as they hope for a profit in selling them later on. Thus, the needy person could hardly get the foodstuffs of his choice, because the general public did not have cash very often. People, especially in rural areas, carried little cash and generally exchanged one kind of food grain for another. So it was wise and merciful of the Lawgiver to prohibit deferred payment in exchange of foodstuffs as he had done in the case of precious metals".<sup>25</sup>

The point Ibn al-Qayyim is making deserves attention. The Prophet, peace be upon him, prohibited deferred delivery by one of the parties in such cases, though he allowed difference in the quantity of food grains exchanged, provided they were different in kind, for example, wheat exchanged for corn. Should deferred delivery be allowed, the difference in quantity would, in all probability, become a function of the time allowed to the other party and would partake of the crucial feature of *riba* in the Qur'an, increase in quantity due to increase in time allowed.

Later, Shah Wali-Allah al-Dihlawi considered *riba'l-fadl* and *riba'l-nasi'ah* as interest in similitude (*mahmul alayh*). In his opinion here the word *riba* is used because of the similarity between the two and also to express the perversity of such a transaction. Additionally, due to the frequent use of the word for this kind of transaction, it became established in this sense too.<sup>26</sup>



Al-Dihlawi gives another reason for making it obligatory to take possession in the same meeting: the need for food and money is the most pressing and urgent need and one can benefit from them only after consuming and spending on them respectively. It would be a matter of great dispute if one of them were to remain in credit while the other was finished. Thus, to prevent such incidence, it has been made compulsory that the two parties must not leave without taking possession and nothing is left in credit. It is a requirement of justice and the prevention of dispute that both are enjoined to take possession before separation.<sup>27</sup> In this way, al-Dihlawi also considers prohibition of such exchange as a preventive measure, not something prohibited for its own sake.

#### **Why the six commodities?**

Among the contemporary scholars Siddiqi gives another interpretation of *riba'l-hadith* which also establishes its relation to *riba'l-Qur'an*. According to him:

'the four specific commodities mentioned in the *hadith*, wheat, barley, dates and salt have been clubbed together with gold and silver as they were used by Arabs as money.<sup>28</sup> The well known difficulties of barter forced people to use other conveniently available commodities as medium of exchange. Despite their suitability on other grounds, the availability of gold and silver in Arabia was rather limited. People used as medium of exchange what was available in almost every village: the most commonly grown food items and salt obtained by evaporating sea water or from some mines. .... In prohibiting *riba'l-fadl*, therefore, the Prophet was also bringing some order into an otherwise chaotic financial market.<sup>29</sup>

In this way Siddiqi brought all the commodities of *riba'l-hadith* under a single causation. This seems to be a step forward over those *fuqaha'* who recognized *thamaniyah* or 'moneyness' as the reason for the two precious metals, and *ta`miyah* (eatability) for the other commodities, or something of the same genre (*ittihad jins*) being dealt with by weight or by measure (*wazni* or *kayli*)<sup>30</sup> *Thamaniyah* or 'moneyness' as the single reason for prohibition of *riba* will save us from a lot of controversies in application of *riba'l-hadith*.

According to this reasoning, paper money and coins other than gold and silver will also come under the rule of *riba'l-hadith*. Thus, exchange of a country's currency will not be allowed with the difference of amount and delivery time, while exchange of currencies of two different countries will be permitted with different amounts provided that possession is completed at the same time. Perhaps due to not perceiving this point, a *fatwa* was issued by a Mufti of Dar al-Ulum, Deoband, that since paper money is neither dealt with weight nor with measure, its exchange with unequal amount is permissible!<sup>31</sup>

### ***Concluding Remarks***

We have seen above how the Qur'an has unambiguously prohibited *riba*. The *Sunnah* further clarifies the concept and scope of *riba* and its prohibition by its application to barter and exchange of money for money. From the foregoing discussion it is clear that in the case of *amwal ribawiyah* (*riba*-prone commodities) exchanging a commodity for the same commodity is not a trade; rather it is similar to lending something and receiving it back. Therefore, the two quantities must be equal. Otherwise it will be *riba'l-fadl*. Since it is also binding that

the exchange must be hand to hand, if one of them is paid later then it becomes *riba'l-nasi'ah*. If there is violation of both (i.e. unequal quantity and late payment), then it will become perfect interest – *riba'l-Qur'an*. In this case quality consideration is not allowed, because any allowance made on this basis, may probably take the form of extra quantity because of time, the main feature of *riba'l-Qur'an*. If the commodity of one of the parties is inferior to that of the other, the solution is to sell his/her goods first with money and then purchase the others' goods. This is what the Prophet, peace be upon him, instructed to his companion.<sup>32</sup> The purpose may be to have exact evaluation of the commodities and check dishonesty and deception.

When commodities are different but they are from the same group, they may be regarded as semi trade commodities. So in this case exchanging with different amount is allowed but it should be hand to hand. Again the purpose is to check the difference of quantity from being a function of time, which is *riba'l-Qur'an*. When commodities are completely different, they fulfill the condition of being trade commodities. There is full freedom to exchange them with difference of time and quantity, provided that it is with full consent of the two parties. This exchange has nothing to do with *riba*.

A distinction between the *riba'l-Qur'an* and the *riba'l-hadith*, as the former being prohibited purposely and the latter being prohibited as a precautionary measure so that it may not become a means of taking actual interest, provides ground to differentiate in application of the two. The prohibition of the latter is less severe than that of the former. This is why the second type of *riba* has been some times allowed where dire need or greater public interest is involved.<sup>33</sup> This is also established by a Prophetic tradition which allowed exchange of fresh dates for dry ones in small quantity by estimation.<sup>34</sup> The point of the argument is

that, according to the rule of *riba al-fadl*, exchange of dates should be in exactly equal quantity. But it has been allowed to exchange them by approximation (*khurs*) which is more likely to involve difference in quantity. Similarly sale of golden or silver ornaments with gold or silver (bullion) is permitted despite inequality in weight. The extra weight of bullion will be against the manufacturing cost.<sup>35</sup>

After a discussion of *riba'l-fadl* and *riba'l-nasiah*, Shah Wali-Allah al-Dihlawi observed: "The purpose of these rules is that they should not become a custom and that people should not make them their normal means of earning. It does not mean that they must not be done ever. That is the reason that the Prophet, peace be upon him, advised his companion Bilal to sell his dates and then purchase another."<sup>36</sup> Perhaps al-Dihlawi means that if it were not allowed as a single case, the Prophet must have asked Bilal: "Go and return it".

As the prohibition of *riba'l-Qur'an* saves the financial market from occurrence of crises and brings stability in the economy, *riba'l-hadith* also save the exchanging parties from exploitation, deception and disputes, in addition to protecting them from ending up to the practice of interest proper.

Although at present the paper money has been standardized and value of a currency is certainly known in terms of other currency at the time of contract/exchange, their rates are highly volatile; it is not known what will happen tomorrow to the currency of one country against the other or just after the session of transaction finished. Break up of a war, *coupe d'état*, and politico-economic upheaval, etc. affects the exchange rate of a currency in term of other drastically. Thus, the binding imposed by the *hadith* has still great relevance even in case of currencies of two different countries. Hence simultaneous possession in the

same meeting should be obligatory, although difference of amount is allowed. Moreover, enforcing the prohibition of *riba'l-fadl* in exchange of the same currency will discourage hoarding of small notes and coins (thus, creating their shortage in the market) with the purpose of swapping later with bigger notes with extra amount. It is also hoped that it will put a check on speculations in exchange of currencies and their future trading.<sup>38</sup>

### Notes and references

1. Throughout this paper we shall retain the Arabic term '*riba*' in translation of texts to include both usury and interest.
2. Iqbal Ahmad Khan Suhail claimed the same. See *Riba Kiya Hai?* [Urdu] Delhi, Pharos Media and Publishing Private Limited, (1999) p. 21. First published from Aligarh in 1936.  
  
Muhammad Rashid Rida criticized such people saying that: "However, there are some people who think that of interest is a corner stone of civilization which cannot sustain without it. The nation that does not practice interest, its civilization cannot develop, nor could be protected its existence". *Tafsir al-Manar*, Cairo: al-Hay'at al-Misriyah al-Ammah, 1990, vol.4, p. 106.
3. Ibn Taymiyah (1368 H), *Majmu` Fatawa Shaykh al-Islam Ibn Taymiyah*, Riyadh, al-Riyad Press, vol. 29, p. 22; al-Qurtubi, Muhammad b. Ahmad (1384H/1964), *Tafsir al-Qurtubi*, Cairo: Dar al-Kutub al-Misriyah, vol. 14, p. 37; vol. 19, 67.
4. For details refer to Siddiqi, M.N. (2004), *Riba, Bank Interest and the Rational of its Prohibition*, Jeddah: IRTI/IDB, pp. 36, 40-45.
5. Some of the 20<sup>th</sup> century writers interpreted it as first stage of prohibition was compound. Some others still insist that what is prohibited is compound interest and not the simple

one (Suhail, op. cit., p. 137). In fact “*ad`afan muda`afah*” came to show the general tendency of *riba* to balloon manifold, multiplying its ill effects. There are many statements in the Qur’an in the same style. See Islahi, Amin Ahsan, *Tadabbur Qur’an , Tafsir Surat al-Baqarah*. Delhi: Taj Company, 1989, Vol. 1, pp. 264.

6. The jurists who were always critical of non-Islamic practices among Muslims never quote a single example of interest taken by Muslims. According to Joseph Schacht, ‘they (Muslims) were always conscious that a direct breach of the prohibition of *riba* (interest) was a deadly sin.’ (Schacht, J., ‘*Riba*’, in *Encyclopaedia of Islam*, Leyden: E.J. Brill Ltd.; London: Lusac & Co., 1936, Old edition, Vol. 3, p.1150.)
7. The Prophet's uncle Abbas b. Abd al-Muttalib dealt mostly in the production sector. He extended credit to farmers as well as traders. He along with Khalid bin al-Walid was among the main financiers of the North and South bound trade caravans mentioned in *surah* Quraysh (106: 2) for which Makkah was well known. They together used to finance a group of businessmen belonging to Thaqif tribe in the nearby town of Taif. (al-Jawzi, Abd al-Rahman b. Ali (1384H/1964), *Zad al-Masir fi `Ilm al-Tafsir*, Beirut: al-Maktab al-Islami, vol.1, p. 332.
8. Muslim, *Sahi Muslim, Kitab al-Hajj, Bab Hajjat al-Nabi, sallallahu alaihi wa sallam*, Beirut, Dar al Fikr, n.d., vol. 4, p. 41.
9. Under the heading "Prohibition of *riba*", el-Gamal in his work *Islamic Finance: Law, Economics and Practice* confuses between *riba* in lending money and one arising out of exchanging two commodities when he says that 'jurists defined the forbidden *riba* generally as trading two goods of the same kind in different quantities, where the increase is not proper compensation' (El-Gamal, Mahmoud A. (2006), *Islamic Finance: Law, Economics and Practice* New York: Cambridge University Press, Cambridge, pp. 49, 50). This definition is not for *riba* which is prohibited in the Qur'an

and which was known since ancient days: charging extra amount on loans in lieu of time given for use. It is well known that the definition which he quotes is related to the specific form of *riba* called *riba'l-fadl* prohibited in *ahadith*. The reason and wisdom of its prohibition may not have been clear to many people. Opinions also differed about this kind of *riba* whether it was prohibited as proper *riba* or as a preventive measure. But the *riba* mentioned in the Qur'an was never a matter of any difference of opinion. Iqbal Ahmad Khan Suhail also claims that there is no consensus about the definition of *riba*. He quotes various definitions suggested by Hanafi jurists in the context of *riba'l-fadl* and then ridicules them saying that "Have you seen the multitude of definitions of *riba* given by the Hanafi *fuqaha*?" (Suhail, op. cit. pp. 33-36). He also holds that if the interest rate is already agreed upon by the borrower, then it is acceptable (Ibid. P. 128).

10. al-Jassas, Ahmad b. Ali (1405H), *Ahkam al-Qur'an*, Beirut: Dar Ihya' al-Turath al-Arabi, Vol. 2, p. 286; al-Sam'ani, Mansur b. Muhammad (1418H/1997), *Tafsir al-Qur'an*, Riyadh: Dar al-Watn, vol. 1, 281.
11. Some of the reporters told only the half story. That is, the borrower at the time of due date used to say: "Give me time and I will increase the amount due". Strangely enough this silence has been interpreted by Suhail (op. cit. p. 128) and El-Gamal (op. cit. p. 50) as the prohibited *riba* or *riba'l-jahiliyah* is one where initially no extra amount was stipulated. If percentage or extra amount is already agreed upon by the "consent" of the borrower, it is permitted trade!
12. Ibn al-Qayyim (1955), *I'lam al-Muwaqqi'in*, Cairo: Maktabah al-Sa'adah, Vol. 2, p.135.
13. al-Dihlawi, Shah Wali-Allah (n.d.), *Hujjat-Allah al-Balighah*, Beirut: Dar al-Ma'rifah, vol. 2, p. 106.
14. Muslim, Abu'l-Hasan Muslim b. Hajjaj al-Qushayri (n.d.), *Sahih Muslim*, ("Bab al-Sarf"), Cairo: Maktabah M. li Sabih Wa Awladuhu, part 5, p.44.

15. Ibid., p.44.
16. Siddiqi, M. N., op. cit. 2004, p.49.
17. Malik, Imam (1422H/2002), *Kitab Mu'atta*, Beirut: Dar al-Fikr, p. 287, *hadith* number,1328, 1329. In a report it has been related to the Prophet himself. See Ibn Hanbal, Ahmad, *Musnad*, al-Maktab al-Islami, n.d., Vol.2, p. 109. Check it again and Vol. 4, p. 4.
18. Muslim, *Sahih Muslim*, ("*Bab al-Sarf*"), op. cit. part 5, p. 44.
19. Ibn al-Qayyim (1955,) *I'lam al-Muwaqqi'in*, Cairo: Maktabah al-Sa'adah, Vol. 2, p.135.
20. Ibid. Vol.2, p.136.
21. Ibid.
22. Ibid., p.139.
23. Ibid., p.138.
24. cf. Ibid., p.138.
25. Ibid., p.138.
26. al-Dihlawi, *Hujjat-Allah al-Balighah*, op. cit. 2: 106-107
27. Ibid. P. 107
28. Imam Shafi'i has noted that wheat was a currency in Hijaz like dinars and dirhams (Al-Shafa'i (1996) *Mawsu'at al-Imam al-Shafi'i. al-Kitab al-Umm*, Beirut, Dar Qutaibah, vol. 6, paragraph 8683) The use of salt 'for exchange as people use gold and silver' has been reported about Mali (Ibn Bashkwal (1966), *Kitab al-Silah*, Cairo, al-Dar al-Misriyah li'l-Ta'lif wa'l-Tarjumah, vol. 2, p. 773; 779). For more historical evidence and detailed reasoning, see Awad, Ahmad Safiuddin (1978), *Buhuth fi'l-Iqtisad al-Islami*, Khartoum, The Sudanese Ministry for Religious Affairs and Waqf, pp.7-18, Also see, Al-'Anani, Hasan (n.d) *'Illat Tahrim al-Riba wa Silatuha bi Wazifat al-Nuqud*, Cairo, al-Ittihad al-Duwali li'l-Bunuk al-Islamiyah, pp.41-44. Also see Tobin, 1992-94, p.771. Tobin, James (1992-94) 'Money' in *the New Palgrave - Dictionary of Money & Finance*,



edited by Peter Newman, Murray Milgate and John Eatwell, London, Macmillan, vol. 2, p. 771. (Quoted by Siddiqi, M.N., op. cit. p. 50)

29. Siddiqi, M.N. op. cit. , p. 50.
30. It may be noted that Ibn Taimiyah adopted the same reasoning, and al-Ghazali before him, that “the reason for prohibition in the case of the two precious metals is ‘*thamaniyah*’ (that is, their capacity for use as standard of value and medium of exchange.”). Ibn Taimiyah (1363H), *Majmu` Fatawa Shaykh al-Islam Ahmad Ibn Taymiyah*, Riyadh: al-Riyad Press, vol. 29, p. 471). From among the later writers Shah Wali-Allah al-Dihlawi also thinks that the most appropriate reason for prohibition in the case of the two precious metals is *thamaniyah* (their capacity for use as a standard of value or medium of exchange), while with the four remaining commodities is their capacity of being preservable food items (*muqtat muddakhar*). To him, the reason for ascertainment of these two causes is the fact that they have been given high importance in the Shariah in many cases (*Hujjah*, 2: p. 107).] (For opinions in various school of jurisprudence refer to Ibn Rushd (1985), *Bidayat al-Mujtahid*, Istanbul: Dar Qahrman, vol. 2, pp.107-112; al-Juzayri, Abd al-Rahman (2003), *al-Fiqh `ala'l-Madhahib al-Arba`ah*, Beirut: al-Maktabah al-`Asriyah, pp.538-540.
31. Azami, Mufti Nizamuddin (19..), *Mukhtasar Nizamul-Fatawa*, New Delhi: Islamic *Fiqh* Academy, vol.1, p. 299.
32. According to Prof. Siddiqi: "This step taken by the Prophet seems to be directed at making the process of exchange fair as well as efficient. Replacing exchange of goods for goods by exchange through money subjects the evaluation of each commodity to a social process. The money price of a commodity is determined by the interaction between demand and supply which reflect the preferences of all buyers and sellers. This is not the case when one individual is dealing with another individual in which only their individual circumstances, likely to affect the ratio in which their respective goods are exchanged for one another, are

reflected. It reduces the search costs for both parties and lessens sharply the possibilities of exploiting the other party's special circumstances (such as ignorance, urgency of need, etc.)." Siddiqi, M.N. op. cit., pp.50-51.

33. cf. Ibn al-Qayyim, *I'lam al-Muwaqqi'in*, op. cit., Vol.2, pp.140-142.
34. Ibn Hanbal, Ahmad: *Musnad*, al-Maktab al-Islami, n.d., Vol.2, pp. 2, 109 and Vol. 4, p. 4.
35. Cf. Ibn al-Qayyim, *I'lam al-Muwaqqi'in*, op. cit., Vol.2, pp.140, 141-142; Ibn Abd al-Hadi (1938), *al-'Uqud al-Durriyah*, Beirut: Dar al-Kutub, p. 323.
36. al-Dihlawi, *Hujjah*, op. cit. 2: 108.
37. Usmani, Taqi (n.d.) *Islam aur Jadid ma'ishat -o- tijarat* (Urdu), Delhi, Darul-Isha'at, pp. 86-87.
38. Some of the contemporary scholars have gone far away in application of *riba'l-fadl* so much so that they forbade the purchase of shares of a newly formed public company at a price other than the face value of the shares if the company has not acquired land, machines, etc. Similarly, if the company's assets comprise both cash and capital overhead, then its shares' price, in their opinion, must not be less than the cash in proportion. In the opinion of this writer, this is a simplistic view. It has ignored the preparation needed and expenses involved before a company is launched on the basis of capital to be procured by selling its shares. Now the company's share represents a certain proportion of ownership in the project and not the same cash which was paid. Therefore to apply the rule of *riba'l-fadl* is not convincing. For details, please see Islahi, Abdul Azim (1999), *Share bazaar mein sarmayahkari aur Islami nuqtah-i-nazar* (Urdu), Aligarh, Idarah Tahqiq -o- Tasnif-e Islami, pp.100-102.

\*\*\*