

Principles of Islamic Economics In The Light Of the Holy Quran and Sunnah

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Abstract: *The purpose of this research is to review the principles of Islamic economy with reference to injunctions of Islam. This paper presents selected literature relating to the principles of Economics of Islam according to the Holy Quran. The study of the Holy Quran reveals that the basic principles of Islamic Economy are briefly discussed in the Holy Book while the details are elaborated in the Ahadith (Traditions of the Holy Prophet S.A.W). These principles have been transformed into inferred rules by the AIMAS (Mujtahdeen) in the light of the Holy Quran and the Ahadith. To ensure economic equality, Allah the Al mighty, has directed the rich (wealthy) people to share their financial resources with the needy people. This ensures equal distribution of wealth in the society. Through Islamic Economic System, the concept of Welfare State can be successfully implemented, As practically demonstrated by Companions of the Holy Prophet (S.A .W)(Khulafa-E-Rashideen) During their Rule (Caliphate) for a period of about 30 years. Allah Ta'ala has promised to provide livelihood to every soul, as such; nobody lives without food and the means of livelihood in this way, equality in economic right has been ensured for all. If the principles of Islamic economy are implemented in letter and spirit, it will contribute towards the economic development in the society. An Economic System based on the Quranic principles of equitable society and productive investment can effectively remove much of the chronic economic illnesses as suffered by the Modern Society.*

Keywords: *Economics, Quran, Hadith, Trade, finance*

I. INTRODUCTION

1. Background

The Word “Economics” means a person’s fulfilling his needs in sufficient and prudent manner. The needs of the man are unlimited and his resources are limited.

Research Methodology

The study conducted review approach as it needs set of enormous sum of data which represents the whole population and also entails durability. **Lynn & Eren (2012)** in his work “A Strategy for Survey Methods Research in the UK” inscribed that there are several ways of collecting data but amongst all, data collected through survey strategy is the best representative of the whole population.

Economic System of Islam

The economic system based upon the fundamental principles of Islam, ensures social and economic justice, human brotherhood, equitable distribution of wealth and individual freedom related to social welfare. On the contrary, under Capitalism or Socialism, neither social and economic justice nor equitable distribution of income is fully achieved.

According to Islam, Source of income and earning Halal (lawful) livelihood is essential. It is

Permissible to earn whatever one can but by fair means. Also, he has to pay “Zakat” and Sadaqaat to the needy people, performing Hajj when becomes due and spend money on Jihad and for the welfare of the poor people. In this way Islam ensures equitable distribution of wealth.

Right of Property

According to the Holy Quran, every thing including wealth, belongs to Allah, and Allah the Al mighty delegates the right of property to man. In this context, the Holy Quran says, “Give to them from the property of Allah which He has bestowed upon you.” (24:33)

From the above-quoted verses of the Holy Quran, it is clear that wealth is the property of Allah, who has given the same in the subordination of the man with some restrictions given below:

- 1) Man must convey a specified portion to others,
- 2) Use of wealth as per Commandment of Allah, to avoid to spread disorder on the earth.
- 2) Use of wealth as per Commandment of Allah, to avoid to spread ills and disorder on the earth.

Trade in Islam

In Islam, Trade is permissible. According to the Holy Quran, “Woe unto the defrauders! They are such that, when they have to get, they take in full measure and when they have to give they defraud. Do they not realize

that they shall be brought back, raised anew, on the great day, the day when all mankind shall stand before the Lord of the worlds” (83:1-3). In this Verse, it has been emphasized that they must be honest while buying and selling. Similarly, in another Verse, it has been said that, “ Give full measure and correct weight, do not cheat and do not spread evil in the land after it has been set on the right path”. (7:84).

Ahadith (Traditions of the Holy Prophet (S.A.W) relating to Trade, are given below:

- 1) Abu Huraira (R.A) reported that the Holy Prophet (S.A.W) said, Allah is Righteous and accepts right things. He has directed the Muslims to do that, He has directed to His Messengers. (Muslim).
- 2) As per another Hadith, Rafio bin Khadij (R.A) when asked the Holy Prophet that which job is superior, he said that what has been earned by a man with his physical labor and every trade Free from unfair means and lies. (Ahmed).
- 3) As per Jabir Ibn-E-Abdullah (R.A), the Holy Prophet (S.A.W) said, may Allah be kind to the person who facilitates the people in buying and selling (Bukhari).

Benefits of the Islamic economy

Under the Islamic economy, the following benefits are to be achieved:

1) Reducing the economic disparity

The Islamic Laws do not prohibit accumulation of wealth earned lawfully, which helps in promoting awareness regarding the problems faced by the poor people. For example; Zakat is payable in Shariah, which contributes towards helping the needy people. Likewise, Sadaqah (Charity) is also paid to the poor people. This plays an important role in reducing disparity among the people.

2) Inviting more people to the markets

The people following the Islamic principles, invest in Islamic financial products and refrain from investing money in the Conventional financial products, such a participation of people in Islamic financial products encourage more people to come to the market to invest in Shariah compliant products.

Promoting simplicity and transparency

The Islamic financial products being easy to understand, people happily accept the contracts focusing on assets. In this regard, they rely on the Religious Scholars (Ulema) for guidance.

Financial markets and economic activity

The individuals and the institutions investing in the Islamic financial products who are buyers and sellers or partners, in fact support the Islamic economic transactions. This ensures proper economic activities in the markets.

Avoiding economic crises

According to Jakhongir Imamnazarov (2011) in his paper, “Changing Europe Summer School”, the Islamic financial industry has an inherent “anti-crises code” which is tool for eliminating the economic bubbles”. He states that during the 2007 – 2008 financial crises, the Islamic financial industry has proved to be anti-crises organization.

Economic development

The way, the Islamic financial institutions work is effective to some extent but they must ensure investment on the Shariah compliant products, being linked to the economic growth. These institutions should make efforts to shift the movement of money from the rich people to the poor, as in shape of Zakat and Sadaqat to the needy people for their better economic life.

Encouraging Long-term Investment

People who invest in the Islamic financial Institutions, avoid investing in the companies dealing with the transactions which are harmful for people and the environment, eliminating the unlawful and risky practices. As such, the investors prefer Long-term investment.

Reducing the impact of harmful products and practices

Since the unlawful activities and transactions like interest, gambling, speculation, cloning and Weapons of mass destruction are prohibited by Shariah, such practices are avoided by the Muslims. This reduces the impact of harmful products and practices.

Striving for greater stability

As the people understand that the Conventional financial system has failed to deliver, specially in the days of economic crises, there is need for the positive change, they want the system which would be responsible and transparent. It should only be favorable for the rich people but also help poor people, creating employment opportunities, promoting real products and economic activities.

Islamic Economics and Trade

Industry and Trade are essential for human life. In this regard, there are clear directives in Quran and Sunnah; of which the beneficial and lawful commodities are permissible and the harmful and unlawful ones have been prohibited. In this context, the Holy Quran says, "And Allah has permitted the Trade and prohibited Riba". (2:275). It has further been directed that, "And do not misappropriate what belong to others, nor may you give presents to those in authority with a view to gain an opportunity to snatch unjustly that which is rightfully a part of that which belongs to others".(2:188). Further more, the Holy Quran says, O Believers! Do not misappropriate one another's goods illegally. Indeed , you should undertake transactions by agreement".(4:29). This prohibits all kinds of unlawful business. Any kind of trade or business which is not against the directions or objectives of Shariah, is permissible.

In this connection, there are the following Traditions of the Holy Prophet (S.A.W) which clarify the matters related to trade and business:

"Woe to those that deal in fraud, those who, when they have to receive by measure from men, exact full measure, but, when they have to give by measure or weight to men, give less than due. Do they not think that they will be called to account?" [Al-Mutaffifin:1-4].

Keeping the commodities of general use in possession and not supplying them in the market for the sake of increasing the price is prohibited [Ahmed-Bin-Hanbal: 19802].

Prophet Muhammad (pbuh) said: "No one hoards but the traitors (i.e. the sinners)." (Abu Da'ud, No. 2990)

Prophet Muhammad (pbuh) said: "The importer [of an essential commodity] into the town will be fed [by Allah], and the hoarder will have [Allah's] curse upon him." (IbnMajah, No: 2144)

Trying to buy commodities before they reach market is prohibited because market will decide the price [Muslim: 1517].

Futures & Forward Trading: Islamic View

Ibn Abbas (May Allah be pleased with Him) reported Allah's Messenger (pbuh) as saying: "He who buys food grain should not sell it until he has taken possession of it." [Muslim].

Prophet Muhammad (pbuh) has said that Almighty Allah proclaims: "I am a one third partner of a two man partnership until one of them acts dishonestly to his partner, and, in such an event, I then leave them." [Abu Daud].

"Those who spend their wealth in the way of Allah and do not follow up their spending by stressing their benevolence and causing hurt, will find their reward secure with their Lord. They have no cause for fear and grief.

Basic Principles of Financial Matters

The transactions prohibited by Shariah, are in fact harmful for people, on the other hand the matters permitted by Islam are beneficial for people, provided the goods should be in possession of the person.

There are the following two principles for permissibility of these matters:

- 1) It should not involve Riba;
- 2) It should not involve Gharrar (Uncertainty).

Moreover, while buying and selling a product, Loan may not be included in the contract. Also, buying a commodity or product on the condition of giving or taking loan is also prohibited.

Islamic Economics: Nature and Need

Islamic Economics has been defined as the study of human falah(Welfare) to be achieved through managing the resources of earth. According to the Holy Quran, it has been asked to decide falah , at the spiritual, economic, cultural and political level. The second aspect of the definition needs to consider the means of making proper use of the resources of earth for achievingfalah. The Holy Quran says, Allah has created the resources which are enough for His creatures. (41:10). But proper utilization of these resources is a problem, man is responsible for his deeds to Allah on the Day of The Resurrection.

The Approach of Islamic Economics

The Islamic Economics studies the methods of achieving welfare (falah) according to Shariah. It considers the impact of Islamic injunctions. For example; the effect of prohibition of Riba on savings, investment and employment. Similarly, the impact of Zakat on the level of consumption in the society.

Need for Islamic Economics

The modern economics studies the behavior of individuals, companies and the society, under Capitalism, which are often based on selfishness, greed And injustice. On the contrary, the Islamic economics takes into account the firm faith in Allah, and the reward in Hereafter, as such the economic activities are based upon the injunctions of Islam, i.e.falah instead of satisfying the needs only. The Holy Quran says that, "Man has been created with noble personality and positive qualities (Verses- 59:9, 2:237, 28:60, 87:17, 78 and 42:45).

In the Islamic economy, the Economists have a role of an architect of the society. They study The individual behavior with reference to Shariah, and suggest corrective measures in the economic system under the limits of Shariah, and under Shariah, the equitable distribution of wealth is obligatory, whereas the Western economists have ignored the aspect of equitable distribution of wealth.

Islam has made it mandatory for those who are financially sound to take it as a responsibility to support needy/poor, relatives and other members of society who are in need of financial assistance.

It has been further clarified by our beloved Prophet SAW that helping poor and other members of society is an obligation for those who can afford but on other hand it is a legal right for help seekers and Allah SWT has given them this right. It has been further clarified that this charity is in addition to ZAKAT.

Hadith "There are additional rights other than Zakat" Tirmizi (Kitabuz Zakat)

The Islamic economic system is based on individual as well as collective welfare of individuals of society. The principles, laws, rules and strategies of economy are set in such a way that utilization of economic resources is undertaken according to commandments of ALLAH SWT which results welfare of society, economic justice and stability.

All economic principles are based on the concept of Trust (Amanah) which discourages price hike, inflation, hoarding and other economic evils. There are no any chances of conflict of interest because the personal interests of individuals of society are less important, here the objective of every individual is to seek pleasure of Allah SWT.

Few features/ characteristics of Islamic Economy are explained:

1. Freedom of work and enterprise: Islam has allowed free will to work and venture. This is obvious from the Madinitic model of Islamic economy. An analysis of the chapter of any Hadith collection in relation to agriculture, gardening, business etc. proves this. The Holy Quran categorically states that "Allah has made business legitimate for you (SuraBaqara, Ayat-275)" Islam as a religion primarily allows economy to run efficiently as per the market forces subject to legal bindings and guidelines on production, distribution, marketing, investment trade, exchange, wages etc. The state has right to intervene in the free economy to bring back equilibrium and establish justice and other Islamic objectives. An entrepreneur can offer only allowable goods/commodities. Producers and Sellers should not exploit the buyer by over charging profits. Return should be normal in such an economy after giving proper wages to the labourers in accordance with Islamic principles. Few types of trade practices, exchange, investment, and land tenancy in agriculture are not allowed in Islam. It also prohibits monopoly and hoarding as evils of economy.

2. A special concept of ownership: As per the Islamic teachings ALLAH (SWT) is the actual owner of all things. The Quran says: "To Allah belongs everything is in the earth". (Al- Imran). though, Allah in His kindness permits humans to take over economic resources, to own and use subject to His laws as indicated from the following verses: i) The land belong to Allah. He allows it, to be inherited by whomso ever he pleases. (SuraAraf, Ayat: 128). ii) Do they not see that we have created for them ----- among the things fashioned by us--- cattle of which they become owners? (SuraYasin, Ayat: 29). That is the reason, Islam allows man as Vicegerant, to inherit from Allah (the actual owner) of economic resources. This is definitely a conviction for proper utilization.

3. Kinds of Ownership: At the time of establishment of Islamic state, there were three types of rights: private, communal and state ownership. After the take-over of Syria and Iraq, lands were taken over by the state and were not permitted for rights to be converted into private ownership.

4. State Ownership: It is not mandatory for public ownership of enterprise in Islam. The basic economic institutions may work under the supervision of the state, for ensuring social justice and safeguarding interests of the public at large. Islam has protected legitimate property it has been practiced that illegitimate properties have been confiscated.

5. Prohibition of Interest: It is a known fact that interest is strictly prohibited in Islam but to implement that concept an overall restructuring of the economy is to be undertaken. The practicability of Islamic banking has been accepted by the experts of economics and finance.

6. Zakat: Payment of Zakat has been made obligatory on the wealthy Muslims for supporting financially weak ones. The impact of Zakat is not limited to the distribution of wealth only, it has also a positive affect on investment, reserves and balance sharing of income and resources. A thorough analysis has been contributed by Dr. MonzerKahf in his book "Islamic Economy".

7. Concern for Poor: In this regard, Islam has a distinctive approach. Financially weak people are supported through ZAKAT and other means like SADAQAT, USHR and FITRA etc. As per Holy Quran (Ayat 5-6 of SuraQasas) We desired to show favour into those who were depressed in the earth, and to make them leaders and to make them inheritors and to establish them on earth (SuraQasas, Ayat: 5-6). In these verses Allah SWT, desires that poor people must be supported.

8. Distribution of inheritance: The property distribution system of Islam is based on economic and social well being of all. This religion has given a distribution model of inheritable property among various groups of people: i) Children ii) Husband/Wife iii) Parents iv) Brothers and sisters in certain 4 situations. This sharing takes care of diverse groups forecasting responsibility of each member of society, needs and closeness of affinity relationships. For those who remain outside the list of inheritors. Islam has kept a provision for wasiat (will) for all such family members if they are in a distressed condition.

Following are the economic sources which are declared illegal (Haram) under Islamic economic system:

- a. Properties of other Muslims (Al Nisa 29:4)
- b. Fraud/Deceiving (Anfal 27:8)
- c. Bribe/Corruption (Al Baqara 188:2), hadith ArrashiwalMurtashi
- d. Gifts to Public Office Holders
- e. Gambling
- f. Alcohol and Drugs
- g. Prostitution
- h. Cheating, Extortion, Robbery
- i. Hoarding

8. Findings

Following are the findings drawn from this paper.

1. A brief description of Islamic fundamentals of economy has been given the Holy Quran and the same principles are comprehensively discussed in the Ahadith (Traditions of the Holy Prophet). Islamic scholars have developed various academic theories which are based on Holy Quran and simultaneously interact with contemporary economic systems and issues. A number of modernist scholars have developed concepts of Islamic Banking and Finance and same are successfully implemented in muslim world and other countries of west. The growth of Islamic Banking is an indication that the system of Islamic economy is justice and economic well being.

2. For the purpose of economic justice and equality, Allah the Al mighty, has ordered people who are financially sound to spend their financials among needy people. The society is divided into rich and poor classes. In capitalism rich become richer, in result the poor people get depressed. Islam has not only secured the rights of poor but at the same time ensured the distribution of wealth if income of wealthy people is shared among poor ones.

3. As entrepreneurship and business activities are highly encouraged in Islam which automatically promotes investment and financial activities. This creates enterprise culture which provide jobs to unemployed members of society, contribute towards taxation and overall economic growth of the region.

4. It has been proved in a number of studies and practically demonstrated by the scholars and practitioners in Islamic and other countries i.e UK an Europe that Islam has given solution of current economic problems/crises in form of the Islamic system of economics.

5. The concept of welfare state has successfully implemented in the rule of SAHABA (Khulfa e Rashideen) the companions of the Holy Prophet over 30 years. They practically learned lessons from the Holy Prophet PBUH and implemented in their era. Their contributions have not only accepted by muslim rulers but also praised by non-muslim like Indian leader Mahatma Gandhi discussed in his book Harijan where he advised his ministers to follow simplicity of Hazrat Abubakr R.A and Hazrat Umar R.A who were rulers of large area of world but adopted simplicity.

6. The basic rules are interpreted by the scholar of every time according to needs of modern period. The selected literature relating to the principles of Economics of Islam according to the Holy Quran. The study of the Holy Quran reveals that the basic principles of Islamic Economy are briefly discussed in the Holy Book while the details are elaborated in the Ahadith (Traditions of the Holy Prophet S.A.W). These principles have been transformed into inferred rules by the AIMAS (Mujtahdeen) in the light of the Holy Quran and the Ahadith. Finally, The study revealed that the Financial Institutions face deficiency of skilled professionals, Islamic Economists and Shariah Scholars to deal with the Islamic Financial Transactions. Lack of Research and Development institutions for Islamic Finance, Lack of uniformity in laws, Lack of effective enforcement of contracts, Lack of public awareness about Islamic financial system, absence of Islamic Money Market / Liquidity Instruments, Lack of Financial Reporting Scholars and Network Issues, which need to be attended in the light of Sunnah & Quranic injunctions. It is suggested that present Islamic Banking & Finance System in Pakistan is inconsistent in the Islamic Principles of all modes of Financial Management in relation to seller, buyer or even other stakeholders, whose transactions and financial operations are held on interest-bearing financial system.

9. Originality/Value

This paper is my unique effort and has never been published in any local or international journal. This is being submitted first time ICBM 2015.

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