

**THE ISLAMIC POLITICAL ECONOMY
VS
THE CONVENTIONAL POLITICAL ECONOMY
THEORY AND PRACTICE**

Muhammad Ahmed Qadri*
Suwaibah Qadri**

Abstract

The validity of any system can be determined by the soundness of its principles and its success can be determined by how effective and efficient it is in achieving its stated goals in any given environment. What is the goal of any political economy? Has today's existing system satisfied the people? Or are the recurring cyclical depressions and recessions inherent in the capitalist system taking its toll? Does Islam have a system to offer that could possibly cater to the needs of the modern times? What principles of political economics was the 2nd Caliph of Islam following that created a community where there were no "poor" people left? Can Islam really eradicate poverty? How is piety related to a political economy? This paper will address the details of the Islamic Political Economy, how it proved to be a successful model in the past and how it has become relevant once again today.

* Muhammad Ahmed Qadri, Professor, Department of Political Science, University of Karachi, Karachi, Pakistan

** Suwaibah Qadri, Research Scholar for MS leading to Ph.D., Department of Political Science, University of Karachi, Karachi, Pakistan

The recent instabilities in the modern economic system leave us with no choice but to reflect deeply on the principles of this system in order to perform a root cause analysis. Human beings in post modernity can choose to take guidance from Divine Sources or from their own observations. Divine Sources exhort the human being to be reflective, to observe their surroundings in order that Divine Wisdom may become apparent to them. However for the sake of dialog even if one is to remove Scriptural Reference in order to create common ground on a topic that is of importance to all human beings regardless of religious affiliation, this paper attempts to analyze the ailments in the current conventional economic system that impacts every one of us.

When you hear of a car crash you think: “Was it an inexperienced or drunk driver, a faulty car, or bad driving conditions which could include both weather and another bad driver.” The same analogy can be applied to any system – either it has inherent flaws, or the implementers of the system are not working it to its optimum or worse yet, they are abusing the system, or there are external factors beyond one’s control, or a combination of the above.

Aristotle is considered the father of political science and although Adam Smith is considered the father of economics, it is argued that the laurel is deserved by Ibn Khaldun, his almost 4 century predecessor:

His significant contributions to economics, however, should place him in the history of economic thought as a major forerunner, if not the "father," of economics, a title which has been given to Adam Smith, whose great works were published some three hundred and seventy years after Ibn Khaldun's death. Not only did Ibn Khaldun plant the germinating seeds of classical economics, whether in production, supply, or cost, but he also pioneered in consumption, demand, and utility, the cornerstones of modern economic theory.¹

To understand a system at its fundamentals one must also understand the etymology of these terms. The term politics comes from the Greek word meaning to be related to citizens. In other words it is the topic of how citizens organize themselves to make collective decisions. And the word economics is also rooted in Greek with the connotation of managing or administering. Therefore, a political economy is “a collection of institutions set up by society to deal with the allocation of resources, production and exchange of goods and services, and distribution of the resulting income and wealth.”² However the world today is plagued with social problems such as a growing disparity between the haves and have-nots, increasing poverty, unemployment, environmental issues and massive debt.

¹ Ibrahim Oweiss, *A View on Islamic Economic Thought*, (Washington D.C.: Center for Contemporary Arab Studies, 2002), p.13.

² Zamir Iqbal and Abbas Mirakhor, *An Introduction to Islamic Finance: Theory and Practice*, (Singapore: John Wiley & Sons (Asia) Pte Ltd, 2007), pp.31-32.

There are many analyses of financial crises and a long list of their causes, but surprisingly, little is said about the one underlying common denominator of all of them: debt contracts that are by nature out of sync with, and unrelated to, the income flows that the underlying productive and capital assets of these countries can generate to serve them... For each dollar worth of production there are thousands of dollars of debt claims... An Islamic financial system has the potential to redress this serious threat to global financial stability because of its fundamental operating principle of a close link between financial and productive flows and because of its requirement of risk sharing.³

In the Islamic economic system there is a moral imperative to participate in an economy that is based on equity and social justice.⁴ It is only then that the earned income is considered lawful or “*halal*.” A conscientious Muslim makes the utmost effort to earn through lawful means otherwise Islamic Scriptures warn that the prayers of such a person who eats through unlawful means are not accepted.⁵ From the Islamic perspective and from the perspective of all religious and ancient traditions, an economic system based on usury or “*riba*” are unjust. This is why every religion has forbidden usury. The Judaic Scriptures state “Take thou no usury (interest) of him, or increase; but fear thy God; that thy brother may live with thee.” (Leviticus 25:36) The Biblical Scriptures state “He that hath not given forth upon usury (interest), neither hath taken any increase, that hath withdrawn his hand from iniquity, hath executed true judgment between man and man ...” (Ezekial 18:8) And the Holy Quran says “O you who believe, you shall not take usury (interest), compounded over and over. Observe God that you may succeed.”⁶ It must be made clear here that, even small amounts of usury are forbidden in Islam – it is the concept that Islam rejects entirely due to its deep rooted impact on society.⁷

The Holy Quran makes a clear distinction between trade and usury by stating that Allah has permitted trade (*bai*’ i.e. buying and selling) but forbidden *riba*. [Al-Quran, Surah Al-Baqarah 2:275]. This is a very important clarification and just the fact that it has been made indicates that the apparent overt similarity between the two was a cause for confusion for the Arabs of that time as it is a cause for confusion for many Muslims today. Trade is about real economic activity (i.e. productive work) resulting in an increase (in reality it is a transfer of ownership) in real wealth which is then distributed amongst those who invested in the growth of that wealth either by investing their capital and/or their labor. Usury on the other hand is a forced, artificial increase in wealth with no real economic activity. However since the law of nature precludes that something can come out of nothing, someone has to do that extra work and that someone is the borrower who gets caught in the vicious cycle of continuous borrowing to pay off the interest. This leads to injustice, oppression, national debt, exploitation, increased selfishness and greed. With Consumer Loans

³ Ibid, pp.20-21.

⁴ Al-Syed Muhammad Rasheed Rada, *Al-Wahi Al-Muhammadi* (Beruit: Moassasa Izzuddin Publication, 1406 Hijra) p.317.

⁵ Ibid, p.318.

⁶ Al-Quran, Al-‘Imran 3:130

⁷ Imam Qadi Abi Yousuf Yaqoob b. Ibrahim Al Ansari, *Kitab-ul-Aasaar*, (Beruit: Darul Kutub Al Ilmiyah), p.36.

money will be consumed, so charging a fixed interest is injustice. With Productive Loans there are chances that the money will increase in case of profit but could also decrease in case of loss, so the lender needs to participate in both and not expect just a fixed return. This would be injustice. The foundational principle of Islam is justice ('*adl*). And hence the Islamic economic system rejects usury in all its elements.⁸

The History of Money

Money as we know it today (paper currency and coins) is a relatively modern occurrence in the spectrum of recorded human history (about 6000 years). However the concept of using a standard medium of exchange evolved naturally out of the ancient barter system going back to about 100,000 years. Preceding the barter system was also the concept of gift economy where people gave each other things without any expectations. The incentive if analyzed sans spiritual considerations was possibly social status and its history dates back to the Stone Age. However the obvious limitation of the barter system which is the lack of a standard medium of exchange led to the adoption of certain commodities for this purpose. In the barter system if I had a chicken farm and I needed honey, then I would need to find someone who owned a bee farm but who also needed chicken. If he did not need chicken, then I would be stuck! This is why the commodity medium of exchange was the obvious solution and evolved naturally. Different societies adopted different commodities such as barley, silver and even oxen and horses. This was the first commodity money which became in use around 4000 B.C. in the Mesopotamian civilization (modern day Iraq). The natural weakness in using perishable commodities such as barley and horses which were difficult to store and transport led to the minting of easily storable coined money which was often stamped for its purity and weight. However the gold coins could still become heavy and difficult to transport. This led to the invention of representative money which was made of much lighter metals such as copper and aluminum and represented the actual commodity but was not the commodity itself. The money that is in circulation today is fiat money which has been disconnected from the commodity (gold) backing. This happened in 1971 in what is called the Nixon Shock. Fiat money has no intrinsic value and the only reason it can be used as a medium of exchange is because the government says so. This is one of the most crucial turning points in the history of money because it has opened up the avenue of printing money that has no commodity backing which leads to the serious problem of inflation. Money the etymology of which is rooted in Roman Mythology (money in ancient Rome was coined at the temple of Roman goddess Juno Moneta)⁹, has therefore existed in commodity form since the time of the ancient barter system.¹⁰

⁸ Hafiz Ibn Hajar Ahmed b. Ali Al Asqalani, *Al Matalib Al Aaliya b. Jawaid Al-Masaneed Al-Samamia*: Vol-1, (Beruit: Dar-al-Marifah, 1993), p.253.

⁹ Peter D'Eprio & Mary Desmond Pinkowish, *What Are The Seven Wonders Of The World?*, (New York: First Anchor Books, 1998), 192. <http://en.wikipedia.org/wiki/Money> (accessed June 20, 2011)

¹⁰ www.widikedia.com/wiki/history_of_money.

The History of Interest (*Riba*)

Linguistically “riba” means to increase.¹¹ In *Shari’ah* (Islamic Law) it is defined as an unjust increase, where the borrower is forced to payback more than he/she borrowed regardless of the reason for borrowing and its results.¹² In other words when it is required that money beget money without any cause, then Islamic Law views this as unnatural and as taking undue advantage of a loan. However the concept of sharing in the proceeds or the “fruits” of the labor of borrowed money is completely acceptable and actually encouraged in Islam. This is the difference between trade and *riba* as distinguished in the Holy Quran.¹³

The concept of borrowing and sharing in the proceeds of the borrowed commodity is as ancient as 30,000 BC. Loans in the pre-urban societies were made in seed grains, animals and tools to farmers. What was loaned had the power of generation, and what was generated was shared with the lender – a very natural thing to do. When tools were borrowed, the produce which the tools had helped to create were shared or used to “pay back” for the use of the tool¹⁴. Seeds naturally grew into fruits generating more seeds and animals begot off springs. This in essence was profit sharing and not interest as we understand the term today. However, it was the Ancient Orient (Egypt, Assyria, Sumeria) which made a momentous innovation, allowing usury to be charged on loans of metals, with the interest to be paid in *more metal*. This conceptual error treated inorganic materials as if they were living organisms with the means of reproduction. This is the beginning of the charging of usury/interest and is attributed to the Pharaohs who as the central authority were the largest lenders and chargers of interest and who manipulated market prices in order to offset the negative effects of usury on the market. Even they realized the harmful effects of their innovation and consequently stepped in to try to mitigate it. However, in the Greek city states where the prices of agricultural commodities were not monetized by central authority but valued by more individually determined markets, charging usury on loans of coinage to farmers quickly led to severe social problems. By about 600 BC the class of free small farmers was vanishing, with land becoming concentrated into the hands of the Oligarchy.¹⁵

The very same trend is seen today where the top 1% of the world’s richest people own 40% of the world’s wealth. This is not because they are the smartest or hardest working people but because the interest based system by nature lends itself towards this unbalanced state where the rich continue to get richer and the poor continue to get poorer due to the interest associated with debt.¹⁶ This is what keeps developing nations in continuous debt unable to break out of the cycle.

¹¹ Abul Fadl Abdul Hafeez Balyari, *Mirbahul Lughaat*: (Karachi: Mir Muhammad Kutub Khana, 1950), p.277.

¹² Ahmed Ibraheem Bak, *Kitab Al Muamlaat Al-Sharaiyah Al-Maaliyah* (Karachi: Idara Al-Quran-wal-uloom Al-Islamiya.), p.5.

¹³ For further details of Islamic Financial system please refer to the traditional books of Dars-e-Nizami (Madersa Degree)

¹⁴ Stephen Zarlenga, “A Brief History of Interest,” American Monetary Institute, <http://www.monetary.org/interest.htm>, 2000, (accessed June 11, 2011).

¹⁵ *Ibid.*, p.15

¹⁶ Das Capital, (USA: Mc Millan, 1968), p.20.

Even Aristotle considered money as a means to facilitate exchange and therefore was of the view that a piece of money cannot beget another piece.¹⁷ He rejected the justification for charging interest on this ground, arguing that money is sterile.

Zarlenga states that, “the justification for charging interest evolved historically in works promoting capitalism. One recurring theme was to attack Aristotle.” He continues to say that:

*John Calvin finished off the usury ban in 1536. But his arguments were shallow compared to the Scholastics: "When I buy a field does not money breed money?" he asked rhetorically. For centuries the Scholastics had demonstrated the correct answer is no - it is the field not the money which grows products. As economies became more dynamic, with real growth possibilities, it became clear that charging interest on business loans where the borrowing merchant prospered couldn't be condemned as greed or lack of charity and by 1516 the idea of a lending institution charging interest for its services had been overwhelming accepted.*¹⁸

However as Aristotle correctly argued, money is not a commodity. So we cannot think of interest as the “price” we pay just like the price we pay for a shirt. A shirt is a commodity. Money is not. Once you buy the shirt you use it to fulfill a human need and so therefore paying a price for it is reasonable. However money in itself does not fulfill a human need. You cannot eat it to satiate hunger pangs or use it as a blanket on a cold night. However you can buy some bread and a blanket. It is a means to fulfilling human needs. Once the human need is fulfilled through money, then it can be returned as is the process for *Qard Hasanah*. If some profit was made with the borrowed money then it is reasonable to share in that profit with the lender. However if loss was incurred with the money, then the lender would have to share in that loss. Once you have achieved the end goal that money should be returned to the one who lent it without any burden of an increase.

According to a tradition, the Holy Prophet Muhammad (peace be upon him) said that “*Riba* (or *Riba*-based economy) seems to have flourished but the ultimate result is scarcity and contractions.”¹⁹ It is no surprise that the 19th century CE American philosopher, Emerson echoes this Prophetic wisdom in his observations as he states in his 1857 treatise that “the best political economy is care and culture of men; for, in these crises, all are ruined except such as are proper individuals, capable of thought, and of new choice and the application of their talent to new labor.”²⁰ The crises Emerson refers to here are the cyclical depressions and recessions inherent in the capitalist system.

¹⁷ Politics, (Cambridge, 1907), p.80.

¹⁸ Stephen Zarlenga, “A Brief History of Interest,” American Monetary Institute, <http://www.monetary.org/interest.htm>, 2000, (accessed June 11, 2011).

¹⁹ Zamir Iqbal and Abbas Mirakhor, *An Introduction to Islamic Finance: Theory and Practice*, (Singapore: John Wiley & Sons (Asia) Pte Ltd, 2007), p.66.

²⁰ Ralph Waldo Emerson, *English Traits*, (New York: Cosimo, 2007), p.16.

An analogy of the interest based system can be made to the alcohol based system. Just like the intake of some amounts of alcohol is deemed even healthy by modern science, its detrimental effects to society, to the human body and the difficulties associated with addiction cannot be denied. In a similar manner, advocates of the interest based system argue the benefits of the existence of debt and its accompanying interest. But they cannot deny its systemic pitfalls. The Modigliani and Miller Theorem, which is the cornerstone of finance, states in its 2nd Proposition: “the cost of equity goes up with leverage (i.e. debt) because risk to equity goes up due to the existence of debt.”²¹ This is because in the case of liquidation, the creditors of debt have to be paid out first. And in the interest based system not only do creditors have to be paid their principal but also the interest which reduces the amount that can be paid out to the shareholders who are the real owners of the firm. During economic booms when corporate income is high there may actually be a façade of high return on investment because the company is highly levered. However during downturns this very same leverage turns sour and potentially leads the corporation to bankruptcy which creates instabilities in society through loss of jobs, unemployment, lost morale and so forth. Another twist on Proposition 1 of the M&M Theorem gives the image that interest payments are a good thing because of the artificial incentive created by US tax laws where “corporations can deduct interest payments but not dividend payments,” and therefore “corporate leverage lowers tax payments.” It is such traps that make the average person think that perhaps interest is a productive influence when in reality it is the root cause of all financial ailments as it is the structural flaw in the financial engine. Prof. Admati of the Stanford Graduate School of Business, says:

*The effect of leverage of one bank on the rest of the banks and the system and the rest of the economy is a negative effect similar to what polluters have on the environment which means the more they pollute the worse the rest of us are even if it potentially lowers their cost. Similarly when banks have more leverage they introduce more systemic risk because when they become distressed everything else becomes distressed and the rest of the economy suffers. To subsidize the leverage, the way this system works is that the more they are leveraged the more they benefit from taxes and implicit guarantee advantages is very much akin to us subsidizing pollution.*²²

She argues that if you tell polluters to stop polluting they would argue that that would make their costs to go up but that doesn't stop us from telling them to do so. So the same applies for leverage.

Another element to be discussed is that of behavioral finance where the behavior of individuals running the flawed financial engine also contributes heavily to the fatal accidents, i.e. financial crises that occur cyclically. According to the Donella Meadows Archive, “Economic ups and downs, panics, booms, depressions, have happened

²¹ Ross et al., *Modern Financial Management*. (New York: McGraw Hill/Irwin, 2008), p.439.

²² Prof. Admati, “Banks' Risky Levels of Leverage is Like Pollution,” Stanford Graduate School of Business, <http://www.youtube.com/watch?v=qs1DhA91fm0>, October 12, 2010, (accessed June 12, 2011).

regularly for at least 200 years. The worst downturns have come in the 1830s, 1880s, 1930s, 1980s,²³ the most recent one in 2008 that we are still reeling in the effects of. The International Monetary Fund called the latter “the largest financial shock since the Great Depression”²⁴ of the 1930s. As for Wall Street Crash that preceded the Great Depression – this was caused by panic selling which is the cause of almost all market crashes. People panic in times of fear. They stock up food during times of imminent war or a natural disaster. Similarly when there is a fear that the market will crash, people sell more to recover their investments contributing to the vicious cycle causing more panic. On the more malicious end of human behavior is the laundry list of ethical issues that spate the day to day operations of corporations. According to a survey of nearly 400 CEOs conducted by Clemson University's Robert J. Rutland Institute for Ethics and the Southern Institute for Business and Professional Ethics in 2004-2005, the top ten ethical issues facing the general business community are as follows: improper accounting practices, deceptive sales practices, misleading the public or the media, lying on reports/falsifying records, dishonesty with customers, conflicts of interest, stealing/theft, drug/alcohol abuse, producing low quality or unsafe products and the unfair treatment of employees²⁵.

Islam teaches trust in Allah (*tawakkul*) and impeccable moral behavior.²⁶ Although Muslims are not immune to any of the above ethical issues, their moral mandate requires them to ascribe to high standards of moral performance.

Islam offers a two tiered solution. Loans made for consumption, i.e. to fulfill a human need must be done on the basis of *Qard Hasan*. This is a benevolent loan which is to be returned to the lender only as the principal with no increase. Of course Islam takes into account the modern fiat money which is subject to inflationary pressures and as such requires that the original amount be measured in a commodity such as gold and the price of the same weight of gold be returned at maturity. An administrative service fee may be charged if such loan processing is being conducted at an institutional level. Such loans are recommended for basic human needs (*haajiyaat*) as well as dire necessities (*darooriyaat*). If the lender can afford it and the borrower is in extreme dire circumstances then such a loan can also be forgiven. However Islam prefers a *Qard Hasan* to general charity (*sadaqa*) as the former upholds the integrity of the borrower. Islam also clearly distinguishes between needs/necessities and luxuries and would not allow borrowing to fulfill a luxury.

²³ Voice of a Global Citizen, “The Stock Market Crash -- Layers of Causes,” The Donella Meadows Archive - Sustainability Institute, http://www.sustainer.org/dhm_archive/index.php?display_article=vn206marketed (accessed June 11, 2011).

²⁴ Kay Mitchell, “IMF: credit crisis is largest financial shock since Great Depression,” Finance Markets, <http://www.financemarkets.co.uk/2008/04/10/imf-credit-crisis-is-largest-financial-shock-since-great-depression/>, April 10, 2008 (accessed June 20, 2011).

²⁵ Robert J. Rutland Institute for Ethics, “The Southeast Survey of CEOs on Business Ethics,” Clemson University, http://www.clemson.edu/ethics/events/old_events/2005_CEO_survey.ppt (accessed June 12, 2011), p.4.

²⁶ Abu Hamid Muhammad b. Muhammad Ghazali, Tr. Maulana Muhammad Siddiq Hazarvi, *Ahya Uloomuddin*: Vol-IV, Progressive Book, Lahore, p.542.

Loans made for production, i.e. to invest in a business venture must be done on the basis of profit sharing such as *Mudaraba* or *Musharaka*. If such a venture succeeds then the profits are shared and if it fails then the loss is shared.²⁷ Such an investment is healthy as it keeps the lender and the borrower in close knit collaborations to fulfill community investment needs. In the conventional system the relationship between the borrower and lender is detached from the project for which the amount is being borrowed and as such the lender's interests are only in that the principal is returned with the interest regardless of the fate of the project. Such a system leads to bankruptcies and instabilities as is witnessed in the various recessions of the modern economic system.²⁸ The presence of the interest mechanism encourages people to deposit their money in such accounts to accrue interest as opposed to investing in community projects that would serve the well-being of the community at large. This inherent flaw was observed by "Pope Innocent IV (1250-1261) [who] noted that if usury were permitted rich people would prefer to put their money in a usurious loan rather than invest in agriculture. Only the poor would do the farming and they didn't have the animals and tools to do it. Famine would result."²⁹

Fundamentally, economics is about the transfer of wealth and the establishment of its ownership and a political economy defines who makes the laws regarding these two processes. The modern day "creation" of paper fiat money by printing it does not constitute wealth creation. This is the *cause* of inflation. Wealth is about value and purchasing power. In a world of high inflation, if a person owns a tremendous amount of paper fiat money he or she may not be considered wealthy because it may not buy them anything. There is a famous story about the woman in Germany after World War I who went to a bakery with paper money on a wheel barrow and came out to find that her wheel barrow was stolen and the "money" left behind because it was more valuable than the useless fiat money on it! Before World War I money was interchangeable with gold. However Germany began to print paper money with no gold backing in order to pay its war debts to the US and in 1971 in the Nixon Shock the US dollar was disconnected from gold as well.

In Islam, the purpose of money is to take care of the needs of people. In order to accomplish this, the Islamic political economy relies not only on successful projects that cause equitable redirection of wealth to those who have invested their capital and labor, but also has a strong component of the early gift economics philosophy. Although Islam does not advocate equal wealth for all, it does advocate the haves helping out the have-nots where the latter is defined as a group below the Islamic poverty line which is called *nisab*.³⁰ In the Islamic gift economy, a portion of it is mandatory (*Zakat*) as exhorted by the Holy Quran and a portion is voluntary (*Sadaqa*). *Zakat* (poor-due) is levied as a 2.5% tax on the annual savings of a Muslim. Allah says in the Holy Quran:

²⁷ Imam Usman b. Ali Al-Zailai Al-Hanafi, *Tabeenul Haqaiq Sharah Kanzul Haqaiq*, Hafizuddin Abdullah b. Ahmed Al-Nasafi, *Kitab al Shirka* (Dar-ul-Kutub Al-Ilmiyah, Beirut, Lebanon, 2000), p.216.

²⁸ -Best example is contemporary American economy.

²⁹ Stephen Zarlenga, "A Brief History of Interest," American Monetary Institute, <http://www.monetary.org/interest.htm>, 2000, (accessed June 11, 2011).

³⁰ Al-Imam Abi Al-Moayyad Muhammad b. Mehmood al-Khuwarzami, Jamiul Masaneed: (Abu Hanifa) Al-Maktabah Al-Islamia, Layalpur, Pakistan, p.459.

... So recite *Quran* what you can, and continue keeping prayer and pay, the poor-due (*Zakat*) and give a goodly loan to Allah. And whatever good you will send forward for you, you will find it with Allah as better and greater reward. And beg forgiveness from Allah. Undoubtedly, Allah is Forgiving Merciful.³¹

Sadaqa (charity) is encouraged to be given regularly with no specified time or amount. However there are certain times such as the Muslim Holy month of Ramadan when the performance of supererogatory good deeds are rewarded with those of obligatory good deeds and so many Muslims increase their charity giving during this month. However the Prophetic tradition also exhorts giving *Sadaqa* at other times as it is a shield against calamities and hard times. The Holy Quran says:

*Believe in Allah and His Messenger and spend in the way of Allah out of that to which He has made you heirs, And those of you who believed and spent in the way of Allah, for them is the great reward.*³²

The 9th century CE scholar, Abu Ubaid Al-Qasim ibn Salaam writes³³ that “at the time of the Caliph Hazrat Umar (may Allah be pleased with him) there was a paid administration. There was so much money received by the *Baitul-Maal*, that the slaves and their emancipators were paid”. In addition to *Zakat*, the sources of the *Baitul-Maal* were *Maal-e-Fai*, *Jizya*, *Khums*, and *Khiraj*.³⁴ It is no wonder that it was during Caliph Umar’s (may Allah be pleased with him) reign that people tried to give *Zakat* and there were no people to take it! Such a built in transfer of wealth in the Islamic political economy from the haves to the have-nots helps to reduce this economic gap which also contributes to resolving societal problems of envy and resulting crimes. It is the responsibility and the mandate of the Islamic government to ensure that *Zakat* is being administered according to the Holy Quran and Prophetic *Sunnah*.³⁵ Sources of the rules of the Islamic political economy are the Holy Quran, Prophetic Hadeeth, *Ijmaa’* (consensus of the scholars), *Qiyas* (analogy), *Ijtihad* (reasoning), *Urf* (customs), and *Maslahah* (welfare).³⁶

According to the famous Andalusian scholar of the 10th century CE, Allama Ibn Hazm, it is the responsibility of the government to take care of the basic needs of the people.³⁷ The author of 400 books, he states that human beings have 3 basic needs: food, clothing and shelter. The food should be such that it provides energy for performance. Clothes should be such that they protect from heat and cold. And shelter should be such that it protects the inhabitant from rain, heat and the prying eyes of passersby. He says that the Sultan

³¹ The Holy Quran, Chapter *Al-Muzzammil* 73:20

³² The Holy Quran, Chapter *Al-Hadid* 57:7

³³ Abu Ubaid, *Kitab-ul-Amwal* (The Book of Revenue), (Al-Turas, Egypt 1959), p.59.

³⁴ Qadi Abi Yousuf Yaqoob b. Ibraheem, *Kitabul Kharaj: Idaratul Quran wal Uloomul Islamiyah*, Karachi, Pakistan, 1987, p.23.

³⁵ Please refer to the Muslim Jurists like Qazi Abu Yousuf, Muhammad Al-Shibani and Books on *Fiqh-al-Hanafī* and *Shafai*.

³⁶ Prof. Dr. Manzooruddin Ahmed, *Islamic Political System in the Modern Age: Theory and Practice*: (Karachi: Saad Publication), p.20.

³⁷ Ibn Hazm. *Al-Muhalla Bil-Aathaar*. Vol 6, (Beruit: Dar-ul-Kutub Al-Ilmiyah), p.226.

can force the wealthy to provide for the poor if the government's Treasury (*Bait-ul-Maal*) is unable to fulfill their needs. He bases this on the *Ijmaa'* (consensus) of the *Sahaba* that if someone is hungry, unclothed and not able to get the ease of life, then the responsibility of such people is the obligation of the rich. This in turn is based on the verse of the Holy Quran:

*And in their wealth, there was the right of the beggars and the unfortunate.*³⁸

He went as far as to say that extra taxes can be levied in order to fulfill the needs of the people. Qazi Abu Yusuf, student of Imam Abu Hanifa (may Allah have mercy on them both) discusses in his *Kitaab Al-Kharaj* about tax and behavior of rulers, kinds of taxes, principles of taxation, collection, distribution, trade tax, agricultural tax on land, inheritance tax, toll / octroi tax and so forth.³⁹

In the Islamic political economy there are many responsibilities on the government. Hazrat Shah Waliullah Muhadith Dehlawi (may Allah have mercy on him) writes *Hujjatullah Al-Baalighah*⁴⁰ about the importance of professional ethics relating to important economic matters and the responsibilities of the government. He says that it is required for rulers to prohibit unfair means such as gambling, interest, bribery, hoarding, black marketing and so forth. He states that at the time Persia and Rome if the servants wore head caps and belts that were cheaper than 100,000 Rs it was considered inferior. Such extravagance is against the spirit of Islam.⁴¹ He goes on to say that there are 2 important reasons why a state is destroyed:

- Taking money from the *Baitul-Maal* on false grounds and not fulfilling the stated reason for which the money was taken
- Rebellion by the powerful people against taxation⁴²

Following these principles, today Malaysia is an international Islamic financial center. Its journey began about half a century ago with a fund to help pilgrims and today it is the world's leader in Islamic finance with assets worth US \$116 billion. Iran leads all countries with the highest level of *Sharia*-compliant assets, surpassing US \$150 billion. The Islamic finance sector is estimated to be worth over US \$1 trillion.

In the last decade, there has been strong global awareness and interest in Islamic finance, not only among Muslims but a wide range of investors who perceive Islamic financing as a fairer way of doing business... The Islamic finance industry has expanded beyond Muslim countries in the Middle East and South East Asia to enter international financial markets like London, Tokyo and Hong Kong... Malaysia's Islamic financial system, based on the concept of

³⁸ The Holy Quran, Chapter *Az-Zaariyaat* 51:19

³⁹ Qadi Abi Yousuf Yaqoob b. Ibraheem, *Kitabul Kharaj*, (Karachi: Idaratul Quran wal Uloomul Islamiyah, 1987), p.32.

⁴⁰ Shah Waliullah Muhaddith Dehlawi, *Hujjatullah Al-Baalighah*, (Karachi: Noor Muhammad Kutub Khana), p.73.

⁴¹ *Ibid.*, p.105.

⁴² *Ibid.*, p.35.

*profit-sharing as opposed to the use of interest in the conventional financial system, has evolved as a competitive component of the overall financial system.”*⁴³

The trend is growing worldwide with Islamic banks and Islamic windows in conventional banks opening up around the globe. Banks such as Citigroup Inc., Lloyds TSB Group PLC, Deutsche Bank AG and Barclays PLC are now offering services along Islamic finance lines. **Bank of Montreal**, through its London institutional management group Pyrford International, manages *Sharia*-compliant products for Middle Eastern clients and is expanding the offering.⁴⁴ Most recently Australia held a Business Forum and Expo on Islamic Banking and Finance in Melbourne in May 2011, confirming its government’s strategy to make Australia a finance hub in the Asia Pacific and to tap into the Islamic potential.

Conclusion

The structural flaw therefore in the engine of the global economy is usury; the behavioral flaws in the drivers of this engine are fear and greed. For the economy, the political system is the environmental factor and it must be in a healthy state with proper governance, transparency and efficiency in order for the financial system to work.

As a human race we can choose to continue “economics as usual” because it serves the purposes of the elite class and for the rest of us a couple of hiccups every century may have become acceptable. But if there is to be true social justice and an economic playground where everyone gets their fair share or at least the opportunity to achieve it, then we must look for alternatives and this paper has shown that with its track record, the Islamic economic system is a very viable option. Its purpose is the economic development of society, not aiming to put everyone at the same economic level but to give everyone the equal opportunity to work the system for themselves without harming others.

Islam does not advocate the uncurbed individualism of the capitalist system. Nor does it encourage the stifling collectivism of the socialist system. It offers a middle path – a path in which individual efforts are rewarded, equal opportunities are available to all, and above all a system that is inherently just allowing for each individual’s basic needs to be fulfilled with dignity and a healthy development of the global economy by the government at hand.

It is this focus on equity and justice of the Islamic political economy that has stood the test of time and today western officials are looking towards this ancient system to help alleviate the ailments of the conventional system. Bruce Ralston, Member of the Legislative Assembly, Surrey-Whalley, B.C., Canada is most impressed with Islam

⁴³ Price Waterhouse Coopers, “Malaysia Asia’s Islamic Finance Hub,” http://www.pwc.com/en_MY/my/assets/publications/Islamic-Finance-Hub.pdf, 2008 (accessed June 19, 2011).

⁴⁴ Sonia Verma, “Narrowing the Gulf,” <http://www.theglobeandmail.com/report-on-business/narrowing-the-gulf/article49454/>, June 8, 2008 (accessed June 21, 2011).

through its prohibition of Usury and the establishment of Zakat (the poor due).⁴⁵ Countries such as Malaysia and Bahrain have adopted and implemented this system and have seen tremendous progress.⁴⁶ Pakistan has not succeeded not because the economic system is at fault, but the country's political system is unstable. People fear investing in Pakistan due to the lack of checks and balances in the system and lack of trust in politicians. The government needs to practice more transparency, genuine participation, and eschew corruption.⁴⁷ The West on the other hand, has stable political systems but its usury-based economic system is sending it into cyclical recessions which impact the world due to the interdependence of national economies. The solution lies in the taking the best of both worlds – the usury free system of Islam and the political stability of the West to create a balanced political economy for the world.

It was stated at a recent Conference on Islamic Funding in Development in Kuwait in 2011 that “in the wake of the recent financial crisis, Islamic finance institutions stepped up to the challenge to fulfill the funding needs for many of the large infrastructure projects which were once the exclusive turf of the conventional finance market.” While Islamic finance “was regarded more as a kind of spiritual escape route for those who were more religiously inclined,” the reality was that it has “weathered the recent financial crisis quite well. As things have emerged, Islamic funding has now become not just accepted but widely used.”⁴⁸

However for majority of the Muslim countries to truly benefit from this robust system they must take the lead to end corruption, end unfair practices, offer equal rights to their citizens and grant them the reassurance that their investments are secure. And citizens in turn must take on the responsibility of paying their *Zakat* not out of force but as a committed religious obligation. They must also whole heartedly reject *riba* for the unjust system that it is and understand its difference from trade. They must transfer out of the conventional system and invest in the Islamic system so that it can truly take on momentum. “Shura” or consultation must be adopted in the Parliamentary bodies. And governments must take on the approach of our pious predecessors of accepting healthy criticism as did the great Imam-e-Azam Hazrat Abu Hanifa (may Allah have mercy on him) of his students Qazi Abu Yusuf and Muhammad Al-Shaybani. Politicians need to become more informed and guided by the intellectual community and the classical and modern research that exists on the issues that they deal with, economics and otherwise. They must be required to study political economy in all of its vast elements so that they can implement it in the best possible manner. It is when all these elements come together in a synergistic whole that the world can truly begin to see and benefit from the goodness that the Islamic political economy has to offer.

⁴⁵ Please refer to the conference proceedings entitled “Inter-cultural Communication A Bridge Among Nations”, organized by Islamic Educational and Cultural Research Centre, Surrey, BC, Canada, July 10, 2009

⁴⁶ Please visit their official website for further information.

⁴⁷ The prevailing situation of political economy of Pakistan is witness to my statement.

⁴⁸ Shannon Teoh, “Anwar: Time ripe for global Islamic finance system,” *The Malaysian Insider*, <http://www.themalaysianinsider.com/malaysia/article/anwar-time-ripe-for-global-islamic-finance-system/>, June 7, 2011 (accessed June 21, 2011).