

Parameters of the Islamic Economic System

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Abstract: The Vatican's official newspaper Osservatore Romano said in an article in its issue of March 4, 2009 reported that Islamic banking system may help to overcome global crisis. The Vatican said banks should look at the ethical rules of Islamic finance to restore confidence amongst their clients at a time of global economic crisis. To understand economics and economic aspects of human beings in the light of Islamic Shariah, we should explain its objectives. All business and financial contracts in the framework of Islamic finance have to conform to the Shariah rules with the objective of helping to achieve the aims of the Shariah. Shariah refers to a code of law or divine injunctions that regulate the conduct of human beings in their individual and collective lives. In addition to some general rules there are some specific branches of these injunctions which are: matters of belief and worship; ethic, socio-economic and legal systems; obligations; and prohibitions.

Banking and finance are parts of economics or the economic system, as the rules governing activities of banks and financial institutions stem from the overall economic framework in which these institutions operate. It is, therefore, worthwhile to discuss the structure of Islamic economics under which the Islamic financial system is supposed to work. In this paper we discuss the fundamentals of the Islamic economic worldview having direct or indirect impact upon the business of Islamic financial institutions and markets.

Keywords: Islamic Finance, Parameters

1. Introduction

Recently the Vatican advised Islamic finance principles to Western banks as a solution for worldwide economic crisis. Daily Vatican newspaper, L'Osservatore Romano, reported that Islamic banking system may help to overcome global crisis. The Vatican said banks should look at the ethical rules of Islamic finance to restore confidence amongst their clients at a time of global economic crisis.

"The ethical principles on which Islamic finance is based may bring banks closer to their clients and to the true spirit which should mark every financial service," the Vatican's official newspaper Osservatore Romano said in an article in its issue of march 4, 2009 (see webpage rassenstampa.mef.gov.it).

Author Loretta Napoleoni and Abaxbank Spa fixed income strategist, Claudia Segre, say in the article that "Western banks could use tools such as the Islamic bonds, known as sukuk, as collateral". Sukuk may be used to fund the "car industry or the next Olympic Games in London," they said. They also said that profit share, gained from sukuk, may be an alternative to the interest. They underlined that sukuk system could help automotive sector and support investments in infrastructure area.

Islamic sukuk system is similar to bonos of capitalist system. But in sukuk, money is invested concrete projects and profit share is distributed to clients instead of interest earned.

Pope Benedict XVI in an October 7, 2008 speech reflected on crashing financial markets saying that "money vanishes, it is nothing" and concluded that "the only solid reality is the word of God." The Vatican has been paying attention to the global financial meltdown and publishing articles in its official newspaper that criticize the free-market model for having "grown too much and badly in the past two decades."

Islamic finance is not only a remedy for the crises of capitalism, for countries with Muslim majority; it is also the most beneficiary financial system to be adopted by administrative and legislative bodies of the states. For the Muslim minorities in Europe and in all other continents in which the followers of various religions live in intermingled communities without physical political borders, for Muslims and others who may choose it as a better option, there must be alternative Islamic financial institutions.

The need for alternative Islamic financial legislations and institutions necessitates a broad religious freedom that supports a life along the Shariah. Starting from this post modern era, believers will not be satisfied by any level of religious freedom that supports less than living in accordance with the Shariah of their religion.

For the Muslims scattered throughout the world as minorities, the minimums of living in accordance with the Shariah are

1. Alternative education at all levels,

2. Alternative jurisprudence, Shariah courts,
3. Alternative financial system, and supporting financial institutions,
4. Alternative health care.

This global need necessitates the evolution of a system that could lead to a balanced, sustainable and equitable economic order in the world at large for the benefit of individuals and societies. Islamic economic principles are a basis for promoting a balance between the social and economic aspects of human society, the self and social interests, and between the individual, family, society and the State.

Islamic finance has to conform to the Shariah rules with the objective of Shariah. Shariah refers to a code of law that regulates the conduct of human beings in their individual and collective lives along Islam. In addition to some general rules there are some specific branches of this code which are: Aqaid, or matters of belief and worship; Akhlaq, or matters for disciplining one's self; Ahkam, or socio-economic and legal systems; Fraidh, or obligations; and Nawahi, or prohibitions. Islamic economics directly or indirectly deals with all these disciplines (see Eyub 2007).

2. Sources of the Shariah

The primary source of the Sharia is the Qur'an and Sunnah of the Prophet (pbuh). The Holy Qur'an says: "Whoever obeys the Messenger, he indeed obeys Allah, and whoever turns back, so We have not sent you as a keeper over them. (4: 80)."

The other sources are Ijma'a (consensus) and Qiyas (analogy). Ijma'a of the Companions of the holy Prophet is considered by the Muslims an important source for the derivation of laws subsequently.

The general welfare/interest (Maslaha-e-Mursalah) of human beings and Urf (tradition) are also important tools in the hands of Islamic jurists that are kept in mind for deciding the Shariah position of various contracts and activities without compromising on the basic principles contained in the Qur'an and Sunnah.

Shariah rules can be divided into Dos, orders to undertake any act; and Don'ts, prohibition from some acts, which can further be divided into the rituals (matters of worship) that are considered as rights of Allah (SWT) and the matters for disciplining human life that constitute the rights of human beings. While the former acts, rituals or matters relating to belief and worship in the form of Fraidh or obligations have to be accomplished strictly according to the Shariah codes, the latter matters that pertain to socio-economic rights and obligations are governed by the rule of "General Permissibility", Ibahatul Asliyah, which means that all acts and things which have not been openly prohibited by the original sources of Shariah are permissible. It is pertinent to observe, however, that while Allah (SWT) may like to forgive any of the lapses by Muslims in respect of His rights (first category), lapses in respect of the rights of human beings would have to be forgiven only by the aggrieved person(s). Further, it is a cardinal principle of Islam that everyone is accountable for his acts and the accountability is individual, both in rituals and in socio-economic contracts.

The Holy Qur'an says: "Namely, that no bearer of burdens can bear the burden of another. That man can have nothing but what he strives for (53:38-39)."

Knowing the objectives of the Shariah helps jurists in determining the prohibition or permissibility of any matters on the basis of Ijtihad and Qiyas.

The primary objectives that Shariah tends to realize are the protection and preservation of:

1. Religion.
2. Life.
3. Progeny - family unit.
4. Property.
5. Intellect.
6. Honor.

The above primary objectives of Shariah lead to a number of secondary objectives, which are:

1. The establishment of justice and equity in society.
2. The promotion of social security, mutual help and solidarity, particularly to help the poor.
3. The maintenance of peace and security.
4. The promotion of cooperation in matters of goodness and prohibition of evil deeds and actions.
5. The promotion of moral values and all actions necessary for the preservation of the nature (see Chapra 2000).

Hence, from the study of the Qur'an and Sunnah, some basic socio-economic rights of human beings have been identified. These rights are:

1. The right to safety.
2. The right to be informed.
3. The right to choose.
4. The right to be heard.
5. The right to satisfaction of basic needs.

6. The right to redress.
7. The right to education.
8. The right to a healthy environment (see Eyub 2007).

Islam requires rulers and various regulators in the system to protect the masses from harm and hardship caused by unscrupulous factors in society through strong and effective laws, and they should be respected in the sense of fulfillment of all socio-economic rights. The State must also curb institutional and other malpractices.

3. The Necessity for Islamic Finance and Economics

Studying economics is important for the dual purpose of having better sustenance and religious imperatives. Islam does not separate "pious" and "worldly" life. Holy Qur'an says: "But seek, with the (wealth) which Allah has bestowed on thee, the Home of the Hereafter, nor forget thy portion in this world: but do thou good, as Allah has been good to thee, and seek not (occasions for) mischief in the land: for Allah loves not those who do mischief." (28:77)

As the main theme of the Islamic economic system revolves around care for the poor and socio-economic justice, studying Islamic economics should be a strategic activity for Muslim economists and policymakers. The Islamic economic system can be studied properly only in the context of the Islamic way of life as a whole. The Holy Qur'an gives broad principles of values regarding the economic aspects of man's life, like an owner's attitude towards his property, society's attitude towards the needy, the cooperative basis of the economic relationship and the bias against a concentration of wealth. The individual must be mindful of other ends while planning for economic ends. He has to subject each and every activity to thorough scrutiny, avoiding all those forms which are injurious to social interest.

The early Islamic jurists mainly advised individuals and rulers on behavior in economic matters and economic policies (see Yusuf 1969). In the later period, they also analyzed such economic thoughts as trading, prices, money, profit-sharing, taxes, development, etc. They gave special importance to ethics and moral purposes and focused on justice, need fulfillment, efficiency, freedom, growth and development. Those who did work of outstanding nature included Imams of juristic schools of thought like Abu Hanifa (see Makhnisawi 2007), Malik (see Abdarrahman 2007), Shafii, Ahmad ibn-e-Hanbal, Zaid bin Ali, and others like Muhammad bin Hasan al Sheibani, Abu Yusuf (see Yusuf 1969), Yahya bin Adam, Abu Ubaid, Qudama bin Jafar, Ali ibn Muhammad Al Mawardi, Nizamul Mulk Tusi, Nasiruddin Tusi, Abu Hamid Muhammad Ghazali, Ibn Taymiyah, Ibn Qayyim, Ibn Khaldun (see Dawood 1989), al Maqrizi and Shah Waliullah.

Abu-Yusuf's book of al-Kharaj is important for various reasons:

- (a) it was the first book to be published on Islamic economics,
- (b) it was necessary to look, in some detail, into the work to gain an insight into the thinking of the first Muslim writer in the field, especially as
- (c) the book was a first serious work on Islamic economics, particularly when
- (d) the book provided a comprehensive framework, almost a constitution, on the state finance and public administration, of
- (e) a considerable magnitude, and
- (f) the book could still be regarded as a reference book by the standards of today.

(As an example) "Abu-Yusuf focused on leasing of fields and palm orchards, with a particular reference to the cultivation of barren land on a lease basis. Abu-Yusuf explained that the jurists in al-Hijaz (the Mālikī) had a different view from that of the jurists in al-Kufa. In al-Hijaz and al-Medīnah, jurists, did not allow the lease of barren land on a sharing basis, one half or one third, as they argued that barren land was not like orchards and other gardens for which they allowed sharing leases. Some of the jurists in al-Kufa allowed sharing in orchards and other trees and permitted sharing of crops in barren land at a half and one-third ratio, while others did not allow sharing in orchards or other fruit trees and did not permit sharing of crops in a barren land. Abū-Hanīfah was against the validity of the lease.

Those jurists who did not allow the transaction relied on the juridical argument against uncertainty; the yield from the lease of the barren land was uncertain and any involvement in such a transaction could be harmful to either partner. On the other hand, those who allowed leasing depended strictly on the practice of the Prophet when he let the lands of Khyber to the inhabitants of Khyber on a yield sharing basis.

Abu-Yusuf's view was that all such leases were allowed and valid. He regarded them as sharing in partnership contracts in which one partner participates in the partnership with his capital and the other with his labor and expertise. The profit, even if it was still unknown to them, was divided on the basis of profit-and-loss-sharing. This form of partnership is unanimously acceptable by jurists. In Abu-Yusuf's view, leasing of barren land, orchards and other trees was like a partnership: the land was similar to the capital in the partnership contract. To enforce his view, Abu-Yusuf relied on the precedent of the Prophet in the lands of Khyber. The ahadith in support of permission were more reliable and general than the ahadith in support of inhibition, he argued. Abu-Yusuf elucidated different forms of lease contracts in which he clarified the relationship between

the partners in the contract, and the tax position of each. It is apparent from his classification that Abu-Yusuf widened the scope of leasing by allowing several structures. He perhaps had in mind a special consideration for public interest without sacrificing the basic principle that the partners should be clear before the start of the transaction as to the conditions of the contract. His thought on the classification coincides with the classification as known in modern time and the differentiation between a financial lease and other types of lease". (see el-Ashker and Wilson 2006).

After the start of the Renaissance movement in the late 19th century, Islamic economics started re-emerging as an intelligent academic pursuit. Scholars like Syed Qutb (see Qutb 1953), Syed Abul A'ala Mawdudi (see Mawdudi 1996), Hifzurrahman Sweharvi, Muhammad Yusufuddin, Syed Baqar Sadre, and Dr M. Hamidullah (see Hamidullah 1992) can be considered pioneers and scholars of the first generation in the Modern World who initiated the process of defining modern economic thought in the light of the principles of Islam.

Formal work on Islamic economics in the modern world that has led to a vigorous revival of Islamic economic thought has been done by a large number of economists, notable among which are Anwar Iqbal Qureshi, Ahmad al Najjar, Nejatullah Siddiqi, Sheikh Mahmud Ahmad, Mahmud Abud Saud, Muhammad Umar Zubair, Monzar Kahaf, S.M. Hasanuz Zaman, Anas Zarqa, M.A. Mannan, Mohamed Ali Elgari, M. Umer Chapra (see Chapra 2000), Abbas Mirakhor, Mohsin S. Khan, Fahim Khan, Munawar Iqbal, Khurshid Ahmad and many others.

Considerable work has been done by well-known economists including Mohsin Khan (See Khan and Abbas 1987), Abbas Mirakhor, Zuber Iqbal, Nejatullah Siddiqi, Anas Zarqa, Monzar Kahaf and other Islamic economists of the second and third generations, as mentioned above, on various segments of economic management. These works largely pertain to interest-free banking and interest-free investment and production. Also, a good deal of work has been done on fiscal policy, Zakat, auditing and accounting, banking regulations and supervision.

But all of these are segments and have not been put together into a comprehensive model. These segments (with variations) are being practiced/implemented in several countries. However, even in the contents and implementation of these segments, there is a lack of uniformity. This is yet another problem which needs to be addressed both at scholarly and operational levels.

Therefore, Islamic rules of economics make it binding for human beings not only to abide by the Shariah codes relating to dos and don'ts but also to keep in mind the impact of their activities on others and society as a whole. To realize the goal, the State should try to control the requirements and needs of the people through a filtering process, motivate the people to abstain from activities injurious to others and restructure the socio-economic system for the transfer of resources from one use/sector to others to ultimately realize the dual objective (see Chapra 2000).

The vision of Islam in this regard is different from the role models of present market systems which have become outdated with the march of events. The Shariah indicates the directions of transformation towards a social order of justice, well-being, security and knowledge, but it does not impose these laws. It tends to provide equal chances to all for earning a livelihood leading to equitable, not equal, distribution of income and wealth.

It is also because of the no coercive nature of Shariah that the market is relied upon as a natural phenomenon of ethical human transformation. The holy Prophet (pbuh) categorically discouraged intervention for price fixation as long as price fluctuations occurred due to market forces alone. But when undue monopolistic and unjust pricing, production and distributional practices were existent, Al-Hisbah (the institution of the ombudsman) was empowered as a social regulatory body to check these imbalances for purposes of reestablishing a better semblance of market-driven exchanges in the light of the just order that Shariah aims at in society at large.

Islamic economics has been defined differently by different economists/scholars, keeping in mind specific aspects of human life. To Ibn Khaldun, economics meant the desire for food and other requirements and efforts to obtain them; and a science which deals with management of households and cities in accordance with dictates of reason as well as ethics, so that the masses may be directed towards a behavior that leads to the preservation and performance of their species (see Dawood 1989).

Mohsin S. Khan, a senior economist at the IMF, says: "Broadly speaking, the term 'Islamic Economics' defines a complete system that prescribes a specific pattern of social and economic behavior for all individuals. It deals with a wide-ranging set of issues, such as property rights, incentive system, allocation of resources, types of economic freedom, system of economic decision-making and proper role of the government. The overriding objective of the system is social justice and specific patterns of income and wealth distribution and consequently economic policies are to be designed to achieve these ends. (see Khan and Abbas 1987)"

Zaman gives his own definition: "Islamic Economics is the knowledge of application of injunctions and rules of the Shariah that stop injustice in the acquisition and disposition of material resources in order to

provide satisfaction to individuals and enable them to perform their obligations to Allah and society (see Zaman 1991)."

This implies that Islamic economics is a social science which studies the economic problems of people in the light of the values of Islam. One way of looking at Islamic economics would be the use of resources for the welfare of the people within the framework of Shariah. Once a framework of the Shariah has been adopted, it will determine various aspects of economic management like the contents of production, trade, finance, distribution.

The integrated model of the Islamic social framework is based, among other things, on the following criteria, which provide a positive motivation for economic activities, steered by the concept of a fair balance between material and spiritual needs and between the individual's and social needs:

1. Equilibrium between work and worship.
2. Human equality.
3. Mutual responsibilities in society.
4. Distributive justice.
5. Balanced and beneficent use of the "bounties of God".
6. Limited sovereignty of individuals in terms of "self interest" for the benefit of fellow beings and society.
7. The principle of co-existence.
8. The freedom of conscience.

4. Objectives of Islamic Economics

The objective of the Islamic economic system, like any other economic system, is the realization of efficiency and equity in allocation and distribution of resources, for which it recognizes the role of market forces and the freedom of individuals. But it also recognizes the possible adverse impact of the totally unregulated market on various sections of society, particularly the poor and the disadvantaged.

Thus, the system comprises the following three main elements:

1. Ownership of commodities and wealth.
2. Transfer of the ownership.
3. Distribution of wealth among the people (see Nabbani 1997).

The abolition of interest (Riba), promotion of trading and other real business activities, establishment of profit-sharing as a tool, the application of Zakat and avoidance of wasteful consumption (Israf) along with an effective overseeing role of the State constitute the key macroeconomic features of an ideal Islamic economy.

The Holy Qur'an says: "Those who swallow down usury cannot arise except as one whom Shaitan has prostrated by (his) touch does rise. That is because they say, trading is only like usury; and Allah has allowed trading and forbidden usury. To whomsoever then the admonition has come from his Lord, then he desists, he shall have what has already passed, and his affair is in the hands of Allah; and whoever returns (to it) these are the inmates of the fire; they shall abide in it." (2:275). "Men whom neither merchandise nor sale beguileth from remembrance of Allah and constancy in prayer and paying to the poor their due; who fear a day when hearts and eyeballs will be overturned." (24:37). "O Children of Adam! wear your beautiful apparel at every time and place of prayer: eat and drink: But waste not by excess, for Allah loveth not the wasters." (7:31).

Study of these variables would indicate the state of any Islamic economy, its stability, weaknesses and strengths and various relationships among producers and users of resources.

Ownership by man is thus Divine permission for utilizing the goods and assets. The Holy Qur'an says: "And give them from the Mai of Allah, which He gave to you." (24: 33). It also says: "And spend from what He put you in charge of" (57: 7). As such, Islam has set the limits and the means through which individuals, groups, the public and the State can possess property in such a way that acquisition in varying degree is within reach of all the people, despite disparities in their abilities. These limits are in terms of the quality or the means of acquiring and not in terms of quantity of wealth, as this resists human beings' strife to work diligently. Limits in terms of quality are necessary; otherwise human greed could corrupt the economy and cause chaotic relationships in society. It also conforms to human nature so as to satisfy their basic needs and enable people to benefit from comforts (see Eyub 2007).

The following are the means of possessing goods: work, inheritance, and purchasing/obtaining property for sustenance, properties granted as gifts and the State granting possession of something to the citizens. To facilitate the acquisition of property and wealth, Islam has indicated legal means of ownership and its transfer through a variety of contracts. General rules for these contracts have also been defined in detail with the possibility of resolving any contemporary issues through Ijtihad, subject to observance of allowed limits. These rules allow man to utilize the resources by consuming them, benefiting from them or exchanging them via a number of contracts like sale, loan, lease (see Yusuf 1969) or gift. Rules pertaining to investment of wealth/property have also been laid down. The Holy Qur'an says: "Allah (thus) directs you as regards your

Children's (Inheritance): to the male, a portion equal to that of two females: if only daughters, two or more, their share is two-thirds of the inheritance; if only one, her share is a half. For parents, a sixth share of the inheritance to each, if the deceased left children; if no children, and the parents are the (only) heirs, the mother has a third; if the deceased Left brothers (or sisters) the mother has a sixth. (The distribution in all cases ('s) after the payment of legacies and debts. Ye know not whether your parents or your children are nearest to you in benefit. These are settled portions ordained by Allah; and Allah is All-knowing, Al-wise." (4:11).

Along with property rights, income and profit entitlement are established in Islamic economics. This must occur through the effort, work or taking responsibility (Dhaman) and distribution by means like partnership, trade, joint ventures, loans, and various vehicles of transfer incomes like grants and Zakat and the control of waste.

The Holy Qur'an says: "O ye who believe! When ye deal with each other, in transactions involving future obligations in a fixed period of time, reduce them to writing Let a scribe write down faithfully as between the parties: let not the scribe refuse to write: as Allah Has taught him, so let him write. Let him who incurs the liability dictate, but let him fear His Lord Allah, and not diminish aught of what he owes. If they party liable is mentally deficient, or weak, or unable Himself to dictate, Let his guardian dictate faithfully, and get two witnesses, out of your own men, and if there are not two men, then a man and two women, such as ye choose, for witnesses, so that if one of them errs, the other can remind her. The witnesses should not refuse when they are called on (For evidence). Disdain not to reduce to writing (your contract) for a future period, whether it be small or big: it is juster in the sight of Allah, More suitable as evidence, and more convenient to prevent doubts among yourselves but if it be a transaction which ye carry out on the spot among yourselves, there is no blame on you if ye reduce it not to writing. But take witness whenever ye make a commercial contract; and let neither scribe nor witness suffer harm. If ye do (such harm), it would be wickedness in you. So fear Allah; For it is Good that teaches you. And Allah is well acquainted with all things. If ye are on a journey, and cannot find a scribe, a pledge with possession (may serve the purpose). And if one of you deposits a thing on trust with another, let the trustee (faithfully) discharge his trust, and let him Fear his Lord conceal not evidence; for whoever conceals it, - his heart is tainted with sin. And Allah knoweth all that ye do. (2:282)"

Hence, the Islamic economy has a linkage between the market functions of productive involvement and growth and the institutional functions of policy and control.

4.1 Islamic Welfare Approach

The concept of welfare in Islam is neither exclusively materialistic nor absolutely spiritual. It has rather dovetailed the spiritual and material aspects of life so that they may serve as a source of mutual strength and as the foundation of true human welfare and happiness.

In order to meet the basic needs of each and every member of a society, Islam urges all to earn and seek the provisions for use by mankind. Islamic economy achieves this objective by obliging each capable person to work, enabling him to fulfill his and his dependents' basic needs. A number of verses of the Holy Qur'an and traditions of the holy Prophet (pbuh) reveal that Islam obliges individuals to earn and use the wealth so as to develop the economy for the betterment of society. It is the State's responsibility to take measures and adopt policies to enable those who are willing to work and anxious to work to find employment.

As regards basic needs, there is total agreement among Islamic economists that it is the most important objective of the Islamic distributive policy. However, there may be some difference of opinion as to which needs should be guaranteed and how these should be fulfilled. Nevertheless, maximization of Falah (welfare in this world and the Hereafter) has firm relevance with the Islamic concept of development, which can be achieved through obedience to Allah (SWT) in worship (Ibadat) as well as Mu'amalat, including all kinds of economic activities related to production, consumption, exchange and distribution. As long as seeking the pleasure of Allah is set as the final goal, the latter will be in perfect conformity with the former (see Eyub 2007).

4.2 The Factors of Production

Land, labor and capital jointly create value. As a result, the land-owner, the laborer and the owner of capital should jointly share the produce. The distinctive feature of the Islamic system is that capital has to bear the loss, if any. In addition to this, Islam compulsorily retains a portion of the produced wealth as Zakat for those who are prevented from contributing their share in production due to any social, physical or economic handicap.

The factors of production in Islamic economics are:

1. Capital - includes those means of production which cannot be used in the process of production until and unless they are either wholly consumed or completely altered in form during the production process; it cannot fetch any rent. "Profit" is compensation of capital in the Islamic framework, but it comes with

responsibility or liability. So the profit on any capital is the residual revenue of a business conducted with that capital after making payment to all other parties; if the residual is negative, the capital owner has to suffer a loss that is the shortfall in the principal employed in the business.

2. Land - all such means of production which is used in the process of production in such a way that their corpus and original form remains unaltered. Their compensation is rental; these can be lent or leased. For example, an owner of a factory would claim rent of land and that of the installed machinery and plant; similarly, owners of houses, vehicles, machines, etc. are entitled to rent.

3. Labor - that is, human exertion, whether physical or mental and also includes organization and planning. Its compensation is wages (see Eyub 2007).

4.3 Restrained Individual Freedom

There are certain curbs and some checks imposed by Shariah on consumers' behavior. Individuals are not at large to exercise their own will in terms of choice. Some basic rules have been laid down to govern intensity of wealth-gaining and income-consuming activities of society. It does not stand neutral as regards ends and means. It is religion-based, valuation-oriented, morality-judged and spiritually-bound. It is positive and normative science, as it links materialistic and moralistic requirements of changing nature. Thus, the scope of Islamic economics is the administration of scarce resources in human society in the light of the ethical concept of welfare in Islam.

All types of work except those leading to indecency or socio-economic loss to other individuals and society are permissible. A basic principle of the Islamic legal system is that an activity or a commodity that is not prohibited through the Shariah texts is permissible. Thus, man has to observe the prohibitions only. Islamic economics would mean undertaking all activities individually or collectively that are not prohibited and that could add to the welfare and happiness of human beings (see Eyub 2007). Holy Qur'an says: "O ye who believe! Squander not your wealth among yourselves in vanity, except it be a trade by mutual consent, and kill not one another. Lo! Allah is ever Merciful unto you" (4:29).

The most important prohibitions in the field of economics are the prohibition of interest, hazard and gambling due to their extremely harmful impacts on society. Such limitations are necessary for the fulfillment of the overall objectives of the Shariah for making society happy and satisfied, both materially and spiritually. The Holy Qur'an says: "O ye who believe! Strong drink and games of chance and idols and divining arrows are only an infamy of Satan's handiwork. Leave it aside in order that ye may succeed." (5:90).

4.4 Liberalism versus State Intervention

The literature on Islamic economics emphasizes four types of action by government in economic life. These are:

1. Ensuring compliance with the Islamic code of conduct by individuals through education and, whenever necessary, through compulsion.
2. The maintenance of healthy conditions in the market to ensure its proper functioning.
3. Modification of the allocation of resources and distribution of income affected by the market mechanism by guiding and regulating it as well as direct intervention and participation, if needed, in the process.
4. Taking positive steps in the field of production and capital formation to accelerate growth.

The Islamic State can impose some limitations with a view to avoiding distortions and keeping in mind the well-being of society as a whole. All members of a society, regardless of differences in gender and religion, are allowed to undertake any of the permissible (Halal) businesses, but this is subject to the condition that it should not harm others. Once the Pious Caliph, Umar Farooq (Allah be pleased with him) asked a person who was selling a commodity at a much lower price than the market price to increase the price/rate or to leave the market (see Eyub 2007).

5. Summary

All economic and financial contracts in the framework of Islamic finance have to conform to the Shariah rules, with the objective of helping to achieve the well-being of people in the worldly life as well as in the Hereafter. Hence, studying economics is important for the dual purpose of having better sustenance and the religious imperatives. The sources of rules dealing with economic aspects of human beings are the Holy Qur'an and Sunnah of His last Messenger, Muhammad (pbuh). In addition to the Qur'an and Sunnah, Ijma'a, Qiyas and Ijtihad provide a hierarchical framework of sources of rules governing Islamic economics and finance.

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