

New Islamic Economic Framework

How Islam Preaches Small State, Strong Society and Free Market

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In pre-Islamic Arabia, the city of Makkah, which hosted the cube-shaped Ka'bah as the holy place for worship, was a melting pot of religion, commerce and politics. Tribes from afar would travel to both pay their respects at Ka'bah and also to engage in commerce. The custodians of Ka'bah, the tribe of Quraish, enjoyed peace and security in the midst of an otherwise tumultuous Arabia. Even the Qur'an would provide a divine testimony later for the accustomed security of their caravans in the winter and the summer. They were also accepted in their leadership role and never faced hindrance in their trade caravans. Thus, their religious role, as custodians of the holy land, granted them both political and commercial advantages.

That is why Muhammad (d. 632 AD), the Prophet of Islam, who belonged to the tribe of Quraish, inherited a rich tradition of religious, commercial and political leadership, all infused into his personality. Before he claimed, at the age of 40, that the angel Gabriel had revealed God's message to him, he was well-known in Makkah and Arabia as *Sadiq* and *Ameen*, or "truthful" and "trustworthy." He was an established man of commerce, to whom people would come for resolution of disputes. This background would allow him to leave behind a rich heritage of insight, knowledge and ethical principles about economy.

This book, *New Islamic Economic Framework* is an introductory text to re-discover these ethical principles of commerce and economics, as revealed in the Qur'an, espoused by Hadith (narrations of Prophet Muhammad) and Sunnah (practices of Prophet Muhammad) and as understood in classical Islam. It makes three main claims: First, at the origin of Islamic history, Islam defined principles of the economic organization of society. Second, these principles conform with those of a modern free market economy with certain exceptions but largely protecting property rights, encouraging entrepreneurship, and offering a limited role for the state. Third, that the discipline of "Islamic Economics," the collectivist model that was invented in the latter half of twentieth century, diverged from the principles established by classical Islam.

In fact all religions, including Islam, have presented normative and ethical perspectives on economy. What makes Islamic case unique is an additional utilitarian argument. Qur'an mentions that wealth grows through *sadaqah* (charity) and decreases due to *riba* (usury). We discover a comprehensive code of economic governance through hadith (recorded sayings) and Sunnah (established practices), of the Prophet Muhammad.

Others have brought forth similar perspectives on Islam and the economy. Having read Adam Smith's both masterpieces 'Theory of Moral Sentiments' and 'The Wealth of Nations', the authors of a text book on "Islamic Economics" suggest that "original visions of Islam and Smith converge" (Askari, Iqbal & Mirakhor 2015: 7). Moreover, they point out that "Islamic Economics" — a collectivist reinterpretation of Islam's economic vision that emerged in mid-20th century — is "diametrically opposed" to the conventional understanding of Islam's economic heritage (Ibid). They conclude that

the “Islamic economic system is a market-based system, where markets are seen as the best and most efficient mechanism for resource allocation. But valuing markets for their efficiency is not the same as upholding markets as an ideology and a philosophy” (Ibid: 27). This helps elucidate the economic philosophy of Islam: it embraces utilitarian dimension of markets, but subjects markets to its own ethical framework.

Murat Cizakca, a Turkish economist who taught in Malaysia for many years, has reached similar conclusion by making another bold claim. He has used the term “Islamic capitalism” to explain a system of pre-industrial commercial capitalism which was developed through Islamic civilization and later transferred to Europe through Crusades.

Even according to Mawdudi, the eminent Pakistani theologian (d. 1979) of political Islam, “human freedom is of prime importance to Islam, which builds the entire edifice of the community, growth and development on the cornerstone of this freedom.” (Mawdudi 2013: 91).

One can argue that a selective reading of religious text can generate a paradigm which is consistent with one’s own worldview. Thus if I believe that open markets offer better solution for uplifting economic miseries of the people than central planning does, then I will only quote the text which favors this view. Thus religious case becomes a tool to claim legitimacy. However, as long as we do not overlook various aspects of a religious tradition, we should have the authority to offer interpretations of it by taking some of its parts as more pivotal. In fact, all human beings do is to interpret and socialize a divine doctrine but should not claim divinity. This humility enriches our understanding about religion itself without ignoring other views.

One legitimate question is that even if we admit that the Islamic case for economic liberty is an authentic narrative, does it have any relevance with the modern challenges posed by economic organization at the global level. In a world, where the notions about income and wealth inequality are dominating every other debate, where does an Islamic conception of economic policy fit? Do Islamic foundations of economic liberty offer any unique insights with a functional relevance or do they present only moral injunctions? This treatise claims that the Islamic principles of economic organization go beyond moral instructions and do have operational relevance. It also posits that the ethical boundaries which Islam defines can be used as a guideline where the voluntary cooperation may not suffice. Of course, this is a matter of belief, but these practical instructions can be considered by all irrespective of belief.

This treatise is arranged in three sections. The first section provides the principles of economics in Islam, or foundations of Islamic Economic Framework, in which the concepts of private ownership, utilization of land and natural resources and wealth creation and distribution are introduced. The second section develops an institutional framework, discussing key institutions such as price freedom, market regulation, fiscal policy, and provision of credit. The third and final section provides an overview of evolution of economic thought in Islam with a critical review of modern day “Islamic Economics.” It addresses the debate about whether an Islamic economy should be plan-based or market-based and about the bigger discussion on social justice. This discussion provides examples of evolution of thought in leading clerics and scholars of modern age. The monograph concludes with thoughts on the applicability of these principles and institutions today.

Outline

Introduction

The Shariah- and its objectives

Principles of New Islamic Economic Framework

First principle: Ownership

Second principle: Wealth creation

Third principle: Wealth distribution

Institutional Tenets of Islamic economic Framework

1. Price Freedom
2. Free Trade
3. Office of Market Regulator
4. Gold, Fiat Currency and Central Banking
5. Riba and Islamic Alternative
6. *Zakah* as Fiscal Policy
7. Waqf- Social Protection of People by People
8. Law of Inheritance

Evolution of Islamic Economics

A Critical Review of Islamic Economics

Islam and Capitalism- Mawdudi Revisited

Ghamidi: Religious Case of a Limited Government

Islamic economic framework: Historical Romance or Practical Prescription for the future?

References