

CLASSICAL ISLAMIC ECONOMIC FRAMEWORK

Ali Salman

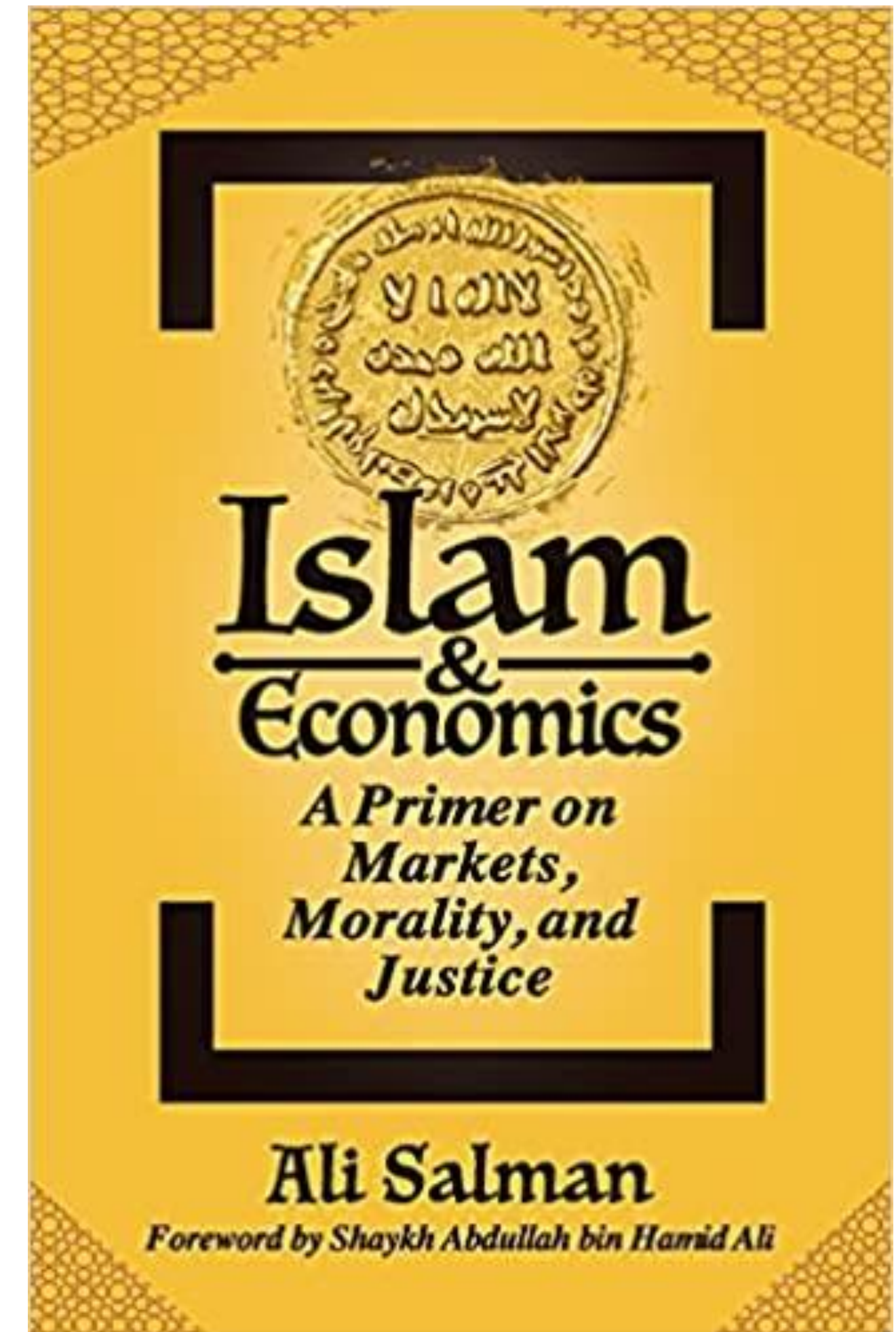
ali@islamandlibertynetwork.org

“Muhammad gave his community along with a new religion a new framework for the economy. Muhammad’s economic policy promoted entrepreneurial initiative, efficient distribution of resources... a framework for wealth creation that lasted for centuries.”

Benedikt Koehler, *Early Islam and the Birth of Capitalism*

***I call it “Classical Islamic
Economic Framework”***

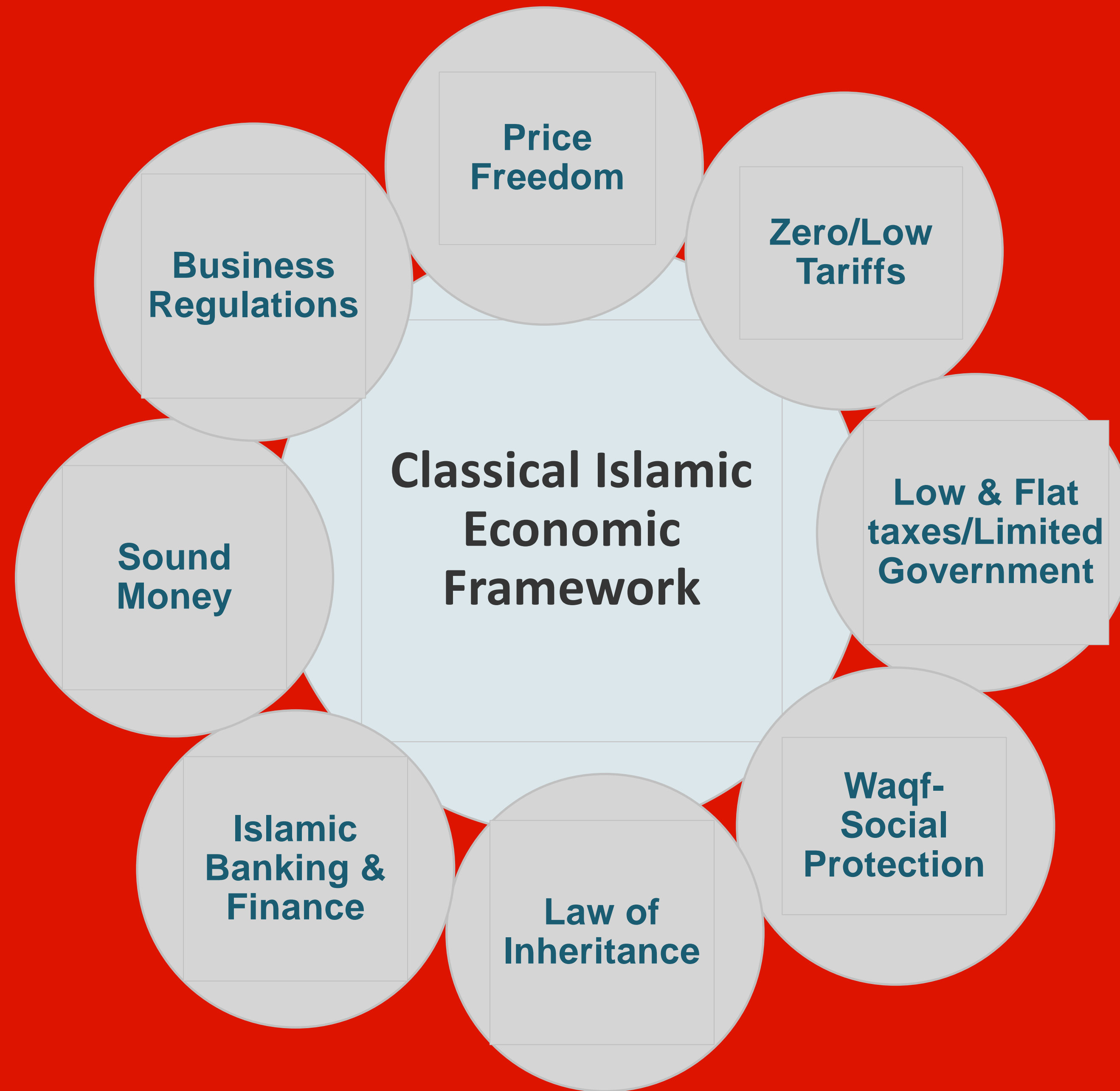
Modern?



1. Prophet Muhammad was born in 570 AD in the powerful tribe of Quraish.
2. Adopted trade as his vocation and became a successful merchant, called “Sadiq” (Honest, Truehearted), and “Ameen” (Trustworthy)
3. Prophetic mission proclaimed at the age of 40
4. In 622 AD, migrated from Mecca to Medina (Yathrab) after 13 years of conveying God’s message to pagans of Mecca
5. Established a Community, a constitution, a Masjid and a Market!



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...the Prophet Muhammad promoted private property—its protection, free enterprise, and free markets alongside regulatory procedures for circumventing fraud and the sale of harmful and unlawful goods.

Shaykh Abdullah Bin Hamid Ali

Foreword in Islam & Economics: Markets, Morality & Justice (P XXX)

NO PRICE CONTROL BUT STRONG REGULATIONS

Price Freedom

- “The people said: Messenger of Allah, prices have shot up, so fix prices for us. Thereupon the Messenger of Allah (ﷺ) said: Allah is the one Who fixes prices, Who withholds, gives lavishly and provides, and I hope that when I meet Allah, none of you will have any claim on me for an injustice regarding blood or property.” (***Sunan Abi Dawud, hadith No. 3451***)

Hisbah (Market Inspector)

- inspecting measures and quality of products
- ensuring integrity of contracts in the market
- checking ‘market rigidities’ such as *bay al-gharar* (speculative sales)
- checking price discrimination, monopolistic practices, collusion, dumping, hoarding of necessities
- give advice, issue reprimands, obstruct by force, threaten, imprison, or even expel individuals from the market.

No or minimum tariffs

Prophet established a market after masjid, and it had no tariffs.

ISLAMIC FISCAL POLICY ENSURES A LIMITED GOVERNMENT.

- Islam legitimizes only one form of tax revenue: *zakat*, though scholars differ on whether a state can impose additional taxes or not.
- Zakat can be normally understood as a flat, mildly progressive, broad-based tax collected as minimum of 2.5% of value of assets including on gold, silver, cash, savings, investment, rental income, business merchandise and profit, shares, securities, and bonds minus liabilities. It can also be imposed on incomes (Al-Qardawi).
- It ranges from 2.5% to 20%: 5% on all items produced by interaction of labour and capital; 10% on items produced through labour OR capital; and 20% on “Gift of God”, natural resources
- Islamic law considers the following as the exemptions from *zakat*.
 - tools of production, trade and business
 - personal items of daily use including residential property, vehicles

ISLAMIC FISCAL POLICY ENSURES A LIMITED GOVERNMENT.

- “The Islamic state that emerged under Muhammad’s leadership...could have raised taxes in an arbitrary way, expropriating assets at will when and where it saw them...Instead, it instituted a predictable, fixed and mildly progressive tax system designed to finance specific causes.”

Timur Kuran (2019)

- The poor, the needy, salaries of state employees, political expenditures in the interest of Islam, liberation of slaves, helping people burdened with loan, welfare of citizens and for helping travellers.
- What are “Islamic states” doing today?

ISLAMIC BANKING & FINANCE

- Riba- or usury- is forbidden and the Prophet cancelled riba during his last sermon to the Muslims.
- Riba or usury or banking interest is one of the most debated topics but with the advent of Islamic banking and finance (which accepts discount rate as a principle), the distinction between interest and usury has diminished, in a practical sense.
- “In summary, pre-specification of profits for those who invest their funds through an investment agency with banks or other institutions is legally permissible, and above legal suspicion. This transaction belongs to the domain of benefits that were neither explicitly permitted nor explicitly forbidden.” *Shaykh-ul-Azhar Dr. Muhammad Sayyid Tantawi (2002)*
- Loan as charity: Pakistan’s Microfinance Institution Akhuwat offers interest free loans to the poor and collects its charges from charities.

SOUND MONEY: A GOLD BACKED CURRENCY OR FIAT?

- Muslims adopted gold and silver coins issued by Byzantine empire initially which were eventually replaced by Islamic dinar.
- Historically, private money was replaced by a centralized minting system.
- Debasement was strongly condemned by Islamic scholars
- No explicit injunctions in favour of a gold currency and most of the scholars seem to accept fiat currency without understanding fractional reserve banking and money as debt.
- However, the fiat currency seems to fail two basic parameters of Islamic law- equivalence in terms of weight (*Mizan*) and volumes (*Miqyal*) as the value of fiat currency varies over time.

WEALTH CIRCULATION THROUGH INHERITANCE AND VOLUNTARY SPENDING

- In *Shari'ah*, a ***waqf*** is a voluntary, permanent, irrevocable dedication of a portion of one's wealth- in cash or in kind to Allah, typically allocated for a defined religious or charitable cause. State cannot intervene.
- While the Qur'an has only described broad principles about economic policy, it has mentioned an explicit formula of distribution of **inheritance** (net of payment of liabilities with a provision of will), where state cannot inherit from private property unless there is no heir.

RE-CAP OF INSTITUTIONAL TENETS

These tenets are price freedom, free trade, strong business regulations, sound money, low and flat taxes, private property, voluntary contributions, and strict inheritance distribution. Together with the principles, the Classical Islamic Economic Framework addresses all important policy, business and equity issues that any economic system should resolve.



Classical Islamic economic framework provides maximum liberty to economic life without obstructing a just order. In fact, for Islam, liberty is the essence of justice - and without liberty- and choice- a just God cannot hold His servants accountable.