

ETHICAL FOUNDATIONS OF ISLAMIC ECONOMICS

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Islam is a self-sufficient entity, with clearly defined features—an arabesque wherein reside the religious, economic and social dimensions, providentially equilibrated to form a unity. It contains complete guidance for man in spiritual and mundane matters. The Qur'ān has advised all mankind to seek God's mercy in both: "Our Lord! Give unto us in the world that which is good and in the Hereafter that which is good..." (2:201). The way to Heaven, according to Islam, passes through the Earth. In fact, the Qur'ān condemns misplaced self-denial. "Say: Who hath forbidden the adornment of Allah which He hath brought forth for His bondman, and the good things of His providing?" (7:32). Islam's originality lies in unifying the other-worldly and the mundane aspects of man's life, and in establishing a correct equilibrium between them.

The prefiguring vision of man in relation to his environment that Islam presented to the world at the beginning of the seventh century A.D., got obscured as the Islamic world moved away from the Centre. This divergent movement was helped by a decline in the spiritual values among the Muslims and the rise of the cult of materialism in the West. The colonial era, which gathered momentum in the 18th century, also fostered the cultivation and propagation among Muslims of the secularistic-materialistic values of the West. The cumulative effect of all these forces, buttressed by the powerful weapons of modern science and technology, was to undermine seriously the faith of Muslims. In fact, many a frustrated soul blamed Islam for his economic backwardness.

For a time, the victory of the Western value system over Islam's was complete; or so it seemed. However, the West, though it appeared to be regenerated intellectually, had in fact degenerated through spiritual decadence. Excessive materialism, in the end, proved to be self-destructive.¹ There has occurred, as a result, a remarkable resurgence of interest throughout the Muslim world in the Islamic way of life. Economic

prosperity among the oil-rich Muslim countries has forced even the Western countries to take Islam seriously, if only for transitory political ends.

Yet the modern Muslim looks back on the Islamic heritage with bewilderment. The world has come a long way since the Middle Ages. It has become much more complicated than it ever was; and easy solutions, which sufficed in those halcyon days of ascetic simplicity, have become inadequate in the modern world. What is the Islamic 'way' of solving these intricate economic problems? The situation becomes more difficult as we do not have a model Islamic economic system anywhere in full operation, which can be 'simulated' and generalized to form the basis of Islamic economics. No doubt, Muslim philosophers, like al-Fārābī, Ṭūsī and Ibn Khaldūn, wrote extensively on economics;² yet they all belonged to a different socio-economic milieu.

While it is true that the Islamic way of life forms a self-sufficient orbit of social, economic and moral values, it is by no means insular. It is *complete* in terms of given socio-economic parameters, which change with time, but is not closed with respect to future potentialities. In fact, "Islam was given providentially the power to synthesize, to integrate and absorb what was in conformity with its perspective from previous civilization."³ As a living religion, Islam cannot fail to absorb from its surroundings what conforms to its own native genius. In particular, there is nothing wrong with assimilating Western thought into Islamic economics. After all, Muslim philosophers did study Pythagoras, Plato and Aristotle to propound the Islamic point of view on science and metaphysics, in a language which even non-Muslim philosophers and scientists could understand.

How can this task be accomplished in the field of Islamic economics—the task of transforming and integrating into the Islamic pattern the extant economic wisdom, most of which has evolved in the Christian West? It is important to remember that this assimilation and integration cannot be done by an indiscriminate levelling out into uniformity what essentially runs counter to basic Islamic ethical values. The first step in the elaboration of an Islamic economics is to recognize and understand clearly what these fundamental ethical values are, in order to discover the touchstone by reference to which can be established the Islamic (or un-Islamic) nature of given economic principles or economic systems.

THE ANALYTICAL FRAMEWORK

The essence of scientific method is to discover a general theory, which can unify particular theories of a discipline with respect to its central features.⁴ Any such fruitful generalization presupposes a limited number of restrictive hypotheses which can explain a wide range of phenomena. The aim of this article is to outline a "general" theory, which can "span" the essential features of an Islamic economic system. Its basic insight is the observation that Islam's ethical system provides such a "unifying principle."

Our approach in this study, therefore, has been to formulate a minimum number of ethical axioms, which adequately summarize the basic Islamic views on the philosophy of life. Such an axiom system furnishes *the* framework within which to study the concrete objects of an Islamic economy. Then, through the process of logical deduction, we arrive at a set of economic principles which can be recognized as unambiguously Islamic.⁵ The general criterion of accepting any existing "alien" economic principle into the Islamic fold is that it must satisfy all the axioms simultaneously. The choice of this method was dictated by the inapplicability of inductive method for want of a fully-functioning Islamic system.

Such an analytical technique is warranted because the subjective approach, so common in the literature on Islamic economics, must be replaced by scientific objectivism in order to minimize the element of personal idiosyncracies. The four ethical axioms—Unity, Equilibrium, Free Will and Responsibility—described in the next section, seek to provide *a set of necessary and sufficient conditions* for Islamic economics: not only does an Islamic social ordering imply these axioms; but these axioms also imply a social rank ordering based on the teachings of Islam. Such a claim, however, constitutes a refutable hypothesis and needs at least an heuristic proof. The necessary part of this hypothesis is proved if it can be shown that the set of axioms is 'independent'. Its sufficiency also follows from the demonstration in this article that all the basic principles of an Islamic economy can be derived from the given set of axioms.

However, it should be noted that a full validation of such a claim, particularly that relating to the consistency of the axiom system, can be substantiated only by a thorough research on Islam, based on the Qur'an

and the *Sunna*. It may turn out that the set of axioms, stated below, is smaller and may, therefore, be enlarged by adding more axioms to the set. The effect of this enlargement of the set will be to make the criteria of 'acceptability' even more 'restrictive'. Also, in this case the axiom system, described below, will constitute only necessary but *not* sufficient conditions for a truly Islamic economic order. The reverse possibility of the 'contraction' of the existing criteria set can also not be ruled out. It may be argued, for instance, that while Equilibrium is implied by Unity, Responsibility is implicit in Free Will. The set may therefore be contracted to only two, dropping Equilibrium and Responsibility as additional axioms from the set. However, as pointed out later in this study, the axioms of Unity and Equilibrium constitute the vertical and horizontal dimensions respectively of the Islamic ethical system; and are, therefore, (mathematically) 'independent'. The same holds for the third axiom of Free Will, which also is independent of both Unity and Equilibrium. As for the axiom of Responsibility, from a strictly logical point of view, it is not independent of Free Will *and* Equilibrium. However, we have kept it as a separate axiom only for analytical convenience and clarity. This decision is, however, based on 'expediency' rather than on logic. At any rate, our analysis will not be much affected by such a contraction of the criteria set, since its effect will be only to make implicit what in our system is explicit, without invalidating it; which, incidentally, is a decisive argument against any such contraction.

THE ETHICAL VALUES OF ISLAM

Man, in the Islamic perspective, is not the one "fallen" with "original sin", but a theomorphic (*not* anthropomorphic) being, with something God-like in him. The Qur'an explicitly attests to this exalted state of Man's situation: "So, when I have made him and have breathed into him of My spirit" (15:29).⁶ Like the universe around him, his sinner self has been chosen by God to reflect His glory:" We shall show them Our portents on the horizons and within themselves until it will be manifest unto them that it is the Truth" (41:53). Man could not have been assigned a higher place in the scale of the Universe than be the reflector of God's portents.

By virtue of his exalted station in the Universe, man has the *potentiality* of becoming God's vicegerent on Earth; of walking where angels

fear to tread, and of ultimately becoming crystallized in immortality. At the same time, man is prone to avarice and given to love for material possessions: "And lo! in the love of wealth he is violent". (100:8). Also, "if you possessed the treasures of the mercy of my Lord, ye would surely hold them back for fear of spending, for man was ever grudging." (17:100).

The remarkable thing about Islam's ethical system is that it combines the soaring idealism of man's spiritual ascent with a deep concern for his worldly attachment, which within specified limits, has been willed by God. Its ethics are based on the clear recognition that the basic traits of man's nature can at best be *neutralized* at a personal level; they can never be altogether *abolished* on the plane of our social existence. Hence, while every effort must be made to cure man of his weaknesses, his natural love for self-interest cannot be altogether ignored. No ethical system which suspends natural laws for the benefit of some kind of hypocritical idealism can find any place in a revealed message; for only God knows his creatures best: "We verily created man, and We know what his soul whispereth to him, and We are nearer to him than his jugular vein." (50:16).

This integrated, balanced and realistic view of man's nature and his social role, exclusive to Islam, can be summarized exactly by four ethical axioms.

FUNDAMENTAL ETHICAL AXIOMS

(a) *Unity*: Islam's ethical system, which encompasses man's life on this earth in its entirety, resides eternally 'prefigured in the concept of Unity. This concept forms the cornerstone of the Islamic message and bears out all Islamic arts and sciences.⁷ It shows, within the compass of one immaculate, divinely revealed vision, the inter-relatedness of all that exists. Indeed, in the Islamic view, which is perfectly coordinated and necessary, the Universe, this life on earth, and man himself all form a Unity, wherein the perceptible and the imperceptible, material abilities and spiritual powers coalesce and intersperse with the theomorphic character of man. Through the *direct* knowledge of all things created, that alone makes a unified view possible, the dream of a humanity marching towards the ultimate Truth can be realized on the Earth. The Qur'an is explicit on this point: "But seek the abode of the Hereafter in that which Allah hath given thee and neglect not thy portion of the world." (28:77).

The Islamic ethical conceptualization, *of which its economic system is only a subset*, must therefore be seen from the vantage point of Unity, which can be described as the “vertical” dimension of Islam. According to this view, economics gets integrated with ethics and gains strength from it; for it is only with the aid of Islamic ethics that a rank ordering of economic preferences is possible in an Islamic society. Indeed, an Islamic economic system is meaningless outside of the matrix of an Islamic ethical system.

(b) *Equilibrium*: In addition to the “vertical” dimension, contained in the concept of Unity, Islam has also a “horizontal” dimension, symbolized by Equilibrium.⁸ In fact, Unity carries within itself all the qualities in an “undifferentiated equilibrium”, so that any “rupture” of it is a positive evil.⁹ Equilibrium exists in the very order of the universe: “—He hath created everything, and hath meted out for it a measure.” (25:2); also: “Lo! We have created everything by measure.” (54:49). This fundamental Equilibrium must hold in our individual lives also. The innermost of each individual, itself a living tabernacle of Truth, is not only unified with it vertically as a homogenous whole, but is also equilibrated with respect to the elements within this whole.¹⁰ Within ourselves there is a world of conflicting emotions, wild instincts and errant desires which must be held together in correct balance to produce a balanced and just human being. Furthermore, being an integral part of this universe, man must live in harmony with it.¹¹

The idea of social justice is only one aspect of universal Equilibrium. The Qur’ān enjoins:

“—Be Ye staunch in justice, witnesses for Allah, even though it be against yourselves, or (your) parents or (your) kindreds, whether (the case be of) a rich man or a poor man, for Allah is nearer unto both (than ye are)—” (4:135).

An undue concentration of wealth or of power are both inimical to the Natural Law, since both of these disturb economic and political equilibrium. The Qur’ān ordains: “Wrong not mankind in their goods” (26:183). This injunction warns against producing social and economic disequilibrium. Hence equilibrium must hold in all aspects of human society. And one of the most important modes of realizing Equilibrium is precisely an accord between the sacred Law relating to man as such and the law relating to society.

(c) *Free Will*: Man has been endowed with a free will. This follows from the theomorphic character of man. Only God is absolutely free, but man is also relatively free since God has willed it so. Because of this faculty, man not only has the capacity to become God-like but, exercising his free will, can also deny God.¹² This freedom to accept or reject followed from man's acceptance, even before creation, of a burden which no one else could take. The Qur'an relates this eloquently: "Lo! We offered the trust unto the heavens and the earth and the hills, but they shrank from bearing it and were afraid of it. And man assumed it. Lo! he hath proved a tyrant and a fool." (33:72). Man alone was thus given the power to choose between good and evil, to separate the grain from the chaff.

His theomorphic character, combined with Free Will, assigns man to the most distinguished niche in the universe. It also follows that depriving man of his natural freedom is to degrade him below his God-given stature and produce disequilibrium in the social framework. Any such move is, therefore, against the fundamental laws of the universe. Hence the absolute need for maintaining it in any viable social ordering.¹³

(d) *Responsibility*: Within the grand Unity that lords over this universe, man is free. However, his freedom must be counter-balanced by "responsibility", if only to satisfy the dictates of nature's equilibrium. Man, having opted for the power to choose, must logically endure the consequences of this power. The Qur'an is explicit: "Remind (mankind) hereby lest a soul be destroyed by what it earneth." (6:70). The Qur'an warns:

"Say: O mankind! Now hath the Truth from your Lord come unto you. So whosoever is guided is guided, only for (the good of) his soul, and whosoever erreth, erreth only against it. And I am not a warder over you." (10:109).

The effect of the doctrine of responsibility is to curtail man's natural freedom, mainly by placing ethical constraints on his social behaviour.¹⁴ While man cannot be denied his natural freedom, the cult of unbridled individualism is also not allowed by Islam. Even pure logic should convince us that unlimited freedom implies unlimited responsibility, which is a contradiction in terms. At any rate, according to the Qur'an, man can take only limited responsibility: "Allah would make the burden light

for you, for man was created weak." (4:28). It thus follows that his freedom must also be limited.

To summarize, the doctrines of Free Will and Responsibility ultimately merge with the law of universal Equilibrium to create a just and fruitful socio-economic order, within the framework of the all-embracing Unity; and maximize material happiness, without depriving man of spiritual bliss.

THE ELEMENTS OF ISLAMIC ECONOMIC ORDER

A practical Islamic economic system entails three inter-related issues (i) We must clearly identify the specific institutional setting, and the ideological framework wherein a distinctly Islamic economic system must operate. (ii) The economic objectives of such a system need to be clearly defined; and (iii) the policy instruments required to achieve the specified policy objective explicitly stated.¹⁵ Our search for an ethically acceptable solution to these problems must be guided by the axiom system stated above, namely, Unity, Equilibrium, Free Will and the doctrine of Responsibility. These axioms are our objective criteria set: anything that does not satisfy these must be rejected. They should also help us compare the existing economic systems from an Islamic point of view and to determine what can and what cannot be borrowed from other systems. Such an analysis is essential because indiscriminate borrowing from "alien" systems, not in conformity with basic Islamic values, is not permissible: Islam cannot be "modernized" by destroying or eroding its highly distinctive ethical base.

(i) *The Economic-Ideological Framework*

The Islamic system has been variously identified with capitalism, socialism, or even with welfare state, without laying down any explicit criteria by reference to which the legitimacy of these conflicting assertions can be tested. The resulting intellectual ambivalence has obscured the vision of a new Islamic economic order. Within the framework of the axiomatic approach adopted in this study, we shall make an effort to find a more probable answer to this problem.

(a) *Socialism*: Is the Islamic framework socialistic? The temptation is great to give at least a partially affirmative answer. Not only in theory, but also in practice, socialism has come to grips with the problem

of ensuring an equitable distribution of income among various social classes. Furthermore, the institution of private property, and with it the parasitic rentier class of feudal lords, has been effectively routed. The equalization of the opportunities of education, culture, medical care etc., has been carried the farthest in socialistic countries, which were the pioneers, the idea-givers and the practitioners, in this area. In terms of the Islamic axiom system, as far as the distribution of income and wealth is concerned, socialism ensures social equilibrium to a much greater degree than any other system. Furthermore, by mobilizing the labour force effectively for social reconstruction, socialism also satisfies the axiom of responsibility.

And yet the answer to the question is in the negative: socialism does not seem to be Islamic. Firstly, and most importantly, socialism negates the Islamic concept of unity in every possible manner: the notion of the mutual cooperation and brotherhood has been replaced by that of class war. The Qur'an preaches the providential oneness of human society by virtue of their belonging to one religion: "Lo! this, your religion, is one religion, and I am your Lord, so worship Me" (21:92). According to the Islamic message, even the differences of sex, religion and culture are a means to unity, based on mutual understanding: "O mankind! Lo! We have created you male and female, and have made you nations and tribes that ye may know one another." (49:13). Socialism, in sharp contrast, slices up societies into classes to promote mutual hatred and distrust. Even the so-called social equilibrium, the Marxian synthesis, is seen only in terms of cataclysmic turmoil in the passage from a thesis to its antithesis. Furthermore, man's material desires have been totally divorced from his spiritual aspirations. This is again a negation of the Islamic ideal of Unity.

Secondly, while socialism restores equilibrium in the distribution of income and wealth, it effectively destroys the most fundamental equilibrium in the distribution of power, political and economic.¹⁶ Thirdly, thanks to the concentration of all power in the hands of the State—in fact the ruling elite—the axiom of Free Will is also violated in socialistic societies.¹⁷ This is by far the most serious violation of Islam's ethical system. As a result, man is reduced in a socialist order to the degrading level of a cog in a gigantic social machine; and even the mobilization of manpower, in which socialist countries take so much pride, is brought about through draconian measures like concentration camps and the so-called

community projects. Islam stands for a more even distribution of both power and wealth; but it rejects an unnatural degree of harshness in work which snuffs out all leisure and happiness from life. The Qur'an beautifully summarizes the deeply humanistic philosophy of Islam: Thus "Allah would not place a burden on you, but He would purify you and would perfect His grace upon you, that ye may give thanks."(5:6). At the same time, Islam does not tolerate indolence, irresponsibility and sloth: "And that man hath only that for which he maketh effort." (53-39). Even more emphatically: "Whatever of misfortune striketh you, it is what your right hands have earned." (42:30). Thus scapegoats, so popular in socialistic thinking (e.g., the capitalists), find no place in Islamic thinking. In this way, Islam induces an even greater personal responsibility than socialism.

Socialism thus destroys social equilibrium by negating human freedom, and dissipating the essential unity of all living things envisaged by Islam. The conclusion thus emerges: Socialism is not only not near to Islam but is very far removed from it.¹⁸

(b) *Capitalism*: Is capitalism, then, any nearer to the Islamic ideal? One can easily be trapped, at the conceptual level, in the following logical fallacy: Having shown that Islam rejects socialism, one might conclude that capitalism may be nearer to Islam since both reject the same system with great vehemence. This is, however, a very dangerous conclusion. Any Islamic edifice raised on such a fallacious reasoning will be the greatest disservice to Islam. The falsity of such reasoning will become transparent when analysed in terms of the fundamental ethical axioms.

Firstly, like socialism, capitalism also fails to realize the unity of life, by overemphasizing man's material values at the cost of his spiritual aspirations. Indeed, the longing for material acquisitions under a capitalistic order soon degenerates into mammonism. This is bad, because worship of money and lust for material acquisitions dulls human initiative and dries up the well-springs of happiness, which comes from creative work.¹⁹ From an Islamic point of view, such an attitude is a fatal diversion of man's efforts, which should instead be bent to the realization of his theomorphic nature. Hence, the acquisition of money has been reduced considerably in the scale of human values in the Islamic perspective. The Qur'an makes this clear: "Wealth and children are an ornament of life of the world; but the abiding things, the deeds of righteousness, are better in Thy Lord's sight for reward, and better in hope."(18-46).

Secondly, capitalism destroys social equilibrium. It allows wealth to get concentrated in few hands on the grounds that only the rich save and invest. The institution of private property deepens social disequilibrium under capitalism and sets up a vicious circle wherein opportunities for material advancement are pre-empted by the owners of wealth. As pointed out above, the Qur'an rejects the closed circle of wealth getting narrower at each turn: "Wealth does not circulate only among your rich." (59:7). The failure of capitalism to keep social equilibrium also follows from its undue emphasis on competition—indeed, cut-throat competition—as a key to worldly success.²⁰ By contrast, according to Islam, life is a matter of mutual cooperation and personal responsibility.

Thirdly, while capitalism safeguards Free Will, it violates the axiom of Responsibility. True, at the collective level, responsibility is forced on individuals through policies like progressive income taxes and death duties, yet the individual in such societies is almost entirely attuned to grabbing rather than giving. Widespread tax avoidance and tax evasion, hidden from the public eye in a labyrinth of complicated legal systems, attest to this insensitiveness of the individual to collective responsibility. In this respect, socialism does just the reverse of what capitalism practices: it overemphasizes responsibility but destroys human freedom. Islam spurns both these attitudes.

Welfare State Doctrine: The development of the Welfare State doctrine in the West, particularly in England and the Scandinavian countries, was accelerated by the establishment of a Communist state in Soviet Russia. The objective was to save the West from communism. This could be achieved only by curing the main ailments of capitalism. The unorthodox Keynesian remedies—so considered in the mid 30's—focused mainly on state intervention to forestall major economic depressions. Before him, the Cambridge economist Pigou had also 'legitimized' state intervention in cases where market profitability of specific investment projects diverged from its social profitability due to the existence of various "distorting" factors—like monopolies, external economies. Under these circumstances the market mechanism cannot maximize social welfare since market prices no longer reflect their opportunity cost.

This brief review should serve to highlight the middle-of-the-road philosophy of a modern welfare state. Let us examine this philosophy in the light of the Islamic ethical axiom system. It may be noted that, like

capitalism and socialism, a welfare state also fails to ensure the unity of material preoccupations and spiritual pursuits. It is exclusively oriented to material welfare. The general orientation is materialistic because of the secularistic outlook of Western societies.²¹ Such an attitude cannot last, even for a short time, in a society reorganized on the teachings of Islam. It is the only religion in the world which calls attention to the theomorphic nature of man, endowed with free will; and capable of unlimited spiritual distinction by reproducing in his individual life that unity which pervades the entire universe.

However, apart from this vital distinction, welfare state is the only institutional framework which, from among the extant economic institutions in the West, comes closest to the Islamic ideal.

It strengthens social equilibrium by ensuring an egalitarian and democratic social order, by enhancing liberty and honour of the individual, by providing unemployment insurance, universal education and by progressive direct taxation.

(ii) *Economic Objectives of Islamic Society*

We next turn to elucidate the economic objectives of a social order founded on Islamic teachings. Again, the basic criteria of judging the legitimacy of these objectives will be the four ethical axioms explained above.

Social Justice: As pointed out above, social justice is an aspect of universal equilibrium, which forms the cornerstone of Islam's ethical system. It implies guarantees for man's innate freedom, with the concomitant social responsibility. Furthermore, social justice is not only economic justice but requires a simultaneous adjustment in all aspects of human life, as ordained by the axiom of Unity. It follows that a "just" society satisfies all of the fundamental ethical axioms and is, *by definition*, an Islamic society.

Such a society is based on two well-known maxims: it must not only secure "from everyone according to his ability", but also provide "to everyone according to his needs." This general principle forms the basis of a welfare state, but is in complete accord with the Islamic conception of what

