

Islamic Economic Framework

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“Believers, when you are summoned to Friday prayers, hasten to the remembrance of God and cease your trading. That would be best for you, if you but knew it. Then, when the prayers are ended, disperse and go your ways in quest of God’s bounty. Remember God always, so that you may prosper.”

Qur’an, 62:9-10

Worship and commerce go
hand in hand.

“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*

As a religion, Islam offers three definitive and broad principles of economic organization of a society evolved in the initial phase of Islamic history.

- Principle of Ownership
- Principle of Wealth Creation
- Principle of Wealth Circulation

Islam & Economics: A Primer on Markets, Morals and Justice

Principle of ownership: Natural Resources as Public Property

- *It was God who created the heavens and the earth. He has sent down water from the sky with which He brings forth fruits for your sustenance. He has subdued the ships which by His leave sail the ocean in your service. He has subdued the rivers for your benefit, and subdued for you the sun and the moon, which steadfastly pursue their courses. And He has subdued for you the night and the day.*

Qur'an 14: 32-34

- *“Water, fire and grass belong to the community.”*

Hadith, Sunan Abu Dawood

Principle of ownership: Sanctity of Private Property Rights

- *“Your capital assets belong to you. You shall neither be unjust nor be the victims of injustice.” (Quran 2:279)*
- *“Did they not see that We created for them, by Our hands, livestock of which they are the owners.” (Quran 36:71)*
- *“Your lives and your properties are forbidden to one another until you meet your Lord.”*
Hadith (Last Sermon)

Private property rights extends to categories like dwellings, capital, plant and equipment, livestock etc. As long as the ownership is rightful and legitimate, it is absolute.

Principle of wealth creation

- *Believers, do not consume your wealth among yourselves in vanity, but rather trade with it by mutual consent. (Qur'an 4:29)*
- *Profit earned depends on the degree of risk assumed.*

Hadith, Sunan Abi Dawood

Principle of wealth circulation

- *It is we who deal out to them their livelihood in this world, exalting some in rank above others, so that one may take the other into his service. (Qur'an: 43:32)*
- *[The spoils] shall not become the property of the rich among you. (Quran 59:7)*
- *And from their properties, was [given] the right of the (needy) petitioner and the deprived.*

Qur'an: 51: 19

Islamic Economic Framework

Price Freedom

Zero/Low Tariffs

Low & Flat taxes

Waqf-Social Protection

Law of Inheritance

Islamic Finance

Gold Currency


Business Regulations

No price control but strong regulations

- *At the time of the Messenger of God, the market price rose in Madinah. The people said, "O Messenger of God, fix the price." He (refused and) replied, "God is the taker and the disposer, the provider, and the controller of prices. I hope that when I meet Him none of you will have a claim against me for an injury concerning life and property."*

Al-Tirmidhi, Vol. 3, P-597, Abi Dawood, Vol. 3, P-272

- **The Institution of 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.
- Prophet established a market after masjid, and it had no tariffs.




Financing is
permissible,
interest on cash
loans is not.

- What is Riba (usury)?
 - It is an additional money over a loan and fixed *ex ante*.
 - It is tied to the time period and the amount of the loan.
 - Its payment is guaranteed regardless of the outcome or the purposes for which the principal loan was borrowed.
- The main objection is that unlike trade, which always has an element of risk, there is no risk in a Riba transaction for the lender. Quran distinguishes trade from Riba.
- We maintain a distinction between Riba and interest.
- “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.” (Jamia Azhar)




Islamic fiscal
policy ensures a
limited
government.

- Islam legitimizes only two forms of tax revenue: *zakat* and land use tax.
- Zakat can be normally understood as a flat, mildly progressive tax collected as 2.5% of value of assets including on gold, silver, cash, savings, investment, rental income, business merchandise and profit, shares, securities, and bonds. It can also be imposed on incomes.
- Zakat is distinct from Sadaqah or voluntary giving.
- It ranges from 2.5% to 20%.
- Islamic law considers the following as the exemptions from *zakah*.
 - tools of production, trade and business
 - personal items of daily use
 - a fixed quantity called *nisab* which can be understood as threshold below which zakah is not collected
 - *Current nisab: US\$ 3,849*



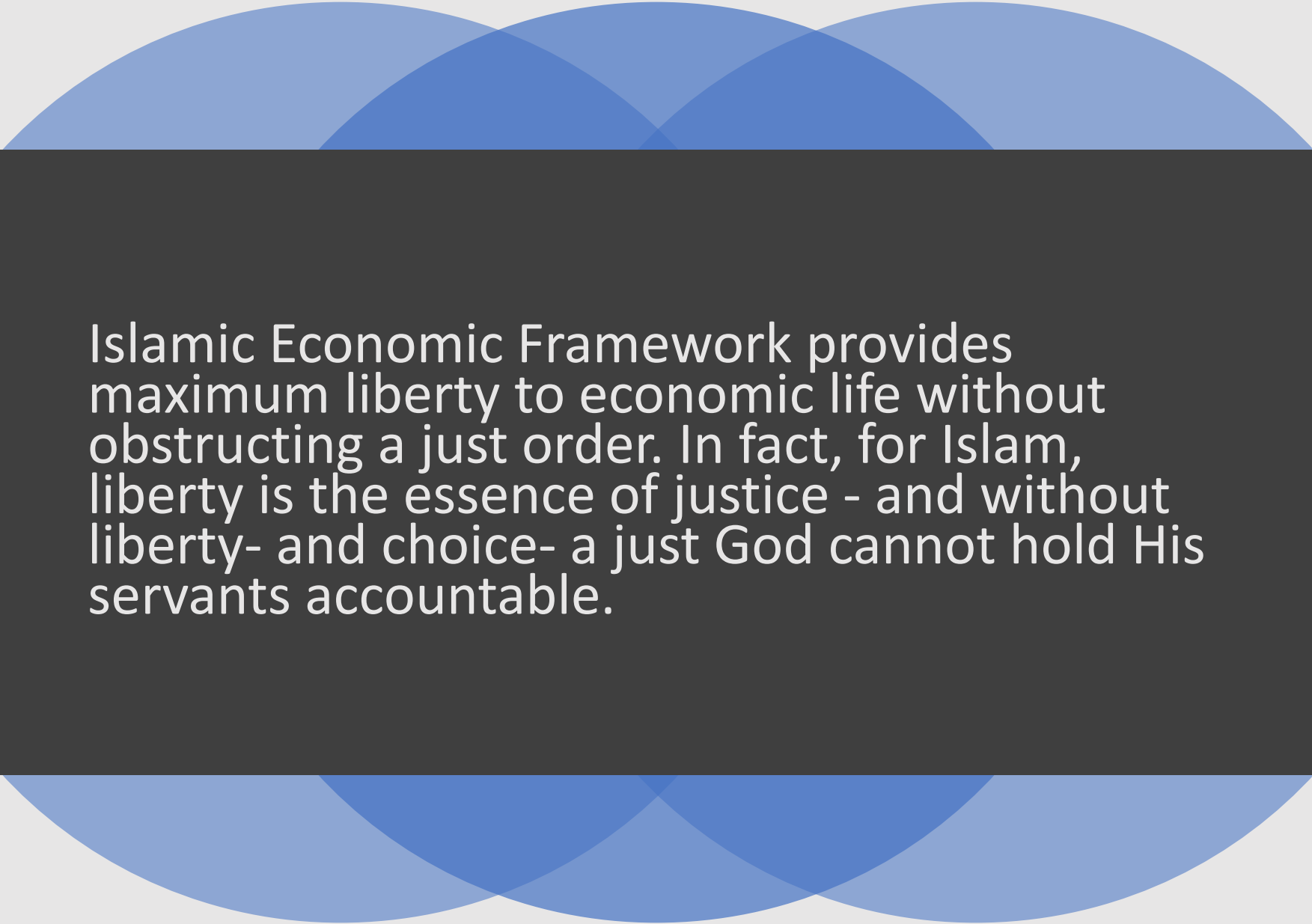
Islam prefers a gold backed currency over fiat for its relative stability.

- 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.
- Hoarding of gold is not permissible.
- Money creation through frictional reserve banking allows banks to create money.



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.
- It is remarkable to note that while the Qur'an has only described broad principles about economic policy, it has mentioned an explicit formula of distribution of inheritance.



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.