**POLITICAL and ECONOMIC SYSTEMS**

Human Thoughts

And

Islamic Concepts

By

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*“Corruption has appeared throughout the land and sea*

*by [reason of] what the hands of people have earned*

*so He [Allah] may let them taste part of [the consequence of]*

*what they have done that perhaps they will return [to righteousness].”*

*(Ar-Rum, 30:41).*

AUTHOR’S PREFACE

Governance regimes originated with the need to protect people from conflicts among people, outside attack, and economic disarray. For a government to realize protection, it has to achieve three goals;

* Justice to protect people from conflicts.
* Security to protect the society from outside attack.
* Prosperity to protect citizens from economic disarray.

People discovered that protection was easier if they stayed together in groups and if they all agreed that some in the group should have more power than others. Governments evolved at the expense of the right of equality amongst people.

In general, present governance regimes failed to achieve its goals of protection;

* Protection from conflicts. In practice, principle of separation of authorities is not fully respected. The Head of the executive branch is the head of government. Since executive branch has full authority to manage internal safety, oversee police forces, enforce laws, and provide financial means, independency of the judicial branch becomes questionable.

Punishment laws are not so effective that people would choose not to commit the crime rather than experience the punishment. Imprisonment is regarded as an effective form of punishment. On the contrary, imprisonment means the loss of liberty which is guaranteed by constitutions. Contribution of prisoners in building the society is lost. Innocent people pay cost of imprisonment. Imprisonment does not match the crime.

* Protection from outside attack. Hardly a week goes by without an act of outside attack taking place somewhere in the world. Wars and terrorism continues to inflict pain and suffering on people all over the world.
* Protection from financial disarray. Financial distress is increasing. The rate of poverty is growing. Corruption is going on around the world.

Failure to realize required protection makes it necessary to review the foundations on which present governance regimes are based and look for establishment of a fair governance regime. No doubt that a system based on principles set by the Creator of people is the best for all societies.

In general, all religions handled issues related to governance, but Islam has set constant comprehensive concepts and rules for establishment of a fair governance regime which suits all people in different times and places *“We have sent down to you the book (Qur’an) for mankind in truth” (Az-Zumar, 39: 41).*

Unlike present systems which are based on human thoughts, Islamic systems are based on Islamic beliefs;

* Allah is the Only Creator

Allah creates all things such as the heavens, the earth, natural resources, plants, and animals. *“Such is Allah, your Lord! none has the right to be worshipped but He, the Creator of all things” (Al-An’am 6:102).*

Allah creates people *“O mankind! Be dutiful to your Lord, Who created you from a single person and from him He created his wife, and from them both He created many men and women” (An-Nisa 4:1).*

* Allah is the Only Owner

Allah is the only Owner of all creatures, *“Unto Allah belongeth the Sovereignty of the heavens and the earth and whatsoever is therein.” (Al-Maeda 5:120)*.

* People are created to worship Allah

Worshiping includes living according to the rules set by the Creator of people in order to make people happy in their temporary life on earth as well as in their endless life in the Hereafter. *“And I created not the jinn and mankind except that they should worship Me” (Adh-Dhariyat 51:56).* The rules are stated in the Holy Qur’an. The Holy Qur’an is the constitution of Muslims *“This book, whereof there is no doubt a guidance to those who are the pious believers“(Al-Baqarah 2:2)*. The rules were conveyed by His Messenger (Pbuh) “*And the duty of the Messenger is only to convey the Message plainly” (Al-Ankabut 29:18).*

People are requested to follow the Qur’anic rules that govern political, social, economic, and all other living affairs. Those who follow the rules are successful *“They are in guidance from their Lord, and they are the successful.” (Al-Baqarah 2:5).* Those who transgress the limits are looser *“And whosoever disobeys Allah and His Messenger, and transgresses His limits, He will cast him into the fire” (An-Nisa 4:14).* Acts of both followers and transgressors are subject to the will of Allah Who give them the power to act *“And you cannot will unless it be that Allah wills” (At-Takwir 81:29).*

In practice, a governance regime includes two major systems; political system which refers to the form of government and government institutions in addition to economic system.

**POLITICAL SYSTEM**

Introduction

Every country in the world is ruled by a government. Constitution is a set of fundamental principles according to which a state is governed. Since it represents a contract between people and government, it should define the nature and extent of government, prescribe who has what powers and what responsibilities, and regulate the relationship between government institutions. Since governors are given more power than others, the constitution should regulate the relationship between government and individuals in order to prohibit obstructing the exercise of individual freedoms. Since personal freedom is restricted by the freedom of others, the constitution should regulate personal freedom based upon equality among people as humans.

Since its functions are limited to protect people, a government is not authorized to restrict the personal freedom for reasons related to religion, beliefs, customs, speech, social traditions, or any other reason as long as his action does not cause harm to him or others.

Islam recognizes the need of people to be protected *“(He) who has fed them against hunger, and has made them safe from fear” (Quraish 106:4)*

The Holy Qur’an is the constitution of Muslims *“This [Qur'an] is enlightenment for mankind and guidance and mercy for a people who are certain [in faith] (Al-Jathiyah 45:20), “And whosoever dose not judge by what Allah has revealed, such are the disbelievers” (Al-Ma’idah 5:44).*

Believing in the Only God ensures freedom of people *“And I created not the jinn and mankind except that they should worship Me” (Adh-Dhariyat 51:56).* The Prophet (Pbuh) said:*”There is no obedience in matters involving disobedience to Allah” (Sunan Abi Dawud 2625).*

The orders stated in the Holy Qur’an limits personal freedom *“These are the limits [set by] Allah , and whoever obeys Allah and His Messenger will be admitted by Him to gardens [in Paradise] under which rivers flow, abiding eternally therein; and that is the great attainment” (An-Nisa 4:14).*

According to the Holy Qur’an, people are equal during their life in the world, but consciousness of Allah is considered in the Hereafter *“the most noble of you in the sight of Allah is the most conscious of Allah” (Al-Hujurat 49:13).*

With regard to the form of government, the analysis shows the impacts of the political system on the structure and the role of government, illustrates the related concepts and guidelines of Islam, and introduces an alternative form of government based on Islamic rules.

**FORM OF GOVERNMENT**

Each government has an official form. A form of government refers to the set of political systems and institutions that make up the organization of a specific government.

Identifying a form of government is complicated. Depending on the style of the head of state, states are distinguished as monarchy or republic. Regardless of the form of government, the actual governance is made by appointed individuals, elected persons, or political power;

* An appointed individual is chosen by the head of state or the head of government. Choices are limited within those who are known by the appointment authority. In most cases, the appointee is given position of authority because of his capability to realize interest of the appointment authority.
* An elected person is elected by voters. The elite is given position of authority to serve the political party that supports his election campaign. Since capturing power is the aim of each political party, electioneering is carried out with money. Since not all eligible voters cast votes, the majority party may not represent the majority of eligible voters. Election is neither fair nor free.
* The actual governance may be influenced by sectors with political power, which are not part of the formal government. Financial institutions, corporations, relatives of those in power, or foreign creditors may control the governance regime.

Present governments do not safeguard the interests of all people. Positions of authority are given to those who serve the interest of the appointment authority or the political party. When actual governance is influenced by sectors with political power, decisions are made to safeguard the interests of those sectors.

Qualifications of decision makers become irrelevant because present governments give emphasis on loyalty to the appointment authority or the political party, Appointed and elected members of the legislative authority take decisions not related to their qualifications. A medicine doctor votes for a decision regarding agriculture. An engineer votes for a decision regarding the public budget.

At present, authority of government is distributed among three separate branches. The legislative branch is the decision-making branch of government. It makes and amends laws, authorizes public spending, observes and steers governing actions, and has sole power to declare war. The executive branch enforces the laws and executes the spending authorized by the legislative branch. The judicial branch interprets the constitutions and laws and oversees the court system.

The constitution prescribes responsibilities of government institutions. Since every country has its own constitution, functions of government institutions differs according to the principles set by the constitution of the state.

Failure to realize the objectives of governance regime makes it necessary to review the foundations on which present political systems are based and look for establishment of a fair political system.

**Form of government in light of the Holy Qur’an**

The Holy Qur’an introduces different political system and sets guidelines with regard to the functions of government institutions.

**Political System**

Islam urges for unity and not to be divided into parties or groups *“And hold fast, all of you together to the rope of Allah and be not divided among yourselves” (Al Imran 3:103).*

The Holy Qur’an, introduces “Shura” as the legalized Islamic governance system *“and whose affair is [determined by] consultation among themselves” (Ash-Shura 42:38).* Shura differs from present human-made systems of governance. Differences are as follows;

* Shura is a consultative decision making system. It is not an advisory system. The word “consultation” in the verse does not mean just giving advice or opinion. After consultation, the Shura board takes decisions.
* Shura emphasizes specialization. Since the word “affair” is singular, a separate Shura board is to be established for each field of specialization. Shura board of engineers may not discuss issues related to accounting.
* Shura gives emphasis to qualifications. The practice of the Prophet (Pbuh) and the rulers just after the death of the Prophet (Pbuh) showed that the word “themselves” refers to some selected persons who are the best among people and known by Muslim jurists as “Ahl Al Hel Wal Aqd”. Scholars said those people should have some qualities, such as justice, knowledge, opinion and wisdom.
* Shura recognizes the limitation of capability of the member of Shura board. A member of Shura board should have capability to provide honest, faith and efficient opinion. Efficiency requires high level of theoretical knowledge, and practical experience in the field of consultation. An accountant cannot be a member in shura board regarding defense.
* Shura recognizes the limitation of capability of the one who selects the member of Shura board. Those who select members of Shura board should have sufficient knowledge about the qualifications of their representatives in the board. Thoroughly knowledge about qualifications of the member of Shura board is required. A financial specialist may not be selected by an engineer.

The sayings of the Prophet (Pbuh) show guidelines for proper employment policy. “*It has been narrated by Abu Musa who said: Two of my cousins and I entered the apartment of the Holy Prophet (Pbuh). One of them said: Messenger of Allah, appoint us a ruler of some lands that the Almighty and Glorious God has entrusted to thy care. The other also said something similar. He said: We do not appoint to this position one who asks for it nor anyone who is covetous for the same” (Sahih Muslim Book 33:17).*

**Government institutions**

The Holy Qur’an sets principles and rules regarding functions of government institutions.

Guidelines for Justice

The Holy Qur’an emphasizes justice and forbids whatsoever acts that may lead to avoidance of justice;

* *“and that when you judge between people, you judge with justice” (An-Nisa 4:58).*
* *“And mix not truth with falsehood” (Al-Baqarah 2:42).*
* *“nor conceal the truth while you know” (Al-Baqarah 2:42).*
* *“And most of them follow nothing but conjecture” (Yunus 10:36).*
* *“Guess is no substitute for the truth” (An-Najim 53:28).*
* *“So follow not the lusts (of your hearts), lest you avoid justice” (An-Nisa 4:135).*
* *“Stand out firmly for justice, as witnesses to Allah, even though it be against yourselves, or your parents, or your kin, be he rich or poor, Allah is better protector to both” (An-Nisa 4:135).*
* *“Stand out firmly for Allah as just witnesses; and let not enmity and hatred of others make you avoid justice” (Al-Maidah 5:8).*
* *“and if you distort your witness or refuse to give it , verily, Allah is Ever Well-Acquainted with what you do” (An-Nisa 4:135).*
* *“No doubt! The curse of Allah is on oppressors” (Hud 11:18).*
* *“Allah does not forbid you from those who do not fight you because of religion and do not expel you from your homes - from being righteous toward them and acting justly toward them. Indeed, Allah loves those who act justly” (Al-Mumtahanah 60:8).*

The Holy Qur’an sets effective rules for punishment:

* In case of bodily harm;

Islam introduces the law of equality in punishment (Al-Qisas) *“And there is (a saving of) life for you in Al-Qisas, O people of understanding” (Al-Baqarah 2:179).*

*“And We ordained for them therein a life for a life, an eye for an eye, a nose for a nose, an ear for an ear, a tooth for a tooth, and wounds equal for equal, But whoever gives [up his right as] charity, it is an expiation for him” (Al-Ma’idah 5:45).*

* In case of corruption;

*“Indeed, the penalty for those who wage war against Allah and His Messenger and strive upon earth [to cause] corruption is none but that they be killed or crucified or that their hands and feet be cut off from opposite sides or that they be exiled from the land” (Al- Ma’idah 5:33).*

* In case of thievery;

*“[As for] the thief, the male and the female, amputate their hands in recompense for what they committed as a deterrent [punishment] from Allah” (Al- Ma’idah 5:38).*

* In case of affliction;

*“And if you punish, then punish with the like of that with which you were afflicted. But if you endure patiently, verily, it is better for the patient” (An-Nahl 16:126).*

* In case of fornication

*“The fornicatress and the fornicator, flog each of them with hundred stripes. Let not pity withhold you in a punishment prescribed by Allah, if you believe in Allah and the Last day. And let a party of the believers witness their punishment” (An-Nur 24:2).*

*“And those who accuse chaste women, and produce not four witnesses, flog them with eighty strips, and reject their testimony forever” (An-Nur 24:4).*

Guidelines for defense

* *“Fighting has been enjoined upon you while it is hateful to you. But perhaps you hate a thing and it is good for you” (Al-Baqarah 2:216).*
* *“And make ready against them all you can of power, including steeds of war to threaten the enemy of Allah and your enemy and others besides whom you may not know but whom Allah does know” (Al-Anfal 8:60).*
* *“And fight in the way of Allah those who fight you, but transgress not the limits. Truly, Allah likes not the transgressors” (Al-Baqarah 2:60).*
* ***“****But if they incline to peace, you also incline to it” (Al-Baqarah 2:61).*
* *“And if two factions among the believers should fight, then make settlement between the two. But if one of them oppresses the other, then fight against the one that oppresses until it returns to the ordinance of Allah, and if it returns, then make settlement between them in justice and act justly” (Al-Hujurat 49:9).*

Guidelines for economy

* *Islam introduces productive economy “Eat not up your property among yourselves unjustly except it be a trade amongst you” (An-Nisa’. 4:29).*
* *With regard to natural resources, it was narrated from Ibn Abbas that the Messenger of Allah (Pbuh) said: “The Muslims are partners in three things: water, pasture and fire, and their price is unlawful.” (Sunan Ibn Majah, Hadith 2472).*
* *The Holy Qur’an recognizes the right of living “Verily, you have that you will never be hungry therein (118), and you will suffer not from thirst therein nor from the sun’s heat (119)” (Taha 20).*
* *Spending is subject to moderation “and waste not by extravagance“(Al-An’am. 6:141). “And let not those who covetously withhold of that which Allah has bestowed on them of His Bounty think that it is good for them” (Al-Imran 3:180).*

Guidelines for public affairs

* *“And do not do mischief on the earth, after it has been set in order” (Al-A’raf 7:56).*
* *“And say, "Do [as you will], for Allah will see your deeds, and [so, will] His Messenger and the believers.” (At-Taubah 9:105).*
* *“Allah burdens not a person beyond his scope” (Al-Baqarah 2:286).*
* *Since a sound education system must be addressed for teaching values and good character, many verses of the Holy Qur’an and the sayings of the Prophet (Pbuh) gives emphasis to social and professional values.*

Guidelines for foreign affairs

* *“O mankind, indeed We have created you from male and female and made you peoples and tribes that you may know one another. Indeed, the most noble of you in the sight of Allah is the most righteous of you” (Al-Hujurat 49:13).*
* *“O you who believe! Fulfill [your] obligations” (Al-Maida 5:1).*
* *“Let not believers take disbelievers as allies rather than believers” (Al-Imran 3:28).*
* *“Allah only forbids you from those who fight you because of religion and expel you from your homes and aid in your expulsion - [forbids] that you make allies of them (Al-Mumtahanah 60:9).*

Guidelines for religious affairs

The Holy Qur’an emphasizes freedom of religion and belief;

* *“There is no compulsion in religion” (Al-Baqarah 2:256).*
* *“And we are not responsible except for clear notification” (Ya-Sin 36:17).*
* *“Indeed, We sent down to you the Book for the people in truth. So whoever is guided - it is for [the benefit of] his soul; and whoever goes astray only goes astray to its detriment. And you are not a manager over them” (Az-Zumar 39:41).*
* *“Invite to the way of your Lord with wisdom and good instruction, and argue with them in a way that is best (An-Nahl 16:125).*
* *“But if they turn away - then We have not sent you, [O Muhammad], over them as a guardian; upon you is only [the duty of] notification” (Ash-Shura 42:48)*

**Presentation of an alternative form of government**

In light of the verses of the Holy Qur’an, and in compliance with the principle of separation of powers the structure of government is divided into three separate branches;

1. Executive branch

In general, the function of executive branch is limited to enforce laws and execute plans as approved by the National Assembly. The Head of executive branch passes bills to the Head of state with copy to the National Assembly. Executive branch is divided into eight departments:

* Department of Justice is responsible for internal security and court system.
* Department of defense is responsible for external security and defense system.
* Department of economy is responsible for financial security and economic system.
* Department of public affairs provides public health care, public education, and public services.
* Department of foreign affairs manages foreign relations and oversees diplomatic services.
* Department of religious affairs oversees all matters related to all religious places, researches, and services. Religious services include services of marriage, divorce, and death.
* Department of finance raises funds, provides financial services, and manages government budget.
* Department of bills writes and revises bills, international agreements, amendments of constitution.

Each department is divided into several divisions as needed. Heads of divisions of a department constitute the Department Cabinet. The Head of department Cabinet is the Head of executive branch.

1. Planning branch

Planning branch sets medium and long term plans for development and national security. The Head of planning branch submits plans to the Head of state with copy to the National Assembly. Planning branch is divided into several departments. Each of them set plans for correspondent executive department. Heads of departments constitute the Department Cabinet. The Head of department Cabinet is the Head of planning branch.

1. Control branch

Control branch controls daily activities of executive departments. The Head of control branch reports to the Head of state with copy to the National Assembly. Control branch is divided into several departments. Each of them controls correspondent executive department. Heads of departments constitute the Department Cabinet. The Head of department Cabinet is the Head of control branch.

Heads of Branches constitute the National Cabinet. The Head of National Cabinet is the Head of government. He resolves disagreements between government institutions.

The Head of state represents the country at the international level, revises reports of control branch, and passes bills and plans, if in compliance with the national constitution, for final approval by the National Assembly.

National Assembly controls performance of government branches, peruses reports received from Head of control branch, accepts or rejects bills, plans received from the head of state.

Since the objective of any sound governance regime is to safeguard the interest of all people, formation of government should be based on giving positions of authority to select group of highly qualified representatives. Selection is the mechanism by which positions of authority are filled in the alternative representative form of government.

In order to select honest and efficient decision makers, designation should be based on having sufficient knowledge about qualifications of representatives. For having such knowledge, eligible members of the society should be divided into groups according to professions. Each group makes a professional union. In order to facilitate the process of selection, every member should submit a profile of his qualifications, experiences, and vision.

Members of each professional union have the right and duty to select and change their representatives in the National Assembly. Number of representatives of a union reflects number of members of the union in proportion to number of members of National Assembly. Number of members of National Assembly reflects a certain percent of number of members of all unions.

Members of National Assembly have the right and duty to select and change the Heads of divisions, Heads of departments, Heads of branches, Head of government, and Head of National Assembly.

Structure of the alternative representative form of government

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|  | | | | | Head of Government | | | |  | | | | | | | |
|  |  |  | | | |  | | | | | |  | |  | | |
| Head  Of  Planning  Branch |  |  | | Head of Executive Branch | | | | | |  | |  | Head  Of  Control  Branch | | | |
|  |  | | | |  | | | | | |  |
|  | Dept.  Of  Justice | Dept.  Of  Defense | Dept.  Of  Economy | Dept.  Of  Public  Affairs | Dept.  Of  Foreign  Affairs | | | Dept.  Of  Religious  Affairs | Dept.  Of  Finance | Dept.  Of  Bills |  |
| Depts.  Justice  Defense  Economy  Public af.  Foreign  Religious  Finance  Bills |  | Divisions  Prosecution  Investig-ation  Defense  Police  Civil  Criminal  Tax  Traffic  Military  Etc…. | Divisions  Army  Navy  Air Force  Missiles  Intellige-  nce Services  National  Security  Colleges  Etc…. | Divisions  Industry  Agriculture  Trade  Tourism  Construc-  tion  Exports  Imports  Environ-ment  Standards  Etc…. | Divisions  Education  Health  Care  Training  Research  IDs  Statistics  Media  Licenses  Etc…. | Division  Protocol  Diplomacy  Foreign  Policies  Embassies  Foreigners  Intelligence  International  Regional  Etc…. | | | Divisions  Islam  Christianity  Judaism  Beliefs  Holy places  Birth  Marriage  Divorce  Death  Inheritance  Etc…. | Division Budget  Spending  Revenue  Trade  Bal.  Pay. Bal.  Taxes  Central- Bank  Financial  Institute-  ons  Etc…. | Divisions Civil  Criminal  Tax  Traffic  Military  Comm-  ercial  Constit-  ution. |  | Depts.  Justice  Defense  Economy  Public af.  Foreign  Religious  Finance  Bills | | |
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| National Assembly | | | | | | | | | | | | | | | | |
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**ECONOMIC SYSTEM**

Introduction

Economics studies the many activities undertaken in relation to wealth. Those activities include;

* Economic activities by which the material wants of a community are satisfied.
* Exchange activities by which those wants are exchanged for income.
* Redistribution activities by which national income is redistributed among the members of the society.

Economic activities, exchange, and redistribution activities take place in the framework of an economic system. Prosperity is the main objective of any sound economic system. It is the material contributor to happiness which sums up people’s attainments from living. For a society to realize prosperity, it has to achieve three goals;

1. To reach an optimal level of output growth that maintains full employment and satisfies the economic requirements of the community.
2. To provide sufficient funds in order to facilitate exchange of products. Products are normally exchanged for money. Nowadays, barter deals represent very few exceptions.
3. To sustain individuals at or above a specified material standard of living, and to provide sufficient funds to cover the deficit in government’s budget.

At present, socialism, capitalism, mixed economic system, and Islamic system are the most popular economic systems.

1. Socialism

Socialism denotes an economic system of state or worker ownership of the means of production and distribution. Abolishment of the rights of private ownership and economic freedom leads to management of means of production by bureaucracy. Since the money incentive is lost, bureaucracy results into inefficiency and low production. Mainly, the lack of motivation of profit is responsible for the failure of the socialist planned economies.

1. Capitalism

In theory, capitalism is an economic system which is characterized by private ownership of the means of production, and unrestricted economic freedom. In practice, capitalism leads to concentration of wealth in few hands, earning of wealth through foul means, destruction of minor enterprises and bursting of financial bubbles.

1. Mixed economic system

In mixed economic systems governments hold state ownership of major and economically vital industries while permitting capitalism to continue in the rest.

1. Islamic economy

In practice, what is so called Islamic economic system is a new look of capitalism. The word “Interest” is replaced by the word “Profit”. Treasury bills and bonds are replaced by Islamic certificates called “Sokuk”. Credits based on lending money are replaced by credits based on selling assets. Traditional fiscal policies are employed to control prices, wages and taxes. Traditional monetary policies are applied to control quantity of money. Redistribution policy is based on welfare programs.

In spite of the fact that each of present economic systems has its own features, they share same common characters. They are inflationary systems. They adopt the same monetary system. Financial activities represent an integral part of economic activities.

Present economic systems failed to realize prosperity. A relatively small number of individuals and corporations control huge pools of capital. The rate of poverty is growing. Corruption is going on around the world. Public expenditures and public debts are growing rapidly. Pressure for increased wages mounts to keep up with consumer prices. Unemployment rate rises. Almost all countries have been badly affected by financial crises. Alcoholism, families breaking up and increased criminal rate, public demonstrations, political instability and revolutions represent additional costs of financial distress and economic instability.

Failure to realize prosperity makes it necessary to review the foundations on which present economic systems are based and look for establishment of a fair economic system.

With regard to economy, the Holy Qur’an precisely states prohibited acts, permitted acts, and sets rules to regulate legalized acts. Taking into consideration the complexity of recent economies, different approach has been taken to identify economic topics and to understand the verses of the Holy Qur’an which controls present macroeconomic issues. This explains the different presentation of Islamic economy in comparison with what was introduced by other researchers.

The analysis proceeds in three parts. Each part introduces a different type of activities; economic activities, exchange activities, and redistribution activities. It explains how present economic principles are implemented, highlights the pitfalls in economic thinking, clarifies the related ideological concepts of Islam, and illustrates how Islamic rules can be put into practice.

**PART 1**

**Economic Activities**

Economic activities are the subject matter of economics. They refer to the activities undertaken in order to produce wealth. The ultimate objective of economic activities is to generate income.

In addition to the productive activities which aim to satisfy the wants of a community by the creation of economic products, present economic activities include financial activities which are not directly related to production.

The analysis in this part proceeds in three chapters;

Productive activities

&

Financial activities

&

Economic activities in light of the Holy Qur’an

CHAPTER 1

**Productive Activities**

Productive activities include all types of activities which result in the transformation of raw material into products, adding value to available products, and moving products to a different time or place, in addition to the provision of private and public services. Agriculture, industry, telecommunication, transportation, and software programming are some examples of productive activities. Economic products include assets, goods, and services.

Islam legalizes productive activities *“Eat not up your property among yourselves unjustly except it be a trade amongst you” (An-Nisa’. 4:29).* Literally the word “Trade or Trading” in the Holy Qur’an refers to all types of productive activities.

**Production**

Production is the process of converting inputs into outputs. A miner excavates raw material, a factory transforms raw material into products, a labor provides physical or mental efforts, a retailer adds marketing services to products, and a doctor offers professional services.

Processes of production are designed to satisfy a community’s wants. Production may be directed toward the creation of consumers’ goods (such as food and clothes) for final consumption in order to satisfy immediate wants, or the creation of producers’ goods (such as buildings, roads, machineries, and vehicles) for use in further production.

Islam legalizes producing consumers’ goods *“O mankind! Eat of that which is lawful and good on the earth” (Al-Baqarah. 2:168),* as well as producers’ goods *“And remember when He made you successors after ‘Ad people and gave you habitations in the land, you build for yourselves places in plains, and crave out homes in the mountains.”(Al-A’raf.7:74).*

The Holy Qur’an sets rules to regulate production processes;

* Islam prohibits producing or selling some goods such as alcoholic drinks *“O you who believe! Intoxicants and gambling, and Al-Ansab, and Al-Azlam are abomination of Satan’s handiwork. So avoid that” (Al-Ma’idah 5:90),* and some specific kinds of meats *“Forbidden to you are: Al-Maitah, blood, the flesh of swine, and that on which Allah’s Name has not been mentioned, and that which has been killed by strangling, or by violent blow, or by a headlong fall, or by goring of horns, and that which has been partly eaten by a wild animal unless you are able to slaughter it, and that which is sacrificed on an-Nusub” (Al-Ma’idah 5:3).*
* Islam forbids environmental mischief and pollution, *“And when he turns away, his effort in the land is to make mischief therein and to destroy the crops and the cattle, and Allah likes not mischief” (Al-Baqarah 2:205),*

**Factors of production**

Factors of productionare the inputs to the production process. Most economists classify the factors of production under four headings; Land, Labor, Enterprise, and Capital, giving to each heading a special meaning that do not correspond with ordinary usage of the word.

* Land is used in a special sense which includes all natural resources such as minerals and climate.
* Labor refers to physical or mental effort directed at production.
* Enterprise or organization refers to some functions such as planning, management, and the bearing of investment risk.
* The term capital refers, in general, to wealth used to produce further wealth such as machines and premises.

According to their classification, money is included in capital. Giving such extraordinary meanings initiates a lot of controversy about the concept of money and its value.

The factors of production are rewarded. Rent is the return to land, wages are the return to labor, profit is the return to enterprise, and interest is the return to capital.

Human and natural resources represent the primitive factors of production. Natural resources are some of the free graces provided by Allah *“See you not that Allah has subjected for you whatsoever is in the heavens and whatsoever is in the earth” (Luqman 31:20).* The production process requires the combination of labor and materials. The combination cannot be achieved unless an investor is willing to bear investment risk. Accordingly, the real factors of production in Islam include material, labor, and investment risk.

* Material: Out of natural resources, only discovered, dominated, and extracted materials may be exploited in production. The Holy Qur’an legalizes the use of material which comes out of natural resources. “*And We have given you (mankind) power in the earth, and appointed for you therein livelihood. Little give ye thanks!”(Al-Araf 7:10).* Actual cost of material should be paid in full, as rent for benefits, or as return for depreciation *“whereas Allah has permitted selling” (Al-Baqarah. 2:275).*
* Labor: Only labor force out of human resources may be employed for production. The Holy Qur’an legalize manual labor *“And he was building the ship” (Hud 11:38).* Also, Islam legalizes intellectual labor *“He said: Set me over the storehouses of the land. Lo! I am a skilled custodian.” (Ysuf 12:55).* Wages are the legalized return to labor *“It was narrated from Abdullah bin Umar that the Messenger of Allah (Pbuh) said: Give the worker his wages before his sweat dries” Sunan Ibn Majah, English reference: Vol. 3, Book 16, Hadith 2443.*

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* Risk: An investor bears investment risk. Profit is regarded as reward given to investors for the hardship of bearing investment risk and for their contribution to the production process. Profit is the ultimate aim of trade. *“Eat not up your property among yourselves unjustly except it be a trade amongst you” (An-Nisa’. 4:29).* Trade is introduced as an exception to the rule of respecting private properties because it involves profit or loss.

Money is not an input to the production process. Money has to be transformed into material or labor in order to be included as a factor of production. In practice, interest is the return for lending money. Islam prohibits interest *“whereas Allah has permitted selling and forbidden Riba” (Al-Baqarah. 2:275).*

**Scarcity of resources**

Resources include natural and human resources. Economists urge that scarcity of resources is the basic economic problem as wants are innumerable but the resources for satisfying those wants are limited.

The World Bank, World Development Indicators updated Jul 28,2011shows world output growth in comparison to world population growth for the years 1985, 1990, 1995, 2000, and 2005. While the growth rates of world population were 1.7%, 1.7%, 1.5%, 1.3%, 1.2% respectively, the growth rates of world gross product were 3.9%, 3.0%, 2.9%, 4.3%, 3.6% respectively.

The excess of the world output growth over the world population growth provides evidence that scarcity of resources is not exist on the global level, and raises an issue of overutilization of global resources.

On the contrary of what economists believe, following four verses of Holy Qur’an emphasizes the abundance of resources in quantity and quality

*“And We have provided therein means of living” (Al-Hijr 15:20),*

*“And no moving creature is on earth but its provision is due from Allah” (Hud 11:6).*

*”and caused to grow therein all kinds of things in due proportion”(Al-Hijr 15:19),*

*“And there is not a thing, but with Us are the stores thereof. And We send it not down except in a known measure.”(Al-Hijr15:21),*

Economic possibilities of a society refer to the available resources which include capital goods, raw materials, knowledge, and skills in addition to natural and human resources. Resources that can possibly be imported from abroad to compensate the shortage in raw material, technology, products or labor force can be considered as part of national economic possibilities.

On the national level, economic possibilities of the society restrict its growth. The collection of available resources may differ from the resources needed for satisfying the requirements of the community. But, this problem can be solved through international exchange of resources and products.

The Holy Qur’an legalizes international trade *“and made you nations and tribes, that you may know one another” (Al-Hujurat 49:13).*

**Management of resources**

In order to realize prosperity, on the national level, a society must be able to utilize its resources in order to produce at least a certain minimum amount of all goods required for attaining at least a minimum level of prosperity. Failure to realize the optimal output growth raises some managerial problems;

1. Product mix

A society may succeed to attain even higher level of growth needed for realization of prosperity, but the collection of goods produced by using the available resources may differ from the collection needed for prosperity. If the difference between the two collections can be counterbalanced through international trade, the goal of prosperity will be attainable.

If priorities are given to producing non-consumable goods at the expense of consumables, a problem of product mix will come up. Relatively more resources may be devoted to produce producers’ goods (such as factories, machineries, railroads, and dams), emergency goods (such a goods necessary for war or natural disasters), luxury goods (such as pyramids and fancy squares), or goods of higher profits (such as weapons in time of peace).

1. Inefficient utilization

A society may fail to attain the level of growth needed for realization of prosperity because resources are inefficiently employed. Inefficient utilization of resources may be a result of low productivity, scarcity of skilled labors or lack of technology necessary for production.

1. Underutilization

A society may fail to achieve its goal of prosperity because resources are not fully employed. Unemployment of resources may be a result of lack of technology to discover or extract resources. Resources may not be employed because the decision of utilization is still not yet taken for political reasons.

1. Overutilization

Overutilization of resources depletes the stock of natural resources and increases the rate of pollution. The economy is growing in the wrong direction. Part of natural resources is transformed into cash money or banking deposits. Overutilization is made by present generation at the expense of future generations.

1. Cost of production

When cost of production is higher than prices of imported goods, a society may encourage imports and overseas investments at the expense of real output growth. Economic policies should be directed toward increasing personal income to pay for the cost of living through encouragement of local production instead of decreasing cost of living through importing cheaper goods. It is better selling a piece of bread for 10 currency units when community members can afford to pay for it than selling the same for just 1 currency unit when they cannot.

1. Availability of funds

Politicians and economists claim that scarcity of money restricts output growth. In most countries funds are raised through borrowing. Their claim is based on their classification of the factors of production. Including money in capital, as a factor of production, destroys the concept of money as just a medium of exchange.

Instead of borrowing money, a society may give others the right to utilize its resources through applying privatization policies or seeking foreign investments. Privatization policies involve transformation of public properties into private properties. Foreign investments entitle foreigners to generate profits by utilizing local resources.

Failure to raise sufficient funds forces the government to apply spending cut policy causing a rise in the rate of unemployment and a decline in the living standard of those of fixed income.

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Islam emphasizes moderation. *“Thus we have made you a just nation” (Al-Baqarah 2:143).*

* The Holy Qur’an prohibits underutilization of resources in order to satisfy needs of present generations *“Those who are miserly and enjoin miserliness on other men and hide what Allah has bestowed upon them of his Bounties. And We have prepared for the disbelievers a disgraceful torment.” (An-Nisa’. 4:37).*
* Islam forbids overutilization of resources so that needs of next generations can be satisfied *“and waste not by extravagance“(Al-An’am. 6:141).*

The Holy Qur’an prohibits interest-based borrowing *“whereas Allah has permitted selling and forbidden Riba” (Al-Baqarah. 2:275).*

According to the sayings of the Prophet (Pbuh), it can be understood that natural resources are common properties. A government invests natural resources in favor of members of the society. *“A man from the immigrants of the Companions of the Prophet (Pbuh) said: I participated in battle three times along with the Prophet (Pbuh). I heard him say: Muslims have common share in three (things); grass, water and fire” (Sunan Abi Dawud 3477 – Book 24, Hadith 62).*

Management of resources is a matter of human behavior *“And say: Do deeds! Allah will see your deeds, and His Messenger and the believers.” (At-Taubah 9:105)*. It is the responsibility of decision makers to set proper product mix, raise efficiency through education and training, employ sound economic policies and adopt fair monetary system.

**Decision Makers – Shura system**

Managerial problems are the direct result of the lack of qualified decision makers. A decision maker is normally appointed or elected. Choices are limited within those who are known by the political party or the appointment authority. In most cases, an appointed person makes his decisions in favor of the appointment authority, and an elected person makes his decision in the interest of the political party, or the financiers of the election campaign. In legislative authorities, members of different qualifications take decisions related to different issues. A medicine doctor votes for a decision regarding agriculture. A carpenter votes for a decision regarding the public budget.

The Holy Qur’an introduces “Shura system” as the legalized governance regime. It explains how to choose decision makers.

**Sales**

Sales represent the last step in the production process in which a seller, or an investor, hands over one or more of his property rights through cash or credit sale, or by giving right to use in return for rent or service fee, or via any other legal way of alienation. Wages are the return for sale of physical or mental efforts.

Selling process derives its legality from the legality of trade *“except it be a trade” (An-Nisa 4:29).*

Sale on credit is also legalized. The following verse draws the attention to the difference between the value of time on lending and the value of time on credit sales “*whereas Allah has permitted selling and forbidden Riba” (Al-Baqarah. 2:275)*.

In compliance with Islamic concepts, the Prophet (Pbuh) prohibitssome methods of sales such as;

* Gharar sale which is sale of products whose existence or characteristics are not certain: *“On the authority of Abu-Hurayra (mAbwh) that: The prophet (Pbuh) prohibited the pebble sale and the Gharar sale” (Muslim, Abu Dawud).*
* Sale of what is not in possession *“Hakim-bin-Hezam reported: The Messenger of Allah prohibited me to sell what is not in my possession.” (Tirmizi).*
* Forced sale *“Ali reported that the Messenger of Allah forbade the (forced) purchase from a needy person, and purchase from the inconsiderate and purchase of fruit before it reaches maturity.” (Abu Daud).*
* Deceiving sale *“Waselah-bin-Asqa’a reported: I heard the Messenger of Allah say: Whoso sells a defective thing without disclosing it continues to be in the wrath of Allah or angels continue to curse him.” (Ibn Majah).*

**Market**

A market refers to the system which facilitates the exchange of products and provides the appropriate conditions within which appropriate prices may be fixed. It controls terms of sales and prices set by sellers through free interaction between the factors of demand and supply.

Adam Smith, in his book “The Wealth of Nation” (1776) refers to the natural market system as “invisible hand”. He explains the mechanism of demand and supply to control reasonability of prices set by sellers in environment of free competition. Smith says, "If a product shortage were to occur, that product's price in the market would rise, creating incentive for its production and a reduction in its consumption, eventually curing the shortage. The increased competition among manufacturers and increased supply would also lower the price of the product to its production cost plus a small profit, the "natural price." Smith believed that while human motives are ultimately out of self interest, the net effect in the free market would tend to benefit society as a whole”.

Natural market is an absolutely free market with free and clean competition. A natural rise in prices may occur as a result of an increase in cost of material, wages paid to labors, supplier’s profit margin, or volume of demand relatively to the volume of supply. The natural rise in the price of a product reflects an increase in its real value. The additional storage cost of summer plants justifies the increase in its real value in winter. The rise in the price of steel, because of the shortage of supply, reflects an increase in real value of steel. Natural increase in prices of some products has negligible impact on the general level of prices for the following reasons;

* Natural free interaction of demand and supply returns the market price to an equilibrium point because high price encourages investors to increase supply, and low price encourages consumers to increase demand.
* The huge variety of products makes the increase in prices of some products are compensated by the fall in prices of some other products.
* Mass production, continuous discoveries and technological developments help price reduction because they provide competitive products, cheaper substitutes, and economical methods of production. For example; prices of electronic equipments are continuously declining.

Natural market system is one of many natural systems created by Allah to organize movements of creatures and to facilitate life on earth. In Islam, natural market system is the conceptual framework of pricing. The Holy Qur’an prohibits mischief on natural systems “*And do not mischief on earth, after it has been set in order” (Al-A’raf 7:56).*

In practice, freedom of markets is affected by different impediments. Governments apply some policies to control prices and wages and legalize some sorts of monopoly.

Islam promotes a market free of interferences and prohibits all types of humanity interventions that may result in a fall or a rise in prices or may affect real demand or supply;

* The Messenger (Pbuh) Prohibits fixing prices *“Anas reported that the current price once became dear at the time of the Messenger of Allah. They asked: O Messenger of Allah! Fix a rate for us. The Holy Prophet replied: Verily Allah is One who controls price, curtails, gives amply and provides sustenance; and certainly I hope that I should meet my Lord while there will be none amongst you who will hold me responsible either for blood or for property.”(Tirmizi, Abu Daud, Ibn Majah).* Prices can be reduced through activation of free and clean competition. In order to avoid greed, public commercial entities may be established.
* According to the sayings of the Prophet (Pbuh), monopoly is forbidden *“Ma’mar reported that the Messenger said: Whoever monopolizes is a sinner” (Muslim).*

**Inflation**

In present, market prices are much higher than the real prices of products. A distinction between the real market price and the current market price introduces a different approach for understanding the phenomenon of inflation.

Real market price

In natural free market, cost of factors of production includes the real cost of material and labors, in addition to reasonable profit as return for bearing investment risk. Therefore market prices reflect the real prices of products.

Price = Real cost of factors of production

National Income is real productive income. Labors receive income in form of wages and investors receive income to cover cost of material in addition to earn reasonable profit.

National Income = Productive Income = Labors’ wages + Investors’ income

Funds are raised or new money is issued in order to pay for the factors of production.

Quantity of Money = Money needed to pay for the real cost of factors of production

Since money supply is completely translated into National Output, raising funds does not cause inflation.

Current market price

In addition to the real cost of the factors of production, current market prices include some additional charges that are not related to production. The additional charges are inflationary charges.

Price = Real cost of factors of production + Inflationary charges

The inflationary charges represent payments in return to financial activities. National Income increases by the aggregate total of payments in return to financial activities.

National Income = Productive Income + Financial Income

Financial Income includes interests or financing charges, government’s taxes, corruptors’ earnings, and speculators’ gains.

More funds are raised or more money is issued in order to pay the inflationary charges.

Quantity of Money = Money needed to pay for the real cost of factors of production +

Money needed to pay for the inflationary charges

Since the excessive expansion of money supply is in return for zero increase of National Output, it causes an intentional fall in the value of the currency unit which is translated into an equal intentional increase in the general level of prices.

Inflation is a human-made phenomenon. When inflation is regarded as pricing phenomenon, it can be defined as an intentional rise in the general level of prices as a result of the excess of current market prices over real market prices. When inflation is regarded as monetary phenomenon, it can be defined as an intentional decline in the value of the monetary unit as a result of the excess of national Income over productive Income.

Inflation is the root of all evil;

* Inflation represents the main cause of concentration of wealth. Poor becomes poorer. Living standard of middle class declines. Those living on fixed incomes suffer a severe decline in their living standard. Living standard of rich rises. Rich generate profits from appreciation of their assets, and business owners stand to gain from increased profits.
* As an intentional increase in the general level of prices, inflation is behind economic instability. Prices soar. Workers have less money to consume. Demand falls because each monetary unit buys fewer goods and services. Exports become more expensive to sell. Imports increase because they are relatively cheaper than locally produced products. Saving is discouraged because consumers have to spend more. Pressure for increased wages mounts to keep up with consumer prices. Unemployment rate rises as a result of the decline in output growth rate.
* As an intentional decline in the value of the monetary unit, inflation is responsible for the deterioration of the confidence in the currency. Inflation rate may rise at very high levels destroying the confidence in the currency and leading to currency devaluation and even total monetary collapse.
* As an excessive expansion of credit, inflation is responsible for financial crises such as the Wall Street Crash of 1929, the 2008 US Mortgage Crisis, the 1997 Asian Financial Crisis, 1998 Russian Financial Crisis, and the Latin American Debt Crisis. Money of innocent people was used in order to bail financial systems out.

In spite of the ghastly impacts of inflation on societies, most economists recommend living with moderate inflation. They claim that moderate inflation helps realization of optimal growth in addition to full employment with more income for everyone because it provides an incentive for investment as long as prices are rising and are expected to continue rising. Some economists claim that there is no way to cure inflation without moving the economy into recession.

It is argued, to the contrary, that moderate steady inflation is a hypothetical target. Economic instability is the common feature of present economies. Economic growth due to inflation will not last too long until supply will be reduced to balance with the fall in demand. Labors will become in worst shape because the rate of the increase in wages is normally less than the rate of the rise in cost of living. More investments in productive activities cure recession without creating inflation.

Control of inflation is one of the most intractable economic problems facing governments. In its effort to control inflation, monetary authorities apply monetary controls over interest rate, bank discount rate, expansion of money, and currency exchange, and governments employ fiscal controls over prices, wages, government expenditure, and taxes.

The common effect of all these remedy tools is that they control, directly or indirectly, the expansion of credit. Credit squeeze may discourage investment in financial economy, but it causes economic slump, reduces national product, and raises unemployment rate. Expansion of credit may stimulate investment in financial economy, but it has bad impact on productive economy because it raises the inflation rate and develops the destructive consequences of inflation.

Monetary authorities try to balance between positive and negative results of the controlling process, but in all cases they cannot prevent economic instability. Markets may not respond in the way expected by the authority. A failed monetary policy can have significant detrimental effects on the society including hyperinflation, stagflation, recession, high unemployment, and even total monetary collapse.

The Holy Qur’an introduces inflation-free economy. According to Islamic concepts, inflation is forbidden. Prohibition of inflation can be easily deduced;

* Inflation causes decline in the value of money *“and reduce not the things that are due to the people” (Hud. 11:85).*
* Inflation causes concentration of wealth *“in order that it may not become a fortune used by the rich among you” (Al-Hashr. 59:7).*
* Inflation enables individuals to earn illegal income *“Eat not up your property among yourselves unjustly except it be a trade” (An-Nisa’. 4:29).* The verse shows that trade is the only way for earning legal income.

Viewing inflation as an unavoidable phenomenon is a major pitfall in economic thinking. Discarding inflation will result in realization of optimal output growth, full employment, and economic stability, in addition to avoidance of intentional concentration of wealth.

CHAPTER 2

**Financial Activities**

Financial activities refer to those activities that aim to earn income without directly participate into production processes. They include interest-based lending, taxation, financial corruption, and speculative activities.

**Interest-based lending – Banks and financial institutions**

Present economic systems are characterized by excessive expansion of credit and progressive shift from productive activities to lending and financing activities seeking for easy and quick profit with relatively low risk.

In Islam, Interest and financing cost is regarded as “Riba”. The Holy Qur’an explicitly prohibits riba *“Those who eat Riba will not stand except like the standing of a person beaten by Satan leading him to insanity. That is because they say: “Selling is only like Riba,” whereas Allah has permitted selling and forbidden Riba” (Al-Baqarah. 2:275).*

The Holy Qur’an draws the attention to the importance of understanding the difference between interest-based lending and selling. *“Those who eat riba... they say: Selling is only like riba” (Al-Baqarah. 2:275).* The logic behind the argument is that the increase in profit from credit sale over cash sale is considered as the time value. Similarly, riba from lending is the time value. This type of similarity may be true to an extent, but the discrepancies should be considered.

* Credit sale refers to a transaction of exchanging real product for debt. Interest-based lending represents a transaction of exchanging money for debt.
* Excess profit due to the credit term in credit sale is the investor’s reward for bearing investment risk for longer period and is charged to the buyer for getting satisfaction before full payment of sale price. Interest, or profit from lending, is added to cost of products as financing charges and charged to all consumers without benefiting from the credit term.
* Since credit sale encourages consumption and increases demand, National Output rises resulting in realization of prosperity. Interest-based lending causes inflation which is behind the havoc in society.

Banks and financial institutions are responsible for the excessive expansion of credits. They introduce great number of financing instruments such as treasury bills and corporate bonds. Refinancing products, such as mortgage securities, help banks to liquidate their credits in order to expand more credits. Banks and financial institutions provide credits to speculators encouraging the shift to financial activities. Calculating interest on a compound base increases financing cost as well as amount of credit facilities.

On the one hand**,** banks play an important role in development. They borrow deposits from those who do not invest their savings and provide credits to finance projects and trade. On the other hand, banks play an inflationary role that inflicts greatest harm to the society. They make profit from the difference between the interest, or profit, received from borrowers and the interest, or profit, paid to depositors.

In order to generate more profits and expand more credits, banks practice what is so called “Money Creation Process” which entitled the banking system to issue money by raising funds in form of deposits. Assume that the central bank sets the obligatory reserve to be retained by banks to 10% of deposits. This allows banks to loan 90% of total deposits. Suppose someone deposits $1000 in high-powered cash money, the bank can lend $900. Assuming that the seller from whom the borrower bought the merchandise re-deposits the $900 into a bank, this raises total deposits in the banking system to $1900 and additional $810 can be loaned out by banks. Banks can continue retaining 10% of total deposits in reserves form and loaning the rest of it. This process can continue until total deposits equal $10000.

However, three conditions must hold for banks to turn $1000 of high-powered money into a money supply of $10000. First, money must be circulated into the banking system. Second, banks must lend 90% of deposits. Third, borrowers must be willing to borrow whatever amount the banks want to lend. In practice, these conditions are partially met.

Money creation process, as an advantage exclusively given to the banking sector, may explain why banks are regarded as the wealthiest economic sector. Assume 5% is the interest rate on deposits, and 8% is the interest rate on credits, the banking sector will pay $500 to depositors and gain $720 from borrowers. As a result of the money creation process, profits of the banking sector increase from $22 ($72 - $50) up to $220 ($720 - $500).

In Islam, Interest, or profit, based lending is prohibited *“whereas Allah has permitted selling and forbidden Riba” (Al-Baqarah. 2:275).*

Riba of any rate above zero is forbidden *“But if you repent, you shall have your capital sums” (Al-Baqarah. 2:279).*

Islam forbids doubling and multiplying of riba as result of the money creation process, the process of calculating interest in compound base, or the process of rescheduling debts. *“O you who have believed, do not consume usury, doubled and multiplied, but fear Allah that you may be successful.” (Ali-Imran, 3:130).*

Present Islamic Banking

In its meeting in 1993, the Financial Accounting Standards Board introduced two approaches to establishing objectives of financial accounting for Islamic banks and financial institutions. First; to establish objectives based on the principles of Islam and its teachings. Second; to start with objectives established in contemporary accounting thoughts, test them against Islamic Shari’a, accept those that are consistent with Shari’a and reject those that are not. The Board adopted the second approach. As a result, present Islamic Banking is not based on Islamic rules.

Present Islamic banks practice three financing instruments. Common Mudaraba is introduced to legalize acceptance of investment deposits. Sales-based credits and Musharaka (or Mudaraba) are presented as products to finance investments.

1. Common Mudaraba

In order to solve the problem of the differential in timing of deposits, investments, and the banking accounting period, common Mudaraba is considered by the contemporary Islamic Fiqh as the foundation of the contractual relationship between a bank and owners of investment deposits. Common Mudaraba is not in compliance with Shari’a rules;

* A deposit is not invested in a specified project.
* Funds of several Mudarabas are commingled.
* Funds of several investments are commingled.
* Each Mudaraba is invested in several investments.
* Loss of an investment is compensated by profit of other investments.
* Profit is distributed before the full recovery of invested capital.
* Profit (or loss) is recognized on accrual base according to current accounting principles rather than on cash base according to Shari’a principles.
* For profit distribution purposes, profit from investments is reduced by amounts determined and retained by the bank as provisions or reserves.

Because of the inconsistency with Shari’a rules, common Mudaraba involves eating up other’s property unjustly. A holder of an investment deposit does not receive (or bear) exact amount of profit (or loss) that he justly deserves as a return to his invested money. Instead; he receives profit or bears loss recognized on current financial year but related to investments made by other investors. He does not receive (or bear) profit (or loss) on investments made by him but will be recognized on next financial year or years.

1. Musharaka (or Mudaraba)

Musharaka (or Mudaraba) is considered by the contemporary Fiqh as the foundation of the contractual relationship between a bank and other partners. The idea is based on an assumption that the banking internal accounting entry related to payment of its capital share as if it is payment of capital share in cash. This assumption does not take into consideration the special characters of banking business.

Musharaka (or Mudaraba) involves eating up other’s property unjustly;

* The bank starts to invest its capital share in the specified business after the partner’s capital share was fully invested in the Musharaka. After that, the bank gradually invests its capital share.
* Distribution of profit, or loss, does not reflect the fair amount of return to invested capital shares. Instead; the contractual capital shares are considered.
* At end of the banking accounting year, profit (or loss) is recognized on accrual base according to accounting principles rather than on cash base according to Shari’a principles.

1. Sales-based Credits

Credits based on sales, such as Murabaha, Salam, Istisna’a, lease, and rent, are introduced by Islamic banks as an alternative to the interest-based lending. It is obvious that the intention of the bank is not to sell products, but to provide credits in order to gain a return on credit.

Sales-based on Sukok are also introduced as an alternative to the interest-based borrowing. It is obvious that the intention of the issuer is not to buy products, but to borrow money. Dividends or profit are paid to holders of Sukok. Products are sold on credit to a third party.

* The intention of sales-based credit is to lend or borrow money

*‘Umar bin Al Khattab reported the Apostle of Allaah (Pbuh) as saying “Actions are to be judged only by intentions and a man will have only what he intended. When one’s emigration is to Allaah and His Apostle, his emigration is to Allaah and His Apostle but his emigration is to a worldly end at which he aims or to a woman whom he marries , his emigration is to that for which he emigrated”.(Sunan Abi Dawud 2201.*

* Sales-based credits are subject to doubt.

*“Nu'man b. Bashir (Allah be pleased with him) reported: I heard Allah's Messenger (may peace be upon him) as having said this (and Nu'man) pointed towards his ears with his fingers): What is lawful is evident and what is* ***unlawful*** *is evident, and in between them are the things doubtful which many people do not know. So he who guards against doubtful things keeps his religion and honor blameless, and he who indulges in doubtful things indulges in fact in* ***unlawful*** *things, just as a shepherd who pastures his animals round a preserve will soon pasture them in it. Beware, every king has a preserve, and the things God his declared* ***unlawful*** *are His preserves. Beware, in the body there is a piece of flesh; if it is sound, the whole body is sound and if it is corrupt the whole body is corrupt, and hearken it is the heart.”(Sahih Muslim).*

Not all present scholars are in agreement about legality of present Islamic banking business.

**Speculative activities – Financial markets**

Most of trades in financial markets represent speculative transactions. Speculators buy assets in order to generate income from the appreciation of its values. They pay little regard to the real value of the assets; instead they focus purely on price movements. Prices of financial assets are subject to number of factors such as historical data of price movement, economical conditions, and political stability in addition to behavior of giant speculators.

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Some schools of thought argue that speculative activities create an efficient market by enlarging the number of competitors in the market. It is urged to the contrary that prices in speculative markets, in most cases, reflect interests of large capitalists and giant speculators who dominate the markets. Speculative prices in financial markets do not reflect fair value of underlying assets. Speculative activities plays destructive inflationary role. Soviet economy had a period of hyperinflation from 1921 to 1924 due to the sudden removal of speculative capital. In 1992, currency speculation forced the central bank of Sweden to raise interest rates for a few days to 500% per annum, and later to devalue the Swedish currency. Speculation in real estate market is the main reason for the 2008 USA financial crises.

In Islam, speculative activities are forbidden;

* In general, speculative activities are regarded as a sort of gambling. *“Intoxicants and maisir (gambling), and animals that are slaughtered as a sacrifice for idols, and arrows for seeking luck are an abomination of Satan’s handiwork, So avoid that”. (Al-Ma’idah. 5:90).*
* The Holy Qur’an prohibits the inflationary role of speculative activities because it represents mischief on the natural market system “*And do not mischief on earth, after it has been set in order” (Al-A’raf 7:56).*

Financial assets and some real assets are offered for sale and resale in financial markets. Sales contracts which are based on spot prices for immediate delivery of assets represent small part of sales contracts in financial markets. Forward contracts are contracts based on future prices for future delivery of assets. Options contracts are forward contracts by which only the seller of the contract is liable to execute the contract. Forward contracts and options are available for resale. In case of failure of financial markets, many speculators buy and sell real estates in order to make profit from the appreciation of its values.

Marketable assets in financial markets include:

* Currencies are exchanged in Foreign Exchange Markets at spot rate for delivery of currencies within 2 days or at forward rate for delivery of currencies at certain future date.
* Interest-based financial assets such as short term treasury bills, commercial papers, bankers’ acceptances, certificate of deposits, mortgage certificates, and interbank deposits are sold in Money Markets. Long term treasury bills, corporate bonds are sold in Capital Markets.
* Stocks as equity assets are sold in Stock Markets.
* Islamic Sokuk as equity assets are sold in Sokuk Markets.
* Strategic commodities such as gold, silver, sugar, and oil are sold in Commodities Markets.
* Option contracts entitles the buyer of the contract the right, but he is not liable, to buy or sell marketable assets at specific price for delivery within certain period of time,
* Options also include contracts to fix interest rate on a certain amount of money for delivery within certain period of time.

Islam forbids speculative trades in financial markets;

* Trades in money markets involve unlawful forward sale of currencies *“The prophet (Pbuh) prohibited the sale of silver for gold on credit.”(Muslim).*
* Interest-based financial assets are prohibited “*whereas Allah has permitted selling and forbidden Riba” (Al-Baqarah. 2:275).*
* Prices in stock markets do not reflect fair value of underlying stocks *“And O my people! Give full measure and weight in justice” (Hud. 11:85).*
* Prices of Islamic Sokuk involve Riba *“Yahya related to me from Malik that he had heard that receipts were given to people in the time of Marwan ibn al-Hakam for the produce of the market at al-Jar. People bought and sold the receipts among themselves before they took delivery of the goods. Zayd ibn Thabit and one of the Companions of the Messenger of Allah, may Allah bless him and grant him peace, went to Marwan ibn al-Hakam and said, "Marwan! Do you make usury halal?" He said, "I seek refuge with Allah! What do you mean?" He said, "These receipts which people buy and sell before they take delivery of the goods." Marwan therefore sent a guard to follow them and to take them from people's hands and return them to their owners.” (The Muwatta of Imam Malik).*
* Forward sale of strategic commodities involves sale of what is not in possession *“Hakim-bin-Hezam reported: The Messenger of Allah prohibited me to sell what is not in my possession.” (Tirmizi).*
* Forward sale of option contracts involves sale of what is not in possession *“Hakim-bin-Hezam reported: The Messenger of Allah prohibited me to sell what is not in my possession.” (Tirmizi).*
* Options to fix interest rate is prohibited *“and forbidden Riba” (Al-Baqarah. 2:275).*

**Taxation**

Taxes may be defined as a financial burden levied upon individuals or property owners to support the government. From the viewpoint of economists, a tax is a compulsory transfer of resources from the private to the public sector. Governments use different kinds of taxes and vary the tax rates.

Regardless on whom the tax is levied, consumers are the real payer of all taxes;

* Taxes paid by business owners include before-sale taxes such as taxes on goods or services and import or export tariff (also called customs duty or impost), Business or Corporate income tax, License fees, taxes on rent, social security contributions, stamps and fees on commercial transactions. Business owners care about their net after-tax profit. All types of taxes paid by them are charged to consumers in form of price increase.
* Labor tax includes pay-roll tax and social security contributions. From one side, labor tax reduces labor’s disposable income. From the other side, it increases cost of production. Labors pay their taxes twice; once as taxpayers, another time as consumers.
* Property tax, such as real estate tax, capital gains tax, driver’s license, vehicle’s license, interest tax, and inheritance tax represents an indirect increase in cost of assets owned by consumers.
* After-sale taxes, such as value added tax, sales taxes, and consumption tax are directly paid by consumers.
* Hidden inflation tax refers to the financial burden levied upon consumers as a result of a fall in the value of the currency unit. A fall in the value of the currency unit is translated into an equal rise in the general level of price. If the inflation rate accelerates by 3.5% annually, a consumer, after 10 years, will pay $30,000 to acquire products of present value equals $16,650.

Most economists and politicians believe that taxes help fair redistribution of wealth. On the contrary, taxes are charged to consumers. Walter E. Williams, professor of economics at George Mason University, stated "Government income redistribution programs produce the same result as theft. In fact, that's what a thief does; he redistributes income. The difference between government and thievery is mostly a matter of legality.”

Economists claim that taxes are justified as they fund activities that are necessary and beneficial to society. Libertarian opponents of taxation claim that governmental protection might be replaced by market alternatives. Public expenditures increase because of the inflationary role of taxation.

Islam forbids taxation;

* Taxation is explicitly forbidden by the Prophet (Pbuh) *“Even if a wrongful Tax-collector were to repent, he would have been forgiven. (Sahih Muslim, Book 017, Hadith 4206).*
* *Fatima Bint Qais narrated that: She heard him, meaning the Prophet says: There is nothing due on wealth other than Zakat” (Sunan Ibn Majah – Zakat).*
* Present direct and indirect taxes involve unjustly eating of others’ properties *“And eat up not one another’s property unjustly nor give it to the rulers that you may knowingly eat up a part of the property of others sinfully ….” (Al-Baqarah. 2:188).* According to the Interpretations of the holy Qur’an, the verse refers to briberies given to rulers, but the word “rulers” is not limited to bad rulers.
* Since taxes cause inflation, the value of the currency unit declines. *“and reduce not the things that are due to the people…” (Hud. 11:85).*

**Financial corruption**

In general, corruption refers to wrongdoings in order to realize private interest. Corruption in public and private sectors takes many forms such as bribery, embezzlement, robbery, deceiving, greed, and misuse of authority,

Normally, corruption is regarded as just personal illegal behaviors, but present living systems and policies legalize some illegal acts. Present economic systems legalize financial activities which produce inflation. Inflation is a systematic corruption. Democracy allows a tiny group of people to direct political, economic and social policies in their favors through their participation in the ruling system or by supporting the election campaigns of candidates. Lack of transparency, effective controls, and monopoly encourage corruption.

Corruption plays an inflationary role. Consumers pay the cost of corruption in form of an increase in prices or a fall in quality of goods and services relatively to prices.

According to Islam, all types of financial corruption are forbidden *“and do not commit mischief in the land causing corruption.” (Hud. 11:85).* Following are some examples:

* Deceiving *“And give full measure when you measure, and weigh with balance that is straight” (Al-Isra’, 17:35).*
* Bribery: *“Abdullah-b-Amr reported that the Messenger of Allah cursed the bribe-taker and the bride-giver.”(Abu Daud, Ibn Majah).*
* Theft: *“And, the male thief and the female thief, cut off their hands” (Al- Ma’idah 5:38).*
* Embezzlement: *“Verily, Allah commands that you should render back the trusts to those, to whom they are due” (An-Nisa, 4: 58).*
* Greed: *“And O my people! Give full measure and weight in justice” (Hud. 11:85).*

CHAPTER 3

**Economic activities in light of the Holy Qur’an**

The main purpose of economic activities is to generate income.

**Income**

In our present systems, it can be said that some types of earnings from financial corruption are regarded by contemporary laws as the only illegal income.

The Holy Qur’an and the sayings of the prophet (Pbuh) set rules to control generating income;

**Legal income**

Legal income refers to income earned through legal channels. It can be classified into two categories:

1. Legal earned income

Legal earned income causes legal distribution of wealth. It includes income earned from trade as return for sales of property or personal services or as return to bearing investment risk. *“except it be a trade” (An-Nisa 4:29).* An individual has to work to earn income *“And say: Do deeds! Allah will see your deeds, and (so will) His Messenger and the believers” (Al-Taubah 9:105)*

1. Legal unearned income

Legal unearned income causes legal redistribution of wealth. It includes;

* Income from inheritance and bequest *“There is a share for men and a share for women from what is left by parents and those nearest related, whether the property be small or large – a legal share”(An-Nisa, 4:7).* Several verses in Surat An-Nisa show the distribution rules of an estate among different heirs.
* Income from Zakat *“And in their properties there was the right of the beggars and the poor” (Adh-Dhariyat, 51: 19).*
* Income from charity and almsgiving *“If ye publish your almsgiving, it is well, but if ye hide it and give it to the poor, it will be better for you” (Al-Baqarah 2: 271).*
* Income from gifts *“Narrated 'Aishah: That the Prophet (saws) used to accept a gift and make return for it.” (Sunan Abi Dawud – Kitab Al-Ijarah).*

**Illegal income**

Illegal income refers to income earned through channels other than legal productive activities. *“except it be a trade” (An-Nisa 4:29).*

According to Islam, illegal income includes:

* Income earned through financial activities. It includes interest, or profit, from lending, taxes, speculative earnings, and gains through financial corruption.
* Income earned through illegal productive activities. The Holy Qur’an prohibits pollution and producing or selling some goods such as alcoholic drinks and some specific kinds of meats. In order to avoid riba, the Prophet (Pbuh) prohibits riba al-Fadl, riba - al-nasi’ah, riba al-deuon, and riba Al-Sarf, and forbids monopoly, greed, and some types of sales such as Gharar sale and deceiving sale.

**Riba**

Prohibition of some productive activities by the Holy Prophet (Pbuh) draws the attention for understanding the meaning of the word “Riba” in the Holy Qur’an.

The word “Riba” in the Holy Qur’an has a broad meaning *“It was narrated that Abu Hurairah said: The Messenger of Allah said: “There will come a time when there will be no one left who does not consume Riba, and whoever does not consume it will nevertheless be affected by residue.”” (Sunnan an-Nasa’i 4455, Book 44, Hadith 7).*

Since the word “Riba” in Arabic language means “an excess”, and the word “Riba” in the Holy Qur’an refers to an increase in income, it can be understood that prohibited riba refers to all types of illegal income that are regarded in the Holy Qur’an as illegal eating of other’s property *Eat not up your property among yourselves unjustly except it be a trade amongst you” (An-Nisa’. 4:29).*

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Riba is not limited to interest-based lending. It can be said that prohibited riba includes:

* The increase in income from illegal productive activities.
* The increase in income from financial activities.

**Summary**

In summary, Islam introduces riba-free economy. Unlike present inflationary economies, economy in Islam is a regulated productive economy. It is;

* Free of intentional inflation.
* Free of interest, or profit, based lending.
* Free of taxes.
* Free of speculative activities.
* Free of corruption.
* Free of illegal productive activities.
* Free of humanity interventions into the natural market system.

Since productive activities are permitted, the Holy Qur’an and the Prophet (Pbuh) set rules to regulate productive activities in general;

1. Principle of avoidance of illegal acts

*“And who ever transgress the limits ordained by Allah, then such are the wrongdoers” (Al-Baqarah 2:229).* Verses of the Holy Qur’an forbid some acts such as:

* Corruption *“and do not commit mischief in the land causing corruption.” (Hud. 11:85).*
* Riba *“and forbidden Riba” (Al-Baqarah. 2:275).*

1. Principle of avoidance of doubtful acts

*“The Holy Prophet (Pbuh) said: What is lawful is evident and what is* ***unlawful*** *is evident, and in between them are the things doubtful which many people do not know. So he who guards against doubtful things keeps his religion and honor blameless, and he who indulges in doubtful things indulges in fact in* ***unlawful*** *things” (Sahih - Jami` at-Tirmidhi 1205).*

1. Principle of Justice

*“and that when you judge between men, you judge with justice” (An-Nisa 4:58).* Justice refers to the fair valuation of rights of others. It includes;

* Fair compensation to labors *“The way is only against those who oppress men” (Ash-Shura, 42:42),*
* Fair valuation of properties *“and reduce not the things that are due to the people” (Hud, 11:85),*
* Fair measurement *“Give full measure and weight in justice” (Hud, 11:85)*, and
* Fair profit shares to partners “*And, verily, many partners oppress one another, except those who believe and do righteous good deeds, and they are few” (Sad. 38: 24).*

1. Principle of mutual consent

*“except it be a trade amongst you, by mutual consent” (An-Nisa’. 4:29).*

Mutual consent refers to the approval of all parties to the terms and conditions of any contract related to productive activities such as employment contracts, company contracts, selling contracts.

Unlike present laws which consider terms of contracts for determination of rights, mutual consent, in Islam, must be based on justice.

1. Principle of fulfillment of obligations

“O you who believe! Fulfill your obligations” (Al-Ma’idah 6:1). Fulfillment of obligations includes making debt payments on time, accomplishment of jobs on time, and performing duty faithfully.

1. Principle of honesty

*“Indeed, Allah commands you to render trusts to whom they are due” (An-Nisa’ 4,58).*

**PART 2**

**Exchange Activities**

Exchange activities refer to the transactions of exchanging wealth.

The analysis in this part proceeds in three chapters;

Exchange systems

&

The theory of money in light of the Holy Qur’an

&

Presentation of an alternative monetary system

CHAPTER 1

**Exchange Systems**

Except for barter deals, exchange transactions result in transformation of products into income in form of money.

**Barter**

In early forms of society goods were exchanged by a process of swapping known as barter. An axe was bartered for a hen, or eggs were bartered for wheat. Nowadays, Barter deals by which a product is exchanged by another product represent small part of exchange transactions. High risk countries and countries under sanctions barter their products for products of other countries.

Islam regulates barter deals. The Holy Prophet (Pbuh) forbad some barter deals in order to avoid riba.

1. **Riba al-fadl**

Riba al-fadl refers to unlawful excess in the exchange of two counter-values of specific ribawi substances where the excess is measurable through weight or measure. *Abu Sa'id al-Khudri (Allah be pleased with him) reported Allah's Messenger (Pbuh) as saying: Gold is to be paid for by gold, silver by silver, wheat by wheat, barley by barley, dates by dates, salt by salt, like by like, payment being made hand to hand. He who made an addition to it, or asked for an addition, in fact dealt in usury. The receiver and the giver are equally guilty. (Sahih Muslim, Book 23, Hadith 4148).*

Exchange of these ribawi substances may be made by using money as a medium of exchange. *Narrated Abu Sa`id Al-Khudri and Abu Huraira: Allah’s Messenger (Pbuh) appointed a man as the ruler of Khaibar who later brought some Janib (i.e. dates of good quality) to the Prophet. On that, Allah's Messenger (Pbuh) said (to him). "Are all the dates of Khaibar like this?" He said, "No, by Allah, O Allah's Messenger (Pbuh)! But we take one Sa of these (dates of good quality) for two or three Sa's of other dates (of inferior quality)." On that, Allah's Messenger () said, "Do not do so, but first sell the inferior quality dates for money and then with that money, buy Janib." (Sahih al-Bukhari 4244, 4245).*

1. **Riba al-nasi’ah**

Riba al-nasi'ah takes place when two of the ribawi substances are exchanged, one immediately and the other with a delay. Two traders may not exchange 1 metric ton of wheat for 2 metric tons of barley such that the latter is delivered after one year. *Usmah bin Zaid Narrated that the Messenger of Allah said: "There is no Riba except in credit.”(Sunan an-Nasa’I 4580).*

1. **Riba-al-deuon**

A debt may not be exchanged for another debt. *Yahya related to me from Malik that he had heard that al-Oasim ibn Muhammad said, ''Umar ibn al-Khattab said, 'A dinar for a dinar, and a dirham for adirham, and a sa for a sa. Something to be collected later is not to be sold for something at hand." (Muwatta Malik Book 31, Hadith 1327).*

**Money**

The difficulty of subdivision of goods used in barter and the dependency on a double coincidence of wants gave rise to the need for a common denominator to facilitate the process of exchanging products and evaluate products to be exchanged. Many commodities such as shells, stones, and birds were used as a medium of exchange. At later stage, states, as controller of the mint, made pieces of ingots out from metal, such as gold or silver.

The gold specie standard arose out of the need of a universal currency to be used in international trade. It is a system in which the monetary unit is associated with circulating gold coins of certain specifications, or monetary units made from other metal stated in terms of gold. The currency unit derives its value from the specie out of which it is made, and the rate of exchange of the currency unit for a foreign currency unit reflects the comparative worth of the specie out of which each currency is made.

Because commodity money is inconvenient to store and transport, it gave way to representative paper money backed, directly or indirectly, by gold and other [specie](http://en.wikipedia.org/wiki/Coin)s. The currency unit derives its value from its backing material. Paper money was convertible into gold.

The gold standard collapsed because some countries refused to deflate or inflate at the time of an outflow or inflow of gold to keep up with equilibrium in the balance of payments which affects rates of exchange. All nations had switched to full fiat money which is state-issued money. Issued money is no longer a commodity made of precious metal, or fully backed, directly or indirectly, by gold. Fiat money is not convertible into gold. Instead, it is declared by governments to be legal tender.

Since the gold standard had been collapsed, different exchange rate policies have been adopted;

* Issued money by a country that implements fixed exchange rate policy is fully backed by gold, precious metals, or foreign reserve currency in order to maintain the predetermined fixed exchange rate. Fixed rate does not mean fixed value because the exchange rate is fixed relatively to the value of the reserve currency which is not stable. A country bears risks of reserve currency. Value of local currency unit falls if value of the reserve currency drops.
* Issued money by a country that implements floating exchange rate policy is partially backed by gold, precious metals, or foreign reserve currency. Currency exchange markets determine the exchange rate.

In spite of the fact that present money is no longer a commodity or fully backed by a commodity, money is still regarded by economists and politicians as a saleable commodity subject to demand and supply.

**The theory of money in light of present monetary system**

Viewing present money as a valuable commodity is a major pitfall in economic thinking. This way of thinking leads to destructive consequences;

1. Currency unit is given variable market price

Because money is regarded as a commodity, the exchange process is viewed as a process of selling money. The currency unit is given market price in order that money can be sold in exchange for a product through cash sale or for a debt through lending. The market price of the currency unit is not stable. Many factors not related to the exchange process are taken into consideration when market price of the currency unit is determined. Political stability, speculative activities, and national security are examples. Value of the currencies of Iraq, Lebanon, and Syria deteriorated because of political and security issues. .

In theory, economists agree that money has no intrinsic value, but in practice they do not distinguish between the value of money and the purchasing power of money.

It is urged to the contrary that the purchasing power of the currency unit differs from its value.

* The term “purchasing power of money” refers to the amount of products that one unit of money can buy. A product may be bartered for another product, but neither of them has purchasing power. The currency unit gains purchasing power from its general acceptability as a medium of exchange. When money is exchanged by a product, it derives certain purchasing power. Because prices of products are unstable, the currency unit derives variable purchasing power. If a kilo of tomato is sold for one currency unit at certain moment, the purchasing power of the currency unit at that moment equals 1 kilo of tomato. If the price of one kilo of the tomato goes up to be 2 currency units, the purchasing power of the currency unit will be 0.5 kilo of tomato.
* The word “value” refers to the material worth or the benefit that may be gained from goods or service. A commodity has value. Neither present money has material worth nor can benefit be gained from just acquiring money. Since present money is not commodity money, its value is zero.

In theory, money is regarded by economists as legal tender, but in practice it is viewed as a commodity.

* The term “Legal tender” means a medium of payment recognized by law to be valid for meeting a financial obligation. A medium of payment is not a commodity. It is just a medium. A medium has no value by itself. The payment is made when the legal tender is exchanged for another product, or when it is returned back to the creditor.

1. Hoarding resources as currency backing

Based on viewing money as a commodity, raising funds is regarded as a process of buying money. Money is bought for payment to be paid on spot through retention of currency backing or on credit through borrowing.

Currency backing involves hoarding resources that could have been invested in productive activities. In practice, getting rid of the currency backing is justifiable;

* Most of money in circulation is un-backed banking deposits.
* Since the President Richard Nixon declared the end of direct convertibility of the dollar to gold, USA which is the biggest economy in the world becomes not liable to retain currency backing.
* The fixed exchange rate attaches the domestic monetary policy to that of the country of the base currency.

In his book “Modern Economics – Principles and Policy (1972), Kelvin Lancaster of Colombia University says “From one point of view, currency backing is inherently ridiculous and based on public lack of comprehension about the nature of money, but it has one aspect that was of great historical importance: If the currency must be backed, wholly or partially, by something that is inherently scare, there is a built-in-guarantee that the currency itself will remain scarce.”.

1. Funds are mainly raised through borrowing money

In practice, state-issued money represents very small part of money in circulation. Present economies are characterized by accelerated increase of credit money. Not only the monetary authority print notes and mint coins, but also all banks issue money through activation of the money creation process.

Depending upon certain measures such as real economic growth, the monetary authority can issue fiat money in return for receipt of treasury bills. Issuance of fiat money increases public debt.

In order to finance its growing services, governments raise funds through direct borrowing. Countries borrow money from giant lenders or rich countries, or through selling of government bills. Borrowing increases public debt.

In his article “The biggest financial crime in the history of the United States” addressed to the US citizen via Internet, Dr.Don J. Grundmann, D.C., M.H.says: “Since in 1996 approximately 40% of the United States budget went to the payment of interest on the national debt”. Terms and conditions of granted loans, as well as granted money, may have severe impacts on sovereignty of poor countries.

Banks raise funds through borrowing money by accepting funds deposited on current accounts, saving accounts, or term deposit accounts, issuing debt securities such as bonds and certificates of deposit, and liquidating debt securities such as mortgage securities and commercial bills.

Banks practice the money creation process by which new loans generate new deposits. Banking deposits represent most of the money in circulation. Issued money in USA as at January, 2007 was 750.5 billion dollars, while commercial bank money (in M2) was 6.33 trillion dollars.

Banks lend money to customers by granting credits such as loans, advances, marginal credits, and credits based on Islamic sales, and by investing in marketable debt securities such as treasury bills.

1. Money loses its reliability as a measure of value.

In order to fulfill its function as a medium of exchange, money has to act as a measure of value. The valuation process assumes that the measuring tool derives value of the subject of valuation based on constant measuring value so that values can be compared in common terms. A kilo or a meter is constant measuring values. The measure of the weight or the distance has no intrinsic value by itself regardless the material from which the measuring tool is made.

Unlike any other measuring device, the currency unit, as a commodity, gets different values during circulation. Money derives product’s value based on variable measuring values. Prices of products cannot be compared in common terms.

1. Money loses its honesty as a store of value.

In addition to its function as a measure of value, money has to act as a store of value. The holder of money has the right to obtain products of future value equals the value of the products he might acquire when he received or lent the money. Because of the fluctuation in the value of the currency unit during circulation, present money, as store of value, cannot protect the right of its holder.

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1. Money becomes an inflationary tool

Since availability of money becomes dependent upon borrowing, speculative activities are encouraged and many refinancing tools are introduced to attract savings. Taxes are levied in order to settle growing interest on public debt and to cover financial corruption. More funds are raised to pay the inflationary charges. Because the excessive expansion of money supply is in return for zero increase of National Output, the value of the currency unit declines causing inflation.

Some economists become aware of the inflationary role of money. On Wednesday September 21st, Congressman Dennis Kucinich introduced the National Emergency Employment Defense (NEED) Act of 2011, HR 2990. It is stated that, the purpose of this act is to create a Monetary Authority which shall pursue a monetary policy based on the governing principle that the supply of money in circulation should not become inflationary or deflationary. The recommendations include reconstruction of the Federal Reserve, establishment of the United States Monetary Authority, conversion of Federal Reserve Notes to United States Money, abolishment of the creation of money by private persons through lending against deposits, and replacement of fractional reserve banking with the lending of United States Money.

The inflationary role of money restricts economic growth. Since output growth and inflation are conflicting, monetary policy is set to choose between more or less output growths coupled with more or less inflation. Since excessive expansion of money supply causes inflation, monetary policy is directed toward controlling quantity of money in order to prevent the probable ghastly impacts of accelerated inflation.

CHAPTER 2

**The theory of money in light of the Holy Qur’an**

Islam recognizes gold and silver as money at the time when the Holy Qur’an was revealed to the Prophet (Pbuh) *“And those who hoard up gold and silver and spend them not in the way of Allah, announce unto them a painful torment” (Al-Taubah. 9:34).* But, neither the Holy Qur’an nor the sayings of the Prophet (Pbuh) forbids the use of any other thing as a medium of exchange provided that the Islamic rules and concepts are respected.

Islam recognizes the nature of money and the difference between money and commodities. While gold and silver, as commodities, are permitted to be freely bought or sold, the use of gold or silver, as money, is regulated.

* The Holy Prophet (Pbuh) legalizes spot currency exchange transactions based on spot exchange rate *“It was narrated that Ibn Umar said: I came to the Prophet and said: Wait I want to ask you something. I sell camels in Al-Baqi with a price set in Dinars but I accept Dirhams instead. He said: There is nothing wrong with it if you take the price on that day, still unfinished business between you both (buyer and seller)” (Sunnan an-Nasa’i 4589).*
* The Holy Prophet (Pbuh) prohibits future currency exchange transactions *“Abu Al-Minhal said: I asked Al-Bara bin 'Azib and Zaid bin Arqam and they said: 'We were merchants at the time of the Messenger of Allah and we asked the Prophet of Allah about money exchange. He said: "If it is done hand to hand there is nothing wrong with it, but if it is done on credit then it is not right." (Sunan an-Nasa'i 4576).*
* Currency exchange rate should reflect the real purchasing power of the currency unit *“And O my people! Give full measure and weight in justice” (Hud. 11:85).*

The Holy Qur’an prohibits hoarding gold and silver as currency backing *“And those who hoard up gold and silver and spend them not in the way of Allah, announce unto them a painful torment” (Al-Taubah. 9:34).*

Also, Islam forbids hoarding foreign money as currency backing *“Woe to every slanderer and backbiter. Who has gathered wealth and counted it. He think that his wealth will make him last forever. Nay! Verily, he will be thrown into the crushing Fire.” (Al-Humazah.104: 1-4).*

The Holy Qur’an emphasizes the reliability of money when it acts as a measure of value *“And O my people! Give full measure and weight in justice” (Hud. 11:85).* For money to be a reliable measure of value, it has to act as reliable common denominator (standard). As a measure of value, money must have no intrinsic value by itself.

The Holy Qur’an introduces the rule of trust when money acts as a store of value *“Verily, Allah commands that you should render back the trusts to those, to whom they are due” (An-Nisa, 4: 58),* andemphasizesequality of present and future purchasing power of money so that the rights of the money holder can be protected *“and reduce not the things that are due to the people” (Hud, 11:85).*

The Holy Qur’an prohibits the inflationary role of money because it disrupts the natural market system which is set by the Creator as the legalized pricing framework *“And do not do mischief on the earth after it has been set in order” (Al-A’araf, 7:56).* Products are priced in term of money. Prices of products should not be affected by the use of money as medium of exchange.

The Holy Qur’an prohibits interest and all types of financing charges *“and forbidden Riba” (Al-Baqarah. 2:275).* Accordingly, interest-based borrowing is forbidden, and funds may not be raised through borrowing.

As an alternative to interest-based lending, the Holy Qur’an legalizes capital finance *“And, verily, many partners oppress one another, except those who believe and do righteous good deeds, and they are few” (Sad 38:24).* The sayings of the Holy Prophet (Pbuh) and old Islamic Fiqh introduce Musharaka as the form of capital finance. Unlike interest-based lending which gives the right to the lender to claim his debt and interest, Musharaka creates an ownership relation. It refers to a companionship based on sharing profit and loss. Every partner in Musharaka has a capital share in the company. Mudaraba refers to a Musharaka in which only one party (Capital owner) pays the full capital of the company, while the other partner (Mudareb) provides his efforts into the company.

CHAPTER 3

**Presentation of an alternative monetary system**

Based on the facts that, money is just a social invention introduced to facilitate exchange processes, present money is no longer a commodity, and returning back to commodity money is impractical, present money should be viewed as just a medium of exchange with no intrinsic value.

If present money is viewed as just a constant medium of exchange, funds can be freely raised without causing inflation and with no need to retain currency backing.

According to the crude form of the Classical Quantity Theory of Money, inflation is the result of the increase of quantity of money over quantity needed for output growth. If just $1 billion are required in order to achieve an output growth of $4 billion, then any increase in money supply above the $1 billion will represent inflation. It means that the excess of money supply over the quantity of money needed for output growth creates inflation, and that National Output is the real currency backing.

Since funds can be freely raised if money supply is growing at the same rapid that is justified by the growth of National Output, a sound monetary policy should be based on raising sufficient funds in order to reach an optimal output growth without inflation. Instead of controlling quantity of money, discarding inflation requires controlling movement of money to prevent the use of money for paying inflationary charges.

Looseness of present monetary system cannot help controlling movement of money. Funds are raised by the monetary authority and all banks. Money is available in form of banknotes, coins and deposits in different banks. It circulates in hands of individuals, public entities, private entities, and the government. Part of money is hoarded, and another part is invested abroad. Effective control of movement of money requires transformation into a closed monetary system.

According to the closed monetary system, funds will be raised and money circulated within the governmental monetary authority (MA). Cash money in local currency will be recalled for cancellation. Cash money and banking deposits will be retained by MA in unrestricted interest-free current deposit accounts in the name of the money owners. All payments shall be made by transfers between the accounts within MA. Available banking instruments can be used for withdrawals including electronic transfers and debit cards. The role of banks will be limited to finance productive activities

Functions of the monetary authority

* MA will exclusively provide all banking services in local and foreign currencies.
* MA will issue prepaid smart cards, as replacement for local cash money, to be used by consumers for paying sundry expenses.
* MA can issue Interest-free credit cards in order to encourage consumption.
* MA can grant short term interest-free loans to the governmental agencies.
* MA will raise funds to finance real productive activities through banks.

Foreign currency exchange

Foreign currency will be exchanged for local currency at the daily market exchange rate. Transformation into productive economy maintains stability of the purchasing power of local currency.

With regard to exchange rates, most of people believe in some economic fallacies;

* Exchange rate reflects how economy is healthy:

If 1$ = 200 Japanese Yen while 1$ = 7 Egyptian pounds, it does not mean that Egyptian economy is healthier than Japanese economy. It is irrelevant to pay one or more currency unit for a piece of bread. The important issue is the volume of national output and the financial capability of people to satisfy their needs.

* Currency backing is important to maintain stability of exchange rate:

USA is not liable to retain currency backing. In spite that issued money by Saudi Arabia is fully backed by US dollars and exchange rate for dollar is constant, exchange rate of Saudi currency against some other currencies went down resulting in an increase in prices of imports. The important issue is the stability of the purchasing power of the currency unit. National output is the real currency backing and the main factor which is considered for fixing exchange rates.

Functions of banks

* A bank will act as an intermediary to study financing needs, manage and control the use of funds provided by MA to finance productive activities. All investments shall be subject to approval and control by MA.
* A bank, on behalf of MA, will invest money in local currency in projects, or trading deals, alone or with other partner or partners. A partner may be a consumer or a member of private or public sector, and his investment in the project may take the form of tangible or intangible assets in local or foreign currency. Invested capital in foreign currency will be evaluated in local currency at valid exchange rate. A bank may take collaterals from a partner to cover any future misconduct. MA is a partner liable to cover the shortage in the cash flow of the project. All receipts and payments will be made by transfers between the accounts within MA.

A Current Capital Finance contract will translate the relationship between the bank and the partners. It shows the initial capital of the project, the minimum capital share which should be maintained by every partner, the profit share of the bank, and the profit share of every partner in return for his efforts or work.

According to old Islamic Fiqh, the following accounting rules will be followed:

* Each project is regarded as an independent accounting unit for which the bank will keep historical records.
* Instead of Accrual base, accounting is made on Cash base.
* Revenues is used first to payback invested capitals, and distributed in proportion to balances of invested capital.
* In case of loss, Loss is charged to partners in proportion to accumulated invested capital calculated by using the well known” Daily Numbers Method” .
* After capital refund, profit shares for work or effort is distributed as agreed upon.
* After payment of profit shares for work or effort, net profit is distributed in proportion to accumulated invested capital.

Advantages of the closed monetary system

* Issuance of money, borrowing, or reliance on foreign investments will be avoided.
* Stealing, smuggling or hoarding of money will be discarded.
* Output growth will not be dependent upon availability of money since funds can be freely raised and all available funds will be invested in productive activities.
* Reliance on international or national policies to control money supply will be avoided since funds can be freely raised at the same rapid of output growth.
* The inflationary roll of money will be abolished.
* The purchasing power of local currency unit will reflect real prices of products as result of abolishment of the inflationary role of money.
* Rights of money owners will be protected because of the stability of the value of local currency.
* Monetary authority will not retain currency backing, foreign currency reserve, liquidity reserves, general reserves, or provisions. National Output is the real currency backing.
* Foreign currency risk will be eliminated because there will be no need to retain currency backing.
* Each deposit account will provide a complete record of receipts and payments of the account holder. The records help creditability studies and combating financial corruption. Illegal operations, tax evasion and procrastination in paying debts by a wealthy man will be eliminated.
* Revenue of foreign currencies will be subject to controls and will be used to import foreign assets.
* Banking business will be standardized. Current Capital Finance considers variable capital. It is so flexible that it suites the different cash flows of different projects and different investors. It is easy to be implemented because of its similarity to the line of credit in traditional banks with only one exception; that is, predetermined interest rate is replaced by rates of profit or loss when recognized.
* MA’s profit share from finance will add new source of public revenue.
* The creation of money by banks through lending against deposits will be abolished.
* Holders of deposit accounts will shift back toward the direct investments in productive activities because MA accounts are free of interest.
* The closed monetary system goes with the recent trend toward elimination of the use of cash.

**Money Cycle in Closed monetary system**

**PART 3**

**Redistribution Activities**

Distribution refers to the sharing of income among the members of the society.

Redistribution activities are taken by governments in order to redistribute national income among the members of the society.

The analysis in this part proceeds in three chapters:

Redistribution systems

&

The Theory of redistribution in light of the Holy Qur’an

&

Presentation of an alternative redistribution system

CHAPTER 1

**Redistribution systems**

Governments apply redistribution systems in order to achieve two objectives;

* To sustain individuals at or above a specified material standard of living.
* To provide sufficient funds to cover the deficit in government’s budget.

**Economic Inequality**

Economic inequality refers to the income gap, or the wealth gap, amongst people. It has existed in a wide range of societies and historical periods; its nature, cause and importance are open to broad debate. Marxists believe that economic equality is necessary for political freedom. They favor distribution process based on an individual’s needs. Libertarians argue that it is natural to reward some vastly more than others because men are born unequal. The Capabilities Approach looks at income inequality and poverty as form of “capability deprivation”. When a person’s capabilities are lowered, they are in some way deprived of earning as much income as they would otherwise. From a Meritocratic point of view, economic inequality is beneficial inasmuch as it reflects individual skills and effort, and detrimental inasmuch as it represents inherited or unjustified wealth or opportunities.

Islam recognizes the differential in wealth *“Say (O Muhammad): Verily, my Lord enlarges the provision to whom He wills and restricts” (Saba 34: 36),*

Present economies are characterized by rapid growth in the rate of poverty and enlargement of the income gap amongst people. A study by the World Institute for Development Economics Research at United Nations University reports that the richest 1% of adults alone owned 40% of global assets in the year 2000, and that the richest 10% of adults accounted for 85% of the world total assets. The bottom half of the world adults owned 1% of global wealth.

Causes of inequality

There are many reasons for economic inequality within societies. The factors affect individuals’ capabilities to accumulate wealth, no matter his work ethic, include natural differential in personal capacities and intentional inflation.

1. Natural differential in personal capacities

People are naturally born unequal with different innate ability, such as intelligence, motivation, strength, or charisma. Some has disability as a result of a birth defect. Some are orphans. People grow in different living conditions. A child may grow in a poor and dangerous neighborhood with poor schools and little access to healthcare. Some has disability as a result of an accident or disease. Rich tend to provide their offspring with a better education, healthcare, and safe neighborhood. Unlike poor, those who already hold wealth have the means to invest in new sources and create more wealth. Neither a child nor an old can earn income from work. Cultures, customs, genders, races, religion and diversity of preferences within a society affect wealth-acquiring behavior.

The different wealth-acquiring behaviors due to natural differential in personal capacities have its justification because of its role in building civilization. Every individual has different role in building the society. Should people are identical having same personal capacities, every one of them will have equal role in the society. Different roles are necessary for people to live in the way they are living. Engineers cannot build a dam in the absence of labors. Doctors are not needed unless there are patients. Sellers cannot sell unless there are buyers. The different roles of individuals bring up the differentiation in individuals’ contributions in building the society and explain the different wealth-acquiring behaviors which are behind the existence of poor and rich.

1. Inflation

Intentional inflation helps concentration of wealth and widens the income gap. It allows an oppressive operation to legalize making private gains on account of public losses. Poor become poorer, living standard of middle class declines, and rich become wealthier. This operation is against values of all religions, constitutional rights, traditional values and human rights.

While realization of optimal output growth is the main problem of underdeveloped countries, inequality is the main problem of developed countries that may be growing richer in the sense of growth in total output without their inhabitances growing any richer as individuals. The necessity of redistribution policy arises from the need to keep up all members of society at or above a specified material standard of living.

**Government Finance**

Government finance refers to government expenditure and revenue. The budget is a statement by the government of estimated future expenditure and revenue.

The main items of public services include internal security, defense, education, health care, researches, and welfare programs. In practice, some of public services and most of welfare programs are directed to serve those of limited income.

Public services in addition to interest on public debt and cost of financial corruption have to be paid for.

Resources of the government’s revenue mainly include;

* Proceeds from sales of services that can be charged to the beneficiaries such as renewal of passports or drivers licenses.
* Other revenues such as traffic penalties.
* Net profits from public investments.

**The theory of redistribution in light of present redistribution systems**

Present redistribution systems are based on extensive growth in the functions of government. Socialism failed to realize its objective of equality through public ownership of the factors of production. Capitalism and what so called Islamic system failed to narrow the income gap through applying social security programs, providing free or below cost public services, and granting public assistances such as unemployment compensation, housing, food stamps, free services. Taxation is regarded by economists as the tool for redistribution of National income.

In most countries, public expenditure exceeds public revenue. In order to cover the deficit in government’s budget, a country borrows money and imposes taxes.

Interest on public debt and taxes are inflationary charges.

CHAPTER 2

**The theory of redistribution in light of the Holy Qur’an**

Economic inequality due to natural differential in personal capacities is justified *“and We raised some of them above others in rank, so that some may employ others in their work” (Az-Zukhruf 43:32).*

According to the Holy Qur’an, concentration of wealth must be avoided *“in order that it may not become a fortune used by the rich among you” (Al-Hashr. 59:7).*

The Holy Qur’an prohibits all types of inflationary charges including taxes because they involve unjustly eating properties of others *“And eat up not one another’s property unjustly nor give them to the rulers” (Al-Baqarah. 2:188).*

It can be understood from the sayings of the Prophet (Pbuh) that public investments are public property *“A man from the immigrants of the Companions of the Prophet (Pbuh) said: I participated in battle three times along with the Prophet (Pbuh). I heard him say: Muslims have common share in three (things); grass, water and fire” ( Sunan Abi Dawud 3477).* Accordingly, all profit from public investments should be redistributed amongst all members of the society.

A government is liable to serve all members of the community, but its revenue may not cover its spending. The deficit represents cost of services provided by the government. According to the Holy Qur’an, every individual is liable to pay for his cost of living including his share in the deficit of government’s budget. (Nothing for free) *“There is nothing for man but what he strives for” (An-Najm, 53:39).*

But the individual’s liability to pay his cost of living is limited to his capacity *“Allah burdens not a person beyond his scope” (Al-Baqarah. 2:286).* Children, disabled, old, and house wives with no income cannot pay. Workers and others without sufficient income cannot pay their liabilities in full. On the other hand, income of a rich individual exceeds his cost of living.

Rich benefit from inequality. They have the need and interest to maintain social stability in order to continuously acquire contributions of others in building the society. Since rich benefit from inequality, they have to recognize the right of others to be compensated by them for the natural differential in personal capacities, and for stealing their properties by inflation. *“Verily, you have that you will never be hungry therein nor naked. And you will suffer not from thirst therein nor from the sun’s heat” (Taha, 20: 118-119).*

Islam imposes Zakat as wealth duty on wealthy individuals. It is levied in order to eliminate concentration of wealth *“in order that it may not become a fortune used by the rich among you” (Al-Hashr. 59:7)* as well as to purify the human soul of vices like greed and selfishness and protect rich from the reactions of envy and hate *“Take Sadaqah from their wealth in order to purify them and sanctify them with it” (Al-Taubah. 9:103).*

Unlike taxes which represents government’s revenue, Zakat is an obligatory duty to be collected by the government for distribution amongst the needy to meet their right of living means *“As-Sadaqat are only for the poor and the needy, and those who collect them, and those whose hearts are to be reconciled, and to free the captives and the debtors, and for the cause of Allah, and (for) the wayfarer; a duty imposed by Allah.”(Al-Tawba 9: 6).*

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Total amount of Zakat should be quite enough to cover needs of poor *“Ali (RAA) reported: the Messenger of Allah (Pbuh) said: Allah has enjoined on rich Muslims in their wealth as much as needed for poor Muslims” (Al-Tabarani – Al-Awsat 3717).*

Unlike spending for living which is subject to moderation, spending the surplus of income for the cause of Allah is up to full financial capacity *“And they ask you what they ought to spend. Say: that which is beyond your needs” (Al-Baqarah, 2:219).* Spending for the cause of Allah includes Zakat, almsgiving, charities and fighting by money.

With regard to the timing of Zakat, It was narrated that: *“Aishah said: “I heard the Messenger of Allah (Pbuh) say: 'There is not Zakat on wealth until Hawl (one year) has passed.” (Sunan Ibn- Majah Vol. 3, Book 8, Hadith 1792).*

In addition to Zakat, the holy Qur’an encourages redistribution transfers. Redistribution transfers satisfy social or spiritual goals. They refer to the transactions by which money is exchanged for nonmaterial wants. Money, services, or goods are disposed as alms, grants, or financial assistance. Interest-free lending represents social financial aid for the period of the debt.

CHAPTER 3

**Presentation of an alternative redistribution system**

In light of the verses of the Holy Qur’an and the sayings of the Prophet (Pbuh), a financial security system is introduced to replace both present public finance system and redistribution system. According to the financial security system;

* All public services will be provided at real cost.
* The government will determine the individual’s share in the deficit of government budget. The deficit will be charged to all members of the society and distributed evenly among individuals. An individual may enjoy private services of higher quality than what will be offered by the government provided that he/she pays the difference in cost.
* The government will estimate an individual’s standard cost of consumables with consideration given to age, gender, and living standard in the community. An individual’s standard cost of living represents the total of an individual’s standard cost of consumables in addition to his/her share in budget deficit. Standard cost of living is not a stable figure. It can be changed according to the changes in development needs, service mix and living standard in the community. It can be increased in emergency cases such as war and natural catastrophes.
* A wealth duty (Zakat) will be levied on those whose incomes exceed the standard cost of living in order to cover the deficit in the incomes of those whose incomes are less than the standard cost of living. Unlike taxes, wealth duty is not public revenue.

Advantages of the financial security system

* The system will help realization of prosperity on the individual’s level and covering the deficit of the government’s budget.
* The government will not be in need to borrow money, impose taxes, apply spending cut policies, increase wages to keep up with growing cost of living, or employ retirement and social security programs.

**The role of government in redistribution of wealth**

**Government’s budget**

|  |  |  |
| --- | --- | --- |
| **Government Expenditure** |  | **Government Revenue** |
| Defense |  | Proceeds from sale of services |
| Internal Security |  | Other revenues |
| Education |  | Net profits from public investments |
| Health care |  | Net profit from MA Finance |
| Law and order |  | Individuals’ shares in budget deficit |
| Development (Roads …) |  |  |
| Researches |  |  |
| Wages |  |  |
| Others |  |  |
| **Total Expenditure** | **=** | **Total Revenue** |

**Conclusion**

Present economic systems failed to realize prosperity because they are based on some fallacies;

* Scarcity of resources is regarded as the main economic problem.
* Inflation, which is the source of all evils, is viewed as an unavoidable phenomenon.
* Borrowing is introduced as the main source for raising funds.
* Interest-based lending and speculative activities are considered part of economic activities.
* Present money is viewed as a commodity.
* Money is included in capital as a factor of production.
* Taxation is regarded as a redistribution tool.

Unlike present inflationary economic systems, the research introduces an alternative free of inflation economic system based on Islamic concepts. The proposed system is fair, integrated, and self-correcting system. It is dynamic in such a way to comply with present complex requirements of societies and accelerated technological improvements.

Implementation of the system will result in economic stability, steady optimal growth and full employment. Prices will decline, value of currency unit will be stable, national output valued at real market prices will rise, exports will increase, and imports will decrease. Public debt will be abolished and currency backing will not be retained. Private property will be protected with consideration given to the right of all people to enjoy fair living standard.

The alternative system benefits all people and provides better investment opportunities, but it is not in favor of corruptors and will be confronted by those who dominate both productive and financial markets.

The views expressed here are undoubtedly drastically different from the views of other researchers. However, financial distress is increasing and people will, sooner or later, realize the truth and make concert efforts to gradually embrace an alternative system that would reflect fair economy, and advance the needs of humanity as a whole.

*“And whatsoever you differ, the decision thereof is with Allah”*

*(Ash-Shura 42:10)*