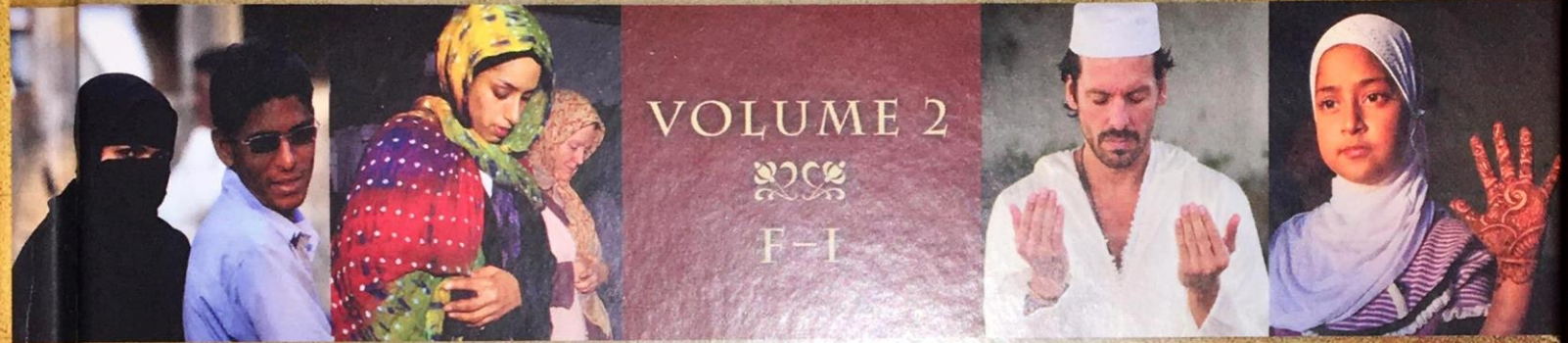


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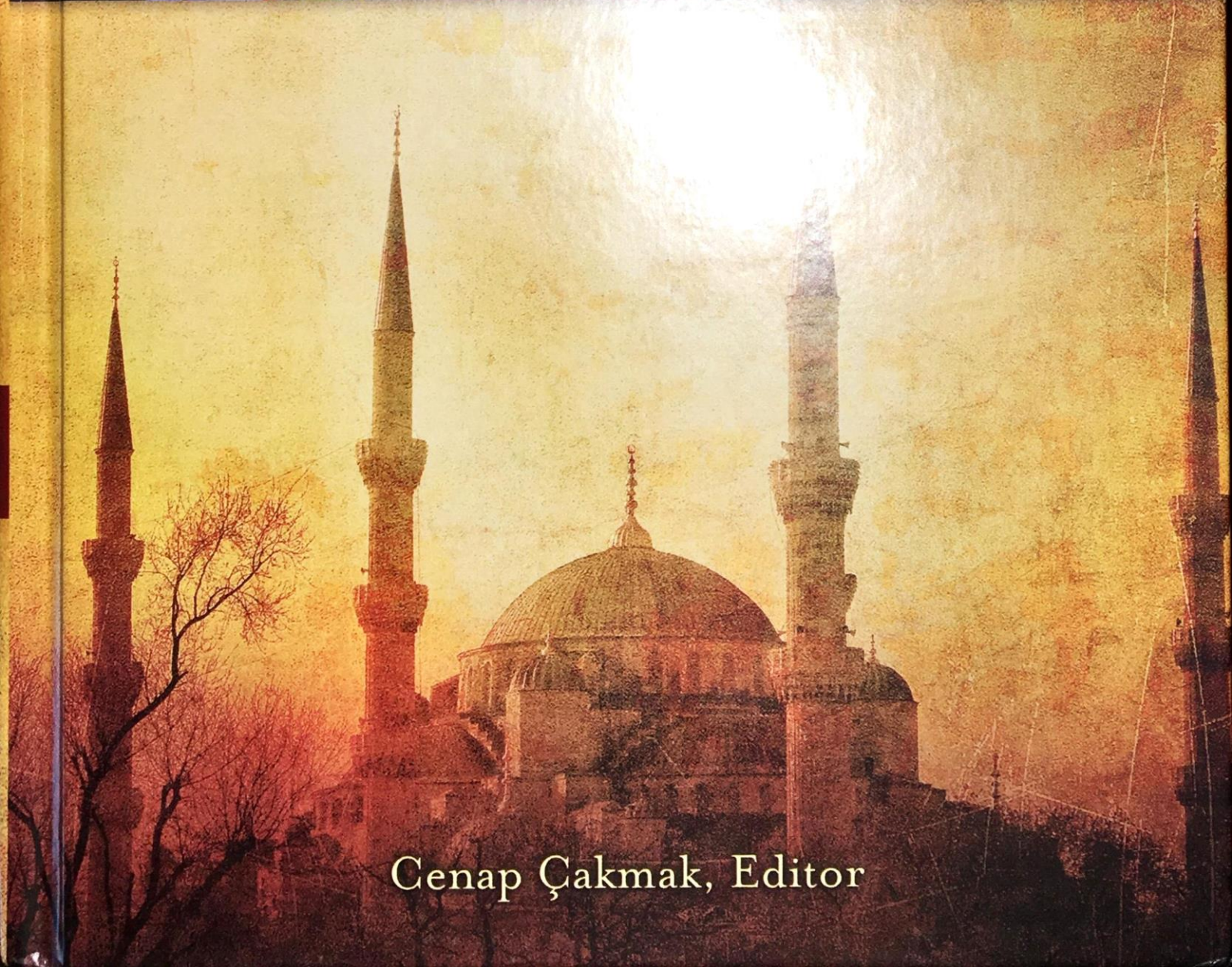
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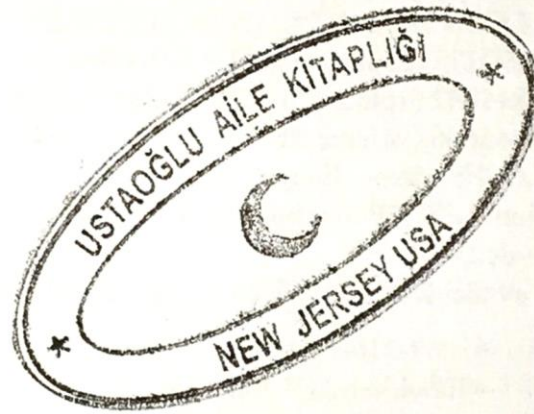
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Islam

A Worldwide Encyclopedia

Volume 2: F–I

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Islamic Economy

Processing natural resources and making them ready for use requires a number of stages based on human labor. In Western literature, economics is concerned with the material and worldly needs of human beings. Compared to other brands of social sciences, it is the only discipline that has a significant measurement tool: money. In essence, the economic problem that the economic thought strives to resolve is why, how, and for whom the goods and services based on the use of natural resources would be produced. While analyzing the process of production and consumption of the goods and services that are essential for the sustenance of life, economics pays attention to methods on how to achieve the maximum utility and level of welfare. The simplest definition of economics in Western literature suggests that it is a social science focusing on how unlimited human needs are satisfied with limited sources. The Islamic economic system is not so different from modern economic thinking in terms of limited resources but employs different practices intervening with the unlimited nature of needs. It is hard to analyze and understand the Islamic economic system by reliance on the norms of Western literature. Attempts to harmonize its theoretical background and framework with modern literature can be traced to the mid-20th century. Economist Anwar Qurai-shi attempted to develop an Islamic theory based on the prohibition of *riba* in 1948 for the first time. However, in terms of its foundations and sources, the Islamic economy is a rather old discipline.

By nature of the Islamic faith, Allah is considered the only owner of the universe. This assumption constitutes the very backbone of the Islamic approach toward economy. For this reason, there is an inevitable linkage between faith and Islamic precepts and economic activities. As a result, some analysts argue that social analysis methods focusing on the entire society cannot be employed. Instead, Islamic economy pays attention to the religious people and their activities. Under this premise, such Islamic economic system can be defined as “the

parameters of its own ethical system, which fact, incidentally, demonstrates its originality and relativity" (Asutay 2007, 79). From a more detailed perspective, it can also be considered as the knowledge and application of injunctions and rules of sharia that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah and the society. For a Muslim being, it is not possible to separate the Islamic provisions on economy from its precepts on individual obligations. It is possible to analyze the general headings of the economic thought of Islam as follows: interest is prohibited; trade is allowed and encouraged; fraud is prohibited; the needy and poor are financially supported through alms and charity; overconsumption and exhaustion of resources is discouraged; no intervention in prices is allowed with the exception of famine, scarcity, and other extraordinary situations; no uncertainty or vagueness is allowed in contracts; and trade of prohibited products and goods is strictly forbidden.

Up to the 18th century, economic thought was shaped by religious scriptures in the West and the Muslim world. Sociologists offer different definitions for the concept of religion, but it is possible to argue that religion provides norms and standards of behavior to human beings in all aspects of life: spiritual, personal, social, and material. The common ground between religion and economics is their effect on human life and behaviors. The linkage between religion and economic thought, two important dynamics in social life, has been weakened over the last two centuries because of the secularization process and the decline of church power in the Western world. Before this era, Muslim and Christian scholars relied on religious references to explain economic activities and behaviors. In the West, in the early stages of the Renaissance and the reform process, scholars explained a number of economic theories with reference to the will of God and sacred beliefs in line with Christian theology. By the same token, Islam pays attention to reason and intellect, suggesting that rationalism is one of the bases of economic thought. Strong reference to reason contributed a great deal to the development of an Islamic discipline of economy. The initial works on economic thought in the Muslim world include *Al-Kharaj* (Land Revenues) by Abu Yusuf, *Al-Iktisab fi al-Rizq al-Mustatab* (Earning Desired Income) by Muhammad b. al-Hassan, and *Al-Amwal* (The Wealth) by Abu Ubaid al-Qasim b. Sallam.

The great Islamic thinkers Ibn Khaldun and Tusi offered the fundamental notions of Islamic economic thought. Tusi's definition of economy is based on division of labor and welfare, whereas Ibn Khaldun considers the economic problem the most essential part of sociology in his seminal work *Al-Muqaddimah*. It is also possible to describe economics as a collection of activities related to humankind's livelihood, its development, progress, and prosperity. *Al-Muqaddimah* is undisputedly a great contribution to the evolution of sociology, but this work is also a

classic account of economics. Although they lived well before the Industrial Revolution, these trailblazing scholars discussed economic activities with reference to production, division of labor, productivity, and the social context of economic relations.

Many Islamic states and empires (Abbasids, Umayyads, Seljuks, and Ottomans) relied on a well-defined economic system to address the economic needs of the Muslim population; however, it is interesting to note that there is no single developed Muslim state at this time. Most Muslim countries experience serious economic problems because in the age of ideologies, the Muslim world has to make a choice among different ideologies. They either have to accept all precepts of Islam that would require substantial reforms in the existing socioeconomic structure or have to abandon Islam in its entirety.

Interestingly, the foundations of Islamic economy can be identified prior to the emergence of Islam. Because it was an arid land, Mecca became a major trade center. Its strategic location made it an attractive destination for traders. In addition, Mecca appealed to a huge number of people in the region because it hosted the Kaaba, a religious shrine that attracted pilgrims. But the traders were facing the danger of imminent bankruptcy because their economic activities were limited to a certain area in the city; bankrupt traders were retreating to the desert along with their families so as not to cause any burden for their tribes. This practice, infamously known as *i'tifad*, was detrimental to the social and economic life. To address this problem, Hashim, the grandfather of Prophet Muhammad, offered the establishment of some sort of partnership (*mudarabe*) under which a number of traders were able to create a joint venture. This was how the idea of sending commercial caravans developed. To provide assurance and security for the caravans dispatched outside Mecca, measures known as *ilaf* were taken. The volume of trade in Mecca grew thanks to *mudarabe* and *ilaf*, contributing to the growth of commercial activities outside the city as well. But the Meccan traders who became rich owing to the flourishing economic activities relied on unfair practices in competition with outsiders. To address this problem, an alliance, *hulf'ul fudul* (union of the wise), was created by leading figures in Mecca. Islam contributed to the economy of traders that was improving in Mecca thanks to these measures. However, initially Islam did not have any economic power, mostly because the early converts were mainly poor and faced strong reactions from the Meccans, including economic embargo and isolation. In the Medina period, however, an independent Islamic economic domain emerged. To this end, a city market in Medina was created to make sure Muslims gained their economic independence vis-à-vis Meccans. In the market nobody had a reserved place, and the traders were never levied a tax. A third major principle stated that the prices would be determined by Allah only. These are the three fundamental principles that constitute the backbone of Islamic

commercial life. The reason these principles were enforced is pure and simple: that a sound and strong economic order would be created by reliance on these premises. Nobody was promised a certain place, because monopoly and intervention by public authority was undesirable. No tax was levied to make sure that emergent traders would be protected. The third rule is actually the initial practice of the most popular economic idea in today's world. Determination of the prices by Allah practically means that price is determined by market conditions. This is the foundation of modern liberal economic thought, which states that with the exception of extraordinary situations, the state should not interfere with the economy. Islam is distinguished from all other systems by analyzing the two sides of man. The ultimate goal is eternal happiness, which is essentially based on choices and actions in this life. For this reason, Islam offers strong rules to regulate the worldly life first. This includes the economic domain as well. Thus, Islam encourages economic and commercial activities. Compared to today's economic thought, however, it encompasses a large area that is inclusive of political, social, and ethical factors as well.

Unlike modern economic thought, in addition to material needs, Islam expands the sphere of welfare and satisfaction to include social and ethical dimensions and considerations. Under Islamic economic precepts, individual economic activities as well as joint ventures are allowed, provided they comply with the principles outlined in the Quran and hadiths. The economic output has to be compliant with general Islamic principles and rules. For this reason, gambling, alcohol products, drugs, and all other items prohibited under Islamic law are strictly forbidden because they are considered harmful to the society as a whole in the long run. The legitimacy of trade activities is ensured by religious references that prioritize social utility and economic balance. Therefore, the state is obligated to take measures against activities detrimental to the public interest, including monopolies and alcohol.

Current economic literature is built on the derivatives of capitalist and communist ideologies. Neither of them has been fully implemented and practiced so far; some Islamic countries have picked different forms of these two main strands for different political and economic reasons since World War I. Non-Islamic systems, however, failed to offer plausible solutions to economic problems in the Muslim world. To better understand the economic system envisaged by Islam, it is sufficient to take a look at its historical references. The growing economic problems, despite striking economic achievements and an increased amount of global wealth, suggest that the modern system and ideologies fall short of responding to global economic and humanitarian problems.

In an ambitious defiance, Islamic economy suggests that an interest-free economic system would serve as a strong alternative that would resolve the global

problems. In modern economic thought, interest is considered an indispensable tool of the economic system. However, even though it has some temporal positive impacts on investments and economic activities, interest is extremely harmful in terms of social and economic balances in the long term. It exacerbates unfair income distribution and leads to the emergence of oligopoly in a number of sectors. Islam is not against accumulation of wealth; quite the contrary, Islam particularly seeks to eliminate poverty. However, Islam also suggests that it is not possible to eliminate poverty in economies where interest is wielded as a vital tool.

Murat Ustaoglu

See also: Alms (*Zakat*); Ibn Khaldun; Islamic Development Bank; *Jizya* Tax; Justice (*Adl*)

Further Reading

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Islamic Literature

There is no separate and independent branch or compartment of Islamic scholarship focusing on what can be defined as Islamic literature. Even though both the Quran and the hadiths promoted scholarly works and initiatives, literature has not been considered a purely Islamic field of study. But this does not necessarily suggest that Islam discourages engagement with different areas of literature including poetry, music, and writing. While such purely Islamic engagements as hadiths, exegesis, jurisprudence, and theology are clearly promoted and emphasized, it is also safe to argue that Islam remains silent to major fields of art with the exception of those that are considered incompatible with the main principles and precepts of Islam, including pictures and sculpture.

Interest in different branches of literature, on the other hand, has developed among Muslims without any positive or negative external influence by Islam. Of these, poetry particularly seems to be notable. Since the early times of Islam poetry has attracted a great deal of attention, but this was not because the Quran of Prophet Muhammad encouraged it but instead because it was already popular in