

# The principle foundations of an Islamic economy \*

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## 1. Introduction

Islam is the only major religion that imparts detailed prescriptions for the economic life of its followers. Islam addresses the value of natural resources, sets standards for the exploitation of minerals and stipulates guidelines on inheritance, finance, taxation and banking. It also emphasizes the importance of education, healthcare, hard work, investment and a social safety net, among other things. The Quran, which is a compilation of the Prophet Mohammed's revelations from God, is the leading source of these principles.<sup>1</sup> The Quran is followed in importance by the *Sunnah* (the Prophet Mohammad's conduct and public policies), the *Ijma* (the rational consensus of religious scholars), and for Sunni (not Shia) Muslims the *Qiyas* (opinions based on religious doctrine and analogy). While all aspects of the latter sources, in addition to the Quran, are open to interpretation, the few *fundamental* economic tenets of the Quran are *intransient*. The Quran is considered by Islam and all Muslims to be the actual declarations of God. Thus the *core* economic values it presents are invariable, timeless and indisputable for all sects of Islam. An economy may be classified as Islamic *only* if it chooses to base its economic and public policies on these essential doctrines.

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<sup>1</sup> The Prophet Mohammed is in fact reputed to have said that Muslims must look to the Quran rather than to him when interpreting God's will.

In this paper, we extract these few fundamental economic principles as outlined by the Quran<sup>2</sup> in order to capture the essence of an Islamic economy. We begin by explaining the defining characteristics of the Islamic social order, and demonstrate how Islamic law, if implemented correctly, can lead to the establishment of a pluralistic democracy and a viable system of checks and balances. We then emphasize the importance of education in Islam, and explain how Islamic lawmakers are expected to formulate strategies that meet contemporary socio-economic needs in an ethical manner. We also explain the egalitarian nature of an Islamic polity, and confirm that non-Muslims can in fact live freely within the Muslim community and are entitled to the same social and economic rights as Muslims. In section 3, we discuss the primary components and requirements of the Islamic economic system, highlighting the importance of economic prosperity and growth, employment, education and taxation as needed in Islam. In section 4, we define the primary economic and social duties of the Islamic state, and demonstrate how its capacity to intervene in daily societal affairs may be limited by the public who can resist oppression and despotism as an essential facet of Islamic law. We conclude with the assertion that principle religious leaders in most Muslim countries work with their respective state authorities to maintain the political status quo. Our interpretation of Islamic dogma therefore differs from those that have prevailed in Muslim countries. Contemporary examples of tension between an ever-increasing number of Muslims and their state religious authorities over interpretations of Islamic rule confirm the validity of our interpretation.

## 2. Governance in the Islamic social order

The central goal of Islam is to develop an egalitarian social structure in which all men and women can maximize their intellectual capacity, preserve and promote their health, and actively contribute to the economic and social development of society. Economic development and

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<sup>2</sup> References to the Quran follow this criterion: the first number indicates the chapter (surah), the number after the colon refers to the verse. We use Muhammad Asad's (1980) translation of the Quran.

growth, along with social justice, are critical elements of an Islamic economic system. People of all genders, ethnicities and religious creeds are considered equal in an Islamic society because *all humans* are required by God to partake in the formation of an educated, economically secure and ethical society.<sup>3</sup> Natural resources, according to Islam, were bequeathed to humanity by God with the sole purpose that they be utilized for the formation of a public order promoting social justice, economic equity and personal responsibility. Humans must use their reason to formulate strategies that will eliminate any factors hindering society's intellectual development, economic progress and social freedom.

Because it is humanity that must establish and develop a just and prosperous Islamic social order, the economic and social advancement of the Muslim community is ultimately determined by the extent to which individual Muslims participate in the administration of daily societal affairs. It is for this reason that the Quran made the pre-Islamic concept of *shura*, governing by mutual consultation and consensus, a central feature of an Islamic government.<sup>4</sup> According to Islam, the community should use *shura* in the form of municipal and national consultations or elections to select representatives who can discuss, debate and formulate public policy on its behalf.<sup>5</sup> Since Islam has no preset model of government, it is up to each specific *ummah* (the Muslim Community or Fraternity) to determine, via *shura*, what governmental structure is appropriate at a particular point in time. Thus the organization of Islamic governments may change with time and vary by country.<sup>6</sup> Divisions within the *shura* are considered by Islam to be an inevitable result of free and fair elections, and will be manifested in the form of a number of political parties. Because the

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<sup>3</sup> See Quran 6:108: "But do not revile those [beings] whom they invoke instead of God, lest they revile God out of spite, and in ignorance: for, goodly indeed have We made their own doings appear unto every community". *Source*: Shirazi (2001, p. 83). Quran 17:20: "All [of them] – these as well as those – do We freely endow with some of thy Sustainer's gifts, since thy Sustainer's giving is never confined [to one kind of man]". *Source*: *ibid.* (p. 90).

<sup>4</sup> See Quran 42:38: "[...] and whose rule [in all matters of common concern] is consultation among themselves". All communal affairs *must* be conducted through mutual consultation. *Source*: Ul Haq (1995, p. 70, italics added).

<sup>5</sup> See Quran 4:59: "O you who have attained to faith! Pay heed unto God, and pay heed unto the Apostle and unto those *from among you* who have been entrusted with authority". *Source*: Ul Haq (1995, p. 70, italics added).

<sup>6</sup> *Ibid.*

primary political authority must collaborate with a pluralistic governing body of representatives (*shura*), the *ummah* is able to prevent a single individual or entity from seizing control over the community and establishing a dictatorship.<sup>7</sup> Imam Muhammad Shirazi, the renowned Islamic theologian and scholar, fervently supports this assertion with the following quotation (2001, pp. 92-93):

“The decision making process must be that of mutual consultation (*Shura*) so that every individual has an opinion which must be considered [...]. Everything should be in equilibrium [with] free and fair elections within the movement itself and a balance of power. Naturally splits will form in the movement. However, between these splits there must be equality, balance and competence so that a single group is not able to take control of the movement and derail the movement towards dictatorship”.

Islamic law, referred to as the *Sharia*, presents the core values upon which the *ummah* may choose to base its economic and social policies. The fundamental goal of *Sharia* is to establish an ethical social and economic order in which a pluralistic government can check the power of the ruling authority. Its standards are communicated to Muslims through the Quran and are meant to serve as a source of guidance for the *ummah* as it strives to formulate the community's fiscal and public policies. Because the *Sharia* is considered by Islam to be the embodiment of God's will, any individual who has chosen to use it as a point of reference when making his or her personal, social, and economic decisions cannot breach its standard of ethics. Because God is considered to be the ultimate proprietor of authority, political officials presiding over the welfare of the Muslim state are unable to claim absolute power and must respect the *Sharia* when formulating state policy. However, as long as the policies implemented by the governmental authority adhere to the principles of Islamic ethics and are in society's best economic and social interests, members of the community are obliged to abide by them.<sup>8</sup>

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<sup>7</sup> Shirazi (2001). The Prophet regularly conferred with his companions about the directives of the Quran, and his companions would occasionally ask him if an instruction was really based on Quranic revelation or on his own personal opinion. See Quran 3:159: “[...] thou [O Prophet ...] take counsel with them [thy followers] in all matters of public concern”. Source: Ul Haq (1995, p. 28).

<sup>8</sup> Mirakhor (2003).

In Islam it is reasoned that a community should adhere to laws based on Islamic values only because it understands and believes in them. The *ummah* must therefore study Islamic ethics and fully comprehend Islam's moral, social and fiscal standards before deciding whether to adhere to rules based on Islamic principles. Muslims should additionally study the *Sunnah*, and analyze how the Prophet Mohammad formulated Islamic policies that met the specific socio-economic and political needs of the early Muslim state. Muslims should build on these lessons by studying the economic, social and institutional policies of past civilizations. They must observe what factors made particular communities economically successful and socially stable, and then determine why certain social and fiscal policies eventually undermined their economic resilience and led to the disintegration of social unity.<sup>9</sup> Learning about the accomplishments and mistakes of past societies allows the *ummah* to formulate policies that avoid making the same strategic errors.

Quranic verses, according to Islam, are revelatory only after they have been interpreted, understood and explained by human reason, known as *ijtihad*.<sup>10</sup> The ruling authority chosen by the *ummah* is therefore required to ensure remuneration for a class of scholars that has devoted its professional and personal life to the study, analysis and verification of world history and Islamic doctrines, ethics and law.<sup>11</sup> As they study the teachings of the Quran and the examples in the *Sunnah* on their own, the *ummah* may ask these scholars to clarify and explain any questions they might have about Islamic tenets and the historical context in which Muslim practices were determined. Using *ijtihad*, strategists can discern how to amend specific doctrines in order to meet a community's particular socio-economic and political needs while remaining faithful to Islamic ethical standards. The *ummah* can ultimately check the power of the political authority because it comes to understand Islamic principles on justice, equity and social responsi-

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<sup>9</sup> Mirakhor (2003).

<sup>10</sup> Sachedina (1988).

<sup>11</sup> Quran 46:6: "O believers, if an ungodly (*fasiq*) man comes to you with a tiding, *verify it*, lest you afflict a people unwittingly, and then repent of what you have done". Source: Sachedina (1988, p. 264, italics added; note that Sachedina quoted this verse from another translation of the Quran). Quran 46:4: "Say: Have you [really] given thought to what it is that you invoke [...] [If so,] bring me any divine writ preceding this one, or any [other] vestige of knowledge - if what you claim is true!"

bility, and can detect if the policies or conduct of the ruling authority are unethical and therefore un-Islamic.<sup>12</sup>

The Quran stresses that all members of the human race, regardless of any differences in gender, religion and ethnicity, share the same essence (*nafs*)<sup>13</sup> and are considered by God to be inherently identical.<sup>14</sup> Any form of discrimination against members of the *ummah* – including any non-Muslims living within it – is therefore strongly condemned and prohibited by Islamic law.<sup>15</sup> Non-Muslim communities living within the *ummah* have the same social, economic and religious rights as Muslims. They may adhere to their own religious laws and

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<sup>12</sup> The Prophet Mohammad is reported to have said: “The highest kind of jihad [personal struggle for self-improvement] is to speak the truth in the face of a government that deviates from the right path”. *Source*: Ul Haq (1995, p. 57). See also Quran 9:122: “From within every group in their midst, some [...] shall devote themselves [instead] to acquiring a deeper knowledge of the Faith, and [thus be able to] teach their [...] brethren, so that these [too] might guard themselves against evil”. *Source*: *ibid.* (p. 96).

<sup>13</sup> *Nafs* may also be defined as *self, person, soul, life*. See Ul Haq (1995).

<sup>14</sup> Mirakhor (1995). Verses supporting this assertion: Quran 49:13: “Behold, We have created you all out of a male and a female, and have made you into nations and tribes, so that you might come to know one another”. Also see the Prophetic verse (*hadith*): “We are all children of Adam and Adam was of dust”. *Source*: Ul Haq (1995, p. 46).

<sup>15</sup> The Prophet is reported to have said: “Those who commit an act of aggression against a member of the non-Muslims, who usurp his rights, who make any demand upon him which is beyond his capacity to fulfill, or who forcibly obtain anything from him against his wishes, I will be his [i.e. the oppressed] advocate on the Day of Judgment”. *Source*: Ul Haq (1995, p. 54). He is also reported to have said: “He who harms a non-Muslim harms me, and he who harms me, harms God”. *Source*: *ibid.* (p. 55). See also Quran 29:46: “And do not argue with the followers of earlier revelation otherwise than in a most kindly manner – unless it be such of them as are bent on evildoing – and say: ‘We believe in that which has been bestowed upon you: for our God and your God is one and the same, and it is unto Him that We [all] surrender ourselves’”. *Source*: Shirazi (2001, p. 119). The Prophet is also reported to have said: “He who kills a man from the People of the Dhimma [Non-Muslims living under the protection of an Islamic system of government] will be forbidden Paradise the perfume of which can be smelled at a distance of twelve years traveling”. *Source*: *ibid.* (p. 45). See Quran 6:108: “But do not revile those [beings] whom they invoke instead of God, lest they revile God out of spite, and in ignorance”. *Source*: *ibid.* (p. 78). See Quran 2:12: “Nay, but *whosoever* submits his will to God, while being a good-doer, his wage is with the Lord, and no fear shall be on them, neither shall they sorrow”. *Source*: Sachedina (1988, p. 123; note: Sachedina quoted this verse from another translation of the Quran). Quran 2:23: “And if you doubt any part of what We have bestowed from on high, step by step, upon Our servant [Muhammad], then produce a *surah* of similar merit, and call upon any other than God to bear witness for you – if what you say is true!”. This verse can literally be translated as: “come forward with a *surah* like it, and call upon your witnesses other than God [...] to attest that your hypothetical literary effort could be deemed equal to any part of the Quran”.

customs, and can set up their own religious institutions.<sup>16</sup> No individual is required to practice or convert to the Islamic faith if he or she is living under the auspices of a predominantly Muslim state.<sup>17</sup> The *ummah* must uphold the safety and security of its non-Muslim communities, and is expected to confer and cooperate with them on public policy issues.<sup>18</sup> Thus culturally, ethnically and religiously distinct communities may live freely within an Islamic state and have the same economic and social rights as the Muslim *ummah*. This assertion is best supported by quoting Abdulaziz Sachedina's seminal work (2001, pp. 23-24) on the subject:

"[...] three facets emerge: the unity of humankind under One God; the particularity of religions brought by the prophets; and the role of revelation (the Book) in resolving the differences that touch communities of faith. All three are fundamental to the Koranic conception of religious pluralism. On the one hand, it does not deny the specificity of various religions and the contradictions that might exist among them in matters touching on correct belief and practice; on the other, it emphasizes the need to recognize the oneness of humanity in creation and to work toward better understanding among peoples of faith.

The major argument for religious pluralism in the Koran is based on the relationship between private faith and its public projection in the Islamic polity. Whereas in matters of private faith, the position of the Koran is non-interventionist (i.e., human authority in any form must defer to the individual's internal convictions), in the public projection of that faith the Koranic stance is based on the principle of coexistence, the willingness of a dominant community to recognize self-governing communities free to run their internal affairs and coexist with Muslims".

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<sup>16</sup> Support in the *Sunnah*: the Prophet granted the Jewish community autonomous status while drafting the constitution of the Islamic state of Medina, and did the same for the Christian community when it came under Islamic dominion. Future Muslim caliphs followed this precedent. *Source*: Ul Haq (1995, pp. 48-49).

<sup>17</sup> See Quran: 2: 256: "There shall be no coercion in matters of faith". Quran 9:1: "Disavowal by God and His Apostle [is herewith announced] unto those who describe divinity to aught beside God, [and] with whom you [O believers] have made a covenant". *Disavowal* in this context means *immunity*. (Background: The majority of the Meccan population remained Polytheistic after Mecca became a Muslim state. The Prophet did not pressure them to convert; they were allowed to live as a religiously autonomous unit within the Muslim community.) *Source*: Shirazi (2001, p. 115).

<sup>18</sup> Ul Haq (1995).

Islam, if practiced as written in the Quran, is an inclusive and not an exclusive religion. Pluralism is at the root of Islam. Yet today and throughout recent history, Muslim fundamentalists, both those that rule and those who aspire to rule, have adopted a posture that is anti-pluralist, and thus in our view anti-Islamic. The following Quranic verse confirms this (*ibid.*, p. 28):

“Surely they that believe, and those of Jewry, and the Christians, and those Sabaeans, whoso believes in God and the Last Day, and works righteousness – their wage awaits them with their Lord and no fear shall be on them, neither shall they sorrow (Quran 2:62)”.

The Quran grants men and women equal religious, social and economic rights. Both sexes are expected to adhere to Islamic ethical standards,<sup>19</sup> participate in civil society and play a role in the formation of public policy.<sup>20</sup> Men and women may both own property, and must be granted equal access to education and social benefits. Both genders must strive to enhance their intellectual capacity, maintain their health, and contribute to the social and economic development of the state.<sup>21</sup> They are both expected to work – and are permitted by Islam to work in virtually every field of work – and have the right to become financially independent.<sup>22</sup>

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<sup>19</sup> Quran 4:124: “[...] anyone – be it man or woman – who does [whatever he can] of good deeds and is a believer withal, shall enter paradise, and shall not be wronged by as much as [would fill] the groove of a date-stone”. See also Quran 40:40; 16:97, 9:71: “And [as for] the believers, both men and women – they are friends and protectors of one another: they [all] enjoin the doing of what is right and forbid the doing of what is wrong, and are constant in prayer, and render the purifying dues [*zakah*], and pay heed unto God and His Apostle”. Source: Ul Haq (1995, p. 62).

<sup>20</sup> See Quran 3:195: “I shall not lose sight of the labour of any of you who labors [in My way], be it man or woman: you are all members of one and the same human race, and therefore equal to one another” (literal interpretation). Source: Ul Haq (1995, p. 62). In the *Sunnah* it is reported that Muslim women played an active role in the administration of community life during the early Islamic period in Medina. Source: *ibid.* (p. 65).

<sup>21</sup> The Prophet deemed “striving after knowledge” to be “a religious duty of *all Muslims*”. Source: Ul Haq (1995, p. 97).

<sup>22</sup> See Quran 4:32: “Men shall have a benefit from what they earn, and women shall have a benefit from what they earn”. No Quranic verses speak against women working, earning a living, or becoming financially independent; Islam has left it up to society to determine what types of work and training promote growth and development during a specific time period and within a particular socio-economic context. Source: Ul Haq (1995, p. 62).



### 3. The fundamentals of the Islamic economic system

Islam espouses a capitalistic economic philosophy that encourages adherents to work hard for economic gain, compete in business, own private property and take risk in investment. Individuals may earn a return on their investments and are encouraged to work productively in their own self-interest. Islam recognizes, however, that the economic and emotional strains of poverty may compel an individual to resort to unhealthy or unethical means of earning an income. The essential components of the Islamic economic system were therefore formulated to ensure the availability of education and employment, poverty reduction and prevention, and continuous social and intellectual development for all individuals. This viewpoint is affirmed by the *Sunnah*, which stress that economic prosperity and social stability are essential for continued adherence to moral-ethical behavior and the maintenance of faith.<sup>23</sup>

Islam holds that the community's physiological, safety, security and social needs must first be satisfied for positive intellectual and economic growth to take place. Basic physiological needs for food, shelter, clothing and rest must be assured; safety, security and social cohesion should be maintained; public freedom of speech and religion must be guaranteed. Islam has deemed the fulfillment of these essential needs, along with free and easy access to education, to be a prerequisite for the promotion of economic growth and social development.<sup>24</sup> Poverty is considered by Islam to be a threat to the very existence of the faith. Thus specific capitalistic strategies looking to 'maximize efficiency and productivity' must be modified if they leave the basic physiological and educational needs of a significant part of the populace unfulfilled, and hinder public access to equitable economic opportunities. Thus the Islamic system can be summarized as a capitalistic system with essential safeguards to insure social and economic justice.

Progressive human development is considered by Islam to be the foremost guarantor of an economically just and socially stable society. The pursuit of knowledge and the practice of innovation are thus

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<sup>23</sup> The Prophet is reported to have said that "poverty may sometimes lead to *kufir* [a denial of God's teachings]". Source: Ul-Haq (1995, p. 86).

<sup>24</sup> Ul Haq (1995).

activities of supreme importance, and must be consistently encouraged by all members of the *ummah*.<sup>25</sup> Human beings, according to Islam, have the intellectual capacity and necessary resolve to develop intellectually, spiritually and physically. Islam insists that its adherents cultivate their potential by ridding themselves of ignorance through study and spiritual growth. It not only views education as the requisite mode of attaining personal and earthly prosperity, but also considers it to be the primary means of resisting tyrannical manipulation.<sup>26</sup> Muslims are therefore required to obtain an education, and must enhance and incorporate what they learn into their personal and public policy decisions.<sup>27</sup>

Islam's goal is to fashion an economic system in which each member of the *ummah* can produce enough income to satisfy his or her individual and familial consumption needs.<sup>28</sup> Islam pushes for the maximum exploitation of the earth's natural resources, and has made the utilization of these resources through hard work a religious obligation second only to prayer.<sup>29</sup> Work is considered by Islam to be the most crucial aspect of economic success, and hard work on the part of *any individual* – regardless of his or her religious convictions – is the best guarantee for economic and social progress. Islamic law permits all forms of labor, production and economic commerce, except for

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<sup>25</sup> The word *knowledge*, including its derivatives, is the second most repeated word in the Quran after *Allah* (God), and the Prophet is reported to have said that "striving after knowledge is a sacred obligation/religious duty for every Muslim" (see Ul Haq 1995, pp. 207-08 and 222-23).

<sup>26</sup> Sachedina (1988).

<sup>27</sup> Ul Haq (1995, pp. 96-97). Note: Education and literacy-training for children and adults were (primarily) provided by the state for free after the Prophet immigrated to Medina. *Source*: Ul Haq (1995, pp. 100-01).

<sup>28</sup> All men, according to the Quran, are obligated to financially support and care for their families. *Source*: Ul Haq (1995, p. 93). The Quran does not *require* women to generate an income and financially support their families. However, no Quranic verses speak against women working, earning a living, becoming financially independent, and/or financially supporting their families. All citizens are consistently urged to work and contribute to the economic and social development of society.

<sup>29</sup> See Quran 9:105: "And say [unto them, O Prophet]: *Act!* And God will behold your deeds". *Source*: Ul Haq (1995, p. 93). The Prophet is reported to have said that "to strive to earn a livelihood through the right means is an obligation after the duty of prayer" and "bread earned by one's own labor [or effort] is the best of all earnings". *Source: ibid.* (p. 154). Quran 4:95: "Such of the believers as remain passive [literally, 'who sit at home'] – other than the disabled – cannot be deemed equal to those who strive hard in God's cause with their possessions and their lives: God has exalted those who strive hard with their possessions and their lives far above those who remain passive". *Source: ibid.*

routine beggary and freeloading, and any vocations that may promote social instability or political, economic or social oppression.<sup>30</sup> Recognizing that an individual's capacity to produce may vary according to his or her talent and ability, Islam does not call for perfect income equality and does not stipulate a limit on the amount of income an individual may earn. It strives to reduce and prevent exceptionally large inequalities in wealth and income, and thus requires that employees receive no less than a living wage that can sufficiently cover basic expenses.<sup>31</sup> Islam has left it up to the *ummah* to determine what minimum or living wage value can adequately cover a worker's basic living expenses at a specific point in time.<sup>32</sup>

According to Islam, work and investment are the only legitimate means of acquiring property rights. Islamic law maintains that all individuals have the right to keep what they earn, and acquire a right of priority in the use of any goods they produce. Property may also be transferred by means of an exchange, contract, grant or inheritance. Ownership rights are held inviolable and private property cannot be forcefully appropriated or confiscated. The violation of legitimate property rights is considered by Islam to be oppressive and exploitative.<sup>33</sup> Thus Islam recognizes the importance of institutions, the guarantee of property rights and the enforcement of contracts to economic growth and development. However, in Islam because natural resources (such as raw land, water and mineral deposits) are considered to be a gift bestowed to humanity by God, *absolute* ownership can only be claimed by God.<sup>34</sup> Because humans did not actually *create* any of the world's natural resources, they cannot exert unequivocal ownership over them. They may only privately own anything they produce with their work or gain through legitimate investment and inheritance.

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<sup>30</sup> See Quran 2:11: "they are told, 'Do not spread corruption on earth'; Quran 2: 205: "[...] and God does not love corruption"; Quran 7:56: "do not spread corruption on earth after it has been so well ordered"; Quran 7: 85: "[...] do not deprive people of what is rightfully theirs"; Quran 11:111: "And, verily, unto each and all will thy Sustainer give their full due". *Source*: Ul Haq (1995, p. 109).

<sup>31</sup> Iqbal (1986). See Quran 4:33: "And unto everyone have We appointed heirs to what he may leave behind [...] give them, therefore, their share". *Source*: Ul Haq (1995, p. 109).

<sup>32</sup> Ul Haq (1995).

<sup>33</sup> Mirakhor (2003).

<sup>34</sup> Cummings, Askari and Mustafa (1980).

An individual who earns more than what he or she consumes must pay a charity tax, called *zakah*, which is calculated according to his or her level of net worth. Business capital and housing are exempt from *zakah* taxation in order to promote investment in capital and construction and encourage home ownership.<sup>35</sup> It is important to note that *zakah* is not a substitute for taxation by the state, which may institute other forms of taxation to finance additional social, economic, infrastructural and related programs.<sup>36</sup>

While Islam encourages people to save their earnings after consumption, it denounces the hoarding of wealth and views taxation as a mode of social investment.<sup>37</sup> It reasons that because God bestowed natural resources to the entire human population, all people are entitled to a share of world production. Thus those who are impoverished, unemployed, underemployed, or lack the ability to work are the primary beneficiaries of *zakah* payments.<sup>38</sup> Individuals who are employed but underpaid may receive *zakah* payments so that they can earn a living wage, and those with refugee status may receive *zakah* as well. Surplus *zakah* funds may be saved, invested in infrastructure and development, or donated to impoverished countries.<sup>39</sup> Islam holds that the payment and distribution of *zakah* promotes a more equitable income distribution that ultimately enables those on a lower income scale to begin saving as their standard of living improves.<sup>40</sup> Evading this obligation, according to Islam, will promote an inequitable distri-

<sup>35</sup> Source: Ul Haq (1995).

<sup>36</sup> Askari, Cummings and Glover (1982).

<sup>37</sup> The terms 'taxes' and 'social spending' are used interchangeably throughout the Quran. See also Quran 59:7, which says that "it [wealth] may not be [a benefit] going round and round among such as you may [already] be rich". Source: Ul Haq (1995, p. 140).

<sup>38</sup> See Quran 9:60: "The offerings given for the sake of God (*zakah*) are [meant] only for the poor and the needy, and those who are in charge thereof (who collect the tax), and those whose hearts are to be won over, and for the freeing of human beings from bondage, and [for] those who are overburdened with debts, and [for every struggle] in God's cause, and [for] the wayfarer: [this is] an ordinance from God - and God is All-Knowing, Wise". Source: Ul Haq (1995, p. 189). Quran 70:24-25: "[...] in whose (the faithfuls') possessions there is a due share, acknowledged [by them], for such as ask [for help] and such as are deprived [of what is good in life]". Source: *ibid.* (p. 85). Quran 51:19: "[But,] behold, the God-conscious [...] would assign] in all that they possessed a due share unto such as might ask [for help] and such as might suffer privation". Source: *ibid.* The Prophet is also reported to have said that "charity is *halal* (permitted) neither for the rich nor the able-bodied". Source: *ibid.* (p. 86).

<sup>39</sup> Ul Haq (1995, p. 200).

<sup>40</sup> Zaman (1999).

bution of income and encourage an increase in poverty.<sup>41</sup> Abbas Mirakhor, an eminent economist and past winner of the Prize in Islamic Economics awarded by the Islamic Development Bank, summarizes these assertions succinctly (1989, p. 25):

“Islam asserts unambiguously that poverty is neither caused by scarcity and paucity of natural resources, nor is due to the lack of proper synchronization between the mode of production and the relation of distribution, but as a result of waste, opulence, extravagance, and nonpayment of what rightfully belongs to the less able segments of the society. This position is illustrated by the Prophetic saying that: “Nothing makes a poor man starve except that with which a rich person avails in luxury””.

Compulsory *zakah* payments were instituted by Islam because every capable member of the *ummah* is required to somehow contribute to the development of a learned and economically prosperous social order. *Zakah* is a major component of *infaq* and *sadaqah*, compulsory and voluntary social expenditures made for the creation of non-profit and non-governmental institutions such as schools, health clinics, hospitals and libraries.<sup>42</sup> Poverty exists, Islam reasons, not because natural resources are scarce, but because they are misallocated, inefficiently managed, unproductively hoarded and unevenly distributed.<sup>43</sup> Independent social spending, according to Islam, is the best possible way for members of the Islamic social order to promote a more equitable distribution of wealth and resources. Muslims with the financial capacity to donate beyond their *zakah* requirements are therefore strongly encouraged to further invest in *infaq* and *sadaqah*.<sup>44</sup>

<sup>41</sup> Mirakhor (2003).

<sup>42</sup> Ul Haq (1995).

<sup>43</sup> In Quran 20:118-119, Adam is told: “Behold, it is provided for thee that thou shalt not hunger here nor feel naked, and that thou shalt not thirst here or suffer from the heat of the sun”. *Source*: Ul Haq (1995, p. 85). The Prophet is reported to have said: “He is not a faithful who eats his fill while his neighbor [or fellowman] remains hungry by his side”. *Source*: *ibid.* (p. 156).

<sup>44</sup> See Quran 30:39: “And [remember]: whatever you may give out in usury so that it might increase through [other] people’s possessions will bring [you] no increase in the sight of God – whereas all that you give out in charity, seeking God’s countenance, [will be blessed by Him:] for it is they, they [who thus seek His countenance] that shall have their recompense multiplied! *Source*: Iqbal (1986, p. 196). Quran 3:92: “[But as for you, O believers,] never shall you attain true piety unless you spend on others out of what you cherish yourselves; and whatever you spend – verily, God has full knowledge thereof”. *Source*: *ibid.* (p. 6). Quran 2:276: “Allah [...] will give increase

Islam does not require social institutions built through *infaq* and *sadaqah* to register with or be approved by a central political authority.<sup>45</sup> Thus by advocating extensive popular participation in the development of society, Islam reduces the need for an authority to intervene on behalf of the socio-economic interests of the community.<sup>46</sup>

#### 4. The role of the Islamic state

Islam holds that state authority is needed for the preservation, cohesion and general welfare of society. It must be an elected body (although exact procedures for elections are not stipulated) that maintains fiscal stability and transparency, social cohesion and an adequate national standard of living. The state's most fundamental duties are the alleviation of poverty and the prevention of extreme income inequality (social and economic justice). Although Islam ultimately holds the *ummah* responsible for the creation and administration of public development institutions, it authorizes the state to intervene on the community's behalf if an adequate living standard, referred to as *fard kifaya*, has not been established and if members of the *ummah* stop making their *zakah* payments.<sup>47</sup> The state authority, with the approval of the *shura*, may institute any new policies it considers necessary for the restoration or attainment of an equitable income distribution.<sup>48</sup> The state may therefore formulate its own additional tax policies, borrow money and increase spending, if doing so will

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for goods of charity". Source: *ibid.* (p. 196). Quran 2:177: "True piety does not consist in turning your faces towards the east or the west – but truly pious is he who believes in God, and the Last Day, and the angels, and revelation, and the prophets, and spends his substance – however much he himself may cherish it – upon his near of kin, and the orphans, and the needy, and the wayfarer, and the beggars, and for the freeing of human beings from bondage; and is constant in prayer, and renders their purifying dues (*zakah*) [...] it is they that have proved themselves true, and it is they, they who are conscious of God". Source: *ibid.* (p. 44).

<sup>45</sup> Iqbal (1986).

<sup>46</sup> Mirakhor (2003).

<sup>47</sup> The Prophet is reported to have said: "The leader [or government] who has authority over people is a guardian and responsible for them". Source: Ul Haq (1995, p. 100).

<sup>48</sup> When asked about *azm* – taking a particular course of action – the Prophet is reported to have defined it in this way: "It means taking counsel with the knowledgeable people (*ahl al ra'y*) and thereupon following them [therein]".

result in economic growth.<sup>49</sup> Islam encourages state authorities to avoid accumulating significant debt, however, and strongly discourages deficit spending.<sup>50</sup>

While the Islamic social order is not supposed to function as a welfare state, the primary national authority must make sure that all citizens have a reasonable standard of living. Thus if any members of the community cannot afford food, shelter or healthcare and do not have easy access to education, the state is obligated to provide it for them. The state must ensure the proper collection and distribution of *zakah* funds, and may collect and administer *zakah* disbursements if the *ummah* lacks the capacity to do so. It is also allowed to provide non-profit and non-governmental organizations with *zakah* funds if they need it. The state must stabilize and maintain the value of the national currency. Because Islam prohibits the excessive accumulation and hoarding of wealth, the state should not permit the presence of monopolies, and should formulate economic policies encouraging investment and competition.<sup>51</sup> In cases where the *ummah* is suffering from extreme income inequality and mass poverty – putting its survival at stake –, the state is authorized to impose substantial taxes on the wealthy to collect money for basic living expenses, and may restrict and redistribute property rights.<sup>52</sup> Feudalism and absentee landlordism, for example, are considered to be socially detrimental and un-Islamic, and would thus warrant land confiscation and redistribution.<sup>53</sup>

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<sup>49</sup> Mirakhor (2003).

<sup>50</sup> Ul Haq (1995).

<sup>51</sup> Verses reproving hoarding and the non-investment: Quran 102:1-6: "You are obsessed by greed for more and more [comforts, material goods, greater power over fellow men and nature] until you go down to your graves [...]. Nay, if you could but understand [it] with an understanding [born of certainty, you would indeed, most surely, behold the blazing fire [of hell]]". Quran 104:1-9: "[Woe unto him] who amasses wealth and counts it a safeguard, thinking that his wealth will make him live forever! Nay, but [in the life to come such as] he shall indeed be abandoned to [...]. A fire kindled by God, which will [...] close in upon them in endless columns [overwhelming with despair as they belatedly realize their guilt]". Quran 107:1-7: "Hast thou ever considered [the kind of man] who gives the lie to all moral law? Behold, it is this [kind of man] that thrusts the orphan away, and feels no urge to feed the needy [...] those who want only to be seen and praised, and, withal, deny all assistance [to their fellowmen]]". Source: Ul Haq (1995, p. 158).

<sup>52</sup> The Prophet is reported to have carried out such policies out for housing and cultivation.

<sup>53</sup> Ul Haq (1995).

The state is additionally required to preserve the *ummah*'s internal and external security, and must maintain amicable relations with other Muslim and non-Muslim countries. Islam requires the state to maintain social stability by promoting tolerance and opposing all forms of extremism, particularly religious fanaticism.<sup>54</sup> National authorities are further required to uphold justice by establishing and presiding over a reputable judicial system. They must ensure organizational transparency and ethical business and social practices by instituting a *hisbah*, a judicial organization that monitors and ensures the fair treatment of laborers and consumers.<sup>55</sup> If the state fails to uphold basic human rights to sustenance, protection, education, healthcare and social and religious freedom, the *ummah* is entitled to either take the state to court or, via *shura*, choose a new authority.<sup>56</sup> Irfan Ul Haq, a specialist in Islamic economics, provides an excellent summary in this regard (1995, p. 57):

“The limits of allegiance to a government have also been given by the Prophet. He [the Prophet] states: ‘No obedience is due in sinful matters; behold obedience is due only in the way of righteousness’ and ‘No obedience is due to him who does not obey God.’ For such situations as outright immoral and illegal behavior or unjust policies on the part of government, the Prophet has made it virtually obligatory for Muslims to speak up and stand up for justice: ‘The highest kind of self-exertion (jihad) is to speak the truth in the face of a government that deviates from the right path’”.

## 5. Conclusion

Islamic teachings on governance, economics and social liberty are designed to promote the formation of a democratic polity that is willing and able to limit the power of rulers. As times change, policy-

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<sup>54</sup> The Prophet strongly condemned religious extremism, and actively struggled against pseudo-pietism and zealotry. Whenever he encountered religious fanatics during his lifetime, he would warn them three times that “the zealots will perish”. Source: Ul Haq (1995, p. 107).

<sup>55</sup> *Ibid.*

<sup>56</sup> *Ibid.*



makers may change social and economic policies that are rooted in Islamic values, in order to meet a society's shifting socio-economic needs. The few basic principles outlined in this paper are the foundation upon which all policies must be based. All forms of discrimination and zealotry are strongly condemned by Islam, which also prohibits underdevelopment and significant income inequality. But Islam does not require income equality, nor does it limit the level of income that an individual may earn. Freely elected leaders are expected to work with society at large to formulate policies supporting economic prosperity, public education, healthcare and economic equity. All physically and mentally competent Muslims are required to work for their livelihoods, and those with a sufficient level of assets are obliged to pay taxes that help the state fund welfare and other social programs. The ruling authority in an Islamic state must maintain social and economic stability and ensure a fair distribution of income. Islam, however, prescribes that it is up to the Muslim community itself to determine its specific socio-economic needs and work to fulfill them.

Fiscal efficiency, social investment, achieving rapid economic growth and the dispersion of executive power are thus intrinsic aspects of Islamic economic teachings. Freedom of expression and belief, along with equal access for all citizens to education and healthcare, are crucial elements of Islamic law. Fluidity is a fundamental aspect of the Muslim economic and political systems, which may be modified as fiscal priorities shift and social settings change. A Muslim is therefore obliged to voice concern when he or she observes an unelected executive authority institute rigid and harmful national policies. He or she is *religiously obligated* to contest the rulings of that authority if they generate low or negative economic growth, stifle social liberties, and do nothing to combat unemployment and sexual or racial discrimination.

Our interpretation of Islamic teachings might appear to be at odds with the conventional interpretations of Islam that have prevailed in contemporary Muslim countries. We seek to define Islam and the Islamic economy without bias. The principle religious leaders in most Muslim countries work with their respective state authorities to maintain the political status quo. They characteristically espouse policies aiming to temper internal tension and preserve the stability of the state, even if those policies and the ruling authority itself are insular and unjust. Our aim is not to validate the policies of a national authority, but to present an objective interpretation of Islam that is

factually supported by verses from the Quran and from the *Sunnah*. Our assertions have in the past been espoused by many modern specialists in Islamic economics, such as Abbas Mirakhor, who agree that social and economic justice represent the foundational principles of an Islamic economy and the role of the Muslim state. Contemporary theologians, such as Abdulaziz Sachedina, have written extensively on and ardently support the concept of the Just Muslim ruler.

The legitimacy of our interpretation is further confirmed by the mounting tension between an ever-increasing number of Muslims and their state religious authorities over interpretations of Islamic rule. Many Muslim clerics and lawmakers in Iran, for example, have conflicted with the country's ruling clerical establishment over issues such as democratization and women's rights ever since it became an Islamic Republic. The country's most senior cleric, Ayatollah Hossein Montazeri, who was once set to be its next supreme leader, was demoted and put under house arrest for many years for continuously denouncing mismanagement and abuses by the regime and calling for the election and accountability of the supreme leader. Ayatollah Montazeri is now a major opposition figure for reformists in the country, and has deemed it his 'religious duty' to discuss contemporary political issues such as free elections, security and democratization.<sup>57</sup> The elected Iranian Parliament, which also includes clerics, has consistently experienced tension with the country's two major proprietors of religious and political authority – the Guardian Council and the Expediency Council – which are heavily composed of clerics as well. Former Iranian President Mohammad Khatami, a cleric and a reformist, continuously struggled to institute liberalizing reforms despite the many efforts of the two Councils to thwart him. Similar splits between religious figures and their governmentally-appointed counterparts have been taking place in other countries such as Egypt, where Islamist organizations such as the Muslim Brotherhood, which are widely popular with the public, are becoming more disconnected from the religious head of Al-Azhar Mosque, who is considered to be one of the highest authority in Sunni Islam, but is appointed by the Egyptian government. Islamists – along with their secular opposition counterparts – have been calling for free, fair and pluralistic elections for years – something the secular Egyptian government has yet to allow them.

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<sup>57</sup> British Broadcasting Corporation (2003).

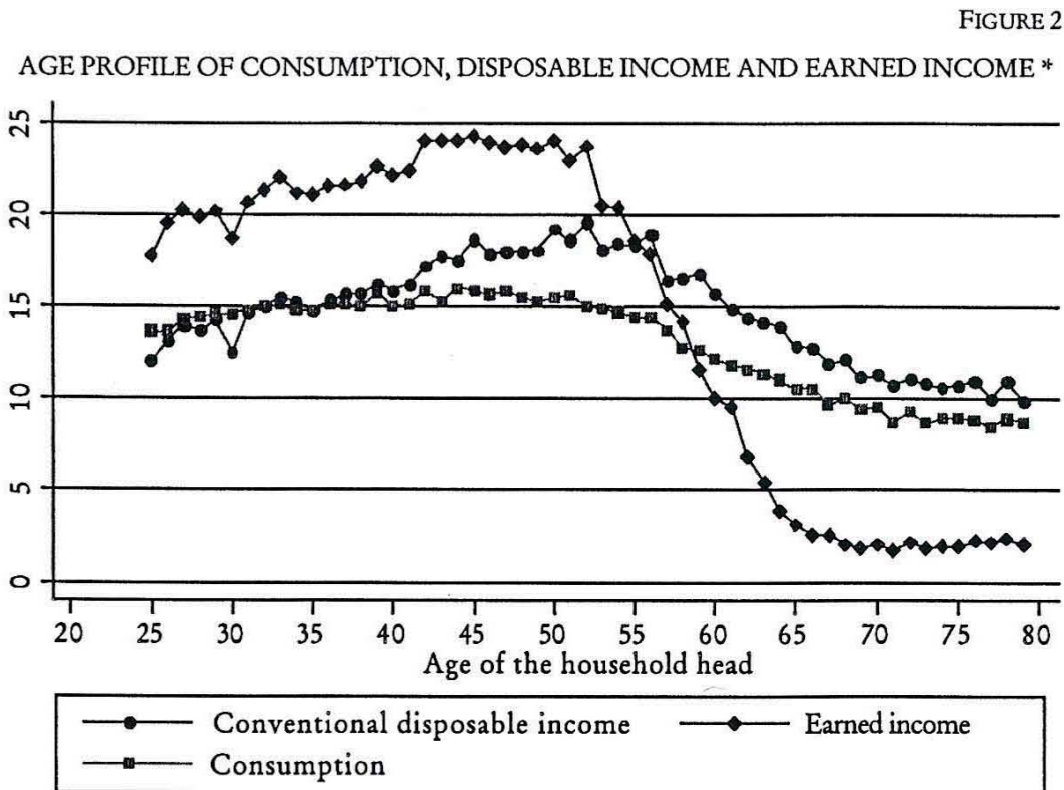
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## ERRATA CORRIGE

In the article by Tullio Jappelli, "The life-cycle hypothesis, fiscal policy and social security", published in the June-September 2005 issue,

Figure 2, on page 182 is to be substituted with the following:



\* The age profiles of consumption and income are estimated from regressions of median income and consumption on a full set of age dummies, cohort dummies and restricted time dummies, following Deaton and Paxson (1994) approach. The data are drawn from year/age/cohort data computed in the Bank of Italy Survey of Household Income and Wealth. Income and consumption are expressed in thousands of euro.

Source: Jappelli and Modigliani (2005).

Our apologies to the author and readers.