

# The Economic System of Islam (part 1 of 2): The Sources of Islamic Economics

**Description:** An introduction to the principles Islam has legislated to guide the economic system of society. Part 1: The sources from which the laws that guide economical activity are derived.

By IslamReligion.com

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## Introduction

As a complete way of life, Islam has provided guidelines and rules for every sphere of life and society. Naturally, a functioning economic system is vital for a healthy society, as the consumption of goods and services, and the facilitation of this by a common medium of exchange, play a major role in allowing people to realize their material and other goals in life.



Islam has set some standards, based on justice and practicality, for such economic systems to be established. These standards aim to prevent the enmity that often occurs between different socioeconomic sections. Of course, it is true that the gathering of money concerns almost every human being who participates in transactions with others. Yet, while these standards recognize money as being among the most important elements in society, they do not lose sight of the fact that its position is secondary to the real purpose of human existence, which is the worship of God.

An Islamic economic system is not necessarily concerned with the precise amount of financial income and expenditure, imports and exports, and other economic statistics. While such matters are no doubt important, Islam is more concerned with the spirit of the economic system.

A society that implements Islamic laws and promotes Islamic manners will find that it bring together all the systems - social, economic, and so forth - that it deals with. Islam teaches that God has created provision for every person who He has brought to life. Therefore, the competition for natural resources that is presumed to exist among the nations of the world is an illusion. While the earth has sufficient bounty to satisfy the

needs of mankind, the challenge for humans lies in discovering, extracting, processing, and distributing these resources to those who need them.

Islam consists of a set of beliefs which organizes the relationship between the individual and his Creator; between the person and other human beings; between the person and universe; and even the relationship of the person to himself. In that sense, Islam regulates human behavior, and one type of human behavior is economic behavior. Economic behavior is dealt by Muslims as a means of production, distribution, and consumption of goods and services. In Islam, human behavior -whether in the economic area or others - is not value free; nor is it value neutral. It is connected with the ideological foundation of the faith.

## **The Sources of Islamic Economics**

The fundamental sources of Islam - the Quran and the Sunnah of the Prophet<sup>[1]</sup> - provide guidelines for economic behavior and a blueprint of how the economic system of a society should be organized. Therefore, the values and objectives of all "Islamic" economic systems must necessarily conform to, and comply with, the principles derived from these fundamental sources. The purpose of these articles is to outline the most salient characteristics of an economic system based on the fundamental sources of Islam. The focus here is on the principal features of the Islamic system.

The Islamic economic system is defined by a network of rules called the Shariah. The rules which are contained in the Shariah are both constitutive and regulative, meaning that they either lay the rules for the creation of economic entities and systems, as well the rules which regulate existing one. As an integral part of the revelation, the Shariah is the guide for human action which encompasses every aspect of life - spiritual, individual, social, political, cultural, and economic. It provides a scale by which all actions, whether on the part of the individual agents, society, and the state, are classified in regards to their legality. Thus there are five types of actions recognized, namely: obligatory; recommended; permissible; discouraged; and forbidden. This classification is also inclusive of economic behavior.

The basic source of the Shariah in Islam is the Quran and the Sunnah, which include all the necessary rules of the Shariah as guidance for mankind. The Sunnah further explains these rules by the practical application of Prophet Muhammad, may the mercy and blessings of God be upon him. The expansion of the regulative rules of the Shariah and their extensions to new situations in later times was accomplished with the aid of consensus of the scholars, analogical reasoning - which derived rules by discerning an analogy between new problems and those existing in the primary sources - and finally, through textual reasoning of scholars specialized in the Shariah. These five sources - the Quran, the Sunnah, consensus of the scholars, analogical reasoning, and textual reasoning - constitute the components of the Shariah, and these components are also used as a basis for governing economic affairs.

# Justice

In summary, we can say that the Islamic Economic system is based upon the notion of justice. It is through justice that the existence of the rules governing the economic behavior of the individual and economic institutions in Islam can be understood. Justice in Islam is a multifaceted concept, and there several words exist to define it. The most common word in usage which refers to the overall concept of justice is the Arabic word "*adl*". This word and its many synonyms imply the concepts of "right", as equivalent to fairness, "putting things in their proper place", "equality", "equalizing", "balance", "temperance" and "moderation." In practice, justice is defined as acting in accordance with the Shariah, which, in turn, contains both substantive and procedural justice<sup>[2]</sup> covering economic issues. Substantive justice consists of those elements of justice contained in the substance of the Shariah, while procedural justice consists of rules of procedure assuring the attainment of justice contained in the substance of the Law. The notion of economic justice, and its attendant concept of distributive justice,<sup>[3]</sup> is particularly important as an identifying characteristic of the Islamic economic system. The rules governing permissible and forbidden economic behavior on the part of consumers, producers and government, as well as questions of property rights, and of the production and distribution of wealth, are all based on the Islamic view of justice.

The following topics will be discussed in the following articles:

- (a) individual obligations, rights, and self-interest;
- (b) property rights;
- (c) importance of contracts;
- (d) work and wealth;
- (e) the concept of barakah;
- (f) economic justice;
- (g) prohibition of interest (riba);
- (h) competition and cooperation; and
- (i) the role of the state.

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Endnotes:

<sup>[1]</sup> The Sunnah is general body of narrations of the speech, deeds, and tacit approvals of the Prophet.

<sup>[2]</sup> "Substantive justice means reaching the 'right' result. Procedural justice means getting the

result in the 'right' way." (A speech entitled "Effective Arbitration Techniques in a Global Context" delivered by the Secretary for Justice of Hong Kong ,Ms Elsie Leung)

[3] "Normative principles designed to allocate goods in limited supply relative to demand." Stanford Encyclopedia of Philosophy: (<http://plato.stanford.edu/entries/justice-distributive/>)

## The Economic System of Islam (part 2 of 2): Its Ideology

**Description:** An introduction to the principles Islam has legislated to guide the economic system of society. Part 2: The Ideological Basis of Economic Activity and the general principles by which they are guided.

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### The Ideological Basis of Economic Activity

The ideological basis in Islam may be summarized into six basic principles:

The cornerstone is that everything has to start from the belief in God as the Creator, Lord, and Sovereign of the universe. This implies willingness to submit to God's will, to accept His guidance, and to have complete and unqualified servitude to Him. This means that Muslims - individually and collectively - should not imitate or emulate any other system if it differs from their particular principles, for example, the system of usury or interest.

The second basic principle is that Islam, as a religion, is a complete way of life; something that guides a person's life in all its aspects: the moral, social, ethical, economic, political, etc. All of these aspects are based on the guidance of God. Therefore, it is not a question of the person's acceptance of God's teaching in one matter and the refusal of acceptance in another. Everything has to be within that basic guidance.

**"...And we have revealed to you in stages this book, a clarification of all things, a guidance, a mercy, and glad tidings..." (Quran 16:89)**

A third principle is that God created human beings on earth as His trustees, which means that everyone is created to fulfill a certain responsibility on this earth. God has entrusted human beings with free will in order that they live their lives according to the moral and ethical values that He Himself provided. In addition, Islam provides an opportunity in material progress, thereby combining moral, social, and material progress, all interlinked in harmony.

The fourth principle is that God, in order to help humankind to fulfill the responsibility of trusteeship, has made everything in this universe subservient to them. There are many

verses in the Quran that suggest this meaning, such as:

**"God is He Who made subservient to you the sea that the ships may run therein by His command, and that you may seek of His grace, and that you may give thanks." (Quran 45:12)**

This does not mean, however, that humans are given free reign to use and abuse the resources God has provided us however we choose. Rather, there are many verses that urge humankind to harness the various resources that God has made available to them on this earth responsibly. Humans are encouraged to enjoy of the good things that God has created, but they are to do so within the boundaries that He has given. Doing so is not regarded as sinful as long as it follows His path and does not transgress His limits. God says:

**"It is He Who produces gardens, with trellises and without, and dates, and tilth with produce of all kinds, and olives and pomegranates, similar (in kind) and different (in variety): eat of their fruit in their season, but render the dues that are proper on the day that the harvest is gathered. But waste not by excess: for God loves not those who waste." (Quran 6:141)**

The fifth principle is the principle of accountability in the Hereafter. God has given human beings trusteeship and resources. This means that every single person will be questioned on the Day of Judgment as to how he or she behaved whilst enjoying his or her earthly life. This, of course, includes our economic behavior. God says:

**"And then on that Day (the Day of Resurrection) you will be called to account for every comfort and delight [we bestowed upon you]." (Quran 102:8)**

The sixth principle is that the variation in wealth among people in itself does not give a person either inferiority or superiority. Rather, poverty and affluence are in the total control of God Who, out of His Infinite Justice and Wisdom, has specified these things for whom he chooses.

**"Indeed God increases provision to whom He pleases and straitens it [in regards to others]..." (Quran 13:26)**

Affluence, like poverty, is also seen as a trial from God, one through which it is seen what one will do with their wealth - indulge oneself or use constructively in ways legislated in the religion, God says:

**"Your wealth and your children are only a *trial*, whereas God! With Him is a great reward (Paradise)." (Quran 64:15)**

After being bestowed with numerous gifts and bounties and a kingdom incomparable to any other on the earth, God in the Quran narrates that Solomon said:

**"...This is from the bounties of my Lord, to test me whether I will be thankful or ungrateful..." (Quran 27:40)**

God is not concerned with the amount of wealth a person may have amassed, their beauty or color, but rather, His measure of honor is the piety of the hearts. God says:

**"On humankind! Indeed We created you from a male and female, and we made you different nations and tribes, that you may come to know one other. Indeed the most honored amongst you are the most God-conscious." (Quran 49:13)**

The Prophet also said:

"Indeed God is not concerned with your appearances nor your wealth, but rather your hearts and deeds." (*Saheeh Muslim*)

As one can immediately surmise from these principles that the Islamic economic system is radically different from others, due to the difference of the values upon which it is based. In a capitalist society, one may see certain rules of economics which take precedence over moral and ethical values due to the intrinsic nature and values of that system. The same may be seen in communist, socialist and other societies as well. From the principles mentioned in these articles does the Islamic system of economics spring, striking balance between personal benefit and the benefit of society as a whole, as well as mundane profits and spiritual gains, all which ensure that one gain the Pleasure of the Lord of the Worlds.

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