

A Design For An Islamic Economic System

By:
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ABSTRACT

History has witnessed the rise and fall of many different economic systems. Some of these systems were successful for period of time but then vanished. Full employment, growth, price stability, the elimination of poverty, and more equitable distribution of income are only a few problems facing most economies today, including countries imbued with Islamic values and culture. These countries are constantly searching for solutions to these problems, within their ideological framework.

Islamic economic system, based on the Islamic values and world view, is only a part of the whole Islamic system and is predominated by ethics through which economic activities are integrated with social life and standards are set for operational rules of economic behavior. It is the ethical norms, emanating from the Qur'an and the Sunnah, that control and regulate man's socio-economic behavior and dominate economics, not the other way around. This system not only explains socio-economic phenomena, but also corrects economic behavior. It relates a construction of 'what is' to an all-embracing program of what 'ought to be'.

This paper presents the basic framework of the Islamic economic system, which can be used as an alternative to the existing economic system in Muslim countries. To explore such a system first capitalism, its meaning and ideology; socialism, its definition, history, general features; communism,

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its meaning, history, and Marxist ideology are reviewed. Then, the basic premises, and main features of Islamic economic system such as significance, method, scope, human nature, change, ownership, control of the means of production, locus of economic power, motivational system, organization of economic power, social process for making and coordinating economic decisions, distribution of income and wealth, ideology, and state are examined.

CAPITALISM

Meaning and History

Capitalism, as defined in *A Modern Dictionary of Sociology*, is, "An economic system based upon the accumulation and investment of capital by private individuals who then become the owners of means of production and distribution of goods and services"[1]. Such an economic system has been typified by economic motivation through private profit, competition, the determination of prices and wages-primarily through supply and demand, and extensive system of credit, freedom of contract, and a free labor market.

The history of capitalism can be traced to the break up of feudalism in the western countries. It developed as a system from the 16th century and was led by the expansion of the cloth industry in England during the 16th, 17th, and 18th centuries. The excess of production over consumption in capitalism was used to enlarge productive capacity rather than in unproductive fields such as pyramids and cathedrals. This feature distinguished capitalism from the previous systems.

There were two factors related to the development of the capitalism. The first factor was the ethical encouragement by the Protestant Reformation of the 16th century; hard work and living economically were emphasized. Inequality in wealth was permitted on the basis that the wealthy were also virtuous. The second factor was the increase of precious metals in Europe which caused inflation in prices. Prices rose faster than the wages, and the capitalists enjoyed the benefits of inflation. They also enjoyed the benefits of the rise of the strong national states that provided the basic social conditions, such as uniform monetary systems and legal codes, which made possible the shift from public to private initiative.

The focus of the capitalist development shifted from commerce to industry, starting in the 18th century in England. The accumulation of capital of the previous centuries was put into the practical application of technical knowledge during the industrial revolution. In 1776 the ideology of

classical capitalism, for the first time, was expressed by Adam Smith. He recommended that the free market forces regulate economic decisions. After the French Revolution and the Napoleonic wars, classical capitalism was put into practice for the first time in history in the 19th century. Then the policies of political liberalism such as free trade, sound money (the gold standard), balanced budgets, and minimal level of poor relief were noticeable. However, the occurrence of world war I, shrinking international markets, abandoning the gold standard, revolution in African and Asian countries against colonialism, the Great Depression of 1930's were all factors which caused the policy of Laissez-Faire (no government interference in economic decisions) to be reconsidered. The United States, Great Britain, West Germany, and Japan are examples of capitalist countries.

CAPITALIST IDEOLOGY

Capitalistic ideology is based on the following institutions [2] and assumptions:

1. Private Property: The institution of private property is the main element of a capitalist system. It gives the right to each individual to acquire economic goods and resources by legitimate means, permits him/her to negotiate business, allows him/her to negotiate business, allows him/her to dispose of economic resources as s/he wishes. The property right can be transferred to another individual after death, if the owner of the property designates the recipient of his property [3].

2. Self - Interest: The assumption of self-interest is the fundamental motive for the various economic units under capitalism. Each individual pursues his self interest, without government interference, which brings about the best results for the society. Adam Smith described this mechanism as the "invisible hand".

Self-interest drives people to action but by itself is not enough. people must think rationally. This forced economists to introduce the concept of economic man. It means every individual thinks economically. That is, in a capitalist society each individual wants to act in such a way to maximize his satisfaction and minimize his sacrifice or cost [4].

3. Absence of Planning: Under capitalism there is no central economic plan. The capitalist economy rests upon individual actions of million of private economic units. These actions are coordinated by the market mechanism. The free market sets the prices which make economic calculation possible. That is, prices are not set by government, they are the result of market forces. However, government must provide healthy

monetary and credit conditions and must watch an aggregate demand which is neither too large nor too small, and be aware of monopolistic power, so it does not go beyond the limit.

4. Consumer's Sovereignty: Consumer's sovereignty as opposed to planner's sovereignty is another assumption of a capitalist system. Literally it means producers produce for the consumer's sake. So the existence of a centralized power eliminates consumer's sovereignty because central planners substitute their decision for the wishes of the consumers. However, the consumer's sovereignty has been questioned under capitalism mainly because of advertising, changing technology and true information supply. Vaclav Holesovsky points out by saying that, "Gone are the times when people genuinely believed that production took place unequivocally for the consumer's sake". [5]

5. Free Choice of Occupation: One of the most important assumptions of capitalism is the freedom of choice of occupation. Every individual can be mobile and is able to choose and decide about the job that he is offered. In considering the assumption of self-interest, free choice of occupation implies that, in order to attract more labor, producers must increase wages so much as enough to attract the needed labor. Freedom of occupation is not consistent with equal income distribution.

6. Free Enterprise: Freedom of enterprise is closely related to private ownership of property. It means that under pure capitalism private enterprises are free to purchase economic resources they like and to organize them as they desire, and to sell their products in markets of their choice. Thus, there are no government restrictions to block enterprises entering or exiting the market. [6]

7. Competition: Another institution assumption is that capitalism is a competitive system. There must exist sufficient competition so that the whole production and distribution process is regulated by the market forces. There is a belief that competition encourages initiative, protects consumers against exploitation, and maintains a sufficiently flexible price system. In such a model each individual finds the position in which s/he is best fitted. Those who are not capable of the position they hold will be weeded out by others who are better qualified. However, unrestricted competition may cause monopoly and, in turn, extortion and consumer's exploitation and so on.

8. Markets and the Price System: The model of capitalism is based on market economy. There are numerous buyers and sellers of products and resources, and their actions and decisions are regulated by a system of markets. In various markets, supply and demand of any kind of product and resource represents the preferences of sellers and buyers which in turn

constitutes a system of product and resource prices. On the basis of prices, taking into consideration other alternatives, resource owners, entrepreneurs, and consumers make their decisions. Milton H. Spencer points out the price system by saying that, "This (price system) essentially is a system of rewards and penalties -- profits for firms and individuals who are able to survive, and losses or possibly bankruptcy for those who are not". [7]

However, the problem of pricing may arise because of the maladjustment between demand and supply, which is related to the existence of imperfect competition in the market. There are other characteristics of a capitalistic system such as freedom to save and invest, extensive use of capital goods, specialization and so on. The major characteristics of classic capitalism are summarized in table 1.

TABLE 1: MAJOR CHARACTERISTICS OF CLASSIC CAPITALISM

| | |
|---|---|
| 1. Level of Economic Development | Developed or developing economy, with an advanced or advancing technology |
| 2. Resource Base | Heavy reliance upon capital and capitalistic methods of production |
| 3. Ownership - Control of Means of Production | Predominantly private and individual ownership and control of business enterprises |
| 4. Locus of Economic Power | Relatively large role for individual units (households and businesses) and accompanying small role for large-scale organizations, especially government |
| 5. Motivational System | Market-oriented motivations with particular emphasis upon the profit motive |
| 6. Organization of Economic Power | Decentralization of economic decisions and wide areas of discretion for freedom of individual choice |
| 7. Social Processes for Economic Coordination | Primary reliance upon a competitive price/market system |
| 8. Distribution of Income | Distribution according to market determined contributions to production, with the possibility of considerable inequality in income and property |

SOCIALISM

Definition and History of Socialism

According to Encyclopedia Americana Socialism is, "A doctrine that espouses public ownership or control of the major means of production. It aims to achieve a more equitable and efficient distribution of social goods and greater economic planning than exist under capitalism" [8]. Such a system is based upon the public ownership of the means of production, the social needs, and social services, not the profit motive.

The history of socialism can be traced as far back as Plato (the Republic), Sir Thomas More (Utopian, 1516), and Thomas Campanella (City of the Sun, 1602). They all were concerned with the desire to overcome scarcity, inequality, and social justice, happiness for all, and so on. This kind of socialist thinking continued to exist among people for many centuries without a drastic change in its framework. It was in the eighteenth century, that the industrial revolution brought about a new wave of socialist thinking known as modern socialism. The forerunners of modern socialism such as Babeuf, Saint Simon, Fourier, and Robert Owen, opposed the injustice, the inequalities, and the social and economic relations brought about by the industrial revolution. They attributed all of the sufferings to the capitalist mode of production and the free and uncontrolled market. They hoped the masses would get control of the means of production from the capitalists and run the government.

More revolutionary socialist writers were Auguste Blanqui, Karl Marx, and Friedrich Engels in the nineteenth century in Germany and Vladimir Lenin in Russia in the early 1900s, who advocated violent seizure of power and dictatorship by an elite of dedicated revolutionaries.

Although the majority of these socialists in the 19th and 20th centuries have similar ideas, Karl Marx distinguishes himself from his predecessors whom he called utopian socialists by introducing "The Scientific Socialism". He combined German idealistic philosophy with British political economy and French socialism. His ideas spread all over the world and dominated the socialist tradition in the last third of the 19th century.

GENERAL FEATURES OF SOCIALISM

Generally speaking, socialism is concerned with ethics, philosophy, politics, and social psychology as well as economics. The literature of socialism implies economic models of the socialist economy analogous, although not restrictive, to that presented, for example, by Oskar Lange. The economic model of this type of socialism is a combination of ideas on both decentralized forms of economic decision making and control. The

followers of this school of thought can be described as collectivists, but not as statist; collectivists because they advocate the utilization of collective institutions, including government, in solving economic problems; but not statist, because they disapprove the concentration of the economic decisions in the hands of a central government as opposed to other social-collective organizations, such as cooperatives, labor unions, local governments, and private enterprises. This model is known as democratic socialism which is becoming indistinguishable from liberal social reformers. Democratic socialists put more emphasis on democracy and believe that true or full democracy will only be achieved when democracy affects both political and non-political dimensions of life and society. By political democracy, socialists mean popular control over governments by the citizens and protection of their freedom (such as freedom of speech, freedom of association, and legal protections in criminal suits). By non-political democracy, they mean democracy to industries in the form of worker control of industry, to education in the form of public education or widening educational opportunities, to economy in the form of government control of the national economy to pursue public goals. Therefore, such a model can be characterized from the economic viewpoint as follows:

1. Presence of Planning: It was already mentioned that under capitalism, the economy rests upon actions of many private individuals. But in a socialist system the central planning system decides what and how much to produce. That is, the motive to produce will no longer be on the profit consideration, but it will be on the basis of the usefulness of such production to the people and to society.

2. Income Distribution: Socialists are concerned with establishing a more equal income distribution through public ownership of the material means of production. Hereby, the so called unearned income of private individuals such as interest, rent, and profit will be eliminated, and will go to the government.

In socialism, wage differential is used for more than accounting purposes; it is needed if labor is to be allocated without compulsion to the production of commodities which consumers demand. Oskar Lange believes that these wage differences would be negligible in view of the choice of occupation offering a lower income, a larger leisure, safety, agreeableness of work, etc. He relates the matter to the optimum distribution by saying that, "The optimum distribution is that which makes the differences of the value of the marginal produce of the services of labor in different industries and occupations equal to the differences in the marginal disutility of working in those industries or occupations" [9].

3. Public Enterprise: In socialism, industry is controlled by some kind of common organization. The specific type of the organization is not totally agreed upon by different socialist groups. Various socialist groups may have totally different organizations to control and regulate industry. Whatever the arrangement, there are no capitalists as private owners of means of production. The means of production would be in the hands of people or would be used for the interests of the masses of the people.

It must be noted that under this model, collective ownership is applied to only the key industries, not to all property, which the public is dependent such as all large holdings, forests and mineral deposits, railroads and other public utilities and the more important manufacturers. The danger of exploitation of the working class by large capitalists exists without this public ownership of such industries.

4. Competition: Some socialist economists think there is no need for competition, and prices can be based only on the quantities of labor embodied in various goods, ignoring other factors. But there are economists, in recent years, who believe that a socialist economy could apply the basis of the price system under certain conditions. For instance, Oskar Lange, who introduces the "Parametric Prices"[10] mentions a price system as one of the advantages of socialism. He goes on to say that a socialist system takes both private and social costs into account and is always able to put all choices into its economic accounting. Hereby, a socialist economy could prevent a great amount of externalities, or social costs, related to private enterprise.

5. Goals: The basic economic goal for socialists is the "minimum practicable inequality". To achieve freedom for individuals and for the entire society, they suggest equal political as well as economic rights. In other words, they reject the concepts of liberalism and communism. John Elliott clarifies this matter by saying that, "Thus, liberalism 'is not enough' because it fails to recognize the necessity of equality for the attainment of equal freedom for all, while 'communism' is also not enough, because, in the ostensible pursuit of economic equality, it denies political liberty to a large part of the society it rules" [11].

With all these in mind, The democratic socialism can be summarized in Table 2.

TABLE 2: THE STRUCTURE OF DEMOCRATIC SOCIALISM

| | |
|----------------------------------|--|
| 1. Level of Development | Developed economy |
| 2. Resource Base | Capitalistic |
| 3. Ownership-Control of Industry | Mixed-including a significant but limited role |

| | |
|--|---|
| 4. Locus of Economic Power | for "state monopolies": State ownership or control of basic industries Dispersed; but conscious social control of private economic power |
| 5. Motivational System | Individual gain, modified by the principle of cooperation and pursuit of social goals |
| 6. Organization of Economic Power | Mixture of decentralization and centralization |
| 7. Social Processes for making and Coordinating economic decisions | Mixture of (competitive) price system (economic and political) democracy (regulated and limited) bureaucracy, and bargaining; conscious regulation of the market by government planning |
| 8. Distribution of Income and Wealth | Market determination-modified by large-scale government measures to reduce inequality in income, wealth, and opportunity |

COMMUNISM

Meaning and History

Although the communism has failed as a system, we examine its basic framework briefly. The world communism, refers to, "The doctrines underlying the revolutionary movement that aims to abolish capitalism and ultimately to establish a society in which all goods will be socially owned and all economic activities socially planned and controlled and in which distribution will be in accordance with the maxim from each according to his capacity, to each according to his needs" [12].

The origin of the term communism is old. Prior to Marx there had been small communist communities along with socialist, like Robert Owen and Charles Fourier, who founded such communities. But in 1848, the concept of communism took on a new meaning when it was used by Karl Marx and Friedrich Engels in their famous work, the Communist Manifesto. They used the term "Communism" as being synonymous with socialism; but in later period their followers meant it as an ultimate stage of socialism in which there would be no state, no medium of exchange such as money, and there would be plenty of goods.

However, it must be noted that Marxian socialism is different from the

democratic socialism, which believes in nationalizing gradually only the essential means of production through constitutional and democratic methods and distributing income on the basis of each individual's work.

The short history of communist regimes started when the Bolshevik wing of the Russian social-Democratic workers' Party took power in Russia in 1917 under leadership of Lenin. Until the demise of the Soviet Union, its official doctrine was communism, although it was never a communist society.

MARXIST IDEOLOGY

Marxism as an ideology (used by the Soviets) is based on three doctrines: 1- Dialectical Materialism, 2- The Dialectical Process in History, 3- The Economic Theory Concerning the Rise and Development of a Capitalist Society. In the following section, we will discuss these doctrines briefly.

1. Dialectical Materialism means that it is the mutual action and reaction of thesis and antithesis which created a synthesis. This doctrine is known as the Hegelian dialectic of thesis, antithesis, and synthesis, which later on Marx applied as a basis for his theories. According to Hegel, it is the law of universe that struggle or conflict is the inevitable fact, and all creation is an outcome of thesis and antithesis contradictions which develop without exception in every situation. However, Marx substituted materialistic realism for Hegelian idealism. He explained that it is not the mind that dominates matter, but is itself the product of the matter. The main factors determining the mind are the objective events in the environment.

2. Marxist Historical Materialism is the application of dialectical materialism to human history. This is also known as the communist's theory of evolution. According to Marx, human history can be divided into seven phases: primitive human being, primitive communism, slavery, feudalism, capitalism, socialism, and finally communism. In all stages of this process, economic events are the determining factors of the social and political life. Marx believed the economic system of every society is the substructure and other institutions such as religion, laws, arts, ethics are superstructures. The substructure always is a determining factor and influences the superstructure.

For Marx, all human history is a process of class struggle. This struggle will continue until the classes are abolished by a proletarian revolution which will finally establish a classless society. Massimo Salvadori points out, "The abolition of classness in society presupposes a degree of historical evolution, at which the existence, not simply of this or that particular ruling class, but of any ruling class at all, and, therefore, the existence of class distinction itself has become an obsolete anachronism" [13].

3. Marx's Economic Theory deals with five principles: the law of concentration, surplus value, the two-class struggle, the over-production theory of depressions, and revolution.

After the Industrial Revolution, small industries turned into large factories. According to Marx, as time proceeds, this concentration of industry will continue and will eliminate smaller businessmen and force them to be under domination of a few large capitalists. The society, then will be divided into two classes: the bourgeois or capitalists and the proletariat or wage-earning class. The capitalists gain an unearned income which they do not produce. The proletarians create all wealth and are paid at the level of bare subsistence. The result is the creation of surplus value which goes into the capitalists' pockets. Paul Sweezy explains this by saying that, "Capitalists... aims to the maximization of profit they pay workers as little as they can get away with and steadily introduce labor-saving machinery. The consequence, of course, is to hold down the consumer power of working class... but accumulating more and more capital means adding to society's productive capacity. We, therefore, have the paradox that capitalism steps on the brake as far as consumption is concerned and on the accelerator as far as production is concerned. This is the basis contradiction..." [14].

So the "law of concentration" along with the theory of surplus value creates class war between these two groups which leads to social revolution and as a result a new system, socialism, will emerge, Marxian socialism, summarized in table 3, illustrates its main points.

TABLE 3: MARXIAN SOCIALISM

| | |
|---|--|
| 1. Level of Development | Developed economy with a high per capita income and an advanced technology |
| 2. Resource Base | Heavy reliance upon capital and capitalistic methods of production |
| 3. Ownership - Control of the means of production | Worker-state ownership and control |
| 4. Locus of Economic Power | Workers and the worker-state |
| 5. Motivational System | Remnants of "bourgeois" psychology (economic gain maximization) modified by beginnings of satisfactions from the creative work process |
| 6. Organization of Economic Power | Combination of decentralization (worker control) and centralization (central planning) |

| | |
|---|--|
| 7. Social Processes for Economic Coordinating | Primary reliance upon an overall system of public economic planning for the entire economy, coupled with "democratization" or worker control of industry |
| 8. Distribution of Income and Wealth | Elimination of income from private ownership of land and capital, coupled with some income inequality based on differences in quantity and quality of work |

As can be seen from the above table, Marxian socialism is to occur first in the more advanced industrialized countries and will be based on worker-state ownership as opposed to private ownership. The means of production will be functioning in respect to the general welfare rather than maximizing profit; that is, production will be for use not for profit.

After revolution and emerging socialism, there is a stage called dictatorship of the proletariat. This is a necessary phase of socialism because, as Elliott quotes Karl Marx, "Socialism" emerges from capitalist society... and is thus ... still stamped with the birth marks of the old society from whose womb it emerges" [15]. So during this period the vanguards (Lenin's word) will hold the power and rule the country at any cost and try to educate people towards its ideals. This period also is known as the lower phase of communism.

For Marx, the socialist state will evolve to the communist society, which is the ultimate and highest phase of communism. By reaching this stage, the state will "wither away" and the society will be classless. The situation of the poor and the weak will be desirable, and the universal brotherhood of man will prevail. Paul Sweezy adds to these by pointing out, "It would be a state of society in which, to quote Marx's words, 'the free development of each is the condition for the free development of all' and in which distribution takes place according to the principle 'from each according to his ability, to each according to his need' [16].

4. Planning in a Communist System: Under an ideal communist system, the state determines what to produce and how, and also sets the targets for production. Therefore, unlike the capitalists system, price and income movements are not allowed to regulate production and consumption. The targets or goals are chosen on the basis of priority principle by the central planners. However, in Marx's concept of the ultimate stage, communism, a collective organization would decide what was to be produced and how

much and how. The money, prices, wages, and free exchange would be eliminated, and the distribution would be on the principle "to each according to his need".

ISLAMIC ECONOMIC SYSTEM

The Islamic economic system, based on the Islamic economic values and world view is predominated by ethics. It is the ethical norms that control and regulate man's economic behavior and dominate economics, not the other way around. The Islamic economic system, originating from the Qur'an and the Sunnah, not only explains socio-economic phenomena, but also corrects economic behavior. In such a context, a construction of 'what is' becomes a starting point of a comprehensive program of what 'ought to be'

The main features of the Islamic economic system can be summarized as follows:

TABLE 4: SOME CHARACTERISTICS OF ISLAMIC ECONOMIC SYSTEM

| | |
|---|--|
| 1. Significance | Problem Solving, a means to achieve Tawhidi Community |
| 2. Method | Scientific; Theory-fact correspondence |
| 3. Scope | Analytic, broad |
| 4. Human nature | Discretionary being, educable, conditioner as well as conditioned |
| 5. Change | Evolutionary, developmental |
| 6. Ownership: Control of means of production | Multifaceted ownership, private, state, and public ownership |
| 7. Locus of Economic Power | Private entities, cooperatives, State |
| 8. Motivational System | Heavy reliance on cooperation and pursuit of individual and economic gain related to social welfare |
| 9. Organization of Economic power | Combination of decentralization and centralization |
| 10. Social Process for making and coordinating economic decisions | Mixture of healthy competitive price system, democracy, reciprocity and redistribution, regulation of the market by the government |

| | |
|---------------------------------------|--|
| 11. Distribution of income and wealth | Income is distributed according to work, need, ownership |
| 12. Ideology | Islamic |
| 13. State | Necessary vehicle to provide the conditions to reach Islamic Economic Objectives |

1. SIGNIFICANCE

The purpose behind an Islamic economic system is not only one of problem solving, but also is a means to achieve a Tawhidi community in which all individuals feel themselves to be members of the same family.

In answer to the question as to what is the significance of economics, Lionel Robbins points out, "Surely it consists in just this, that, when we are faced with a choice between ultimates, it enables us to choose with full awareness of the implications of what we are choosing. Faced with the problem of deciding between this and that, we are not entitled to look to economics for the ultimate decision. There is nothing in economics which relieves us of the obligation to choose ... We must be aware of the implications of the alternatives... And it is just here that economics acquires its practical significance" [17].

However, the Islamic economic system is different from and goes beyond this and views economics as a vehicle to achieve a Tawhidi community in which social justice is the principle objective. A community in which the concept of "ungraded men" is held true where all individuals are equal partners regardless of their race, sex, wealth, rank, ethnicity, origin and class. Such a community is called "Ummah". Ali Shari'ati explains this concept, "The ideal society of Islam is called the `Ummah`. Taking the place of all the similar concepts which in different languages and cultures designate a human agglomeration or society such as `society`, `nation`, `people`, `tribe`, `clan`, etc., is the single word `Ummah`, a word imbued with progressive spirit and implying a dynamic, committed and ideological social vision" [18].

Therefore, besides the significance of problem solving which is the common characteristic of most the existing economic systems, the Islamic goal and direction is to achieve, through its economic system, a single community in which social justice prevails and where all individuals feel that they are members of one another, have a sense of fraternity, self-sacrifice, righteousness, and responsibility.

2. METHOD

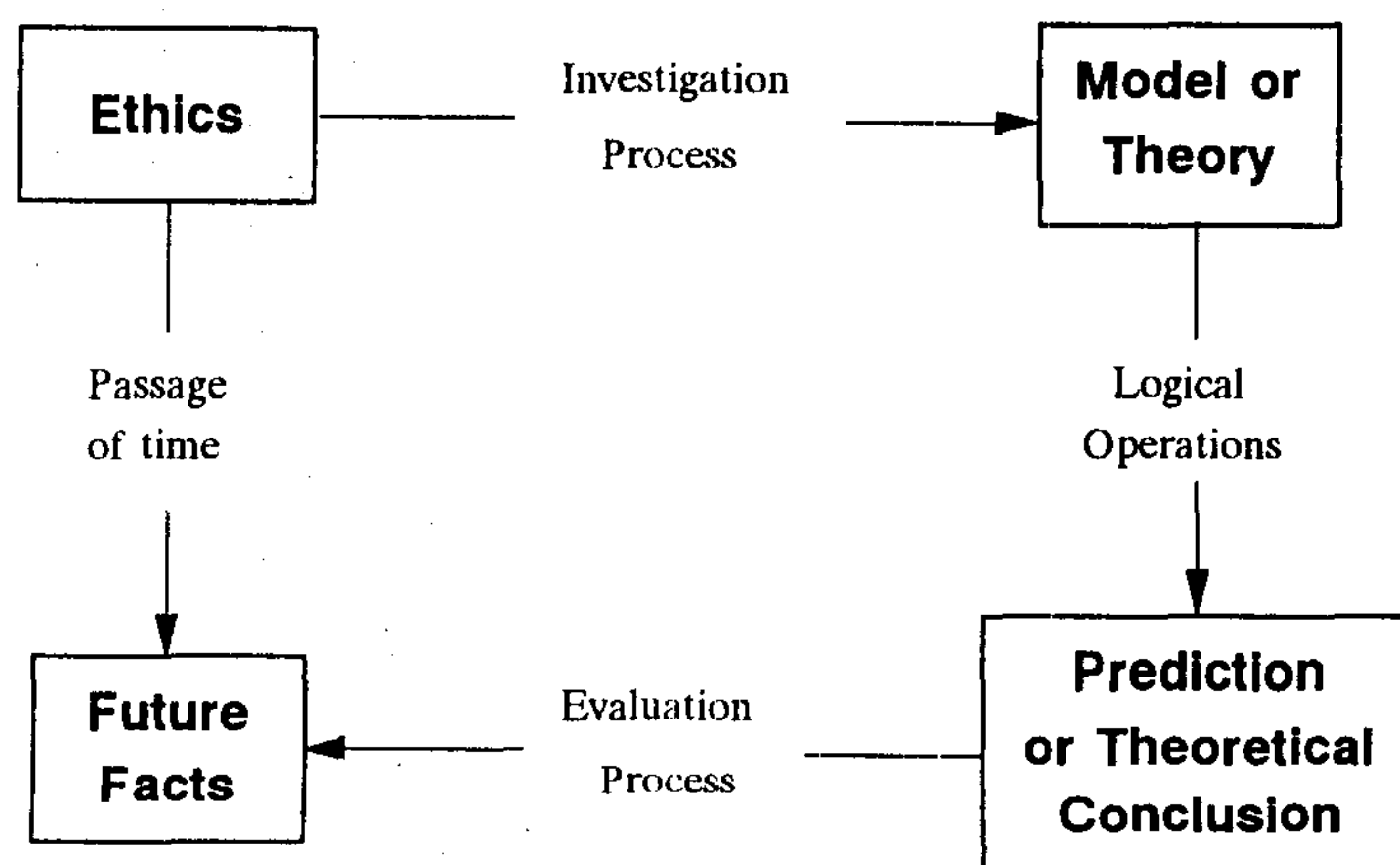
The term "method" can be defined as "A branch of logic or rhetoric which teaches how to arrange thoughts and topics for investigation, exposition, or literary composition [19].

The method of Islamic economics is scientific and theory-fact correspondence. That is, a deductive as well as an inductive method is applied to derive a set of economic principles, meaning first that we must formulate theory and second check that theory against facts. When facts do not fit, then we have to go back and rewrite the theory. Now the question is: How can this be done in a system where ethics superimpose economics? This can be done through clarifying and understanding the fundamental ethical values as a backbone of the Islamic economic system in order to establish a set of principles which are derived from the first set, that is, the ethical values. About this matter, S.N.H. Naqvi points out, "Hence, the first step in the direction of evolving Islamic economics is to recognize and understand clearly what these fundamental ethical values are in order to discover the touchstone by reference to which one could establish the Islamic (or non-Islamic) nature of given economic principles. The next step along this difficult road is to turn these ethical values into "operational" axioms. Once such a logical system has been set up, the essentials of Islamic economics can be deduced in a finite number of steps" [20]. Then he continues to say, "This analytical procedure amounts to delineating Islamic economics by reference to the 'first principles', which, in the climate of an Islamic system, are all ethical. There is nothing unscientific about this procedure of tracking down of economic principles to ethical precepts since, in the last analysis, all scientific systems are based on a system of commonly accepted values-which is what ethics are, broadly defined. At any rate, in so far as ethical principles are required to effect a meaningful rank ordering of social preferences, no economic system worth the name can ignore them. It is a difficult undertaking; but then this is the only way of doing the job scientifically. No royal road exists to knowledge. However, it is important to bear in mind that the basic propositions of Islamic economics can be valid only within the framework of an Islamic system, of which ethics form a dominant component. This follows logically because the basic propositions of every 'complete' logical construct, not only of economics, are formally correct only within the matrix of such a system. However, this fact does not detract from the 'universality' of such a system; it only points to the essential relativity of all human knowledge that pertaining to Islamic economics being no exception to this universal rule" [21].

One method to formulate a model or a theory can be as follows: To

construct such a model, first, one must have a complete knowledge of the ethical and moral value system of Islam. Second, one must choose those elements of such ethical system that are the most important and relevant to the model which is being constructed. Showing the selected elements and their interrelationship is the model or the theory.

It must be noted that many models or theories can be made to represent the same reality. It is not an easy task to choose or to construct the "best" model or theory. It is always possible to leave out many important elements which are not shown in the model. That is, all models in some sense are incomplete.



The process of selecting important elements out of the ethical system can be called the investigation process. That is, the selected elements are investigated out of the ethical system.

If a model is made with precision, it can be used for prediction and decision-making. The above diagram illustrates the whole process of building a model. On the right hand side of the diagram is the model or theory and its application. But usually at this point one comes across this question: How accurate is such a prediction or theoretical conclusion? This is a difficult question. To answer such a question there must be some sort of evaluation of the prediction and future facts. The bridging of this gap is called the evaluation process.

The left hand side of the diagram shows ethics and future facts after a passage of time. The best way to evaluate the prediction or a theoretical conclusion is to return to the beginning of the process and examine the assumptions which have been made at the start and see if they fit the model well. Is correspondence close? Are there possibly important elements in the

ethical system that have been left out of the model? These are some of the questions to be asked; and in examining them, one can observe that different assumptions will lead to different decisions or conclusions. So to evaluate the conclusion or prediction properly, one must return back to the beginning and examine how the model fits the ethical system. The fit can be good, poor, or approximate. If the fit is a poor one, consideration of a new or modified model should be undertaken.

3. SCOPE

Scope is defined as, "The sphere or area over which any activity operates or is effective, or a range of application or of subject embraced" [22].

The scope of Islamic economics is not confined or limited to market phenomena, economic class struggles, or militant racial or national exaltation and is different from other existing economic systems. In Islamic economics moral values are decisive and have a dominant role. Economics, in such a system, is only a part of the whole system and is related to the Qur'an and the Sunnah, as well as to the Islamic philosophy, world view, and culture.

The perspective in Islamic economics is Tawhidi. That is, man fears only one power and is accountable and responsible before only one God and negates any other social force and deities and directs his hopes and desires to only one source, God. It views the whole existence as a unity, a single form, a single living, that possesses will, intelligence, feeling and purpose.

Islam coordinates the ethical and the material needs of man and teaches him "whoever has no worldly life has no spiritual life". That is, man should not give up himself entirely to spiritualism and disregard the material means of life nor should one engage himself with economic utility of everything and neglect the moral values. Because when morality is isolated from the economic activities, it loses its character which can maintain stability and social order. By the same token, when the economic activities are separated from moral restrictions, it leads to immorality, corruption, and exploitation, which in turn ruins social and economic order. So the moral values of man are embedded and enmeshed in Islamic economics. The inclusion of moral values is vital because moral values are as important for the structure and functioning of the Islamic economic system as monetary or the availability of tools and machines which can provide comfort and material well being for the human race.

4. HUMAN NATURE

The concept of human nature in Islam is different from other economic

systems. For instance, human nature in the neoclassical view is characterized as a utility maximizer, rationalistic, egotistic, atomistic, and quietistic, while in the Marxist view, the nature of the human being is class conditioned. That is, it is the character of an individual's employment, which is related to his or her economic class, that is the most important determinant of human nature. Alienation of the workers is the result of class determination of human nature [23].

Islam views human nature somewhat differently. It rejects profit maximizing as the only rational human motivation. Instead, justice and benevolence are the basis of human behavior in Islamic economic system. A Muslim cannot act as a utility maximizer ignoring the Islamic ideas of Justice (Adle) and benevolence (Infaq), which are the ethics of business policy in an Islamic system. Moreover, Islam does not view human nature as egotistic, atomistic, and quietistic. It rather views human beings as actor agents who are educable and have discretion to choose their destinies. Man, in such a system, is a two-dimensional being and is composed of two contradictory elements, mud and the spirit of God. It is his discretion to decide between these two. That is, he is free to be good or to be evil, to go toward lowliness and stagnation or to resemble God. Ali Shariati explains, "He [man] can act either in accordance with his intelligence or in opposition to it... will is, then, the greatest property of man, and the affinity between God and man is apparent from this fact. For it is God who inhales into man some of His own spirit and makes of him the bearer of His trust, and man is not merely the vicegerent of God upon earth but also His relative if the expression be permitted. The spirits of God and man both possess an excellence deriving from the possession of will. God, the only entity and being possessing an absolute will and capable of doing whatever it wishes, even in contradiction to the laws of the universe, inhales some of His spirit in man. Man can like God, but only to a certain degree; he can act against the laws of his physiological constitution only to the extent permitted by his similarity to God. This is the aspect held in common by men and God, the cause of their affinity-free will, the freedom for man to be good or evil, to obey or rebel"[24].

Furthermore, Islam does not accept class identification and occupational connections as the primary conditioners of human nature and rejects the "law of motion of society", which is the idea that man can not modify the course and direction of history. Rather, Islam takes into account the concept of Tawhid as the basis of Islamic culture, attitude, personality, and behavior which conditions man as a being who fears only one power and who is answerable before only one judge and negates any other false powers. It

considers all people as equal partners who have the same origin, and does not take class membership as a sufficient index of human worth. While the elevation of labor and class of the proletariat as superior to that of the bourgeoisie is discarded, Islam emphatically recognizes the role of the poor, the weak, and the oppressed in the future course of history. S.H. Haider Naqvi points out, "In sharp contrast, human societies, in the Islamic perspective, progress along the 'straight path' of social harmony, which even the differences of sex, color, and nationalities tend to solidify: *'O man-kind Lo! We have created you male and female, and have made you nations and tribes that ye may know one another'* (49:13). At the same time, Islam recognizes that if and when the universal law of equilibrium is obstructed; strife and struggle would take place putting the oppressed against the oppressors. Whenever that happens, the weak, and the oppressed: *'And we desired to show favour unto those who were oppressed in the earth, and to make them examples and to make them the inheritors; and to establish them in the earth'* (28: 5-6). Not only that, the Holy Qur'an has issued a stern warning to those on the side of justice that they must discharge their compulsory duty to help the poor against the oppressors; *'How should ye not fight for the cause of Allah and of the feeble among men and of the women and the children who are crying: Our Lord! Bring us forth from out of this town of which the people are oppressors! Oh, give us from their presence some friend! Oh, give us from the presence some defender!'* (4:75)" [25].

It can be concluded that human beings in an Islamic system can be conditioned; but since they possess will and develop capacities to think, they can decide their own destinies and become critics and producers of their environments. In such a framework, man is a discretionary agent with regard to decisions related to his life and an educable actor who can be conditioned as well as be a conditioner of his environment.

5. CHANGE

With reference to presumptions about economic and social change one can note the diversity of opinions in various schools of thought and distinguish them from the Islamic perspective with respect to change. For example, the theory of change for capitalists is related to the idea that any occasional change from free enterprise, free competition, minimum-government economy are unnatural, are not capitalistic, and will eventually move toward that which is natural and capitalistic. The emphasis is on atomism, a self-regulating market which internalizes all externally originating changes. So capitalists do not see any reason to visualize beyond such a system, mainly because they view it as a complete system which does not need any outside force to regulate and adjust it for any episodic change.

Any unnatural and noncapitalist movement will eventually shift to natural and capitalist which in turn will automatically reduce economic discrimination, racism, sexism, and ecological crisis.

The Marxists approach the theory of change differently from the capitalists. The ideological concept of change in a Marxist system pivots around Marx's "law of motion of society". The engine of movement is started by dialectical elements of the mode of production, that is, the forces of production and the relations of production. The change is inevitable and is from stage to stage of history, and the direction of such shift is from feudalism to capitalism to socialism to communism. People can accelerate or retard the pace of such a move, but they cannot change the direction and respective stages of this "law of motion of society". The mode of production of each stage of history is considered as a substructure which affects the superstructure of society which consists of family, law, government, religion, art, etc. Moreover, to Marxists, ending capitalism means more participation (democracy), less pollution, and an end of racism and sexism.

The Islamic perspective concerning economic and social change is in a large part discretionary. That is, men and women, in the main, make their own destiny. Man possesses will and has freedom in his actions and is not predetermined by any force or phenomenon. On the other hand, society by itself is considered a living organism and entity which has a path and purpose and moves along "the pre-existent laws of nature". Ali Shariati points out, "We have, then, on the one hand man equivalent to will, and on the other, society equivalent to norm. Norm (Sunnah), in its Qur'anic usage is something unchanging, and man is directly responsible for his individual and social life; the combination of these two represents the 'median position'. Man is free in deed and actions-not determined-but obliged to follow the pre-existent law of nature in order to realize his freedom"[26].

Therefore, one element of such a dichotomy is man who is free and responsible for what he does and can evolve and use his full potentials to reach perfection. The other element is society as a living whole which has a purpose and a path which cannot be meddled with. The distinction between these two elements may seem difficult and contradictory. But on closer investigation one finds out that not only are they not contradictory but also that they are complementary. These two elements are dialectically related, meaning that the elaboration of one element draws attention to the other as an opposed concept that has been implicitly denied or excluded by the first. One discovers that the opposite concept is required for the validity or applicability of the first; there is an interrelationship between these two elements. That is, Islam approaches the theory of determinism in history and

society by believing that God intervenes directly and continuously in everything, but at the same time it has something else to say. It gives man volition, freedom, responsibility to plan, learn, develop, and evolve and rejects any form of accident and fatalism. Furthermore, on one hand there is God-given norms and patterns; on the other hand there exists human responsibility to improve these norms and to plan for destiny through knowledge. S.N.H. Naqvi expresses his view on change, "Man must evolve to reach perfection; but evolution is a negation of the status quo and requires that no one should be chained to his past or contained within the confines of his present. Islam rejects all appeals to traditional mores as a justification for man's deviation from the right path. Blind imitation of the ways of one's forefathers has been condemned in the Holy Qur'an in no uncertain terms. An inglorious past cannot be invoked to justify the evils of the present: *'And if it be said unto them: follow that which Allah hath revealed, they say: Nay but we follow that where in we found our fathers. What! Even though the devil were inviting them into the doom of flame?'* (31:21). At the same time, once again reflecting Islam's commitment to social justice, man 'today' has been completely absolved of the responsibility of what happened 'yesterday': *'Those are people who have passed away. Theirs is that which they earned, and yours is which ye earn. And ye will not be asked of what they used to'* (2:134). *Man should be forward-looking rather than back-ward looking, because it is God's will 'That ye shall journey on from plan to plan'* (48:19). Going step further, the entire responsibility for not ushering in a better future rests entirely on man's shoulders: *'Lo! Allah changeth not the condition of a folk until they (first) change that which is in their hearts...'* (13:11). It should therefore be clear that fatalism, implied in predestination, is no part of the Islamic message. Instead, Islam replaces a static outlook with a healthy dynamism [27].

6. OWNERSHIP: CONTROL OF THE MEANS OF PRODUCTION

The concept of ownership in Islam is related to its notion of social justice. Ownership is directed in way that is consistent with the whole system. It is designed to prevent any kind of exploitation and accumulation of wealth.

Private ownership is a fundamental institution in capitalism. Individuals are allowed private ownership of different kinds with means of production included. Capitalism only recognizes other types of ownership when it is necessary by social and economic circumstances. But that would be an exception and is outside of the capitalistic ideology.

Ownership in the Marxist model is the other way around. That is, public (in the case of communism worker-state) ownership is the general principle

which is also applicable to means of production. Prior to the collapse of communism, in the Soviet Union, private ownership sometimes was applied because of social and economic need, but it was an exception and again out of the context of Marxist ideology.

The nature of ownership which Islam acknowledges is essentially different from Capitalism and Marxism. The Islamic economic system is based on the principle of "multi-faceted ownership". That is, it accepts different forms of ownership to apply it as a general principle. Rather, a variety of forms of ownership is used simultaneously and each form of ownership is designed for a special area in which to operate.

Islam relies upon private ownership, public ownership, and state ownership. Private ownership is designed to satisfy personal needs. This form of ownership is strictly under Islamic ethical and economic regulations. Although Islam recognizes the right to own and control personal means of consumption, it reminds man of his responsibility toward God, his environment, and other people, especially the poor, weak, orphans. It encourages them to pay Zakat and circulate their wealth among each other. Again such ownership is based on the idea that man is God's trustee on earth, and whatever is given to him belongs to God and he can use them only under certain conditions.

The moral injunctions about ownership are to create a sense of responsibility and a conscience. The Qur'an points out, "*Believe in Allah and His Messenger, And spend (in charity) Out of the (substance) Whereof He has made you trustees.* For, those of you Who believe and spend (In charity) - for them Is a great Reward [28].

Islam considers society a living, moving toward a purpose, and designs public ownership to answer society's needs. Public ownership in the Islamic framework is distinguished from state ownership. The former refers to the ownership of certain things that belong to all human generations during the course of history, and all people have an equal right to use them, such as ownership of the oceans and natural rivers. State ownership is related to ownership of certain wealth that the state has. Imam has the right to use them as the state thinks fit. For example, ownership of mines or natural cultivable land can be rented to the public but is controlled and regulated by the state. These two concepts of ownership though very close and sometimes complicated are distinguishable. Another article will deal with these two concepts of ownership.

Concerning the property rights, From the Islamic social viewpoint, M.N Siddiqi points out, "(i) The individual, the state and the society each have a claim on property rights in view of the role assigned to them. Depriving any

one of them of the right to acquire, own and dispose of material resources will endanger the important functions they have to perform, thereby throwing the Islamic way of life off balance. (ii) The property rights of these three agencies should not come in conflict with one another, nor should their exercise by any of them jeopardize similar rights of the others. Individual rights should not vitiate social interests nor obstruct the functioning of the state. The state should not confiscate or circumscribe individual rights without any just cause duly recognized by the Islamic law. (iii) Islamic state has a jurisdiction over individual rights, being the embodiment of God's vice-gerency on earth and representative of the people. This jurisdiction is, however, functional depending upon the values and objective cherished by Islam. State intervention should be designed to enforce Islamic law and promote individual and social good. (iv) Individuals should not begrudge reasonable state intervention necessitated by Islamic considerations and directed towards the achievement of the collective ends laid down by the Shari'ah. (v) Disposal public property and public control over individual rights of ownership shall be exercised by a property constituted authority according to the provisions of Islamic law. All important decisions shall be a matter of counsel and subject to criticism and review by individuals [29].

As is noted, the concept of property is related to the world view of Islam which takes into account the role of society, individuals and their responsibility before God. While Islam permits an individual to improve his own good, it also encourages him not to forget that he is part of the whole and reminds him of the need to protect and promote the interest of his fellows. In this context, any system of ownership, or means of production, is not an end in the Islamic system, but a means to achieve social justice.

7. LOCUS OF ECONOMIC POWER

In reference to the location of the power and responsibility to make basic economic decisions, capitalists are concerned with large numbers of individuals. In the Marxist model, it was the worker-state that made the fundamental economic decisions. In Islam this power is exerted primarily neither by individuals nor by the government alone, but by a variety of collective organizations which include the private and public sectors along with cooperatives. That is, although the power is dispersed among various economic decision-making units, in private sector, including consumers and producers, the power to regulate, and provide conditions conducive to private investment, is vested in the Islamic government. It is the role of the government to devise ways, by private sectors or cooperatives, to eliminate

poverty and social and economic injustice and achieve full employment, an optimum rate of growth, social security, and an equitable distribution of income.

Individuals and private organizations of individuals play premier role. That is, individuals have been granted freedom or discretion in economic decision-making, and the power to make the major economic decisions is concentrated in private sector. It is the role of Islamic government to bring about conditions instrumental to the promotion of social and economic development through the formulation and execution of a unified policy planning.

8. MOTIVATIONAL SYSTEM

The motivational system guides the making of economic decisions, especially in regard to incentives for production and for reaching to changes in economic variables. Generally speaking, in capitalism, the primary incentive to contribute to production would be related to profit. That is, it is profit that motivated any economic decision. In a system of social-orientation, more emphasis is upon the pursuit of social goals rather than individualistic profit maximization. In Islam, the ultimate goal of any economic activity, is the approach to God, the absolute. And the emphasis is on cooperation, brotherhood, and the pursuit of socio-economic gain related to social welfare. Being Islamic, it opposes any form of motivation that causes exploitation, waste and oppression. Cooperation, fraternity, communion are emphasized in Islam and are seen as the basic values in the Islamic economic system. Producers in such a system are conditioned to sacrifice their own personal interests for the attainment of God's satisfaction. Consumers are encouraged not to waste, and to use the God-given natural resources to their full capacity.

Although Islam does not exclude competition, it rejects any rivalry and cut-throat competition which can end up in exploitation and oppression. Rather, it invites people to cooperate and consult with each other in achieving their goals and attaining human happiness. Therefore, in the Islamic economic system, cooperation is viewed as a guiding principle of economic behavior.

9. ORGANIZATION OF ECONOMIC POWER

Economic power in Islam is spread among various economic decision-making units, of which the most important are: individuals, cooperatives, and state. The decentralized limit of economic power in Islam deals with individuals and cooperatives. Individual laborers, probably the most

respected in the Islamic economic system, have freedom to decide for their occupation and have the right to own the product of their work. Consumers, conditioned by the Islamic moral values are also free to do what they want and express their preferences through their demand, by which cooperatives determine the needs of the community. Prices of a wide variety of goods and services can be determined by using consumers demands as guiding criteria in production and in the allocation of resources. Cooperative are concerned with the provision of collective wants and have freedom and ability to determine what people want and to provide various commodities on the basis of their needs. However, the criteria for each of these sectors is set by the Shari'ah, and the Islamic state has the authority to maintain the supervision on the guidelines for individuals and cooperatives.

The centralized feature of economic power in the Islamic system is concerned with the Islamic state. It is the Islamic state that not only maintain supervision on the guidelines for individual economic units and cooperatives and makes sure they are operating within the Islamic norms, but it also controls or regulates the key industries such as public utilities, finance and banking, and international trade. Planning is an important role of the Islamic state. The purposes of planning in the Islamic economic system include (a) to determine the combination and total volume of investment, (b) to evaluate the existing function of the system and to check if the goals of the system are being achieved, (c) to supplement cooperatives needs, (d) to provide long-run arrangement for defense and education, (e) to supervise the actions of cooperatives and individual economic units, (f) to provide feedback for those who are involved with the process of planning. M.U. Chapra explains this concept, "The need for planning does not imply that the Islamic state can resort to regimentation or unscrupulous control of the private sector. What it does imply is that instead of leaving the allocation of resources and the management of aggregate demand primarily to the blind interplay of market forces, the state should play an active and conscious role in not only determining priorities and guiding or channelling the scarce resources in the light of those priorities, but also regulating demand so that occurrence of recession or inflation is avoided [30]."

10. SOCIAL PROCESS FOR MAKING AND COORDINATING ECONOMIC DECISIONS

The operations of each economic unit such as individuals, cooperatives, and state, in the Islamic framework, are mutually interrelated. The social process that coordinates the actions of these economic units is a mixture of a healthy competitive price system, democracy, reciprocity, redistribution

and conscious regulation of the market. A healthy price system implies a system which brings economic units closer in a just manner in which each economic unit feels responsibility toward others to such an extent that not only are they not alienated from each other, but they feel they are "members of one another". In such a context a price system can not be a means to oppress, exploit, or destroy human beings, but a means to motivate them to utilize God-given natural resources efficiently, as well as to calculate, coordinate, and control economic decisions.

As far as price is concerned, it is established through the collective actions of all economic units by a democratic process. No single buyer or seller can manipulate and control price. Every economic plan and decision is made by the assistance of the Islamic state in relation to priorities and the budget.

Reciprocity and redistribution are also distinct social processes that integrate economic actions in an Islamic system. The economy in this framework is an institutionalized process which is embedded in Islamic culture which has a measure of unity and stability. The central authority through which the economy is organized is God. It is God who is the guarantor of sustenance. In Islam, sovereignty of all matters belongs to God and to no one else. It does not belong to the king nor to the state nor even to the people. The people are the trustees of God. All people are equal partners and members of one another. In the Islamic economic system reciprocity exists in a different sense. A Symmetrical relationship exists between people and God. People associate God to their dealings. They put aside part of their wealth for Him. They self-sacrifice which is not motivated by profit but for the cause of Allah. They help neighbors, relatives, the poor, orphans, the destitute for Him. This reciprocal structure prevails because people feel this obligation toward God who has given them life and sustenance. The concept of redistribution comes into the picture when people pay zakat and khoms to Imam, who in turn will appropriate for distribution among the needy, the poor, orphans, for public and social needs. Paying Zakat without any external force is assessed as a function of a person's righteousness. Numerous combinations of reciprocity and redistribution occur which help the economy to integrate and become institutionalized in the Islamic culture.

Interest is not permitted in the Islamic economic system and is not taken into consideration as a coordinator of economic operations. Ali Ausaf, in his dissertation entitled "The Political Economy of the Islamic State", believes that hierarchy is used as a technique to solve the problem of coordination brought about by the absence of a system of interest rate. He points out,

"Hierarchy will be used as a politico-economic technique to resolve the problems of economic coordination created by the absence of an interest rate mechanism. such problems will be associated with all those sectors where in the production process is round about, and therefore, involves both financial as well as real capital [31].

Besides the roles of Islamic state which will be discussed in a later section, one of the main purposes of state planning in the Islamic economic system is to provide: (1) suitable atmosphere and facilities for man acting as God's trustee to improve and evolve spiritually as well as materially, (2) to recognize the community's needs and seek to choose right alternatives which are compatible with Islamic norms, and (3) to fulfill such needs. In this system, ethical and moral values substitute for market and monetary values. Therefore, the price system plays a trivial role in the whole system, and it is the state which through a democratic process determines social priorities and exerts supervision on the market.

11. DISTRIBUTION OF INCOME AND WEALTH

The distribution of income is an issue which faces every economic system. Every economy must determine "for whom" products and services must be produced. Should income be distributed on the basis of contribution to output or should it be distributed according to need? How can contribution and need be measured? Should income be distributed more equally? or less equally? What percentage of the total income should go to wages? Generally speaking, the basic question is: How do people obtain their incomes? Is this income determined through market rewards for their contribution to production or through various welfare state redistributive measures more oriented toward need? In a capitalistic system distribution of income is based on income brought about from private ownership of land and capital as well as contribution to product where as in a Marxian model, such income which has been made by private ownership of land and capital is eliminated and distribution will be in accordance with the maxim "from each according to his capacity, to each according to his needs".

Distribution of income in Islam is a function of (1) work, (2) needs, and (3) ownership. The primary source of income distribution in Islam is concerned with labor. It is the use of human labor that makes it possible to bring about various goods and services for society. Some natural resources such as pearl, lumber, and mines themselves have value but without human labor remain useless.

Work, in an Islamic distribution of income framework, plays the most important role. Each individual will receive what he has put into society.

That is, he receives an amount equal to his labor because Islam recognizes that people are mentally and physically different and that they make different contributions to production and on the basis of this distributional criterion, they receive different incomes. These income differentials can be useful as an incentive system for production. But in Islam such differences cannot be wide because each individual who has wealth is subject to Islamic rules and regulations which restrict accumulation of wealth and open the way for a just and equal distribution of income. This is done through different measures; examples of legal measures include zakat, Islamic law of inheritance, prohibition of interest, prohibition of hoarding, prohibition of wasteful expenditure and unhealthy businesses such as gambling and fraudulent practices. Optional measures are optional charity which is a strong obligation on wealthy members of the community to spend their wealth freely on common good of society and include moral duties, and charity of surplus which is again a moral obligation to Muslim to spend their wealth among people merely for seeking the pleasure of God. The former goes beyond zakat and is related to the concept of Infaq, and the latter is concerned with the wealth that is over and above one's necessary needs.

Besides labor, the factor of need in the Islamic distributional system is effective. Islam divides people into three categories. The first group is made up of those people who enjoy better mental and physical energy and are able to raise their standard of living higher than other people. As long as these people behave within Islamic restrictions, they can have more than their needs. Therefore, need does not play a significant role for this group. But it is their work that determines their share of income distribution. The second group consists of those who work, but the product of their work is just enough to meet their basic needs and they can hardly make it. Income distribution of this group is based on both work and need. That is, their labor will provide them with basic means, and need will help them raise their income so that they can live comfortably. The third group are those who are feeble, deformed, or infirm naturally and are not able to work. Income distribution of this group is merely on the basis of need. Because these people are not able to work, they can have a share of income to the extent that guarantees their survival. It must be noted that the income for the last two groups is provided through public cooperation and the Islamic state[32].

Labor and need are basic tools of income distribution in Islam. From this characteristic of Islamic distributional system arises the concept of ownership. Each individual will own the product of his labor or should be given a share in proportion to his contribution to production. Thereby, ownership comes into the picture not directly, but indirectly and as a

secondary tool of income distribution. However, Islam sets rules and regulations on such ownership, which makes it compatible with its objectives. For instance, a worker who owns a commodity by his labor is not permitted to waste the commodity or engage in usury to increase his income or establish a business which is injurious to social welfare. Islam takes away such rights from owners and subject them to certain conditions and framework.

12. IDEOLOGY

Ideology can be defined as, "A system of interdependent ideas (beliefs, traditions, principles, and myths) held by a social group or society which reflect, rationalize, and defend its particular social, moral, religious, and economic institutional interests and commitments [33].

Ideologies have been used to guide a group's patterns or actions, behaviors, attitudes, as well as its goals and general life situations. It becomes a yardstick to interpret and most often repudiate other alternative ideological frameworks. Components of each ideology tend to be accepted as truth or dogma rather than as tentative philosophical or theoretical formulations. Most existing economic systems apply ideology as a mode of inquiry, and most often such a belief system-that is, ideology-limits inquiry by its static and dogmatic design or distorts inquiry by leaving crucial elements out. The capitalist ideology, based on Newtonian approach-the regularities of nature-is concerned with inquiry which is rationalistic and deductivistic, episodic, positivistic, and concentrates on price and market system. The Marxian ideology is based on the ideal of the dialectic-opposing forces-which are concerned with Hegel's model of thesis, antithesis, and synthesis. These three-phase patterns are fixed and inevitable. The dialectic in the Marxian model is a design for inquiry.

Capitalist rationalism, which means that knowledge can be derived from a priori assumption, is based on merely deductive inference, that is, the logical extraction of particular from general hypotheses. Such deductive inquiry is episodic rather than processional or evolutionary. Inquiry in episodic fashion sets no questions for further investigation because episodic begins with a set of hypotheses, draws inferences, and ends with prediction of outcomes. Moreover, the orthodoxy's model is positivistic. That is, it deals with "what is" not "what ought to be". An inquiry in such a design becomes limited and purposive. It cannot distinguish between "is" and "ought". Moreover, the capitalistic market phenomena is based on the assumptions of unlimited wants and scarcity of resources to satisfy wants. In this context, limited resources to unlimited wants.

The Marxist mode of inquiry, based on dialectic, suffers from its rationalistic, dogmatic, monistic form and again becomes limited and sets no questions for further investigation. It is a lock-step which insists on inherent contradiction of all phenomena. It is a mechanistic form which reduces all behaviors, all history, and all nature to inevitable dialectical analysis. Dialecticism tends to be accepted as a priori and, therefore, becomes a dogma which threatens its own validity. Moreover, the sequence of this thesis, antithesis, and synthesis has a predetermined flavor which is beyond control. Marxists apply this model to human history to derive the "law of motion" of society. Such a model which is beyond discretionary control cannot be an inquiry tool with which to evaluate criteria of judgment.

Islam has a set of principles which is used to guide man's patterns of behaviors, attitudes, as well as his actions and goals, and general life situation. Social inquiry in Islam is based on Tawhid, and its aim is to remove doubt about existing patterns of thinking and acting. Tawhidi inquiry is concerned with the concepts of Tawhid, man as God's vicegerent, man is discretionary being, the day of judgment, Infaq, and righteousness. Once an inquiry is directed toward Tawhid, it is concerned with life as a process and is able to solve social problems. The new problems that arise have to be thought out, worked through, understood carefully; and then solutions must be found so that they are compatible with Islamic objectives which originate from the Qur'an and Sunnah.

Islamic inquiry is normativistic as well as positivistic and evolutionary rather than episodic. A.N.H. Naqvi points out, "The Islamic approach to life is not at all Spenglerian, according to which different cultures grow up in veritable water-tight compartments, with no interaction among them. In sharp contrast to this unnatural isolationism, the Islamic view is evolutionary with respect to the acquisition of knowledge. Islam makes it obligatory on Muslims to look around and cull the best from what life has to offer [34].

13. STATE

The state or government in any economic system performs certain roles. In capitalism this role is minimized, and leadership is concerned with the decision-making role of business entrepreneurs. Marxists maximize the role of state and leave the administration of public and social policy to the communist party.

In Islam, the state plays a predominant role to bring about a situation so that people can live according to Islamic ideals. One of the main tasks of the Islamic state is to facilitate the transfusion of ethics and economic behaviors and then to transform them into practice. The consequences of such a

process will be utterly different from social and economic policies in any other economic system. A state that concentrates on superimposing ethics on economic policies is characteristically different from an authoritarian or totalitarian government which oppresses and limits basic human rights under the banner of some suspicious social or economic objectives. Since the Islamic moral value system is embedded and enmeshed in its economic system, various economic and social objectives must be well defined and be compatible with Islamic ethical precepts. In such a framework, not only the ends must be legitimate, but also the various steps taken by the Islamic state to achieve those goals must be ethically conditioned. For example, to reach social justice, usury is prohibited in Islam. Any set of monetary policy, in an Islamic economy, must be according to this formula. Any approach to solve monetary problems that violates this rule is not legitimate from the Islamic viewpoint. S.N.H. Naqvi explains, "Regulation of the economic life by the state will be quite considerable in an Islamic economy. However, unlike socialistic societies, Islam has nothing authoritarian in its attitude towards economic processes; for no totalitarian nightmares haunt an Islamic economy. state intervention directed primarily at reconciling the possible social conflicts between man's ethical and economic behaviors cannot lead society onto the 'road to serfdom' but will guide it gently along the road to human freedom and dignity. Nor is moral degradation allowed in the name of economic prosperity and unrestrained human freedom. The middle - of - the road economic philosophy of Islam steers clear of undue extremism in human behavior [35].

The role of Islamic state is related to the eradication of poverty, the abolition of usury, implementing the Islamic law concerning zakat, stressing cooperation, supervision of market and ensuring its healthy operation, educating people, allocating resources and ensuring a just distribution of income. However, according to Shahid Muhammad Baqir Sadr, the responsibility of the state, in an Islamic economic system, is as follows: 1) providing social security, and 2) maintaining a social balance. As far as the social security is concerned, it is the duty of the Islamic state to secure necessary means of living for all individuals. This duty of the Islamic state can be executed first, by establishing economic units that make it possible for effective participation of people in economic activities, thereby enabling people to work and provide for their families and second, by furnishing capital and financial supports to investors. This is when the state itself, because of exceptional situations, cannot establish economic units directly. Generally speaking, social security in this context is based on two principles: 1) the principle of reciprocal responsibility of individuals toward each other,

which is closely related to principle of brotherhood in Islam, and 2) the principle of public sharing in state income. The first principle is limited to basic needs. That is, if someone has more than his needs, he cannot ignore other peoples needs and is liable to help the needy. The second principle is concerned with the ideal that the entire society has claim on natural resources, and even those individuals who do not have the capacity to work also have this claim.

Maintaining a social balance refers to ensuring fulfillment of needs to each individual and maintaining a balance in standards of living in the society. There are possibilities and options set for Islamic state to achieve the goal of social balance. Such possibilities can be summarized as follows: 1) fixed taxes such as zakat and khoms, 2) direct intervention in activities and investments of the public sector, and 3) legal rights to regulate society's economic relations and supervision of production.

Finally, the Islamic state has the important role of engaging in the new enactment of laws to solve and regulate economic activities in those areas left unmentioned by the Islamic laws - the Shari'ah. This is called "freedom of enactment sphere" which brings about dynamism in the Islamic economic system.

As time changes, man encounters new sets of anomalies. The existing paradigms will lead to crisis and eventually to new paradigms. By the same token, relation between man and the world of nature change with changing knowledge, new explorations, technology, powers of productions, etc. Such relations, under changing circumstances, have to be properly adjusted and regulated in order to secure the society's interests and follow social justice. These regulations cannot be part of permanent Islamic law. They arise from changing conditions, and the Islamic state has the right to enact new laws to deal with circumstances properly, and to fill the gap. The state cannot legalize a law that already exists in the Shari'ah. That is, it cannot prohibit what has been permitted in the law. But it can issue new prohibitive or permissive acts and change the same act under new circumstances or in a different period of time [36].

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