



Transformation of Islamic Economics into a Global Economics: An Analysis in the light of Capitalist and Socialist Systems of Economics

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Abstract

This paper aims to evaluate the modern notion of Islamic economics in the light of the capitalist and socialist systems of economics. It explores that each economic system claims to establish a just economic order in the light of the ethical economics, which ensure the fair distribution of wealth and resources to lessen the class differences and to eliminate poverty. The medieval history of the world economics reveals that the Muslim empire was succeeded to establish an economic system which was based on the ethical principles of economics such as fair distribution of wealth, alleviation of poverty, accessibility to basic necessities to all and abolition of feudalism etc. It is, however, a matter of great concern that the contemporary system of Islamic economics seems to be failed to overcome or even to reduce these issues. This research thus intends to address these issues by way of a comparative study of both secular systems of economics (capitalism and socialists) and the contemporary system of Islamic economics in the light of the revealed principles of the Qur'an and the Sunnah (pbuh). It also points out some causes of the failure of the contemporary Islamic economics to fulfill the objectives of its establishment. In the end, some conclusions are drawn and some recommendations are suggested to transform Islamic economics into a welfare and global economics.

Keywords: Global Economics; Capitalist System; Socialist System; Islamic Economics; Comparison; Conclusions; Recommendations.

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1. Introduction

The term economics is referred to the Greek word “*oikonomia*” used in the meaning of household management [1]. In modern period, however, it is taken in the meaning of the economy of a society as a whole and is defined in the meaning of study of the production, distribution and consumption of wealth in a human society [2]. Talking about the concept of economics during medieval era when Islam was revealed, it was based on the economic philosophy of the religions and ideas of the Greek philosophers like Plato (348-428BCE) and his disciple Aristotle (384-422BCE). Plato gave the idea of economics where sources should be under the common ownership of the people or state while Aristotle opined that as a general rule property should be private. He described that private ownership will lead to progress and prosperity as every man will have his business and distinct interests which will make him happy and content with his property [3]. Most of the contemporary institutions of economics such as trade, partnership, *mudabah*, leasing, pledge, gift, trust, *riba*, and interest were existed and practiced by the nations of the world [4]. Likewise, *riba* was declared as prohibited by all the revealed religions but interest on capital to preserve its value with varied ratio ever remained a part of the economic activities of the people and can never be vanished from the economic institutions of the world [5]. This article is divided into two sections: Section first throws light on the development of Capitalist, Socialist and Islamic systems of economy. The second section presents a comparison among all three economies. It also discusses some issues of the contemporary system of Islamic economics. In the end, some conclusions are drawn and some recommendations are suggested to transform Islamic economics into welfare and global economics.

1.1 Contemporary Systems of Economics

The modern economies are based on different economic theories and policies adopted by different countries at different times such as socialist system, capitalist and Islamic systems of economics.

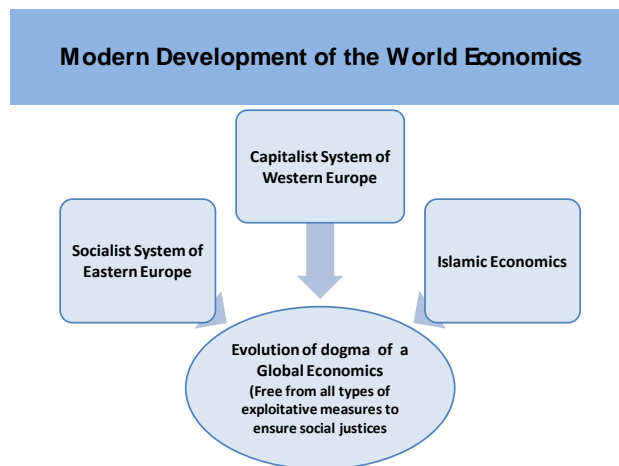


Figure 1

The detail of the development of these economies is as under:

1.1.1 Capitalist Economic Order

Towards the end of the 16th century, the idea of interest based economy introduced in the European societies to encourage people to invest their savings, to provide the benefit of the capital to the creditors, to reduce the monopoly of feudalism and to ensure capital growth [6]. John Calvin was the first who presented the idea of interest to reconcile secular and religious opinion and to break through the stagnant intellectual environment of feudal-dominated medieval Europe [7]. Likewise, the idea of “free trade economy” was introduced in the mid-1700s and led the government to have least intervention in the economic activities of the people. This idea of economics was called as “laissez-faire” a French term which literally means “let them do it” being business people [8]. This idea further got strength by the defeat of Napoleonic French wars in June 1815. The end of Napoleonic wars resulted in the culmination of three hundred years of absolutist monarchy and mercantilism the economic order of that period [9]. Mercantilism was a system of economics based on the theory of Thomas Hobbes “wealth is power and power is wealth”. Under mercantilism, the colonial power forced to trade with the mother country to enrich the government and its supporters. The mercantilist compelled their subjects by way of military forces to sell their goods only to them while paid them less than world market prices for crops and raw materials by believing that foreign trade producing riches, riches power and power preserve their trade, religion, and crown [6:244]. In this way, European mercantilism exploited the colonial market but strengthened royal dominance as it was concerned only with its geopolitical alliances, colonial extraction and size and power of its nation states.

After defeating Napoleonic monarchy, the British industrialist introduced a flurry of technological innovations that revolutionized production starting around 1750 by adopting the gold standard. It was during the mid-1900s when the dogma of “free trade market” was started to be discussed among the western economists and governments [10]. In the 1860s the idea of “free trade market” got wide recognition and established by a treaty between France and Britain which drew rest of the Western Europe in that direction [11]. In this way, different approaches of economics, like capital growth by way of interest, free trade market, and investment through capitalist’s banks formed the modern system of capitalism. Thus, the capitalist system of the economy can be characterized as a system that motivates private ownership of all means of production for maximum profit earning to create competitive markets and to accumulate capital. All the attributes of the capitalism however, could not prevent the Great Depression of 1873-1896 that led dissatisfaction with the free trade and the gold standard [11:28]. However, until 1914, the overall world economy was rested on the government actions and domestic economic policies [12]. International Monetary Fund (IMF) was set up by the “Bretton Wood Agreement of 1944” and came into operation in March 1947 to remove the restriction on foreign exchange, to facilitate multilateral payment system and to establish cooperation in the monetary field among the member states as par value of US\$ [2:217]. After WWII, the capitalist economy of the world developed rapidly within three decades and gross world production showed an unprecedented increase. It led the people to consider the capitalist economic order was based on the well being of all and might be a replacement of the socialist system of economics and could be the victorious universal ideology of the world [11:25]. The capitalist system however failed to achieve its primary target that was culmination of mercantilism and feudal dominance and to protect workers, labors, and the poor. Further, the dogma of free trade economy led price hike, uncontrolled

private ownership, greed to earn maximum profit, monopoly of the business class and capitalists, exploitation of the poor and the workers, and made the government's puppet at the hands of the capitalists who forced the government to impose indirect taxes. It also failed to abolish feudalism and class system, and could not get recognition as a Global economics [13].

1.1.2 Socialist System of Economics

The origin of the socialist system of the economy can be traced in the religious perceptions of the nations that favor fair income distribution and collective sharing. Further, the discovery by Columbus of naked people in America who owned no property and seemed to live in a paradisiacal state influenced Thomas More in 1516 to write his "Utopia" which described an island where everyone was equal and everything was shared by the people [11:58-61]. In 1525, Thomas and his followers upraised at Mulhausen a society where the people shared everything. This egalitarian developed and became a system in French philosophy of the 1700s particularly by Jean-Jacques Rousseau leading up to the French Revolution. The French War was in fact against the evils of feudal aristocracy and class system [13:212].

The evils of capitalism and feudalism led the contemporary economists to evolve a theory of economics, which may ensure an egalitarian distribution of wealth and may lead to the establishment of a classless society [17:355]. François, Babeuf the founder of modern communism called for the abolition of private property and holding of common lands. He led a revolt in 1796, under the notion of "equals" but it could not be successful. In 1803, an engineer Saint-Simon gave the idea of "constructivism" according to which a rational order of a society can be planned and constructed from scratch from the top down. He suggested for a command central planning and ordered society for the betterment of those least well off [11:63]. The term socialism originated in the early 1830s when Charles Fourier pointed out the evils of industrialization and urbanization and presented the idea of establishing "*phalansteries*" small cities of about 1600 people where everyone would share all things including sex but by doing different kinds of work. He argued that "mutual attraction" was the driving force of the universe and that it could use to order production and all relations within the *phalanstery*" in which all would live in harmony with each other and with nature but no practical effort was made to reach the end [13:355].

The term communism appeared in France around 1840s among those inspired by Bebeuf [14]. The modern concept of socialism is based on the economic ideas of Karl Marks (1818-1883) during the 1840s who found the key to historical materialism that the driving force of the history is the dialectic between conflicting socioeconomic classes. He argued that the basis of class struggle is the ownership and control of the means of production. One class controls and exploits the other class that does not. The technology of a society (forces of production) combines with the structure of classes (relations of productions) to determine the mode of production. The substructure or base of a society determines everything else, the substructure—that is religion, politics, culture and so forth [15]. The Communist Manifesto of 1848 emerged after a long theoretical, political and ideological development based on the criticism of feudal and capitalist systems that existed prior to its modern appearance. The Communist Manifesto of 1848 consisted of four sections. The preamble of the Manifesto states: "that the history of all hitherto existing society has been the history of class struggle" and

leads that the key to understanding economy is to know who owns the means of production. It argues that the central class conflict of the emerging industrial society is between bourgeoisie (capitalists) and proletariat (workers) [16]. The Manifesto characterized the socialist system as a system of economics in which all means of production; land and capital are owned by the state under a collective ownership. It argues that the productive forces of capitalism will no more be compatible with the exploitative relationship between capitalist and workers and that worker soon lead a revolution. And when the workers get control, they will destroy the ownership of private property and class system will be disappeared [17]. Practically, the command socialist central planning first appeared in Soviet Russia in the 1920s. In 1921, several heavy industries such as electricity, steel and cement were declared as under state ownership. In 1928, a comprehensive Soviet Central Planning was introduced which was based on the principle of general equilibrium [18]. In 1936 Oskar Lange proposed a Central Planning Board (CPB) that sets producers good prices, determine the level of overall investment, and distribute the social dividends. He argues that consumer good prices are set by free market forces and supply comes from state-owned firms that set price equal to marginal cost as in perfectly competitive markets [19]. The setting of producer goods prices proceeds along the trial-and-error lines. He also discussed the sources of “market failure and argued that in all cases this system revolves the problem and leads to an efficient outcome that is equitable and macroeconomically stable. Monopolists are eliminated so competitive prices are set. Planners account for externalities. Public goods are adequately supplied. Distribution of social dividend ensures reasonable income equality. Central control of investment eliminates macroeconomic fluctuations [20].

Lange also proposed a market-oriented socialist planning that uses trial and error techniques to find equilibrium prices. Such a scheme would cure the inefficiencies, inequities and instabilities of market capitalism [21]. Until 1939, socialism existed only in one country, the Soviet Union that constituent the 8 % of the world population. However, after WWII, many developing countries adopted the centrally planned socialism as an ultimate goal. The most populous country in the world China transformed its economy into planned socialism in 1949. India, the second most populous country allied with the Soviet Union. North Korea, North Vietnam also followed the same policy [22]. In 1944, Friedrich presented his theory “The Road to Serfdom” in which he claimed that welfare state redistribution inevitably leads to command socialist dictatorship and restricts individual’s freedom. He further argued that if expanded government activity does not lead to full-blown dictatorship, it constitute a reduction in the freedom of the individual to choose what to do with his/her income because of higher taxes [23]. The Cold War led to a rapid imposition of the soviet model in Central and Eastern Europe. Between 1949 and 1952, East Germany, Czechoslovakia, Poland, Hungry, Albania, Romania, and Bulgaria, copied the USSR Centrally Planned Economy and rejected capitalist markets. China and other Asian socialist countries carried out extensive land reforms and expropriated most of the lands held by wealthy landlords and distributed it to poor and landless people. They also adopted state-led industrial programs by declaring the money as centrally planned lines [11:80]. However, the amount of private farming, the degree of centralization, and the extent to which price was permitted to move freely were varied. The general outlines of the centrally planned economies were similar from Prague and Sofia through Kiev and Moscow, to Beijing and Hanoi [17:280-88]. There were, however, some major flaws in the system that caused to defeat socialism as a competitor of the capitalism such as the soviet government privileged heavy industry over the light industry (consumer goods), and industry over

agriculture arguing that sacrifices to speed basic industrialization now would permit a stronger overall industrial base later. The over-emphasized over heavy industry led shortened the necessities of life such as food, clothing, and shelter and other consumer goods. For instance, until 1957, one apartment was to be shared by two families at a time [23:105]. Further, the Soviet government ignored agriculture and spent nothing on the agriculture improvement, which resulted in the stagnation of the food supply as Soviet Farms produced lesser grains and potato in 1953 than in the 1940s [9:347]. Further, the government fixed very low price margin for farms productions and due to minimum price margin of farm productions, the farmers had little incentives to produce. That also resulted in less production of cattle, pigs and sheep that could not fulfill the needs of the growing population. The bias towards basic industry meant that there was a serious shortage of consumer goods including housing, and the neglect of agriculture meant that the supply and quality of food were poor. All this led the poor quality of life of an average citizen [9:329]. Moreover, television and radio reinforce the impression that the West was more prosperous than the East and that there was a large gap between the living standard of Western and Eastern people. It was also a widespread knowledge that the East was falling behind [25:278]. In this way, over centralization and lack of incentives and strong management, became the structural economic problems for socialist countries. The problem was why the managers spend time and energy to develop innovative productive techniques, if they might not be rewarded for such achievements.

It was due to these flaws that after the death of Stalin in March 1953, most of the socialist countries modified their economic policies and softened the version of centrally planned economy particularly, after the workers revolt during 1953-56 in Berlin, Hungary, and Poland. The socialist governments started to shift resources into consumer goods industries, housing construction, and other services and raised wages. For instance, from 1953-1957, the real wages in Eastern Europe rose from 30% to 60%. Further, the Soviet government recognized the importance of the agriculture and introduced collective farming plan to make farming more efficient. The government also provided agricultural machinery to the farmers to increase in the production and earning [23:325]. After WWII, 1949-1952, East Germany, Poland, Hungary, Albania, Romania, and Bulgaria, adopted the “USSR Centrally Planned Economy” and rejected the capitalist system. China transformed its economy into socialist economy and India carried out land reforms of the socialist economy. It expropriated most of the lands of the feudal lords and distributed among the poor and landless people. They also adopted state-led industrial programs by declaring money as centrally planned lines. In the 1960s, the average collective farm had four hundred households on three thousand hectares of cultivated land, with thirteen hundred head of cattle and nine hundred pigs in common. In this way, effective machinery, larger farms and higher farm prices all substantially improved rural life standard and supply of agriculture production between 1953 and 1965 [9:279].

All this resulted in rapid growth and social development accompanied by greatly improved social services such as health-care and education. Illiteracy was essentially eliminated even in China. Medical care was free and plentiful and many socialist countries had more doctors and hospital beds person than did industrialized capital nations. Infant mortality culminated lower than that of much wealthier countries [23:102]. In the early 1970s Communist-ruled unchallenged over both the world’s largest country and it's most populous. In this way, reformation at “Soviet Central Planning” provided a steady improvement in the lives of the people. It also established itself as an alternative Economic Order and succeeded to culminate the two major evils of the

capitalist system, the uncertainty, and inequality. For twenty-five years after 1948, the centrally planned economies did very well. The end of Cold War, however, resulted in the convergence of the entire world economy on the American Model of Capitalist Economy. It also ended the significant competition between alternative forms of economic systems, which led to establishing a monopoly of the capitalist system [23:324]. Thus, the socialist system of economy can be summed up as a system originated in the early 19th. It was based on the ideas of Karl Marks (1818-1883). That aimed to apply certain principles like from each according to his capacity, to each accord to his needs, abolishing the evils of the capitalist, protecting the poor from exploitation by the rich, restricting the perception of unrestricted ownership. It also intended to introduce a system of collective ownership, in which all means of production, land, and capital are owned by state, to establish classless society, to promote social justice and to be a global economics. This economic system however, failed due to many reasons such as preference of heavy industry and Ignorance of the light industry, ignorance of agriculture, low price margin of farming productions, little incentives to the farming class. It also designed extreme policies in establishing classless society, unnatural motive (From each according to his capacity to each accord to his needs), shortened of necessities of life like food, clothing, and residence that could not establish a balance and just economic system. In this way, the end of the Cold War against Russia also defeated the socialist system. However, after the death of Stalin in March 1953, most of the socialist countries softened the version of the “central planned economy.

1.1.3 System of Islamic Economy

The notion of Islamic economics and finance is based on the divine economic principles, which are universal by nature and can be utilized at any time in any period of the world development. Islam revealed the principles of justice, equilibrium, liability, efficiency, consent, mutual agreement of trade, gift and assistance to poor segment of society, and *zakat* that ensures circulation of wealth and reduction of poverty etc [24]. In Islamic economics, trade is the primary institution of the market. It encourages business and productive economic activities that generate fair and legitimate profit and reinforce the positive relationship between the financial flow and productivity and leads to financial stability and economic efficiency. It seeks an increase in resources and income with the increase in population so that it may result in the prosperity of the nation [25]. As Ibn Khaldoon (1332–1406 A.D) pointed out “that when population enhances, the existing labor also increases that results in the increase of profit and luxuries of life. It increases demand of the crafts that are produced to get luxury products. The cost realized from them increases, and, as a result, profit is again multiplied, and production is bloomed. And, so, it goes with the second and third increase. All the additional labor serves luxury in contrast to the original labor that served the necessity of life”[26]. The Qur’anic provisions regarding economics lead that the system of economy of each society should lead to fair distribution of wealth and resources, economic growth of a poor segment of society, and reduction of poverty etc. However, Islam did not introduce any distinct system of the economy rather recognized all those prevailing institutions of the economy which were in accordance with the ethical principles of economics such as trade, partnership and *qirad/mudarbah* while rejected all those which were based on the principle of exploitation and resulted in social injustice and class system [27]. Islam prohibited the exploitative institutions such as *riba*, gambling, hoarding of wealth, feudalism and acquiring the wealth and property of others by way of fraud, cheating etc [4: Vol.2,p.115]. To establish a well-fare state, the Holy Prophet (PBUH) interpreted the legal texts of the Qur’an in

the light of the customary and contextual prospective of that society. For instance, in addition, to the prohibition of *riba al-nasi'ah*, the Prophet (PBUH) prohibited *riba al-fadl* [5:237].

To ensure public interest, and to improve the condition of the tenants, he prohibited tenancy and asked the landowners to give some land to them. The *Khulafa-e-Rashdoon* also interpreted the provisions of the Qur'an in the light of the public interest and changed context. Accordingly, they brought many changes in the existing structure of the economy by way of *ijtihad* by utilizing the interpretive principles of necessity (*al-darurat tubih al-mahzurat*) and public interest (*maslahah mursalah*). A thorough study of the the economic system established by Hadrat Umar reveals that it was a blend of the prevailing economic theories of Aristotle and Plato [28]. For instance, Qur'an permits private ownership by *halal* means without any restriction but Hadrat Umar took all the means of production and surplus wealth of the people under the direct control of the state. Further, to establish social justice and to culminate class system, he prohibited Muslims from tilling the soil either themselves or by employing others and to have landed properties which in fact, are permissible by the Qur'anic provisions. To provide necessities of life such as food, cloth and shelter he took the extra homes of the rich people on behalf of the state and distributed among the homeless people [5:293]. In the same manners, he made an economic principle that the head of the state and government employees could not do any private business or to adopt any profession and fixed for them salaries in the light of the earning of an average person [9:318]. In this way, during the period of Caliphs, Islamic economics could be characterized as an economic system that emerged from divine revelation and have all those attributes, which may be tribute to a welfare system. The following mind map provides the main attributes of Islamic economics in that period.

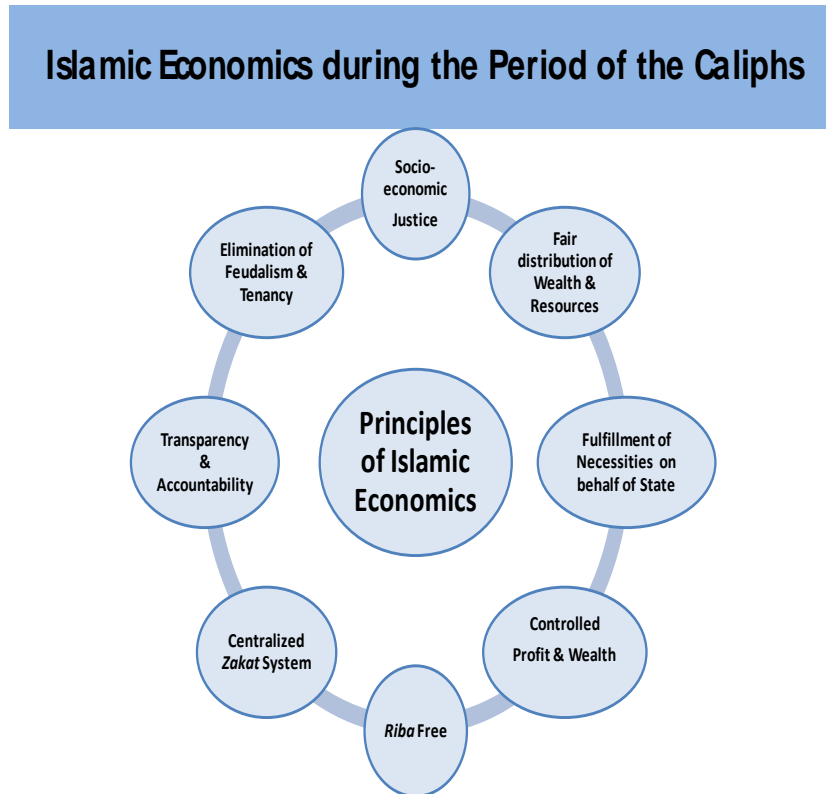


Figure 2

The contemporary movement in the name of “Islamic Economics” however, is not a continuation of the economic policies of the greater companions or later Muslim welfare states rather it has its origin in the exploitative techniques of the economic policies of the European countries adopted in the name of “capitalism” and “free trade economy” of the world. After WWII, the capitalist system succeeded to achieve a fast and unprecedented economic growth of the European developed economies by excluding Middle Eastern countries and the colonial states. This phenomenon led the oil producing Arab countries to realize that the contemporary industrial development and capitalist economic growth could not bring any substantial changes in their economic conditions. It was also realized by them that the dogma of “free trade economic order” failed to develop their economies rather caused to restrict the future growth of their economies by imposing certain tariff regulations and preferential agreements [25:323].

The capitalist notion of “the free trade economy” also made the economic conditions of the developing countries more vulnerable than ever before. It was realized by the developing countries that the international agreements on intellectual property reserved the discoveries of technological development for the exclusive use of the developed countries and that the under developing countries did not let the use of advanced technologies [26]. As Dejermaakoyo (1979) pointed out that the dogma of “free trade” was restricted by tariff regulations or preferential agreements which promoted imports of raw material in abrupt price variations but at the same time restricted the import of producer goods. The jeopardized economic growth of industrial countries resulted in creating inequalities among the nations and poor countries were forced to be submissive and powerless onlookers [27].

This led the Muslim world to think about its own economic system that should be based on the revealed principles of equilibrium, justice and fair distribution of wealth and sources and should be free from all exploitative techniques of the capitalist system of economy [28]. However, none of the Muslim states introduced “Islamic economics” rather credit goes to the private business class that took certain initiatives to introduce “Islamic finance and interest-free banking system” among the Muslims. Consequently, the first ever-private Islamic Bank was established in Malaysia in the mid-40s and one in Pakistan in the late 50s [29]. The collective effort on behalf of the Muslim states to introduce an interest-free system of Islamic economics and finance, however, was started in the 1970s. To meet the goal, a series of the economic conferences held at different Muslim states and the first conference of the finance ministers of the Muslim countries was held in Karachi in 1970 and then in Egypt in 1972 and consequently, “The Islamic Development Bank” was established in 1975 [30]. A crisis occurred in 1973 when the oil producing Arab countries met in Kuwait under the auspices of Saudi Arabia in 16 December 1973 and decided to impose their will on the industrial world by increasing in the price of oil by 70% and by reducing their monthly output by 5%. This led the other oil producing countries to follow them and eventually at the end of three months oil prices quadrupled [30:71].

In this way, Islamic economics introduced itself as a “New International Economic Order” and claimed to be free from the evils of both socialist and capitalist systems of the economics. It aimed to establish a fair and just economic society throughout the world and to prove itself as a “Welfare and Global Economic Order” by replacing capitalism [27:75]. Talking about the economic condition of the world, after experiencing the evils of the socialism and the capitalism, the contemporary economists and reformers are looking for an “alternative

economic order” which may be free from the exploitative measures and evils of the socialist and the capitalist economies [11:36]. It thus, summed up that Islamic Economics Stemmed during the 1960s due to exploitation of oil producing Arab states by the capitalist West. It claims to be based on the revealed principles i.e., trade and business free from *interest*, Justice and equilibrium. It aims to be global one by replacing capitalist system of economics. However, it is a matter of great concern that Islamic economics could not achieve its target.

1.2 Comparison of the Economic Systems

An analysis of Islamic economics in the light of capitalist and socialist systems of economics reveals that it is a blend of both systems. For instance, capitalism has its origin in the financial crisis of Europe. It is based on the concept of individual's interest and on unrestricted private ownership and on the economic principle of Vilfredo Pareto that leads no one in the economy can be made better off without making someone else worse off. If someone can be made better off without making someone else worse off, then the economy is not productive and is not producing as much as possible. It is called Pareto optimality [12:131].

It favors banking system and loan transactions where money is generated by rent-seeking activities by way of charging interest on capital that creates new but artificial capital, which is by no means the lifeblood of the market. It permits trading of capital or debt, leads inequality among the people, results in dividing people into different classes, promotes feudalism, creates greed of maximum profit earning in the business class, increase in poverty and unemployment, selfishness and price hike and forces the state to be indifferent to the socio-economic conditions of the rest of society etc. Contrary to it, Socialism is based on the philosophy of religion and ethical principles of economics. It has its origin in the economic doctrine “ that from each according to his ability, to each according to his need [24:278].

It is characterized as a centrally planned system of economy in which all means of production should be under the direct control of the state and where a government has ownership of industry, infrastructure, trade, agriculture, and tight control over market price etc [31]. It condemns feudal aristocracy and class system and emphasis on fair income distribution and collective sharing of land and other means of production. It also guarantees economic security of the individual and employment. The system of Islamic economics is a mixture of both systems. Like socialism, it is based on the philosophy of religion and on the concept of ethical and social responsibility investment. Trade is the primary institution of the market. It encourages business and productive economic activities that generate fair and legitimate profit and reinforce the positive relationship between financial flow and productivity and leads to financial stability and economic efficiency. It permits private ownership of property but restrict utilization by making the rich people bound to pay *zakat* and to spend a surplus of their wealth to assist needy people. Like socialism, it prefers public interest over private interest and aspires to close all venues that might lead to harm to others. It prohibits cheating, fraud, gambling, speculation and *gharar* to ensure transparency as lack of transparency leads to lack of trust that is the central reason for the financial crisis. It has adequate risk management system and secures future generation by preserving resources and by investing wealth. To achieve this goal and to establish a fair and just economic order, it allows the state to intervene in business activities of the people and to make them Shari'ah complaints. It makes state bound to provide necessities of life to its citizens whether by taking the wealth from the rich by

force to achieve this goal. This comparison thus leads that Islamic economics is a mixed economics and recognizes both systems to the extent, which may ensure fair distribution of wealth and resources and social justice. There is only one condition that whatever economic policy is adopted it must ensure equilibrium, fair distribution of wealth, assistance to poor persons, access to basic needs to all and that preference should be given to public interest over private interest. This attribute of Islamic economics can be judged by the fact that at present there is no pure example of capitalist or socialist system of economy in the world. Rather all real economies are mixed economies exhibiting elements of various allocation and ownership system even if they can be categorized one way or other [32]. This comparison also reveals that Islamic economy is nearer to socialist than the capitalist system. Both are religious based economies and considered ethics as necessary part of their systems and ensure social equity.

1.3 Issues of Islamic Economy

There are, however, some flaws existing in the contemporary structure of Islamic economics which if removed, Islamic economics no doubt is a future “Global Economic Order”. In the light of the contemporary interest based economies of the Muslim states, poor economic conditions of the Muslims, this research discusses some major issues, which need exclusive intention of the contemporary Muslim economists and policy makers. These issues can be discussed as:

1.3.1 Issue of ownership of means of production

The issue of ownership determines the distinction between socialism and capitalism. In socialism, land and means of production are owned by the state while in capitalism they are owned by private individuals or groups of individuals. The contemporary structure of Islamic economics is based on the capitalist philosophy of ownership by ignoring the socio-economic conditions of Muslim societies most of which have been converted into feudal societies that are prohibited in Islam.

1.3.2 Issue of government intervention in economic activities of the people

Like the capitalist market economy, in Muslim countries, the individuals or firms make allocation decisions and the government has the least intervention, which led the business class to establish its monopoly and ignorance of socio-economic conditions of the poor people that itself against the objectives of Islamic economics.

1.3.3 Issue of material incentives

The material incentive is the core of market capitalism, which maximizes profits for competitive firms and claims to be resulted in prosperity and the highest level of per capita income [12:134]. The contemporary structure of Islamic economics is based on the same policy but not resulting in the prosperity of the people which leads that there is some flaw in the system.

1.3.4 Issue of income redistribution

The present structure of Islamic economy has failed to reduce the issue of in equal redistribution of income like a capitalist system that argues that no one in the economy can be made better off without making someone else worse off. By ignoring the fact that capitalism leads to income inequalities more than from corruption or inheritance [25:33].

1.3.5 Issue of maximum profit margin or market Trend

The search for profit is part of the human instinct but if it is not restricted lead to the monopoly of profit makers and exploitation of poor segment of society. This is the reason that Islam did not leave this issue at the sole discretion of the business class rather this issue has been conditioned to be determined in the light of the socio-economic conditions of each society. The present Islamic economics and financing institutions are great competitors of the capitalist economics in earning more and more profit and have put the whole nation into a greed of hoarding wealth. As Ibrahim Warde in 2006 pointed out “that the issue of maximum profit earning has led the contemporary economic enterprises of the industrial world into a race of highest profit earning” [24:73].

1.3.6 Issue of exploitation of the poor segment of society

The most critical issue of the capitalist economy is that it has resulted in the exploitation of the poor segment of society and so is the case of the contemporary structure of Islamic economics. It is playing a significant role in sustaining the monopoly of the exploitative capitalist system by contributing to higher profit trend, by creating barriers in the way of small business and by participating in the race of market price hike of its output [12:34].

1.3.7 Lack of social equity

Capitalism appeared to require a sacrifice of social equality to accelerate industrialization, and has converted the whole world economy into a sinful economy indifferent of the poor and needy persons and has divided the world into developed, developing and underdeveloped countries. Likewise, the present system of Islamic economics could not lessen the issue of the social inequality in its following states [27:35].

1.3.8 Issue of private business for ruling class

Lack of proper understanding of the objectives of Islamic economics and finance led the whole Ummah to be a follower of the capitalist economics. In each Muslim state, a small number of the elite class is controlling the nation’s wealth and Muslim rulers and their families are running their private business successfully and thus contributing to raising the evils of capitalism.

1.3.9 Issue of Interest based economy

The economies of all the Muslim countries are based on the policies of IMF which are designed in the light of capitalist interest mode. The Islamic economy, however, has no solution in this regard irrespective of the fact that almost all states have recognized the need for Islamic economics. For instance, in Pakistan, in February

1979, the President announced that interest will be removed from the economy in a period of 3 years that could not fulfill until now [30:2].

1.3.10 Issue of the worldwide recognition

After WWII, the capitalist economy of the world developed rapidly within three decades and gross world production showed an unprecedented increase which led the people to consider the capitalist economic order was based on the well being of all and might be a replacement of the socialist system of economics and could be the victorious universal ideology of the world. Likewise, the socialist system of the economy did very well for about twenty-five years. Unfortunately, the system of Islamic financing cannot get recognition as a “New World Order of Economy” and could not present a role model before the world. At present, the Ummah is facing acute problems of basic necessities of life like food, access to safe water, basic health facilities, and education and housing yet we find no example where all these necessities are providing on behalf of the state. For instance, Pakistani society where the dogma of Islamic economics has been recognized by the state, ordered by the apex courts, implemented by the State Banks, and is spreading throughout the country yet poverty ratio is increasing day by day and almost 60% of the population is living below the poverty line (1.25 US\$ per day) [25:51]. In this context, the question arises is the modern notion of Islamic economics and finance a gimmick of capitalism? Do the practices of contemporary system of Islamic economics provide some solutions to the contemporary economic issues of the people? Is the notion of Islamic economics capable to replace the existing system into a welfare system? Can Islamic system of economics be transformed into a global economics? These and similar questions demand serious concern of the stakeholders.

2. Conclusions and Recommendations

This research thus concludes that capitalist system failed due to its exploitative techniques and dogma of free trade economy which, increased poverty & class system. Likewise, socialism failed due to unnatural philosophy “from each according to his capacity, to each according to his need. The major cause of its failure was mismanagement such as ignorance of agriculture and consumer production, and necessities of the life. It is also concluded that the modern world witnessed only one welfare economics that was established during the period of the Caliphs. However, the contemporary “Islamic Economics” is not a continuation of the economic policies of the Prophet (pbuh) and his companions rather it has its origin in the exploitative techniques of “capitalism” and “free trade economy”.

The notion of “Islamic Capital Market” seems to be a gimmick of capitalist philosophy of the market. Like capitalism, the prevailing Islamic economics could not eliminate social evils like feudalism, tenancy and class system. It is concluded that the economic system established by the caliphs was in fact, a blend of capitalist and socialist systems. That Islamic economics has more resemblance with socialism than the capitalism. It is also concluded that due to adoption of the capitalist exploitative measures, Islamic economics has failed to provide an alternative economic system that ensure fair distribution of wealth & social justice.

For instance, in Pakistan the dogma of Islamic economics has been recognized by the state, ordered by the apex

courts, implemented by the State Banks, and is preaching throughout the country. The factual reality is that it could not abolish feudalism, tenancy and poverty and could not establish social justice and equilibrium due to which poverty ratio is increasing day by day and almost 60% of the population is living below the poverty line (1.25 US\$ per day) that leads the failure of the present structure of Islamic economics.

This research thus, recommends to remove all the flaws of the existing Islamic economics and system of finance to transform it into a welfare economics. Islamic Economics should be a trendsetter of the “market price” and should not follow the capitalist policy of price hike. It should motivate the government to fix “market price” in the light of the socioeconomic conditions of each society. To promote social justice, Islamic economics should launch a movement against feudalism and tenancy. It should prepare a plan to reform agriculture in the light of the economic policies of the Caliphs and changed context. Islamic economics should introduce a central planned system of land distribution as Hadrat Umar did. The notion of unrestricted private property and wealth should be understood in the light of the verse: “ and in their wealth there is right for poor. Islamic Economics should condemn the policy of indirect taxes and private business of the rulers. Islamic Banking system should reform its policy of maximum profit earning. Lastly, it is suggested that Islamic banks of Pakistan should offer vehicle leasing /home financing by way of *qard hasanah* in the light of the monthly income and expenditures of the applicant to take back original cost of the vehicle/home, and at minimum rent/profit at the time when the agreement is made and sale is done. Not with so-called rent/profit determined in the light of the duration of the contract, which is in fact, a conventional mode of mark up/interest. Islamic economics should ensure social justice and fair distribution of wealth.

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