

BOOK IN BRIEF:

Sayyid Abul A'la Mawdudi's

FIRST PRINCIPLES OF

ISLAMIC ECONOMICS



Centre for Islamic Economics,
International Islamic University Malaysia



Centre of Excellence,
Maybank Islamic Berhad

CONTRIBUTIONS TO CONTEMPORARY ISLAMIC ECONOMICS - MOVING FORWARD

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PREFACE

'Contributions to Contemporary Islamic Economics- Moving Forward' series aim to commemorate influential works and visionary personalities who have contributed significantly to the development of contemporary Islamic economics by highlighting and disseminating their economic vision, philosophical foundations, theoretical propositions and policy prescriptions, as well as their main thoughts and ideas. The intention is to share the aspirations of Islamic economics as promulgated by the works of its major proponents with various stakeholders in the economy particularly among the industry players, with the hope that the present conditions can be reoriented towards realising these aspirations.

This inaugural volume represents an exploration and analysis of the pioneering thoughts by Sayyid Abul A'la Mawdudi, a leading thinker and activist of the Muslim world in the mid-20th century on the critical need of the *Ummah* at the time in the realm of economics. Mawdudi's 'First Principles of Islamic Economics' constitutes a compilation of his major writings and speeches from 1940s to 1960s. In this book, he envisaged an economic system that is holistic, sustainable and 'natural' in its approach, enabling man to be more aligned with the natural elements of his being. A system that is guided by revelation, based on the foundations of morality, individual freedom with personal accountability, social justice, fair distribution, and shared responsibilities. He discussed practical aspects of his vision of Islamic economics in the areas of property ownership, market mechanism, behaviour of economic agents, individual and collective interests, consumption, production, labour relations, interest-free finance, and redistributive mechanisms and institutions.

This **Book In Brief** consists of two parts. It starts by introducing *Sayyid Abul A'la Mawdudi*, the author of '*First Principles of Islamic Economics*', which provides some important background and context that may shape his thoughts and ideas on Islamic economics. This is then followed by an overall introduction to the book. The second part presents the book in brief, an abridged version of '*First Principles of Islamic Economics*' with approximately one-fifth the length of the original publication. This provides a quick reading into the economic vision and thoughts of one of the most influential pioneers of our modern Islamic Economics movement.

This report is one of the outputs from a project awarded to the Centre for Islamic Economics (CIE), International Islamic University Malaysia by Maybank Islamic Berhad. It represents the first two parts of a larger book review document for this first cycle of the project. Members of the project team include Dr. Mohd Nizam Barom, Prof. Dr. Mohamed Aslam Mohamed Haneef, Assoc. Prof. Dr. Mustafa Omar Mohammed, Assoc. Prof. Dr. Mohd Mahyudi Bin Mohd Yusop, Dr. Muhammad Irwan Ariffin, and Dr. Riasat Amin Imon. The team is supported by a dedicated research assistant, Sr. Bushra Abu Saïid, and an efficient administrative executive, Br. Muhammad Firdaus Salleh.

Our sincere gratitude lies with Maybank Islamic Berhad (MIB) for engaging with CIE on this project. As the leading industry player in Malaysia, MIB's effort to highlight and promote major works and ideas in Islamic Economics to the wider Islamic banking and finance community and the public at large through this project is an exemplary initiative.

We are confident that the outputs from this project and future volumes of this series will prove to be a valuable reference material for all stakeholders in the Islamic economics and finance sector.

Dr. Mohd Nizam Barom

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Centre for Islamic Economics, International Islamic University Malaysia.

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PART I:

INTRODUCTION

BACKGROUND OF SAYYID ABUL A'LA MAWDUDI

Early Life and Education

Sayyid Abul A'la Mawdudi was born on 25th September 1903, in Andhra Pradesh, Hyderabad, India, into a pious and respectable family, his roots can be traced to the Holy Prophet (*pbuh*) from his paternal side. He acquired his early education at home under the guidance of his father, who was a lawyer and various private teachers. He did his high school in Madrasah *Fawqaniyah* which tried to provide a mix of modern Western and traditional Islamic education. Just six months after joining *Dar-al-Ulum* for his undergraduate studies, he lost his father at the tender age of sixteen and was forced to halt his formal education and begin his career in journalism to support his family. He resumed his education in 1921 and learned the *Tafsir, Hadith, Fiqh*, as well as English. He also improved his Urdu and taught himself Arabic and Persian. Although he was mostly self-taught, he received some guidance from a few competent scholars from time to time. His intellectual achievements are, therefore, largely attributed to his own effort, his family upbringing as well as the occasional guidance he received from his teachers.¹

Mawdudi was known as a writer, journalist, religious scholar, philosopher, social thinker, public intellectual and political activist. Although not an economist, his writings and speeches on economic concerns had a profound influence on economic thought in Pakistan and the Muslim world. Over his lifetime, he had given over 1000 speeches and written over 140 books, pamphlets, articles, commentaries and short tracts on Islam covering almost all aspects of Islamic thought and practice. His thought has impacted three generations of Muslims around the globe, and his works have been translated into more than forty different languages. He lived for 76 years and dedicated his life to the re-establishment of Islam in the modern era. He is hence regarded as a key figure of modern Islamic resurgence.

From Journalism to Activism

From an early age, Mawdudi turned to journalism to make his living, he worked with his elder brother for a religious newspaper in Madhya Pradesh. Three years later, he was appointed as the editor of the daily local Taj newspaper. He went on to become a part of the editorial staff of two Muslim newspapers affiliated with *Jamiat -e-Ulama-e Hind*; called *Muslim* and *Al-Jami'yyat* (1925 to 1928). In 1932, he started his very own monthly journal in Urdu, *Tarjumanul Quran* (Interpretation of the Quran) and it was through this project that he called people who wanted to devote their lives to establish Islam in every aspect of life, to join in the formation of *Jama'at-i-Islami*. *Jama'at-i-Islami* was thereafter created on 26th August 1941 with 75 founding members. Aside from his journalism, he played an active role in Islamic movements such as the *Khilafat* and *Hijrat* movements.²

¹ Ahmad, K., & Ansari, Z. I. (1979). *Mawlana Mawdudi an introduction to his life and thought*. London Road, Leicester: The Islamic Foundation

² Husain, Z. (1986). Maulana Sayyid Abul A'La Mawdudi: An appraisal of his thought and political influence. *South Asia: Journal of South Asian Studies*, 9(1), 61–81

Works and Contributions

He published his very first book called *Al-Jihad fi al-Islam* (Holy war in Islam) in 1929 at the age of 26. In 1930, he published another significant writing entitled *Risalat-e-Diniyat*, which was then translated into English as *Towards Understanding Islam* and became a primary textbook in many colleges throughout the country. His most profound contribution remains to be his six-volume *Tafhim al-Quran* (commentary on the Quran) – a 30-year project that spans several thousand pages. He additionally wrote two volumes of *Seerat-un-Nabi* (Life of Prophet Muhammad).³ His writings on Islamic economics include *Sud* (Interest), *Islam Aur Jadid Ma'ashi Nazariyat* (Islam and Modern Economic Ideologies), *Mas'ala-i-Milkiyat-i-Zamin* (The Question of Land Ownership), *Insan ka ma'ashi mas'ala* (The Economic Problem of Man and its Islamic Solution), *Qur'an key ma'ashi nazriyat* (The Quranic viewpoint on Economics), *Ma'ashiyat e Islam* (The Islamic Economics), *Islami ma'ashiyat key bunyadi usul* (The Fundamental Principles of Islamic Economics).^{4 5}

In 1938, Mawdudi moved to Eastern Punjab at the invitation of philosopher-poet Muhammad Iqbal to contribute to the setting up of an Islamic institute, Dar al-Islam, which targeted the revision and codification of Islamic jurisprudence. Not long later, he was elected as the president of the establishment, and he shifted the institution to Lahore. He also became the Dean of Islamia College's Faculty of Theology for one year. Mawdudi visited numerous countries between 1956-74 and joined ten International Islamic conferences. Besides that, he served on the advisory committee that founded the Islamic University of Medina and was a part of its Academic council since its commencement in 1962.⁶

Influences

At a young age, Mawdudi was influenced by the writings of Altaf Husain Hali and Abul Kalam Azad.⁷ He was later known to have been significantly influenced by the thought and teachings of Shah Waliullah of Delhi (1703 – 1762), a great Islamic thinker who helped rebuild socio-political and religious thought in Islam and was often known as the father of modern Indian Islamic thought. Similar to Waliullah, Mawdudi had a holistic vision of Islam and fought for socio-political change. He was similarly concerned with the moral deterioration of Muslims and the problems affecting Muslim societies. He proposed remedies for those issues and had a strong adherence to the Quran and Sunnah, giving equal stress to both knowledge and practice. He was also against the blind imitation of past jurists, supporting independent legal judgement as did Waliullah.⁸

Mawdudi has influenced Muslim thinkers and activists all around the globe. His Islamic movement, 'Jama'at-i Islami' grew into a strong, organised religio-political organisation and

³ Husain 1986: 62

⁴ Mawdudi 2011: xxxii

⁵ Gilani, S. A. (1984). *Maududi thought and movement*. Shah Alam Market, Lahore: Islamic Publications Limited

⁶ Husain 1986: 62

⁷ Hasan, M. U. (1984). *Sayyid Abul 'Ala Maududi and his thought Vol:1*. Shah Alam Market, Lahore: Islamic Publications Limited

⁸ Shahed, A. K. M. (2010). Shah Waliullah's influence on the thought of Sayyid Abul A'la Mawdudi. *Islamiyyat*, 32(0), 5–23.

strongly influenced people from all walks of life, particularly the intellectuals and the youth of the subcontinent.⁹ His influence, although most pronounced in South Asia, is not only limited to those allied with his party, beyond parties and organisations, and the subcontinent, he is regarded as a modern Muslim thinker and prolific writer influencing thinkers and activists around the globe. The influence of his thoughts and ideas contributed to Islamic revivalism in Egypt, Algeria, Iran, and Sudan. His teachings additionally reached Muslims in Syria, Morocco, and Nigeria as well as in non-Muslim countries such as the USA, the UK and Germany.¹⁰ Among the notable Muslim leaders strongly influenced by Mawdudi was Syed Qutb (1906-1996), having an impact on his thought on socio-political issues and Islam.¹¹ In Southeast Asia, his influence was most evident in Muslim majority countries such as Malaysia and Indonesia. His books have been translated into most of the major world languages and his emphasis of a holistic and integrated worldview of Islam appealed to young, educated Muslims, as an inspiring new vision of Islamic ideology, thought, direction and social order amidst the multitude of confusing and conflicting ideologies and trends of their time. His books, 'Towards Understanding Islam' and 'Islamic Way of Life' are among the two most popular of his books.¹²

Islamic Revivalism and Jama'at-i-Islami

Mawdudi began his mission of Islamic revivalism at a time when Muslim countries were all under direct or indirect subjugations of Western colonialism. After a decade of a career in journalism, Mawdudi dedicated his time to the re-establishment of Islamic thought and to create a movement for socio-political change towards a new world order for the Muslim Ummah. He founded *Jama'at-i-Islami* in 1941 with the intention of *Iqamat-i-din*, to incorporate Islam in all aspects of life. *Jama'at-i-Islami* branches can now be found all over the world and became known as a moderate Islamic movement of the 20th century, with a significant presence in Pakistan, India, Bangladesh, Kashmir and Sri Lanka. Mawdudi is therefore considered as a key figure of Islamic movement and revivalism. He demonstrated how Islam could be implemented to address the problems of Muslims in modern times and his writings provided the foundation of Islamic political, economic, social and cultural systems. He proved that Islam could provide institutional guidelines and endeavoured to establish that in Pakistan.¹³

His contemporary *Tafsir*, the *Tafhim al Quran* presents the message and meaning of the Quran in a language and style that has touched the hearts of many people as it demonstrates the relevance of the Quran to everyday problems of man. Mawdudi presented a pure and holistic image of Islam in a rational, practical and simple language and style (avoiding unnecessary philosophical jargon and abstract concepts) that easily attracted people. His comprehensive and practical portrayal of an Islamic state challenged the beliefs of modern Muslims that a modern

⁹ Ahmad and Ansari 1979: 16

¹⁰ Gilani 1984: 150-165

¹¹ A.B.Rahman, A. H, & Ali, N. (2012). The Influence of Al-Mawdudi and The Jama'at Al Islami Movement On Sayyid Qutb Writings. *World Journal of Islamic History and Civilization*, 2(4), 232–236

¹² Hassan, M. K. (2003). The Influence of Mawdudi's Thought on Muslims in Southeast Asia: A Brief Survey. *The Muslim World*, 93(3–4), 429–464.

¹³ Ushama, T., & Osmani, N. M. (2006). Sayyid Mawdudi's Contribution towards Islamic Revivalism. *IJUC Studies*, 3(December), 93–104

state couldn't be governed by Islamic guidelines and principles.¹⁴ Aside from his reconstruction of Islamic thought, he established a critique of both Western and Muslim societies. The former focused on the flawed ideas, intellectual misperceptions, moral problems, societal defects and economic injustices in Western societies. The latter meanwhile focused on the problems that had led to the failure of Muslim civilizations.¹⁵ His unique manner of reconstructing Islamic thought to suit the relevancy of modern times is considered as one of his chief contributions. He placed great emphasis on Islam as a complete scheme of life, and highlighted its purpose to transform people spiritually and morally towards the path of not just reforming their personal lives but also the society as a whole.

The Context of his Time in relation to this Work

The 18th and 19th centuries saw much condemnation of Islam as being backward and barbaric. Mawdudi therefore took the responsibility to use his skill of writing and speeches to dispel such views, clear the confusions on Islam and demonstrate the true superiority and peaceful nature of the religion. For example, his book on *The Concept of War in Islam* attempted to prove that Islam did not support violence or terrorism.¹⁶

The Muslim civilization had flourished for many centuries until the advent of the Western enlightenment which caused a gradual deterioration and collapse of the once-powerful and influential Islamic caliphate. Overwhelmed by the problems within their societies as well as by the strong influence of Western thought and imperialism, it left a devastating impact on social, economic, political, moral and intellectual aspects of Muslim societies. By 1924, the little that was left of the symbolic *Khilafah* was abolished. Consequently, notable Muslim figures around the world began to question what went wrong with the Muslim Ummah and what could be done to rebuild it. Among these prominent intellectuals and reformers included Jamal al-Din Afghani, Amir Shakib Arsalan, Prince Halim Pasha, Sa'id Nursi, Muhammad Iqbal, Rashid Rida, Muhammad 'Abduh, Hasan al-Banna, Abul Kalam Azad and Malik bin Nabi. Mawdudi was one of the noteworthy figures who made it his mission to revive Islam and anchor it in all aspects of life. The resurgence of Islam in the twentieth century was a result of much critical thinking among a number of Muslim scholars and their efforts to rebuild the Muslim world and set it back on track.¹⁷ Mawdudi's call towards Islamic revivalism in 1932 was therefore welcomed by like-minded Muslims around the globe.

The influence of Western thought and imperialism gave rise to different responses by the Muslim world. Some Muslims became completely subservient to Western thought while others adopted a defeatist mind-set and apologetic attitude with attempts to show that Islam could fit into Western thought and culture. On the other hand, groups of Islamic fundamentalists completely dismissed Western thought without any form of critical evaluation. In the context of this ideological conflict, Mawdudi took a different, unique path. He was against either extreme of surrendering to Western thought or completely rejecting Western concepts. He did not disregard

¹⁴ Ushama and Osmani 2006: 95

¹⁵ Mawdudi 2011: xxii

¹⁶ Ushama and Osmani 2006: 97

¹⁷ Mawdudi 2011: xxi

the positive aspects of western ideas and practices, his focus was on how to revive Islam in the modern context and to ensure its relevancy to the needs of contemporary times.¹⁸

It is important to remember that Mawdudi was not a professional economist and therefore did not focus on theoretical discussions on economic theories. His primary concern was the wellbeing of people and in his attempt to analyse problems and propose solutions to all aspects of life, he contributed much to the economic sphere as well. At a time when the Muslim world was far less developed and comparatively weaker than the capitalist and communist nations, it was very daring of Mawdudi to challenge those systems and propose an Islamic economic system that was yet to be tested.¹⁹ He is known to have laid down the foundations for modern Islamic economics and to have shed light on a new paradigm for economic analysis and policy. Therefore, while some may not consider Mawdudi to be the father of Islamic Economics, many others do and in fact his highly influential economic thought even became known by many as “Mawdudi Economics.”

Locating Mawdudi in the Context of the Early Generation of Muslim Economists

The end of the 19th and early 20th centuries saw an emerging interest in the economic teachings of Islam led by a few scholars at the lead of the awakening of the Muslim world. The first quarter of the twentieth century (1900-1925) was regarded as the ‘pre-takeoff’ or preparatory period for Islamic economics. This was when scholars and leaders around the world called for Islamic reform and revivalism and prepared the ground for new generations of Islamic economist writers and scholars. The focus was on a traditional style of writing covering translations of conventional works and publications of classical Islamic literature and socio-economic issues. Terms like ‘Islamic Economics’ did not yet emerge. Scholars of this time include Muhammad Iqbal (from the Indian Subcontinent), Muhammad Abduh (from Egypt) and Abd al-Qadir al-Mihani (from Algeria), among others.²⁰

The second quarter of the twentieth century (1926-1950) saw the first generation of Islamic economists and scholars who began actual writings on Islamic economics. Known as the ‘take-off’ period for Islamic economics, this generation gave birth to numerous pioneer scholars. Mawdudi is one among these group of leaders or founders who had some exposure to economics and wrote in a largely descriptive and jurisprudential style based on the Quran, Sunnah, and *Fiqh*. Other scholars in this period were Hifzur Rahman Sewharawi, Manazir Ahsan Guilani and Muhammad Hamidullah among others from the Indian subcontinent, as well as Zaki Salih and Muhammad Ali Nash’at among others from the Arab world.²¹

Although Mawdudi was still active in his writings and speeches during the third quarter of the twentieth century (1951-1975), his name does not appear among the second generation of Islamic economists who were regarded as professionally trained economists. This period saw a

¹⁸ Ushama and Osmani 2006: 96-97

¹⁹ Chapra, M. U. (2004). Mawlana Mawdudi’s Contribution to Islamic Economics. *The Muslim World*. 94(2), 163–180.

²⁰ Islahi, A. A. (2010). Four generations of Islamic economists. *Journal of King Abdulaziz University, Islamic Economics*, 23(1), 165–170.

²¹ Islahi 2010: 165

new era of Islamic economic thought, spurred by the first International Conference on the subject, leading to the beginnings of the development of curricula, research centres, institutions and specialized journals on Islamic economics. The pioneer professional Islamic economists in this period who were well versed in both conventional economics and Islamic sciences, and produced works that were more modern and analytical in style, include Muhammad Uzair, Kurshid Ahmad, M. Umar Chapra, Anas Zaqqa, Monzer Kahf, and Muhammad Nejatullah Siiddiq among numerous others.²²

For fourteen centuries, Islamic jurists had focused on Islamic jurisprudence and formalising injunctions of the primary sources of Islam which included deriving inferences from the economic aspect. The development of Islamic economics in the 20th century to a great extent, drew from this rich heritage. Writings of the earlier generations therefore, focused largely on the principles of Islamic Economics based on the Qur'an and Sunnah, covering Islamic worldview, laws related to property, inheritance and *zakah*, interest, consumer behaviour, etc. The new generations of Islamic scholars and economists were, however, unlike early jurists, more open to reform and modifications of juristic opinions to suit the changing times.²³

²² Islahi 2010: 166

²³ Khan, M. A. (1994). *An introduction to Islamic economics* (1st ed.). Islamabad, Pakistan: The International Institute of Islamic Thought and Institute of Policy Studies.

OVERVIEW OF 'First Principles of Islamic Economics'

Writings on Islamic economics in the 40s, 50s, and 60s (during the 1st and 2nd generation of Islamic scholars and economists) were rather basic in terms of presenting salient features of Islamic economics and general outlines of an Islamic economic philosophy. Muslim scholars in this period were still formulating an Islamic economic system from the economic teachings of Islam based on the Quran and Sunnah and the historical records of Islam. Mawdudi's book on "The First Principles of Islamic Economics," is a collection of Mawdudi's numerous speeches and writings over this period of 30-35 years, compiled by Khurshid Ahmad to elucidate the economic principles and injunctions of Islam and their applicability in the context of that time.

The book is divided into two parts. Part one is entitled, 'The Islamic Concept of Economic Wellbeing,' and covers the Islamic philosophy of life and economy. It comprises of six chapters taken from four speeches and two articles spanning a period of about 25 years (1941 – 1965). It looks at contemporary economic systems from a critical stance, identifies their problems and presents the Islamic view of an economic system based on the teachings of the Qur'an and Sunnah. It defines the economic system of Islam as a golden mean between the two extremes of capitalism and socialism. This system is derived by outlining the principles of capitalism, pinpointing its problems and resolving them through a set of 'Islamic' corrections to obtain a more balanced economic order. It is in other words, a more perfect form of capitalism. The 'Islamic' remedies to capitalism include legal restrictions on land ownership, labour relations, finance (interest ban), and government intervention while establishing the system of *Zakah* in place. This section of the book has been the basis upon which many economists later tried to operationalize Mawdudi's thought and ideas.²⁴

The second part of the book also comprises of six chapters and is entitled, 'The Economic System of Islam: Some Basic Features.' Four of the chapters (7, 8, 9, 12) were adapted from Mawdudi's books namely, *Mas'alah-i-Milkiyat-i-Zamin* (The Question of Land-Holdings), *Sud* (Interest), *Tarjuman al-Qur'an*, *Tafhim al-Qur'an*, *Rasail-wa-Masail* (vol 4) and *Khutubat* (Lectures). Chapters ten and eleven were meanwhile taken from two different speeches by Mawdudi. The writings and speeches date from the 1950s and 1960s when Mawdudi was leading a major political party in Pakistan and had the responsibility of representing Islam in Pakistan and the Muslim World. Part two covers the application of Islam's economic philosophy (as described in Part one) addressing particular policy issues in specific economic areas. It provides Islamic injunctions on a number of primary economic concerns of the time, focusing on land ownership, interest, *Zakah* and social justice. Similar to part one of the book, this section also undertakes the same method of developing Islamic solutions by remedying the existing order of capitalism. However, unlike part one of the book, Mawdudi's views on the application of Islamic ideology and principles here changes over time.²⁵

²⁴ Zaman 2011: 314-316

²⁵ Zaman 2011: 316

Table of Chapters and their sources

First Principles of Islamic Economics	Sources – Mawdudi’s Publications & Speeches
<p>PART ONE: THE ISLAMIC CONCEPT OF ECONOMIC WELL-BEING</p> <ol style="list-style-type: none"> 1. Mankind’s Economic Problems and Their Islamic Solutions 2. Economic Teachings of the Qur’an* 3. The Differences between Islam and Capitalism* 4. The Economic Philosophy of Islam 5. The Principles and Objectives of Islam’s Economic System 6. Some Basic Principles of Economic Life* <p>PART TWO: THE ECONOMIC SYSTEM OF ISLAM: SOME BASIC FEATURES</p> <ol style="list-style-type: none"> 7. The Question of Land Ownership 8. The Question of Interest 9. <i>Zakah</i> in Theory and Practice 10. Islam and Social Justice 11. Issues of Labour, Insurance, and Price Control 12. Recodification of the Economic Laws of Islam 	<ol style="list-style-type: none"> 1. Mawdudi’s talk at Aligarh Muslim University, 1941. 2. Article, 1963 3. <i>Sud</i> (Interest), 1948 4. Speech at the University of Punjab in Lahore, 1951 5. Address at the University of Punjab in Lahore, 1965 6. <i>Tafhim al-Qur’an</i> Vol 1-3 7. <i>Mas’alah-i-Milkiyat-i-Zamin</i> (The Question of Land-Holdings), 1950. 8. <i>Sud</i> (Interest) 1948, <i>Tafhim al-Qur’an</i>, <i>Rasa’il-wa-Masa’il</i>, & <i>Tarjuman al-Qur’an</i> (1961) 9. <i>Khutubat</i> (Lectures): Lahore 1957, <i>Tarjuman al-Qur’an</i> (1946, 1950-51, 1953-54) & <i>Rasa’il-wa-Masa’il</i> Vol. 4 10. Paper read at the World Muslim Congress in Makkah during Haii, 1962 11. Address at Pakistan Labour Welfare Committee Convention, 1957 & <i>Tarjuman al-Qur’an</i>, 1944 12. <i>Sud</i> (Interest), 1948

Note: All sources were taken from the book²⁶, except for chapters* (3,6) which were taken from Arshad Zaman’s article²⁷, since they were not given in the book.

²⁶ Mawdudi, S. A. A. (2011). *First principles of Islamic economics*. (A. I. S. Hashemi, Trans., K. Ahmad, Ed.). Leicestershire, UK: The Islamic foundation.

²⁷ Zaman 2011: 304

PART II:

BOOK IN BRIEF- MAWDUDI'S FIRST PRINCIPLES OF ISLAMIC ECONOMICS

Introduction²⁹

Islam has laid down certain principles and parameters to keep economic life firmly based on the twin concepts of justice and fairplay. It seeks to ensure that the production, use, and distribution of wealth function within the limits drawn. Islam is concerned with the strict observance of the basic principles. It is not much concerned with how wealth should be produced, used and distributed because the ways and means change over time in the face of different circumstances and human needs.

Since the earth and all its bounties have been created by God for mankind, it is everyone's right to seek their means of living. There should be equality of opportunity for all in this respect. As humankind's common inheritance, the bounties of nature cannot be monopolised, nor can restrictions be imposed to prevent their use. Things that have been created for the benefit of man shouldn't be kept idle. The right of ownership through lawful means is available to all. Under the Divine Dispensation, there is equity but not necessarily equality in the bounties and means of subsistence of man. Therefore, any measures taken to impose artificial economic parity is wrong. Islam aims at preserving the natural economic order and is against turning natural inequality into artificial equality.

Through its moral values, Islam inspires people to support others who are less privileged and at the same time calls for a fully-fledged system to guarantee support for them. This involves *Zakah*, a system of social insurance and public welfare. Islam seeks to establish a balance between the individual and the society, so that he may retain his personal freedom without it being a detriment, but a benefit to society. It is therefore against totalitarian dictatorships because they restrict the growth and development of personality. Taking the middle path, it is also against systems giving unfettered freedom to individuals. The middle road ensures that an individual has the freedom to conduct his affairs within prescribed limits while being mindful of his responsibilities to society.

Let us look at the question of earning a living. The Islamic Shari'ah provides the minutest details of the lawful and the prohibited, unlike any other legal code. It singles out and prohibits all means that involve earning a living by harming others' interests or having either a morally or materially damaging impact on society. Islam affirms the ownership right of man on his lawfully earned wealth. This right is however not unlimited. Islam lays down a system of checks and balances to prevent indulging in unwarranted luxuries or squandering of wealth. An individual can save his earnings provided he pays *zakah* on it and is allowed to invest only in lawful businesses. Wealth gathered through lawful means should not be left to accumulate for long, the law of inheritance ensures that it passes on to legal heirs for a wider circulation. It thus makes it

²⁸ **An abridged version of Sayyid Abul A'la Mawdudi's 'First Principles of Islamic Economics'**

²⁹ The Introduction is based on Sayyid Mawdudi's talk on the economic system of Islam, which he delivered on Radio Pakistan in Lahore on 2nd March 1948.

impossible for any sort of feudalism or capitalist cartels and monopolies to prosper. *Zakah* and *Ushr* along with other social obligations discourages the accumulation of wealth. Overall, Islam places a lasting curb on the possibilities of the rich growing richer.

PART ONE: The Islamic Concept of Economic Well-Being

Chapter 1 - Mankind's Economic Problems and Their Islamic Solutions³⁰

The importance given to the economic problems of nations and states around the world is greater than ever before. The focus of this attention today is the arrival of specialized institutions and books with high-sounding jargon and terms dedicated to Economics as a discipline, accompanied by a growing complexity in the processes of production and supply, as well as access to the basic amenities of life. Strangely enough, this phenomenon is becoming more and more complicated and enigmatic, rather than getting resolved or better understood. Nevertheless, when viewed in a simpler and natural way, shorn of its technical trappings and academic bombasts, the economic issue becomes easier to understand and we can discover the merits and demerits of various measures that have been taken to resolve it.

1.1 The problem of a partial approach

In addition to the confusion caused by the bamboozling terminologies and jargon, the economic issue of mankind has become more complicated because it has been removed from the main body of the greater issue facing them as humans and moral beings, and attempts have been made to handle it in isolation as an independent question. This approach has led to the economic question being viewed as the main issue in life. Specialization may be a blessing, but it has led to compartmentalization of life and the inability to take a holistic approach towards issues facing mankind. The human being today has been reduced to a plaything in the hands of the one-eyed experts of different sciences, arts, and crafts. All sciences cover different facets of life. Each one has its own place and role and is part of the same single whole. Economics covers an important part of his social existence, but he is not merely a social animal whose life can be confined to the basic needs of food, clothing and shelter. Evidently, a person who desires to understand any issue should not concentrate simply on that area, or to look at the whole spectrum of life with a definite bias in favour of that particular issue. One has to look at the broader context without a blurred vision. The correct way is to focus on the entire spectrum comprehensively; keeping in view each

³⁰ This talk was delivered by the author on 30th October 1941 at Stratchy Hall, Aligarh Muslim University, at the special invitation of the university's Association of Islamic History and Civilization. The original chapter comprises of 20 pages with 11 sections.

minutest detail while pinpointing the afflicted part and the actual nature of the disease. The present difficulty in achieving a correct diagnosis and treatment of the economic problem is a result of this partial approach.

1.2 The real issue

Mankind's actual economic problem is no more than a question of how best to acquire basic necessities of life, while at the same time trying to maintain the pace of socio-economic progress and ensuring that every member of society has the opportunity to make the best use of his qualifications and potential. So, the real economic challenge facing man is how to eliminate social injustice and tyranny while maintaining the natural rate of progress; how to accomplish nature's design that every creature should get what it needs for its subsistence; and how to remove the hurdles that cause the energies and potential of the majority of people to go to waste.

1.3 The root cause of economic mismanagement

The factor that is primarily responsible for the malaise was the degeneration of those people blessed with a better economic position into selfishness, greed, stinginess and dishonesty.

1.4 Self-aggrandizement and luxuries

The rich refused to accept the rights of those in the community who were deprived of their due share of the national wealth. The human capital that could very well have been used in the service of civilization and culture was utilized instead to satisfy their lust and personal egos. These devil's disciples were not content with callously allowing a large segment of society to suffer morally, spiritually and physically. They indulged in futile, mean and harmful pastimes that led to humanity's doom and destruction; hence misusing material capital too.

1.5 Capital worship

Economic resources in excess of one's needs can be used in one of the following two ways:

- Their advancement on interest-based loans;
- Their investment in commercial and industrial enterprise.

These two methods jointly lead to the division of the society into two classes: (i) the moneyed class of a small group of privileged people, who own more than they need and use their riches to grow even richer; and (ii) the larger segment of the society who have little, just enough for their needs or may have nothing at all. This could give rise to class-conflicts and confrontation in society.

1.6 The element of antagonistic competition

With the rise of such an unhealthy race, called antagonistic competition, the number of 'haves' in society continually decreases while the 'have nots' multiply. This trend of antagonistic competition now crosses national boundaries to globalize an exploitative economic system.

1.7 Cartels and monopolies

The above trend has given rise to a small group of people that includes bankers, brokers and the heads of industrial and commercial cartels and monopolies. This group has so dominated the world's economic resources that the whole of humanity today appears to be helpless before it.

1.8 The recipe of communism

Communism came up with a unique solution. It proposed to transfer the means of production of wealth from private to public ownership and also to assign to the community (with the Communist Party as its sole representative) the responsibility for its distribution. But, the result of this prescription is bound to be as deadly as that which it sought to replace.

1.8.1 The super capitalist

The natural outcome of communist rule is, therefore, the emergence of one Super Capitalist (i.e. the Communist Party) out of the ashes of many large and small ones in the country and the rise of a single mill-owner and feudal lord who is simultaneously the Czar as well as the capital baron.

1.8.2 An exploitative system

An absolute power like this is bound to corrupt its power absolutely. Even if we presume that a group of ruling elites would not go beyond certain limits in their use of the absolute power, there is no avenue for the natural growth and development of the personalities of individuals.

1.8.3 Slaughter of the self

The drawbacks of the communist system are going to be far more than the benefits. A group of humans cannot be so knowledgeable and *omniscient* that they can correctly assess the intrinsic qualities and inborn faculties of countless millions of their fellow humans and then chart out for each of them a perfect course for their growth and development. A ruthless regimentation of this type will be a death-blow to human civilization's diversity and will turn a society into a lifeless monotony; put an end to the natural growth of civilization and eventually leading to the freezing of human potential and a severe mental and moral degeneration. Communism, therefore, does not offer a correct or natural solution to the economic problems of man.

1.9 The fascist solution

Fascism and national socialism also claim to offer a solution. Practically speaking, the consequences of this approach do not appear to be greatly different from those of communism.

1.10 The Islamic solution

Now, let us examine the solution that Islam offers for the economic problems of man.

1.10.1 Basic rules

Among the rules is to retain those principles that are natural and, in case of deviation, turn a person back to the natural course. The second rule is to place a heavy emphasis on the reformation of conduct and mentality in order to strike at the root of what is wrong in the human psyche, instead of remaining content with the external precautions of introducing a few rules and regulations into society's social set up. The third basic rule, which may be found everywhere in

the legal code of Islam, is that the state's coercive power and the force of the law should only be used as and when it is deemed essential.

1.10.2 Earning money

Let us look at the question of earning money. Islam acknowledges a man's right to earn a living in this world, according to his aptitude, qualifications, and capabilities. It does not, however, permit him to use anti-social or corrupt means to earn a living. It makes a distinction between the *Harām* (forbidden) and *Halāl* (lawful) means of earning money and declares every anti-social means to be *Harām*.

1.10.3 Ownership rights

Islam also acknowledges an individual's right to own whatever he may have obtained through lawful means. It does not leave him free to use it as he will, however, but imposes certain restrictions on this.

1.10.3.1 Rule for spending money

It is unlawful in Islam to spend one's income in a manner that may be ethically damaging or socially injurious. The best use of money is to spend one's earnings in a reasonable manner on one's lawful requirements and let the amount that is saved be used to support those in need.

1.10.3.2 Eliminating the capitalist trend

The human weakness for money and luxuries can never be completely overcome by mere sermonizing or abstract moral precepts. Therefore, Islam imposes legal restrictions on the use of the wealth that is saved after spending on one's lawful needs. It prohibits interest-based transactions; consequently, breaking the backbone of the oppressive capitalist system.

1.10.3.3 Circulation of wealth and social security

Islam does not approve of people amassing their surplus wealth. By demanding its followers to spend whatever they earn in satisfying their needs, investing in business or lending to others to help them satisfy their needs, it keeps the capital in circulation. However, if one manages to save and pool a surplus out of his earnings, then two and a half percent of the total amount saved will be compulsorily deducted annually as mandatory charity or *Zakāh* to be used according to a well-devised plan of social welfare. The funds so generated will be deposited in the public treasury (*Bayt al-Māl*). The *Bayt al-Māl* will thus be a guaranteed source of help for all those in need of support. The Islamic system of *Zakāh* is actually the best-known institution of social insurance in human society to date. Another measure is law of inheritance. Islam does not permit wealth to be hoarded. Once the owner dies, his assets are divided and distributed according to predetermined shares.

1.11 Points to ponder

Don't the Islamic teachings eliminate the drawbacks of private ownership that surface in Muslim society? Then why should we use the communist, fascist or nationalist-socialist models that follow artificial means of economic management, which rather than removing one wrong actually create

so many others? If viewed dispassionately and examined incisively, setting aside the biases, prejudices and narrow mindedness inherited from the past and overcoming the trend to be overawed by everything new because of the predominance of non-Islamic systems in the world, I am confident that every right-thinking and clear-headed person will admit that the Islamic economic system is the best and most-suited to solve humanity's economic problems. This system is closely interlinked with its political, judicial, legal, civil and social systems based on the Islamic moral code. Even the moral code is not self-sustaining, but depends entirely on faith in the Lord, the All-Knowing and All-Seeing, to Whom each is answerable for all that he does.

Chapter 2 – Economic Teachings of the Qur'an³¹

2.1 Fundamental truths

The most basic fact about the human economy, which the Qur'an emphasizes repeatedly, is that all the means and resources for mankind's survival have been provided by Allah (swt). He created and established these resources on the laws of nature so that they are beneficial to man. He has granted human beings the opportunity and authority to make use of these resources as they please.

2.2 Parameters of permissible and impermissible

The Holy Qur'an has laid down the principle that man is not free to harness and make use of these resources, nor is he authorized to set his own parameters on the permissible and the impermissible, the lawful and the forbidden. It is entirely the Prerogative of Allah (swt) to define such limits. The Qur'an decries as 'falsehood' the idea that a man may himself pronounce something *Harām* (forbidden) and some other thing *Halāl* (lawful). It attributes this authority only to Allah (swt) and to His messenger as His Deputy.

2.3 Parameters of private ownership

The Holy Qur'an reaffirms the individual's ownership right under the Supreme Ownership of Allah (swt) and within the parameters set by Him. Private ownership is essential for carrying out the Divine injunctions. The blueprint for the economy that the Book of God presents is entirely based on the individual's right to own. According to this blueprint, no distinction has been made between consumer goods and the means of production that could restrict private ownership of the former and make the latter public property. It similarly treats earned income and unearned income, in which no personal labour is involved, equally. The Qur'an does not prevent public ownership, if so needed, rather than letting it continue under private management. However, the total negation of private ownership and the promotion of state control as an ideology and a system is contrary to the Qur'anic scheme for the human economy. The political system that the Book of God recommends for human society does not leave the option for any 'Party' to decide whether something should be taken away from private into public ownership. This decision rests entirely with the Shura council, elected through the exercise of people's free will.

³¹ *The original chapter comprises of 36 pages with 24 sections.*

2.4 Irrational concept of economic parity

It is an established fact that parity is not naturally possible among humans or other creatures either in their income or in their means of sustenance. The Qur'an tells us that 'disparity' is part of the Divine Dispensation on earth and is according to the Lord's Infinite Wisdom. However, this does not include the artificial imbalance of human society that is wilfully created by different civilizational systems. In Allah (swt)'s entire scheme of things, His natural disparity ought not to be levelled out and a system established in which all human beings are brought on a par with each other in their economic resources. The Qur'an guides us to dispassionately accept this natural disparity and not to feel jealous or spiteful concerning the precedence that God has given one over another.

2.5 Monasticism or moderation and balance

The Qur'an repeatedly stresses that the Lord has created the bounties of this world for the benefit of His servants. It is neither His Desire nor His Design that man should abstain from these gifts of God and live a life of denial as a hermit. However, what is required of us is to differentiate between the pure and the profane, the permissible and the prohibited, and to remain within the limits of *Halāl* and *Tayyib* (lawful and pure) while making use of the means available to us and not cross the boundaries of temperance and moderation.

2.6 Distinction between *halāl* and *harām* means of livelihood

To achieve moderation and balance, the Qur'an has in place a rule that income has to be generated and earned strictly through lawful (*Halāl*) means, and all prohibited (*Harām*) means have to be avoided.

2.7 Forbidden means of livelihood

Details regarding the wrong means of living disapproved by the Islamic *Shari'ah* are available in the Prophetic Traditions (*Ahādith*) and are duly elaborated by Muslim jurists (*Fuqahā*) in their books. The forbidden means of earning may be summed up as follows:

- Grabbing other people's property without their consent or without paying them compensation, or occupying it with the owner's consent and after paying compensation, but through deceitful means or fraud.
- Bribery.
- Extortion.
- Dishonesty in private and public funds.
- Burglary, robbery, and theft.
- Abuse or misappropriation of an orphan's property.
- Abuse of weights and measures.
- Trading in anything that spreads obscenity and indecency
- Music and dance as a profession.
- Income generated through prostitution and the sex trade.
- The liquor industry, its trade, marketing, and transportation.
- Betting and all those means through which one person's wealth is transferred to another simply by chance or a stroke of fate.
- Idol-making, selling idols or services rendered in idol-houses.
- The professions of fortune-tellers and sooth-sayers.
- Usury and all forms of interest-based transactions, whether the rate of interest is large or small, and whether it has been imposed on personal loans, or commercial, industrial and agricultural credits.

2.8 Prohibition of stinginess and hoarding

The Qur'an forbids all wrong means of earning a livelihood, and strongly condemns the accumulation of wealth, even if it is earned through lawful means. It rejects miserliness as an evil.

2.9 Lust for money and greediness

The Qur'an also condemns a lust for power and wealth, the craving to pile up more and more worldly riches and taking pride in affluence and abundance. It tells us that these are among the greatest causes of mankind going astray and eventually facing his doom.

2.10 Unchecked spending

The Qur'an similarly condemns in strong terms anyone who squanders away the wealth he earned through lawful means in unlawful ventures, or who consumes it by living lavishly and with luxuries, as though he has no right use or purpose for his riches other than raising his living standards higher and higher. The best course for man is to follow the middle road in his spending. He himself, the members of his family and his dependents have a right to his wealth, and he must not be niggardly in discharging his obligations towards them. However, this does not mean that he should spend lavishly on them but must remain mindful of his other social and religious obligations.

2.11 Correct way of spending money

The book of God tells us that the money one saves, after spending judiciously on one's personal needs, should be used in the following manner: spending in the way of Allah (al-Qur'an, 2:219; 2:195; 3:92; 4:36-38), charity (al-Qur'an, 2:177; 24:33) and earning (al-Qur'an, 2:273).

2.12 Reparation for sinful transgressions

In addition to these general and voluntary means of spending in the way of Allah, the Qur'an has also prescribed penalties as reparation for sinful transgressions.

2.13 Preconditions for the Divine Acceptability of charity

Spending in the Way of the Lord are worthy of His Acceptance only if there is no element of selfishness or self-promotion in them; if no attempt is made to make others feel obliged; and as long as the recipient is not subjected to mental or physical torture. Whatever is spent in the Way of the Lord must be from the best that one has and not the worst and any philanthropy must be inspired by the sole motive of pleasing Allah (swt) with no other consideration.

2.14 Charity in the Way of Allah

Charity in the Way of Allah (swt) means to spend one's wealth in His cause. This is what the Qur'an describes sometimes as '*Infāq fi sabīlillāh*' (spending in the way of Allah), at some places as '*Sadaqah*' (charity) and elsewhere as *Zakāh* (Mandatory Charity), which is not just an act of charity and almsgiving, but one of the five pillars of Islam. *Zakāh* was also a pillar before Islam. It is designed for social welfare of society and spiritual advancement of the one who pays *Zakāh*. It is for the improvement of his social conduct and for his success in this world and salvation in the Hereafter. *Zakāh* is not a tax, but an act of worship, similar to *Salāh*.

2.15 Collection and distribution of Zakāh

The Qur'an infuses into people a spirit of voluntary spending for a good cause. The Prophet (*pbuh*) prescribed *Zakāh* and the Islamic state was assigned the official duty of arranging its collection

and distribution. The prophet (*pbuh*) fixed a minimum limit for the deduction of *Zakāh* on various kinds of *Zakāhable* assets. These deductions are to be made at the prescribed rates, as follows:

- 2.5 percent per annum on the wealth possessed in the form of gold, silver, and other cash;
- 10 percent per annum on agricultural produce from rain-fed lands;
- 5 percent per annum on agricultural produce from irrigated lands;
- 20 percent per annum on minerals in private ownership and on buried treasure;
- A deduction to be made, at different rates, on flocks intended for breeding or sale, like sheep, goats, cows, camels, etc.

2.16 One-fifth of revenue from war gains

In addition to *Zakāh* funds, the Qur'an levies a certain amount on the revenue from *Amwāl al-Ghanīmah* (War Gains). The spoils of war must not be misappropriated by the soldiers as war booty. It is obligatory for them to surrender whatever they collect after a war to their Supreme Commander (or the State), who in turn will divide what is collected into five parts, with four to be distributed in equal shares to the soldiers engaged in the battle and the fifth goes to the Islamic State's Public Treasury (*Bayt al-Māl*).

2.17 Disbursement of *Zakāh* funds

The revenue thus generated from *Zakāh* and *Amwāl al-Ghanīmah* is not part of the public exchequer, which is mandated to provide facilities and essential services to the people, including those who pay *Zakāh*.

2.18 Division of inheritance

According to the Islamic Law of Inheritance, whatever a man or woman leaves behind in their belongings at the time of their death must be distributed according to the prescribed proportions between their parents, children, and wife or husband. In the absence of parents and children, their brothers and sisters or others from their mother or father's side will get their share of the inheritance. The guiding principle of the Qur'an in this context is that the wealth gathered during a person's lifetime should simply not be allowed to accumulate, but must be spread after his death among his close relations.

2.19 The Will

The Qur'an also directs us to leave behind a will concerning our legacy. The Islamic Law of Will and Inheritance confirms the Qur'ānic injunction on personal property that two-thirds from it must be distributed according to the Law of Inheritance, and one-third may be left to the dying person's discretion, which he can bequeath through his will as he deems fit. However, he is bound by the Law to bequeath it in a lawful manner, which means that (i) the objective for which the will has been made must be lawful, and (ii) it should not entail depriving his lawful heirs.

2.20 Rights of those of weaker understanding

The Qur'an enjoins that property must not be handed over to those of weaker understanding, lest they fail to safeguard their own interests properly. The property should be entrusted to their guardians, the Magistrate or the Judge, and its custody should be transferred only after ensuring that such persons are capable of handling it properly themselves.

2.21 Safeguarding public interest in state holdings

Regarding state holdings, public funds, and government revenue, the Qur'an directs that they should not be used in the interest of a particular class of wealthy people, but in the public interest as well and with emphasis on the betterment and welfare of the poorer sections of the society.

2.22 Guiding principle about taxation

The fundamental principle laid down by the Book of God concerning the Islamic State's taxation policy is that the burden of taxes should fall on the shoulders of those who own wealth in excess of their needs, and this should also cover that part of their fortune which they have saved after fulfilling their needs.

2.23 Salient features of Islamic economics – a resume

Below is a summary of the basic principles that are contained in the 22-point Qur'anic scheme for the economic well-being of humankind, explained in the preceding sections:

- The Qur'anic scheme introduces economic justice into society to check all forms of economic imbalance and exploitation and, to promote the growth and development of moral values.
- The economic and moral values are integrated into a harmonious whole to resolve economic problems from an economic perspective and in relation to the social order. These values are based on the foundations of a God-fearing concept of this cosmic system and a moral philosophy of life.
- All economic means and resources of the earth are blessings for the human race from the Almighty. No personal, group or national monopoly over the God-gifted resources of nature is encouraged, and humanity is provided with vast free means of and opportunities to make use of them and earn its living.
- Individuals have been given the right of private ownership, although this is not unlimited.
- The natural way of managing the community's economic system according to this scheme is to encourage and promote individuals' free enterprise. However, this freedom is not unchecked or unlimited, but has been circumscribed by certain limits in the best interests of individuals themselves and their social, moral and economic well-being.
- It acknowledges both men and women as rightful owners of the wealth they earn, inherit or acquire through lawful means.
- In order to maintain an economic balance, people are exhorted to make proper use resources, refrain from stinginess and, strictly forbidden from indulging in extravagance.
- In the interests of economic justice, there is an arrangement to check the unwarranted flow of wealth in one particular direction, and also to prevent the unproductive accumulation of wealth in certain hands, even though it has been earned through lawful means. At the same time, it seeks to ensure a wider circulation and better use of wealth.
- The Qur'anic scheme does not depend entirely on the intervention of the state or the law to establish economic justice in a society. It does make the state responsible for certain essential measures but then goes on to implement its remaining measures through the intellectual and moral training of individuals and by reforming the society as a whole.
- By eliminating the causes of class conflicts, the scheme generates within the various segments of the society a spirit of cooperation and fellowship, instead of unhealthy competition and rivalry.

Chapter 3 – The Differences between Islam and Capitalism³²

The middle of the road policy for a society's economic well-being that Islam adopts is unique and rewarding in so many ways, especially when viewed against the backdrop of the extremist ideologies of socialism and capitalism. To give this policy a practical shape, Islam raises the grand edifice of its economic scheme on the twin foundations of law and morality. Through its moral teachings, it mentally prepares the society and each of its members to subscribe to this scheme voluntarily; while by the force of its legal code, it imposes restrictions that compulsorily keep them within the ambit of that scheme. These moral principles and legal regulations are the basic ingredients and mainstays of the Islamic economic system. In order to grasp its tone and tenor fully, it is essential to examine it in more detail.

3.1 Distinction between lawful and forbidden means of livelihood

The first thing to note is that Islam does not give free license to its followers to earn a living or to conduct their economic activities as they choose. Instead, it lays down distinct criteria of what is *Halāl* (lawful) and *Harām* (forbidden) for all economic activities, both public and private, in the best interests of society. This distinguishing feature of Islam's economic system is based on the guiding principle that all means of production and earning wealth are unlawful where one person's gain is another's loss, and that every economic activity is lawful which permits the equitable distribution of dividends among the persons involved. The Qur'anic injunction to 'let there be trading by mutual consent' involves the exchange of goods and services on a substitutional basis. By making it conditional on 'mutual consent,' every form of transaction is rejected as unlawful where there is an element of coercion, deception, fraud or trickery, which may make the deal undesirable for if discovered by the other party. In addition to the above fundamental injunction, the Qur'an has declared unlawful in different places the following means of money-making.

3.1.1 *Bribery and embezzlement*

3.1.2 *Breach of trust and misappropriation of funds, public or private*

3.1.3 *Theft and burglary*

3.1.4 *Mishandling of the orphan's property*

3.1.5 *Fraudulent transactions/disregard of weights and measures*

3.1.6 *Trading in immorality and all means of obscenity and promiscuousness*

3.1.7 *Income generated through the sex trade, brothels, adultery or fornication*

3.1.8 *The production, sale, transportation and marketing of alcoholic beverages*

3.1.9 *Gambling, betting, lottery and all means of income based not on one's labour but on*

³² *The original chapter comprises of 20 pages and 7 sections.*

chance

3.1.10 *Idol-making, trading in idols and serving in temples*

3.1.11 *Fortune-telling and soothsaying*

3.1.12 *Usury and all forms of interest-based transactions*

3.2 The accumulation of wealth

The second injunction regarding the conduct of economic activities is that wealth produced through lawful means must not be allowed to accumulate, because its circulation is thus checked and the balance is lost in the distribution of wealth. This injunction cuts at the very roots of capitalism. To amass savings and then use them to produce more wealth is the basis of capitalism. Islam, on the other hand, does not encourage a person to pile up wealth in excess of his needs.

3.3 Money is to spend

Instead of stockpiling, Islam guides us to spend the money we have earned through lawful means. However, this does not imply that Islam seeks to promote profligacy and extravagant living. The command to spend is conditional on some checks and balances, and the biggest check of all is that the wealth has to be spent '*fi Sabilillāh,*' i.e. 'in the Way of Allah.' In this, Islam's approach totally differs from that of capitalism. A capitalist thinks that he would go bankrupt by spending, but become wealthier by stockpiling his riches. Islam, on the other hand, guides us to spend our wealth as this would further bless whatever we have and would actually multiply our wealth. A capitalist's viewpoint is that whatever he spends is consumed and finished. Islam tells us that, instead of losing, we actually gain and the advantages of what we spend for a good cause eventually revert to us. A capitalist believes that, by accumulating wealth and then reinvesting it in interest-based schemes, he is multiplying his money. But Islam tells us that, instead of multiplying, the wealth diminishes because of the interest and the best way to increase our wealth is its utilization in a good cause.

This is an absolutely new theory and is diametrically opposed to the capitalist viewpoint. The stockpiling of wealth and its reinvestment on interest to amass more wealth eventually leads to its accumulation in a few hands. By contrast, the money spent in the Way of Allah and for *Zakāh* and *Sadaqāt* leads to its wider circulation. No capitalist would ever think of lending his money free of interest. Islam, on the other hand, enjoins the lender not only to help the needy in giving a loan, but also tells him to be more generous and conscientious when demanding the loan amount back. The capitalist spends his money on good causes in order to boost his image, because the best he can expect from his charity is promotion of his name and public acknowledgment. Islam, on the other hand, forbids such glory-seeking and an exhibitionist approach. Our goal must invariably be the ultimate gain of the Hereafter. The capitalist, if he is inspired at all to perform an act of charity, generally does it quite reluctantly, giving away the most undesirable part of his possession; whoever he honours with his favours is thus made to feel encumbered under the weight of his 'generosity.' On the contrary, Islam teaches its followers to give the best they have in their charity, and the charity is not allowed to harm the recipient's sense of dignity.

The big difference between the two mind-sets from a moral point of view is quite obvious. Even when we look at them from a purely economic standpoint, it becomes crystal clear which of the two divergent theories of gain and loss is sounder in terms of its far-reaching social impact and economic benefits.

3.4 Zakāh

As explained earlier, the Islamic approach to the economic issues of mankind is that wealth is like life-blood and must not simply be allowed to accumulate and clog the economic arteries of the state. What Islam seeks from those members of the society who succeed in acquiring a better position and wealth by virtue of their competence or good fortune is to spend their money generously in schemes of public welfare, so that these benefits filter down to the lowest strata of the society, to those who have not been so lucky as these people. With this end in view, the Islamic system generates, on the one hand, a spirit of magnanimity and genuine cooperation through its most effective means – its grand moral teachings, persuasions, and exhortations – in order to inspire the people to develop the inclination to shun the lust for money and enjoy using it generously for the public good. On the other hand, Islam makes it obligatory for every member who has money to contribute a prescribed amount for the welfare and uplift of society. This is what the Shari’ah terms *Zakāh*. The institution of *Zakāh* is the Muslim community’s version of the ‘Cooperative Society’. It is their ‘Insurance company’ and their ‘Provident Fund’. It is a subsidy for the unemployed. It is the scheme of social security for widows, orphans, the handicapped and all those without the means to sustain themselves. *Zakāh* ensures that no member of a Muslim society should remain unprovided for and, to top it all, it takes away any worries concerning a person’s future. *Zakāh* is the cornerstone of the Islamic economic system.

Here again, Islam and capitalism stand in sharp contrast to each other in their fundamental principles and methodologies. Capitalism demands that money be saved and invested, and to multiply these savings, interest is charged in order to divert the capital flow to the capitalist’s own pool. Islam, on the contrary, enjoins that the free flow of capital must not be checked in the first place and, in case of a clogging, any blocked capital should be released through the channels of *Zakāh*. In the capitalist system, the exchange of wealth is restrained, while in Islam it is unchecked. By their nature and temperament, these are evidently two different models of the economy that are diametrically opposed to each other, and no sane person could ever think of bringing the two together under a single economic system.

3.5 Law of inheritance

The wealth that a person has after satisfying his personal needs, contributing to noble causes and payment of *Zakāh*, is distributed through the law of inheritance. The philosophy governing the Islamic Law of Inheritance is that property and wealth, whether they are small or large, should not be monopolised by one or two of the deceased’s descendants, but should be distributed according to an elaborate, pre-determined system among their heirs and relatives, both distant and close. In the case of no legal heir or relative, the Islamic State’s *Bayt al-Māl* (public treasury) is empowered to take care of the deceased’s property so that it can be used in the public interest.

3.6 War gains and division of a conquered land’s revenue

The same philosophy with the same intention governs Islam's approach to war gains and the revenue from a conquered land. The material gains of war are to be divided into five equal parts. Of these, four are to be distributed among the fighting forces and the fifth is to be kept in *Bayt al-Mā'l* for the social objectives of public welfare, which the Islamic State has the responsibility for safeguarding.

3.7 Injunctions about economy and balance

Islam has arranged, on the one hand, to let the wealth circulate among everyone in the community, so that the have-nots are shareholders in the affluence of those with money, and on the other hand, it enjoins every Muslim to observe economy and balance in his spending so that no individual can unbalance the economic scale by their intemperance in making use of his income. Islam offers not only moral precepts but has also laid down rules and regulations to check the extreme forms of both niggardliness and extravagance. It has taken measures to forestall any imbalance in the equitable distribution of wealth. The wealth, of which one is a custodian has to be spent in such a way that it fulfils not just one's own requirements, but also the essential needs of so many of one's less affluent brothers and sisters. In short, the lifestyle that Islam guides humanity to adopt through its moral and legal instruction is one of simple living, which does not let the sphere of human needs and desires expand beyond the limits of a decent and affordable standard. It makes it easier for everyone to live within their means, without becoming indebted to others because of intemperance. If someone has more than he needs for a modest living, he should feel encouraged to shed of the extra load of his wealth to serve his fellow humans in society who may be in greater need of it.

Chapter 4 – The Economic Philosophy of Islam³³

An attempt has been made to answer: Does Islam have a distinct economic philosophy of its own?

Notable features of the economic philosophy of Islam

It is imperative for an economic philosophy to be capable of grappling with the economic issues facing a particular country and the people and offering necessary solutions. Secondly, it should conform to the moral attitudes and socio-cultural norms and traditions of that country. No country or nation can afford to adopt an economic system that has no relevance with its moral philosophy and the normal way of life.

4.1 Basic values of the economic philosophy of Islam

4.1.1 Social justice: Balance between rights and obligations of individuals and society.

4.1.2 Equitable economic system: Equal opportunity for character and moral excellence.

³³ Based on Sayyid Mawdudi's speech delivered at a specially convened moot of the Economic Society of the University of the Punjab, Lahore, 9 February, 1951. *The original chapter comprises of 6 pages with 2 sections.*

4.1.3 People-friendly political system: Avenues for constituents' struggle for a better future.

4.1.4 Equality of opportunity: Moral and material progress to strengthen Islamic principles.

Neither socialist nor liberal philosophies can be a panacea for the economic ills and are fit for the society's healthy and multidimensional growth. The economic philosophy of Islam is unique in every respect and it alone ensures a society's multidimensional progress.

4.2 Eight fundamental principles of the economic philosophy of Islam

4.2.1 First principle: General accessibility of the bounties of nature

The cardinal principle is that every gift of nature, other than those prohibited by the Lord Himself, must be accessible to all.

4.2.2 Second principle: The right to make a living

Every member of the society must have the avenue open for him to seek his livelihood in a lawful manner, unhindered by any restriction or obstruction.

4.2.3 Third principle: The right to ownership

A person investing his labour to acquire a gift of nature and putting it to suitable use must be entitled to its proprietary rights.

4.2.4 Fourth principle: The spirit of healthy competition

Islam does not curb the natural urge for competition and human potentials vary from person to person. It, however, prohibits every artificial way to boost one's economic capability.

4.2.5 Fifth principle: No artificial way to enforce equality

Islam favours the equality enforced by nature, but prohibits all artificial ways to achieve that. Every individual enjoys equal opportunity to rise in a field of his choice to the best of his capability.

4.2.6 Sixth principle: No 'free economy'

The economic system of Islam does not permit an unfettered economic pursuit for progress. The restrictions imposed by Islam on this 'free economy' may be summed up below:

- i. The lawful and unlawful means are elaborately defined for ownership and earning income. These details cannot be found in other divine or man-made legal systems.
- ii. No person is permitted to spend in an unfair manner the resources he owns. Islam inspires the society to discourage the accumulation of wealth and let the excess reach the poor and the needy.

4.2.7 Seventh principle: Duties obligatory for individuals

Just as Islam has made it imperative for the society to take care of the collective uplift, it does not leave the individual unchecked. *Zakāh* is an obligatory duty he has to discharge and pay a certain prescribed amount on his annual saving. No human ingenuity has ever evolved a system of social

insurance, like *Zakāh* and *'Ushr*, that can guarantee such an extensive provision of succor and sustenance to such a vast variety of the deserving and the needy.

4.2.8 Eighth principle: Duties obligatory for the society

Islam has similarly prescribed certain obligations that the society owes towards individuals. Firstly, it seeks the society to create conditions that may allow every individual member to enjoy equal rights. Secondly, Islam would like the society to ensure necessary treatment and assistance in emergencies, natural calamities and cases of individual sufferings. Thirdly, Islam seeks to encourage the society to be sympathetic and not apathetic towards its members, who may be temporarily out of job, ill, or incapable of earning their living.

These are the eight fundamental principles that lay the foundations of the economic philosophy of Islam. They are crucial for the achievement of the four values mentioned earlier.

Chapter 5 – The Principles and Objectives of Islam’s Economic System³⁴

The chapter intends to offer answers to the following crucial questions often raised on Islam’s Economic System:

- Does Islam offer an economic system, and if so, what is the blueprint of the system? What is the position of land, labor, capital and organization in this blueprint?
- Can the funds of *Zakah* and *Sadaqat* be used for social welfare?
- Can we successfully introduce an interest-free economy?
- What is the interrelationship of the economic, political, social and religious systems in Islam?

Brief answers are offered in the following paragraphs.

5.1 Basics of the Islamic economic system

The answer to the first question is that Islam has definitely provided an economic system. However, this does not mean that it has prepared a blueprint with the minutest of details for all times to come. Islam has provided the basic principles and determined the essential parameters which we can use as a guideline to prepare a system capable of satisfying our economic needs in all times and climes. We have the freedom to work out the details depending on our circumstances without transgressing the predetermined limits. This is the course followed for our economic system. Leading jurists in the past have formulated detailed rules and regulations which are available in our books of jurisprudence with detailed chapters on Islam’s economic system. These serve as invaluable treasuries of knowledge from which we can borrow verbatim details that satisfy the needs of our time.

³⁴ Based on Sayyid Mawdudi’s address at the seminar held in the Administration Department of the University of the Punjab, Lahore, 17 December, 1965. *The original chapter comprises of 16 pages with 7 sections.*

5.2 The objectives of Islamic economics

Having explained the meaning of Islam having its own economic system, I shall explain the most important objectives in this system before discussing the principles that Islam provides in the realm of economics.

5.2.1 Personal freedom

The first objective in Islam is safeguarding personal freedom. Restrictions only exist to safeguard the collective wellbeing of a society. Islam attaches great importance to human freedom (moral, political and economic) because individuals are accountable for their deeds in their personal capacity. It is therefore essential to let each person have more avenues for the growth and development of his personality. Islam provides the necessary principles for an economic system that guarantees an individual's freedom to earn their daily bread, for example, it guarantees basic human rights.

5.2.2 Harmony in moral and material progress

The second objective is to guarantee the harmonious growth of human personality both morally and materially. Due to the special emphasis on moral development placed by Islam, it is incumbent on a society to provide ample opportunities to help individuals choose to do good deeds, by creating a conducive environment where noble human virtues and traits can blossom. Islam doesn't depend on the law to establish social justice. It assigns greater importance to faith, prayers, education and moral upbringing to reform individuals from within. Social pressure can force individuals to abide by its values in case measures fall short of producing desired results. If that fails to produce a change, then the law is there as a last resort to establish justice.

5.2.3 Promotion of cooperation, harmony and justice

The third important objective of the economic system of Islam is the promotion and sustainability of a society's unity and cohesion. It doesn't encourage a society's division based on class, clan, and ethnic or linguistic considerations. Classes that naturally emerge are led to live in an environment of mutual cooperation, compassion and trust.

5.3 Basic principles of Islam's economic system

These three objective allow for a better understanding of the fundamentals and nature of the Islamic economic system. I now briefly explain the major principles of the system.

5.3.1 Parameters of private ownership

Since personal freedom is of prime importance to Islam, it allows the right of personal ownership of property. It makes no distinction between the types of ownership, whether it is ownership of the means of production or consumer goods or whether it is of earned or unearned income. Rather, Islam focuses on whether income and wealth is obtained and dispensed through fair or foul means.

5.3.2 Equitable distribution of wealth

Another principle that Islam aims for is an equitable, not equal, distribution of wealth. Since there is no equality in matters such as wealth, health, skills, strength, and intellectual intelligence, it is not logical to claim equality in the means of production and distribution of wealth. Hence, Islam stresses on equitable distribution with certain rules to achieve equity and justice. The first rule is that Islam has classified the means of wealth into the lawful and forbidden. It gives individuals the freedom to earn their living subject to the provisos of *halal* and *haram*. Apart from the forbidden means of wealth production, anything that is earned lawfully, is the rightful income of man. He is entitled to use his wealth for himself, give it to others, earn more wealth on it or leave it behind for heirs. The wealth that is lawfully earned is however subjected to certain restrictions on its use (explained next).

5.3.3 Social obligations

Islam superimposes the right of the society on private ownership and safeguards this right in various ways. It lays special emphasis on the rights of the kindred, making it dutybound upon those with excess wealth to help their relatives. It similarly recognizes a neighbour's right to one's income. Islam also makes every affluent person responsible for helping those who approach him or are in need. In addition, Islam enjoins Muslims to spend 'in the way of Allah', establishing the rights of society and state on their wealth. In this manner, there is bound to be overall economic improvement in society, such that hardly any household would need external support.

5.3.4 Zakah

Zakah is the most outstanding feature of the economic system of Islam. The mandatory *Zakah* and the voluntary *sadaqat* are like the regular and supererogatory prayers. Therefore, *sadaqat* cannot absolve one from the obligation to pay *zakah*. *Zakah* should not be mistaken for a 'holy' tax. Rather it is an '*ibadah* (an act of worship) and a pillar of Islam. Unlike tax, *zakah* is not meant to satisfy the general needs of society. It is exclusively for those who have lagged behind economically. Muslims are to feel honored to fulfil this benevolent duty and are never to try to avoid its payment. Regarding taxation, Islam actually places no restrictions on taxes levied by an Islamic government that is run on the principles of *shura*, to secure societal welfare.

5.3.5 Law of inheritance

The Islamic law of inheritance has been framed with the sole objective of allowing the wealth left behind by the deceased to be distributed to a larger group of heirs and next of kin in a well-defined manner. An individual's parents, spouse, and children are the prime beneficiaries, followed by siblings and close relatives. In the absence of an heir, the community as a whole inherits the wealth which goes to the public treasury.

These basic principles are set by Islam for the wellbeing of society. We are free to devise an economic system of our own within these parameters. We have to adopt a free economy with certain restrictions, and not follow the path of the capitalists, nor that of communists.

5.4 Position of labour, capital and organization

The Islamic law of *Muzara'ah* and *Mudarabah* in Islamic jurisprudence highlights the exact position that labour, capital, and organization occupy in the economic system of Islam. *Muzara'ah* is a method of farming where the land belongs to one person but is cultivated by another and both share the resultant profits. *Mudarabah* is a form of investment wherein the capital belonging to one person is used by another for business and trade, and both share the profits. Islam safeguards the rights of the landowners, investors and labourers by establishing land, human labor, enterprise and capital as factors that are jointly eligible to a share in the profit. While Islam leaves the onus for determining the share-ratio of the different production factors to the respective parties, in the case of any injustice and violation of rights, the law intervenes to settle the matter justly.

5.5 Zakah and social welfare

On the question of using *zakah* and *sadaqat* funds for social welfare, they are meant to satisfy the welfare needs of specific groups of people, not for the economic upliftment of the country as a whole. They are only meant to satisfy the essential needs of the deserving and the needy and to ensure that no member of the society is deprived of basic needs.

5.6 Interest-free economy

My answer to the possibility of successfully introducing and running an interest-free economy is decidedly in the affirmative. Following the advent of Islam, the unjust and tyrannical interest-based system was discarded and Muslims adopted an interest-free system for many centuries. There is no reason why this system should be dysfunctional today. The principle enunciated by Islam is that a loan should not be a tool of exploitation. To earn profit, one should be a partner or shareholder of a business. This is what justice demands and how the economy prospers. There is no problem reestablishing the system today without much difficulty, provided we stop blindly following others.

5.7 Interrelationship between economic, political and social systems

The relationship between the different systems is like that of the stems with the roots, of the branches with the stems and of the leaves with the branches of a single tree. The Islamic system is a unified whole of which faith is the basis. It is an interrelated system with its different parts interlinked allowing them to draw sustenance and strength from one another. Without firm faith and the social conduct of this faith, it will never be possible to establish and successfully run the Islamic economic system. The same holds true for the political system. It is, therefore, wrong to think that there can be any economic, political or social system that is independent of its religious and moral systems.

Chapter 6 – Some Basic Principles of Economic Life³⁵

6.1 Basic values of Islamic society

إِنَّ اللَّهَ يَأْمُرُ بِالْعَدْلِ وَالْإِحْسَانِ وَإِيتَاءِ ذِي الْقُرْبَىٰ وَيَنْهَىٰ عَنِ الْفَحْشَاءِ وَالْمُنْكَرِ وَالْبَغْيِ يُبَيِّنُ لَكُمْ
لَعَلَّكُمْ تَذَكَّرُونَ ﴿٩٠﴾

(‘Surely Allah enjoins justice, kindness and the doing of good to kith and kin, and forbids all that is shameful, evil and oppressive. He exhorts you so that you may be mindful.’)

(*al-Nahl*, 16: 90)

In this brief Quranic verse, we are enjoined to observe three traits on which the health of the entire society depends. The first trait is ‘*Adl* (justice) which is a combination of two values: (i) balance and harmony among the people in their rights; and (ii) each person getting his rights honorably and with no strings attached. According to the Qur’anic concept of justice, an equilibrium and balance is sought, not equality, except for certain matters such as citizenship. The second trait is the quality of *Ihsan*, which includes kindness, fair dealing, magnanimity, tolerance, courtesy, caring for each other, mutual respect, giving another more than their due and accepting for oneself less than one’s right. Thus, *Ihsan* is more significant than ‘*Adl*. While ‘*Adl* is the foundation of the social structure, *Ihsan* is its beauty and grandeur. The third trait is the quality of love and care for the bonds of kindred. Since family is the vital constituent unit of society, every poor member of the family has a right, first on every affluent person among relatives, and then on others in society, for the fulfilment of basic needs.

In contrast to these three virtues, Allah (swt) has forbidden three vices which corrupt a person and the society. The first is *Fahsha’* which includes all shameful deeds and acts of immorality and immodesty. The second is *Munkar*, which means evil and includes everything objectionable that people generally shun. The third is *Baghy* which means revolt, the transgression of limits and oppressive acts.

6.2 The Islamic path of moral and economic rejuvenation

فَاعَاتِ ذَا الْقُرْبَىٰ حَقَّهُ وَالْمَسْكِينِ وَابْنَ السَّبِيلِ ذَٰلِكَ خَيْرٌ لِّلَّذِينَ يُرِيدُونَ وَجْهَ اللَّهِ وَأُولَٰئِكَ هُمُ الْمُفْلِحُونَ ﴿٣٨﴾

(‘So give what is due to the near of kin, and to the needy, and to the wayfarer. That is better for those who desire to please Allah. It is they who will prosper.’)

(*al-Rūm*, 30: 38)

This Qur’anic verse tells us that these people (near of kin, needy and wayfarer) have a right in our wealth which has to be observed as if owed to them. This means that when we spend out of our wealth to satisfy others’ needs, we are actually transferring to them what they have the right to

³⁵ The original chapter comprises of 13 pages with 7 sections.

receive. We should, therefore, be thankful that we have risen to this level of opportunity to fulfil such obligations.

It is clear that the path of moral and spiritual rejuvenation necessitates an unfettered society and liberal economy wherein people are not denied their basic rights. Only in such a society can individuals develop noble and compassionate traits where people themselves emerge as the upholders of goodness and virtue (without the need for external intervention).

6.3 The concept of earning and spending

وَلَا تَمُدَّنَّ عَيْنَيْكَ إِلَىٰ مَا مَتَّعْنَا بِهِ أَزْوَاجًا مِنْهُمْ زَهْرَةَ الْحَيَاةِ الدُّنْيَا لِنَفْتِنَهُمْ فِيهِ وَرِزْقُ رَبِّكَ خَيْرٌ وَأَبْقَىٰ ﴿١٣١﴾

(‘Do not turn your eyes covetously towards the embellishments of worldly life that We have bestowed upon various kinds of people to test them. But the clean provision bestowed upon you by your Lord is better and more enduring.’)

(*Tā Hā*, 20: 131)

The word ‘*rizq*’ in this verse refers to *halal* (lawful) provision or means of subsistence. The ayah tells us that worldly splendour must not be an object of envy for us because the provision that we get lawfully is ‘better and more enduring.’. Affluence and poverty are both from Allah who knows what is in our best interests.

Glad tidings are conveyed from Allah to those who spend their lawful earnings generously in His way. The Qur’anic term *infaq* refers to spending for the needs of one’s self, family, relatives, neighbours, the needy, public welfare and other Islamic causes. The Shari’ah is against types of spending known as ‘*israf*’ (intemperance) and *Tabdhir* (extravagance) as well attitudes like *Bukhl* (miserliness) and *Shuhha al-Nafs*’ (covetousness, envy and greed).

6.4 Principles of spending

... كُلُوا مِمَّا رَزَقَكُمُ اللَّهُ وَلَا تَتَّبِعُوا خُطُوَاتِ الشَّيْطَانِ إِنَّهُ لَكُمُ عَدُوٌّ مُّبِينٌ ﴿١٤٢﴾

(‘Eat of the sustenance that Allah has provided you and do not follow in the footsteps of Satan, for surely he is your open enemy.’)

(*al-An‘ām*, 6: 142)

This verse reminds us that everything at our disposal is a gift from Allah (swt) alone. As such we owe our gratitude to Him alone and are duty-bound to observe the rules set by Him when using His gifts.

يَتَأْتِيهَا الَّذِينَ ءَامَنُوا لَا تَحَرَّمُوا طَيِّبَاتِ مَا أَحَلَّ اللَّهُ لَكُمْ وَلَا تَعْتَدُوا إِنَّ اللَّهَ لَا يُحِبُّ الْمُعْتَدِينَ ﴿٨٧﴾ وَكُلُوا مِمَّا رَزَقَكُمُ اللَّهُ حَلٰلًا طَيِّبًا وَاتَّقُوا اللَّهَ الَّذِي أَنْشَرَكُمْ مِنْ مَوْتٍ مُؤْمِنُونَ ﴿٨٨﴾

(‘Believers! Do not hold as unlawful the good things which Allah has made lawful to you, and do not exceed the bounds of right. Allah does not love those who transgress the bounds of right. And partake of the lawful, good things which Allah has provided you as sustenance, and refrain from disobeying Allah in Whom you believe.’)

(*al-Mā‘idah*, 5: 87-88)

The verse above contains two injunctions. The first cautions us against assuming the position of a self-appointed law-giver, which rests solely with Allah (swt) and His apostle (*pbuh*). The second instructs us not to renounce legitimate worldly pleasures that we are gifted, nor follow the life-pattern of monks, yogis, mystics, or saints.

Allah has disapproved three kinds of transgressions. The first is to ban oneself from things declared lawful by Allah as if they are *haram*. The second is to use *halal* things in extravagance and intemperance. The third is to cross the boundaries of the *halal* to make use of the *haram*.

6.5 Principles of moderation and balance

وَالَّذِينَ إِذَا أَنْفَقُوا لَمْ يُسْرِفُوا وَلَمْ يَقْتُرُوا وَكَانَ بَيْنَ ذَلِكَ قَوَامًا ﴿٦٧﴾ وَالَّذِينَ لَا يَدْعُونَ مَعَ اللَّهِ إِلَهًا آخَرَ وَلَا يَقْتُلُونَ
النَّفْسَ الَّتِي حَرَّمَ اللَّهُ إِلَّا بِالْحَقِّ وَلَا يَزْنُونَ وَمَنْ يَفْعَلْ ذَلِكَ يَلْقَ أَتَامًا ﴿٦٨﴾ يَضْعَفُ لَهِ الْعَذَابُ يَوْمَ الْقِيَامَةِ
وَيَحْلَدُ فِيهِمْ مُهَانًا ﴿٦٩﴾

(‘The true servants of the Merciful One are) those who are neither extravagant nor niggardly in their spending but keep the golden mean between the two; who invoke no other deity along with Allah, nor take any life – which Allah has forbidden – save justly; who do not commit unlawful sexual intercourse – and whoso does that shall meet its penalty; his torment shall be doubled for him on the Day of Resurrection, and he will abide in it in ignominy.’)

(*al-Furqān*, 25: 67–69)

This verse tells us that the servants of Allah (swt) are those who avoid extremes. When they spend, they are neither extravagant, nor niggardly, but maintain a balance. Islam is against the two extremes, *Israf* (intemperance) and *Bukhl* (miserliness). *Israf* refers to three traits: spending on the unlawful, crossing the boundaries of balance, and spending generously for show and fame. *Bukhl* includes two attitudes, (i) a person’s reluctance to spend for his personal and family’s legitimate needs and (ii) stinginess in spending on causes of public good.

6.6 Economic honesty and justice

...قَالَ يَتْلُوا آيَاتِ اللَّهِ مَا لَكُمْ مِنْ إِلَهٍ غَيْرُهُ وَقَدْ جَاءَكُمْ بَيِّنَةٌ مِنْ رَبِّكُمْ فَأَوْفُوا بِالْكَيْلِ وَالْمِيزَانَ
وَلَا تَبْخَسُوا النَّاسَ أَشْيَاءَهُمْ وَلَا تَقْسِدُوا فِي الْأَرْضِ بَعْدَ إِصْلَاحِهَا ذَٰلِكُمْ خَيْرٌ لَكُمْ إِنْ كُنْتُمْ مُؤْمِنِينَ ﴿٨٥﴾

(‘He [Shu ‘ayb] exhorted them: “O my people! Serve Allah, you have no god other than He. Indeed a clear proof has come to you from your Lord. So give just weight and measure and diminish not to people their things, and make no mischief on the earth after it has been set in good order. That is to your own good, if you do truly believe.”’)

(*al-A ‘rāf*, 7: 85)

وَقَالَ الْمَلَأُ الَّذِينَ كَفَرُوا مِنْ قَوْمِهِ لِبَنِ إِسْرَائِيلَ إِذْ أَلْحَسِرُونَ ﴿٩٠﴾

(‘The disbelieving elders of his nation said: ‘Should you follow Shu ‘ayb you will be utter losers.’’)

(*al-A ‘rāf*, 7: 90)

According to these verses, prophet Shu‘ayb’s people suffered from two major vices: polythesim and dishonesty, and fraud in business and trade. Prophet Shu‘ayb was sent to his people to reform them of these vices. The leaders, notables and elites however regarded qualities

of honesty, righteousness and good conduct in social and economic affairs as a death-knell. This view was not specific to prophet Shu'ayb's people alone. They reflect a familiar approach for deluded people throughout history, who held the view that political and economic activities cannot run effectively without recourse to lies, dishonesty, and other misconduct.

6.7 Distributive justice

مَا آفَاءَ اللَّهِ عَلَى رَسُولِهِ مِنْ أَهْلِ الْقُرَى فَلِلَّهِ وَاللرَّسُولِ وَلِذِي الْقُرْبَىٰ وَالْيَتَامَىٰ وَالْمَسْكِينِ وَابْنِ السَّبِيلِ كُنِيَ لَا يَكُونُ دُولَةً بَيْنَ الْأَغْنِيَاءِ مِنْكُمْ وَمَا آتَاكُمُ الرَّسُولُ فَخُذُوهُ وَمَا نَهَاكُمْ عَنْهُ فَانْتَهُوا وَاتَّقُوا اللَّهَ إِنَّ اللَّهَ شَدِيدُ الْعِقَابِ ﴿٥٩﴾

‘Whatever (from the possessions of the towns’ people) Allah has bestowed on His Messenger belongs to Allah, and to the Messenger, and to his kinsfolk, and to the orphans, and to the needy, and to the wayfarer so that it may not merely circulate between the rich among you. So accept whatever the Messenger gives you, and refrain from whatever he forbids you. And fear Allah: verily Allah is Most Stern in retribution.’

(*al-Hashr*, 59: 7)

This verse explains the golden rule of distributive justice in Islam. It is one of the most important verses containing guiding principles for an Islamic social order and economic policy. The rule is that wealth should be free to circulate in a Muslim society. It should not be allowed to accumulate in the hands of the few privileged. This is to prevent the rich from growing richer and the poor from growing poorer. To this effect, Islam has forbidden all forms of interest and interest-based transactions. It has obligated the giving of *zakah*, *ushr* and *khums* and encourages contributions to charities. These injunctions divert the flow of wealth to the poorer sections of society. The Islamic law of inheritance is also based on this principle. The state is therefore bound to frame its policies in such a manner that wealth does not remain concentrated among the few affluent and that it is instead widely circulated.

PART TWO: The Economic system of Islam: Some Basic Features

Chapter 7 – The Question of Land Ownership³⁶

[The question of land ownership is one of the most serious issues of our times. Being a subject of much debate, the actual issue remains buried under the debris of conflicting opinions. Some support the capitalist form of private ownership while others support the opposite extreme of communist-style state ownership. This has made it difficult to understand the concept of private ownership in Islam properly. The Islamic concept of ownership needs to be examined against the backdrop of the Islamic social order and economy alone. We, therefore, attempt to present some significant excerpts on the subject from the writings of the author – editor].

³⁶ The original chapter comprises of 25 pages with 11 sections.

7.1 The Holy Qur'an and the question of private ownership

The universal rule is that the law's reticence about a common occurrence always implies its consent and approval. This also applies to land ownership. People have owned land since time immemorial. The Qur'an did not forbid this ownership, nor did it make any critical reference to this common practice. It allowed private ownership to continue and approved it by inference. The Qur'an acknowledges that man essentially needs land for two purposes: agricultural and residential. When we carefully study the prophetic tradition and the precedents of his Rightly - Guided Caliphs, we reach the same conclusion that the Shari'ah not only approves the right to own land but also never imposes a limit on its ownership except in the interests of justice and rights of God and His subjects.

7.2 Precedents of the Holy Prophet and his Caliphs

To understand how the prophet (*pbuh*) and his successors, the four caliphs managed land, we must recognize that land under the state's jurisdiction is divided into four categories as follows:

- land belonging to those who embraced Islam;
- land owned by unbelievers, living as citizens of the Islamic State
- land owned by those subdued into submission by force; and
- land belonging to nobody

Let us now discuss the precedents from the prophet (*pbuh*) and the four caliphs for each category.

7.2.1 First category of land

The general rule, without exception, in the prophetic traditions and precedents of his successors is that the property belonging to those who embraced Islam remained untouched.

7.2.2 Second category of land

The rule enunciated by the prophet for land which belonged to those who remained unbelievers, but willingly chose to be citizens of the Islamic State, was that the state should follow the terms and conditions of any agreements made with them in letter and spirit. Based on this rule, the prophet allowed non-muslims in certain places to retain their ownership of land, industries, businesses and trade. They were only required to pay *Jizyah* (capital tax) and *kharaj* (land tax) as per their agreements. The same practice was followed by the caliphs without exception to this rule. It, therefore, remains a legal precedent unanimously agreed by Muslim jurists.

7.2.3 Third category of land

There are three different precedents concerning the property of those who continued fighting Islamic forces until they were subdued into submission. The first case is the conquest of Makkah during which the prophet declared a general amnesty and allowed the Makkans to retain ownership of their lands and property. The second case concerns the prophet's actions at Khayber where he declared the conquered land as part of war – gains (for the public treasury and the rest distributed among soldiers). The existing owners had to forego their ownership rights. The third case concerns the stand that Hadrat Umar took in Sham and Iraq, and subsequently in other conquered territories. He declared the conquered land to be a common property of the Muslims with the caliph as its custodian. He left the lands in possession of their original owners, known as *Dhimmis* (free subjects) who had to pay the land tax while the revenue generated was spent on public welfare schemes.

7.2.4 Fourth category of land

Let us now examine the case of lands owned by nobody. This category of land, in possession of the state, consisted of two major classifications:

- The *Mawāt* or wasteland, with no owners or whose owner had long died, and also land inundated by floods or those rendered useless by wild growth or swamps.
- The *Khālisah* or land declared as state property. This includes three types of lands; those abandoned by their owners authorizing the government to put them to use as deemed fit; those annexed by the state as a punishment for their owner's anti-state activities; and those declared as state property in a conquered territory.

Let us now discuss the rules applied to the two types of lands, *Mawāt* and *Khālisah* in greater detail.

7.3 Ownership rights on the basis of settlement

The prophet(*pbuh*) revived and regulated the oldest human practice of *Mawāt* (wasteland occupied by nobody). Over time, as mankind settled on earth, the natural legal right was established that whoever rehabilitated a piece of land that belonged to nobody, was its rightful owner. This same rule was ratified by the Prophetic Tradition. The Prophet additionally laid down two rules: (i) a person rehabilitating another's property would not be entitled by this act to claim ownership of it; and (ii) anybody who takes hold of a piece of unclaimed land and, in order to claim his right, erects a boundary – wall or draws a line around it without actually rehabilitating it and making the land productive, would lose his right of occupancy after three years. Senior Muslim jurists unanimously support this view. They have, however, differed on whether the mere act of rehabilitating unclaimed land entitles one to ownership, or this ownership has to be approved by the state.

7.4 Award of state lands

The Prophet (*pbuh*) awarded the title of both the *Mawāt* (unclaimed desolate land) and *Khālisah* (state land) to people. This same practice was then followed by *al-Khulafā' al-Rāshidūn*.

7.5 The Shari'ah perspective on the award of state lands

The procedure followed by the Caliphs for awarding the titles of state lands was very unlike the feudal custom of royal decrees and baksheesh who favoured a coterie of sycophants and courtiers. It followed a strict, well-defined pattern governed by certain rules and regulations. As recorded by prophetic traditions and books of history, these rules may be summed up as follows:

- The first eligibility for a person seeking the title of a state land is to render meritorious services for the cause of his Religion and State. The land could also be awarded to someone if such a gesture was considered appropriate for the community's collective good.
- The person awarded a title of state land was bounded by the law to put the land to productive use. Failure to do so for three consecutive years renders the award cancelled.
- The third rule was to review the award if the land was not being correctly used.
- The fourth rule was that the government was authorized only to distribute from the state lands of *Mawāt* and *Khālisah* categories and could not take away the personal property of an individual to gift it to another. It was also not entitled to impose on the actual owners of the land, another person as their landlord, nor could a feudal supremo obtain ownership rights and reduce the actual owners to the status of farm-labour and peasants.

7.6 Feudal estates and Islamic shari'ah

According to the Islamic *Shari'ah*, it is unlawful for rulers to gift state lands to their favourites. No tyrants or autocrats are permitted to hand out state lands as favours to their cronies, sycophants and those engaged in their service, or to promote their own personal interests and image. The awarding of state lands is itself a lawful act, but has to be governed by certain rules. All those who award land are not the same, nor are the recipients. The state award is to be conferred by a fair, righteous and God-fearing ruler to true servants of the religion and state who merit such awards. They should also be offered from funds or lands which rightly fall under the Muslim ruler's dispensation. There are meanwhile awards which tyrants and autocrats make to those as bad as they are for no plausible purpose and which are often lavished recklessly out of lands which the rules are not legally authorised to use. There are thus two distinct categories of awards and they must be treated differently. The first category is lawful, and justice demands them to be upheld. The second category is illegal and, according to the dictates of justice, they must be annulled.

7.7 Respect for ownership rights

The testimony and precedents of the golden era of the prophet (*pbuh*) and his caliphs provide us with a blueprint for the way the Qur'anic injunctions should be translated into practice. This blueprint leaves no doubt about Islam's standpoint on private ownership. Instead of favouring public ownership at the cost of an individual's right to own, it reaffirms that Islam considers private ownership as the natural and correct way of putting the land to better use. It gives orders to respect the right of the individual to own based on the prophetic traditions.

7.8 Islamic social order and private ownership

The injunctions of the Qur'an and Sunnah are never in conflict with each other, they make a mutually harmonious whole. Let us presume that *Muzāra'ah*, which is a form of cultivation where the land belongs to one person and the farming is done by another and the two share the produce, is not allowed by the *Shari'ah* and that Islam prefers ownership rights to be restricted exclusively to the land tilled by the owner himself and that farmland he does not cultivate personally should remain idle or be distributed to others without paying him a farthing in return. With closer inspection, it is clear that such a rule is totally incompatible with the spirit of the *Shari'ah* and the legal system of Islam. The inherent contradictions of such a provision can be summarised as follows.

- Ownership rights in Islam also applies to women, children, the ailing and the old. Making *Muzāra'ah* illegal would bar weaker segments of the society from owning agricultural lands.
- The Islamic law of inheritance permits a single person to receive many shares of inheritance from many relatives which may include hundreds of acres of land. It would be strange if it is unlawful for the person to benefit from his lands except for the parts he himself cultivates.
- Islamic law places no restrictions on buying and selling of anything lawful and acquiring ownership of something without limit on quantity or size and no restrictions on putting them to profitable use. This includes land, therefore it would be strange that while permitting the purchase of any amount of land, a person would not be able to take advantage of his land beyond what he tills himself.
- Islam allows a person to own many houses from which he may use one to suffice his needs and the rest can be rented or sold to earn money. It does not require that he donate his additional accommodations to the homeless. Why would the *Shari'ah* then compel the landowner to distribute his excess land free of cost to the landless?

- Islam entitles everyone to enter into commercial deals on principles of *Mushārah* and *Mudārah*, therefore why should the same principle not be applied to agricultural land?

7.9 The question of delimitation of agricultural land

The following two questions were addressed to Sayyid Mawdudi by a religious scholar seeking his opinion:

Q.I: Will you please elucidate the *Shari'ah* point of view in respect of confiscating feudal lands beyond the approved limit under the agricultural reforms?

Q.II: As for the ejection of peasants, it is evidently not permissible until the harvest has been done. There is, however, no other reason to make it impermissible. Please let us know your views as well.

As a matter of principle, the proprietary rights of feudal lords are not established on the feudal states, doled out to them by any government, the way those are confirmed on lands purchased by someone or acquired by him through inheritance. The government can always review the case of a feudal estate and, if it is found to be unfair, can amend or even cancel the decree.

The government is authorized to pass legislation banning the eviction of landless farm labour/tenant by the landlord without offering a plausible reason. This is to ensure the rule of law and public safety and to provide a check on social unrest and injustice.

7.10 Sharecropping between landlord and farmer

There is nothing wrong with the practice of *Muzārah*, a mode of farming where the landlord and farmer distribute the shares of their produce equitably among themselves. The landlord has to provide the farmer with enough land of which its produce can fulfil his needs sufficiently. He is also required to determine physically, according to the demands of justice and irrespective of customary practice, the actual proportion of the produce to be shared between them. Meanwhile, he is entitled to monitor any unfair means that the farmer may be tempted to use and to ensure that the rules of the game are correctly observed. The status of the farmer, however, should not be seen as a servant or labourer, but that of a partner and stakeholder in the business.

7.11 Principles of property management

وَلَا تُؤْتُوا السُّفَهَاءَ أَمْوَالَكُمُ الَّتِي جَعَلَ اللَّهُ لَكُمْ قِيَامًا وَارزُقُوهُمْ فِيهَا وَاكْسُوهُمْ وَقُولُوا لَهُمْ قَوْلًا مَعْرُوفًا ﴿٥﴾ وَابْتَلُوا الْيَتَامَىٰ حَتَّىٰ إِذَا بَلَغُوا النِّكَاحَ فَإِنْ آنَسْتُمْ مِنْهُمْ رُشْدًا فَادْفَعُوا إِلَيْهِمْ أَمْوَالَهُمْ وَلَا تَأْكُلُوهَا إِسْرَافًا وَبِدَارًا أَنْ يَكْبَرُوا وَمَنْ كَانَ غَنِيًّا فَلْيَسْتَعْنِفْْ وَمَنْ كَانَ فَقِيرًا فَلْيَأْكُلْ بِالْمَعْرُوفِ فَإِذَا دَفَعْتُمْ إِلَيْهِمْ أَمْوَالَهُمْ فَأَشْهَدُوا عَلَيْهِمْ وَكَفَىٰ بِاللَّهِ حَسِيبًا ﴿٦﴾

(‘Do not entrust your properties – which Allah has made a means of support for you – to the weak of understanding, but maintain and clothe them out of it, and say to them a kind word of advice. Test the orphans until they reach the age of marriage, and then if you find them mature of mind hand over to them their property and do not eat it up by either spending extravagantly or in haste, fearing that they would grow up (and claim it). If the guardian of the orphan is rich let him abstain entirely (from his ward’s property); and if he is poor, let him partake of it in a fair measure. When you hand over their property to them let there be witnesses on their behalf. Allah is sufficient to take account (of your deeds).’)

(*al-Nisā’*, 4: 5-6)

The verse above tells Muslims how to safeguard the rights and responsibilities concerning property. We have been instructed not to let property to be passed on to immature persons, lest by their inadvertent use, they disrupt the socio-economic fabric and ultimately the ethical foundations of society. The rights of private ownership are hence not without checks and balances and nobody has unlimited power over their property. The injunction of this verse is that owners at the micro-level have to be careful when passing over their property to a person and has to ensure that he is capable of its proper custody and use. At the macro-level, the Islamic government is responsible to take under its custody, the property of those who may not be capable of managing it themselves, or who are found using it wrongly. The government, as well as guardians and custodians of the under aged, are also instructed to deal with them with an atmosphere of love, conducive for their healthy physical and mental growth.

Chapter 8 - The Question of Interest³⁷

8.1 Islamic injunctions concerning interest

Let us try first to understand what *Ribā* or interest is, according to the Qur’an and the *Sunnah*. What are its parameters? What are the specific cases on which the injunctions regarding its prohibition apply? What are the alternatives that Islam offers for the economic well-being of man, and how would it resolve economic problems?

³⁷ Drawn from the author’s book entitled *Sūd*, his magnum opus *Tafhīm al-Qur’ān* and *Rasā’il-wa-Masā’il*. The original chapter comprises of 45 pages with 9 sections.

8.1.1 Meaning of *Ribā*

The Qur'an uses the word *Ribā* for interest/usury. The root meaning is addition, growth and increase. In Arabic, *Rabwah* means raised ground or a hillock. The word and its derivatives have been used in the Qur'an to mean *increase, growth, and swelling*, as well as interest. It is evident from various Qur'anic verses that any addition to the principal amount comes under the category of *Ribā*. However, it has banned only a particular kind of addition, which is why it is called *al-Ribā* (with the definite article 'al-'). An increase on the principal amount caused by *al-Ribā* is different from an increase gained through business and trade (*al-Bay'*).

8.1.2 *Ribā* of the Days of Ignorance

In Pre-Islamic Arabia, various forms of *al-Ribā* were practiced. The most common practice was to give somebody a loan on the condition that he would pay a predetermined amount of interest for a certain period on a monthly basis, and on the expiry of that period would return the principal amount. If the debtor failed to repay the loan on the agreed date, he was offered a fresh deadline on an enhanced rate of monthly interest. It was this practice in all its various forms, that the Qur'an declared as unlawful and strictly forbidden.

8.1.3 Basic differences between *Ribā* and *Bay'*

Now let us examine the following: (i) What is the difference in principle between the normal way of trade and business (*Bay'*) and *al-Ribā* (interest-based transactions)? (ii) What are the basic features of *al-Ribā* that make it different from *Bay'*? (iii) Why has Islam prohibited *al-Ribā* while allowing *Bay'*?

In normal trade and business deals, the seller offers a certain commodity for sale at a price fixed by him that the buyer negotiates, forming a deal agreed by mutual consent. The seller adds to his capital an amount of his labour which entitles him to his profit. *Ribā, on the other hand, is a deal with an additional sum that is determined beforehand for the grace period. This additional sum is Ribā or interest, which is not charged in return for any goods or services. There are three constituent parts of Ribā: (i) an addition to the principal sum; (ii) determination of this addition according to a fixed term; and (iii) the deal being conditional on the payment of an additional amount. A loan deal that consists of these three ingredients would be an interest-based transaction, irrespective of the nature of the loan. The difference in principle between Bay' and Ribā may be further elucidated:*

- In *Bay'*, the profit is exchanged between the buyer and seller on an equal footing where both the buyer and seller benefits. Conversely, in an interest-based transaction the person receiving interest benefits, but the one who pays interest only gets a grace period. Interest-based deals are hence either made for the gain of one party and the loss of the other; or for the definite and pre-determined gains of one and the uncertain and undefined gains of the other.
- In trade, the matter ends once the buyer and seller have concluded a deal. In an interest-based transaction, however, the borrower has not only to return the principal sum but also the amount of interest accrued thereon.

- In an agricultural, industrial and commercial venture, the entrepreneur invests his labour, capital and time and reaps the harvest of dividends. In an interest-based venture, the lender invests his capital and becomes the controlling partner in the earnings of other stakeholders without putting in his own labour. He does not share in the loss and gain in proportion to his investment.

8.1.4 Rationale for prohibition

In addition to the reasons above, there are other factors for the illegality of interest. On ethical grounds, it is a system that gives rise to selfish traits like capital-worship and materialism. It prevents the free flow of capital and concentrates resources in the hands of the moneyed class, which eventually leads to a total collapse of the social structure. One also cannot deny the fact that an interest-based economy is in total disharmony with the way in which Islam wants to rebuild civilisation, reorganize society economically and rejuvenate individuals morally.

8.1.5 Strict nature of the ban

In Islam, no crime has been dealt with in such harsh terms as usury and interest. The Prophet (*pbuh*) therefore tried his best to eliminate all forms of interest. During his farewell pilgrimage, he said, "He who takes interest, or offers interest, or writes deeds of interest-based deals, or stands witness to such deals, are all accursed by the Lord." The purpose of these injunctions was to ban every form of interest and do away with the capitalist mindset, exploitative economic systems and selfish behavior.

8.2 Need for interest: a rational reassessment

So far, we have discussed the question of usury and interest in light of the teachings of the *Qur'an* and *Sunnah*. However, from the standpoint of reason, is interest plausible? If it cannot be justified from the standpoints of reason and justice, then why do people insist on retaining such a practice?

8.2.1 Compensation for elements of risk and sacrifice

The most favorite plea in support of interest is that the lender is actually taking a risk of the borrower defaulting. He lends money which he could have used himself which means that there is also an element of sacrifice. The borrower thus ought to pay rent on the money he obtains through the loan, in the way he does for a house. The interest charged covers this element of risk that the lender has taken and also acts as a compensation for the lender's sacrifice. If the borrower uses the loan in a profitable venture, the lender is even more justified in demanding interest.

It is absolutely correct that the lender risks the default of the money, and that there is also an element of sacrifice but how does this justify demanding five or ten percent extra as compensation on a regular basis? As for the aspect of sacrifice, if a lender is willing to sacrifice for someone in need, he should do it in the true spirit of sacrifice without seeking a financial return. Besides, to afford to advance a loan, a lender must have had money in excess of his needs. By extending a loan on interest, he is not performing an act of charity or benevolence, nor is it an act of sacrifice. Let us now examine the claim of equating interest with rent. Rent cannot be

applied to consumer goods like rice or currency which is a medium of exchange for goods. What the lender can logically claim, because he is offering the opportunity to benefit from his personal savings, is a share in the benefits. How is it rational for the lender to demand dividends on his loan from a time before the principal sum has even been used and when the borrower is not even sure of the amount he may gain or lose? How can one justify the lender's right to predetermine and impose interest over a loan he extended from his excess finances, while entrepreneurs contribute their time, faculties and resources while having no security at all of a profit or guarantee against loss? The only plausible option is for the lender to become a partner with the borrower and share the profit or the loss of the joint venture.

8.2.2 Compensation for opportunity and grace period

According to some, it is the opportunity to benefit from borrowing which entitles the lender to claim interest from the borrower. But as noted earlier, this opportunity cannot entitle him to demand as a cost, a predetermined, definite amount on a multiplying basis. There are also those who try to justify the system of interest on the basis that it is in lieu of the grace period allowed to a borrower for use of the principal sum. The lender, therefore, has every right to demand his share of the benefit that is earned by the borrower utilizing this period of grace. The following pertinent questions still remain unanswered, however. (i) How can the lender foresee that the borrower will definitely earn a profit from that money? (ii) How can he determine in advance the rate of that profit, on which he demands his share? (iii) On what basis can he precisely calculate the monthly or yearly rate of the profit that the borrower will earn during the grace period in advance? The advocates of the system have no convincing answers to satisfy these questions.

8.2.3 Sharing of profit

Some advocates of interest believe that profitability is intrinsic to capital and that the mere use of capital by the borrower is a cogent reason that entitles the lender to demand interest. The very premise of profitability as intrinsic to capital is fallacious. The quality of profitability is generated in capital, only when it is invested by an entrepreneur in a productive venture. How can one use this justification in the case of a borrower using the capital to meet a dire need? Secondly, capital invested in profitable ventures does not necessarily add more value. Whatever potential quality the capital may have depends on so many other factors including hard work, physical and intellectual experience, the economic and socio-political atmosphere, and safety from natural calamities. These are among the essential preconditions for capital to bear fruit. A capitalist who invests in interest-based ventures, however, neither shares the responsibility for the fulfilment of these preconditions nor is ready to forego his interest in the event of any mishap. Even if we accept the claim about capital's profitability, how can this rate of profitability be calculated in advance?

8.2.4 Compensation for time

The last plea in this context has been more intelligently devised. This seeks to press that one is naturally keen to get an immediate return on an investment, preferring today's cash over tomorrow's credit. On the basis of this hypothesis, the certain gains of today naturally have precedence over the dubious benefits of tomorrow. The value of a loan that a person takes today

is therefore much greater than the amount he would pay back to the lender tomorrow. The interest is that additional value that compensates for the loss a lender incurs in the intervening period on his principal sum. However, is it factually correct that human nature tends to value the present much more than the future? If this is the case, why is it that the majority of people prefer to save as much as they can afford for the future, rather than spending all their earnings today? Even if we accept the hypothesis that one can forgo tomorrow's loss for today's gain, can money's future value be predicted with certainty?

8.2.5 Reasonableness of an interest rate

The rationale for interest notwithstanding, arguments are also focused on what is a 'reasonable' and, therefore, acceptable rate of interest. The world has so far known no rate of interest that can be claimed as reasonable. Different rates that were declared as reasonable on different occasions were eventually rejected as unrealistic and unreasonable. For example, a 10 percent rate was viewed as reasonable in England in the sixteenth century. In the 1920s, some European countries charged eight to nine percent interest. Today the West rejects the old rates as too exploitative and has settled on new rates ranging from 2.5 to 4 percent, with the rate going down even further to $\frac{1}{2}$ or $\frac{1}{4}$ percent in some situations. In reality, whereas moneylenders fix the rate of interest in terms of the borrower's constraints and needs, rates of commercial interest are fixed by market manipulators on considerations that have hardly any relevance to the dictates of justice and fair play.

8.2.6 Rationale for varying rates of interest?

In the money business, the basic factor encouraging moneylenders to determine an interest rate is the gravity of the borrower's need. If the borrower is not very hard-pressed, the rate will naturally go down, however, it will continue to swell with a rise in the gravity of the borrower's need such as the poverty-stricken. As for the commercial interest that the market manipulators determine, the economists generally hold one of the following two opinions.

- One group is of the view that the law of supply and demand is the basis for the rise and fall in the rate of commercial interest. The capitalist is not willing to participate in a proper and judicious manner with the entrepreneur, sharing both the profit and loss in a venture. Instead, he speculates about the likely benefit accruing to the entrepreneur on the sum of the loan. The entrepreneur also speculates about the dividends he is likely to earn and on this basis tries not to let the interest on a loan exceed his profit. Both parties thus resort to speculation. A 'tug of war' is inevitable between the two because of the conflicting nature of their interests rather than a relationship of cooperation and consideration. The raising and lowering of interest rates adversely affects the global economy's health.
- According to the second view, fluctuations in the rate of interest are justified on the grounds that a capitalist raises the interest rate only when he thinks that he needs capital for his own use; but when he has no such urge, he lowers it. The actual reason for the capitalist's behavior of withholding most of his money at some times and letting it flow

through at others is entirely for maximizing his self-interest through capital market manipulation and speculation.

These are the two factors that play a major role in determining rates of interest. However, there remains questions that have continued to defy answers. How can anyone justify the capitalist's desire to earn interest as rational and how can he be allowed to manipulate the money market for his narrow personal gains at the cost of the vast majority who suffer? We thus arrive at the inevitable conclusion that the interest-based system is most exploitative and injurious for humanity's economic health

8.3 'Economic benefits' of interest?

The protagonists of an interest-based system speak of the benefits that accrue to individuals and institutions, and are of the view that interest is an economic necessity, without which the economy cannot achieve progress. The supposed advantages are summed up as follows:

- The economy is entirely dependent on the pooling of financial resources and interest is the incentive that encourages people to save money and invest in lucrative schemes. It allows the accumulation of capital to serve the needs of economic development.
- It is the easiest access to capital for business and commerce. The lure of easy money earned through interest makes people take their wealth from safe custody and pass it for commercial needs rather than keeping it idle.
- Interest helps not only in stimulating investment and attracting capital to business and trade but also in preventing unproductive uses. It facilitates the free flow of capital automatically towards the most lucrative options available.
- A loan is among the inevitable needs of human life. It is needed by the common man, entrepreneurs, governments and institutions. If you do not offer the capitalist the incentive of interest, how can you compel him to hand over his wealth? Would not such a blockade of loans be disastrous for economic life?

8.4 Need and utility of interest?

The first misperception about the "utility" of interest concerns the actual worth of frugality and money-mindedness. To save money by hook or by crook is regarded as being in the interests of individual and national economic health. Actually, it is just the opposite. Economic growth and prosperity actually depend on maintaining the balance and pace of the cycle of production and consumption. This is only possible when people utilize their earnings properly and are magnanimous enough to spend their income in excess of needs to help the needy and the indigent of the community by enabling them to purchase required items. The national wealth thus shifts automatically to the areas where it is most needed. Conversely, the interest-based system teaches people to stockpile their wealth by being miserly. Thus, consumers with less purchasing power are unable to get the goods they desperately need, while those with a better purchasing capacity and the moneyed class keep their wealth hoarded in bank accounts and coffers. This decline in consumption leads to a decline in job avenues causing a decline in income and a further decline in the consumption of finished goods. The accumulation of wealth for a few thus leads to the economic ruin of many.

The actual economic requirement is to remove the causes and factors due to which people stockpile their income. There should be a sound arrangement to allow every member to get the required assistance in times of need and *Zakah* should be levied on the surplus saved to discourage the affluent from amassing wealth and providing a way to channel for capital to reach those who have lagged behind. The protagonists of an interest-based system let the economy suffer a double loss; the first caused by preventing capital from flowing into the market and the second through the return of that accumulated wealth to the economy as loans on society's entire trade and industry. The capitalist is thus the sole beneficiary enjoying a legally guaranteed rate of profit, while the community is faced with the dilemma of how to get rid of the rising burden of interest and loans.

Advocates of an interest-based system say that interest is helpful to utilize capital gainfully to seek out the most lucrative channels for investment. The first setback of this system is that the concept of 'profit and gain,' today simply means 'material gain' and 'financial profit.' Capital thus flows to channels where it is sure to reap profit for investors at a predetermined rate. Another setback is that the sole criterion of capital's fruitful use is now the gains reaped by the capitalist, and not the community. Furthermore, a businessman is often tempted to use even unethical means to keep his profit higher than the interest level. Once interest is declared unlawful and the state adopts the economic and social systems of Islam, then it will be evidently clear how easy it is to get a loan. This is a historical fact that centuries of experience of an Islamic social order has practically vindicated. The Muslim society continued to manage its affairs for centuries, without recursing to interest.

8.5 Demerits of interest

...فَمَنْ جَاءَهُ مَوْعِظَةٌ مِنْ رَبِّهِ فَاتَّبَعَهَا فَلَهُ مَا سَلَفَ وَأَمْرُهُ إِلَى اللَّهِ وَمَنْ عَادَ فَأُولَٰئِكَ أَصْحَابُ النَّارِ هُمْ فِيهَا خَالِدُونَ ﴿٢٧٦﴾ يَسْحُقُونَ اللَّهُ الْزَبْرَةَ وَيَرْبِي الصَّدَقَاتِ وَاللَّهُ لَا يُحِبُّ كُلَّ كَفَّارٍ أَثِيمٍ ﴿٢٧٥﴾

(‘Hence, he who receives this direction from his Lord, and then gives up (dealing in interest), may keep his previous gains, and it will be for Allah to judge him. As for those who revert to it, they are the people of the Fire, and in it shall they abide. Allah deprives interest of all blessing, whereas He blesses charity with growth. Allah loves none who is ungrateful and persists in sin.’)

(*al-Baqarah*, 2: 275-276)

In relation to this verse, *Ribā* promotes traits of selfishness, miserliness, and heartlessness while *Sadaqāt* (including benevolent loans) results from noble attributes of magnanimity, compassion and large-heartedness. From a civilizational point of view, it is quite easy to understand how weak the social fabric of a society will become if individuals treat each other selfishly and are only concerned with their personal benefit, as opposed to a society based on compassion, trust, magnanimity, and cooperation. From an economic angle, interest-based loans can be of two types: those taken by the needy for personal needs and those obtained by entrepreneurs to support their ventures. The first category of loans plays a devastating role in the lives of poverty-stricken people where unbearable burdens of interest leave many with too little

to satisfy even their basic needs. There are many adverse effects of the second category of loans as well:

- All financial resources flow towards the most lucrative ventures that offer better rates of interest, regardless of their usefulness and advantage for the country and community.
- The capital invested in an enterprise, for which the lender might have been offered a guaranteed rate of interest, can never be free from the risk of loss and default.
- Investors are unconcerned with the losses or gains of a venture, only keeping in view the interest he will earn. Whenever he senses a threat, he withdraws his capital and hence investors are often instrumental in actually causing recessions through their speculative behavior.

Contrasted with the economic impact and advantages of *Sadaqāt*, if the affluent members of society get used to following the prescribed path of generosity, one can imagine how healthy the mindset and lifestyle would be for the prosperity of the country and community. The overall national economic growth of such a society will be much higher compared to that of an interest-based one.

8.6 Economic growth without interest

Let us now turn to the crucial question: 'Is it possible to discard interest totally and replace it with a financial system that can serve the fiscal needs of a developing society and state in the modern-day world?' Before that, let us first try to address some misunderstandings that preoccupy the mind.

8.6.1 Some misunderstood facts

The first misunderstood fact is the main one responsible for the question above. Rationally speaking, interest is definitely bad and it has been strictly prohibited by the Qur'an and the *Sunnah*. When one asks, 'Can we do without interest?', he is guilty of questioning the Divine Wisdom by believing that something intrinsically bad can be 'inevitable' and that something absolutely correct rationally can be 'impracticable.' Neither human nature nor the nature of our cosmic order can approve that nature is pro-chaos and anti-harmony. Therefore, we cannot foster the notion that an idea, though intrinsically bad and harmful, is a 'necessary evil' and must be adopted, and that another idea, which is logically, rationally and intrinsically good and beneficial, can be 'impracticable' and hence avoided. Factually speaking, the difficulty lies in changing, and the actual reason for convenience is only current usage and prevalence.

The second misconception is that people often tend to dismiss attempts at change as being unfeasible without actually realizing the amount of hard work required. The revolutionary change of replacing the social order based on *Zakāh* and *Sadaqāt* can only be brought about by those who are duly qualified, who have personally discarded the interest-based system out of firm faith in the dynamics of a new order, and who are well-versed in the field and duly motivated to follow the path of *ijtihād* (scholarly re-interpretation of juridical issues).

The third misunderstanding is the need for an action plan and a roadmap for change (fieldwork on paper) which supporters of an interest-based system often ask for. What can be

done on paper is to logically explain and expose the failings and harmful effects of the current system and establish the plausibility of the proposed reforms. As far as a complete picture of the proposed shake-up is concerned, the relevant details and solutions for resolving issues that are likely to emerge at different stages can neither be pre-determined nor answered beforehand.

In this context, I am not going to offer a detailed plan for an interest-free economy. Instead, a general outline has been offered, of the practical steps necessary for removing the cancer of interest from our economy.

8.6.2 First step towards reform

The scourge of interest can be checked effectively only by closing its floodgates first. As long as interest remains legal, there will be no check on capitalists piling up wealth and it will not be possible for any interest-free system to take off the ground and flourish. The only way to accomplish this is to ban all interest at the very outset. This small initial step will automatically lead to the rise of an interest-free economic system. It is essential to combat interest as earnestly as desired by the Religion of Truth. These include practical measures of banning interest, instituting the *Zakāh* system and confiscating the property of those found wilfully violating the prohibition of interest-based transactions. Side by side with these measures, effective programs for public reform through education, training, motivation and missionary zeal in order to curb people's inclination for easy money and promote healthier trends and tendencies in them.

8.6.3 End result of a ban on interest

The steps of banning interest and the establishment of a state mechanism for the collection and disbursement of *Zakāh* will lead to the following revolutionary developments from both the financial and economic points of view:

- The first outcome will be a reversal of the current unhealthy trend of capital formation. People will spend according to their requirements and the 'have-nots' will continue to receive financial support through *Zakāh* to satisfy their needs. In such an atmosphere, the profits of trade and industrial sectors are both bound to rise to a level at which they are financially independent. These sectors will also get the desired capital for progress much more easily. Savings will now be motivated by people's affluence, earning more than they need and even after generously spending, being left with surplus money with no needy or indigent persons around to share this with. These savings will thus get pooled and passed on much better terms to the government, trade and industry sectors.
- The second most welcome result of the abolition of interest will be the urge of the accumulated capital to flow rather than to stagnate. Without interest, but with the system of *Zakāh*, capital will automatically cease to be as wayward as it is today. It will be invested in different ventures on reasonable terms and conditions and will keep on circulating instead of lying idle.
- Thirdly, as a natural corollary of the abolition of interest, the loans sector will be totally separated from the trade and commerce sector. The moment interest is abolished, the operation of loans will become restricted entirely to the emergent needs only, which carry no profit, and will be managed on the principles of *al-qard al hasan* (benign loans), offered

without any 'mark up' and with no stipulated date for its return. As for other requirements, the investment will be made exclusively on the principles of profit and loss sharing.

8.7 Availability of loans in an interest-free system

Now, let me explain how these two areas of *al-qard al hasan* and investment loans operate in an interest-free economic system. The end of the accursed system of interest will result in the facilitation of loans, not the end of their availability. The loans will not only be easier to obtain but will be offered on very benign terms and conditions.

8.7.1 For personal needs

Firstly, the Islamic system shuts the doors to extravagance and overspending because there can be nobody and no institution around to lend money for unlawful or anti-social activities. Consequently, the entire system of lending and borrowing is automatically restricted to genuine demands, and the amounts of loans obtained and extended will naturally be reduced to a level that is reasonable. Secondly, it will be unlawful for the lender to take any advantage from the borrower and, therefore, the return of the loan will become much easier. If the loan remains unsettled despite these facilities, the Public Treasure (*Bayt al-Māl*) will come to the borrower's rescue and help to repay the loan. If a person is unable to get a loan from anywhere, the doors of *Bayt al-Māl* will be open as a last resort. The Islamic system of the economy also takes care of personal loans in another way. It is legally binding on commercial and business groups to include, as part of their charter of obligations towards their employees, the provision for offering a loan under extraordinary circumstances. Similarly, the government is also required to be generous towards its employees, which includes the facility of loans in their times of need. By offering employees, wage-earners and staff members the facility of an interest-free loan, it is not simply performing an act of virtue but is actually instrumental in removing the causes of their mental distress, economic problems, and physical and material hardships.

8.7.2 For commercial purposes

Entrepreneurs may rightly ask how banks can offer a loan without a lure of interest. But how can the Bank, which holds in its custody the entire deposits and millions of money of these same entrepreneurs free of interest, refuse to extend them interest-free loans or cash their bills? In the case of its refusal, the Islamic state's merchantile law can take action and the Bank can be forced to extend this service to its clients. The millions contributed to deposits by entrepreneurs should serve as an incentive for commercial and investment banks to extend interest-free loans. In emergencies, the banks can also draw from their reserve funds for this purpose. As for the management of interest-free loans, the banks can do this safely through interest-free deposits in their Current Accounts. They can meet the nominal expenses incurred from those deposits. The cost thus payable will be far below the amount of profit earned by the banks. If this is found to be unfeasible, they can levy normal service charges on their deposit-holders on a monthly or quarterly basis.

8.7.3 For non-productive public sector needs

The third important category of loans are those obtained by the government to meet national emergencies such as calamities and wars, or for non-productive public needs. Under the Islamic economic system, it will be possible for individuals and institutions to respond generously to a government call for funds because of the abolition of interest and the state-management of *Zakāh* should have made them self-reliant and affluent enough to inspire them to hand over their savings to their government voluntarily. In case of a shortfall, the government can seek a loan and the public will willingly extend to it *al-qard al-hasan*. If the short-fall persists, the government can use the revenue generated through *Zakāh* or *Khums*, or from compulsory loans obtained from banks or as a last resort, bridge the gap by printing the required amount of currency notes, which will be yet another form of a public loan.

8.7.4 International lending

It is quite clear that in today's interest/usury-hungry world, we cannot expect to get an interest-free development loan for national needs. The best course left is to, therefore, avoid foreign loans until such a time when we are ready to extend other nations a loan without interest in times of need. This will mark the dawn of a new revolutionary era and create a new paradigm for the world which it may find inspiring enough to emulate. It may then be possible for us to enter into economic and commercial deals with other nations on an interest-free basis. It is possible that the day may dawn when the world's public opinion might unify against the age-old scourge of interest. If the developed world gives up this exploitative system sincerely and genuinely starts helping the less developed countries to stand on their own feet, they will receive double dividends. It will be advantageous from the political, sociological and economic viewpoints.

8.7.5 Capital needs of profit-making projects

The abolition of interest will totally eliminate the avenues of guaranteed profit from people's investment unless it involves their labour and risk. Similarly, the enforcement of *Zakāh* will make it impossible for them to hold back their capital. Moreover, under an Islamic government and its benign socio-economic structure, there will be no door left open for the filthy rich to indulge in unwarranted luxuries and extravagance from their surplus income boosted through the interest channel. Those with surplus capital may spend it on welfare projects by contributing to charitable work or through donations to institutions or even to the government for public welfare schemes. They also have the option to deposit surplus capital in banks which the banks are entitled to invest in business and earn profit while guaranteeing the deposit return to the deposit holders. Another option is to invest one's savings into some profitable business through *Mushārah* or equity participation on a profit and loss sharing basis arranged through government channels or banks.

As in the case of an interest-based system, the most practical and profitable form of investment in an interest-free dispensation will be through banks. I would, therefore, like to discuss this in greater detail to examine how the banking system can run effectively without interest, and what dividends the profit-seeking clients can earn from this.

8.8 Islamic modes of banking

There is nothing wrong or unlawful in the institution of banking itself. It is actually among the highly important and beneficial legacies of modern times. This institution performs so many lawful functions, which are not only useful but also unavoidable given today's socioeconomic needs. It is highly beneficial for trade, industry, agriculture and for all the sectors of the economy. Under the present circumstances, it is also desirable that surplus capital, instead of lying scattered around, should have a reservoir from which it can easily be made available to whoever needs it. It is also of immense benefit to the common man, who is saved the trouble of finding out the proper avenues for the gainful use of his savings and can safely deposit them in a central pool for better utilization, thus being assured of a certain amount of profit. Unfortunately, the element of interest has demeaned all these good features, and banking benefits and advantages have become very harmful for society. Once removed, banking itself emerges as a highly dignified job, much more useful for human civilization and likely to be even more profitable than it is in its present form. Those who think that the abolition of interest may cause an end to the flow of capital to banks are absolutely wrong. With the growth of trade and business, increase in job opportunities and rise in people's income under an interest-free economic dispensation, the rate of capital flow to national banks will naturally rise by leaps and bounds, and the people's additional income will continue to find its way to the safer and more lucrative interest-free accounts.

The capital reserve available in Current Accounts, or 'On-Demand' deposits, will not bring a profit, as is the case of today. This reserve will be used by banks either for day-to-day cash transactions or for short-term lending to entrepreneurs on an interest-free basis or cashing the Bills of Exchange. As for long-term Fixed Deposits, these will essentially consist of two categories: (i) deposits of clients desirous of preserving their savings in secure bank accounts – such deposits will be available to banks as loans for investment in profitable ventures; (ii) deposits maintained by account holders keen to invest in trade and business through their banks. Instead of keeping these deposits as *Amanāh* (trust), the banks will have to sign a participatory agreement with these clients and then reinvest their capital, along with other similar deposits, on the principle of *Mudārabah* (trustee-financing) in commercial ventures, industrial projects, agricultural development and in other profitable public sector schemes.

Financing on *Mudārabah* terms will produce two results, firstly the concern of the capitalist and the business sectors will become one and the same, with each supporting the other and secondly, both capital and enterprise will become cooperators and not competitors. Through cooperation and support of each other, the dividends thus earned by banks will in turn pass on in a proportionate manner to their accounts and to shareholders, after deducting necessary administrative expenses. The big difference is that the dividends will be distributed in due proportion among all stakeholders – the clients and shareholders. The risk of loss and bankruptcy will also be shared equally by both the account holders and the shareholders of the banks. Meanwhile, the *Bayt al-Māl* or State Bank can be authorized to monitor the banking sector.

8.9 Economic and industrial loans from non-Muslim countries³⁸

(Sayyid Mawdudi's view regarding the following question)

'Can an Islamic government, in an age of interdependence, achieve any progress by declaring as totally *Haram*, all economic, military and technical assistance or development loans from World Bank on the given rate of interest? How can we then bridge the big gulf of material, industrial, agricultural and scientific advancement that divides the developed West and the under-developed Muslim World between the *Haves* there and the *Have-nots* here? Can we afford to wind up all our domestic interest-based institutions of banking, insurance, and finance? Is there a way out from the deeply rooted local practices of usury, *Paghrī* (advance money), goodwill and commission money, brokerage, etc? Can the Muslim countries follow an interest-free lending system in their dealings among themselves?'

(Sayyid Mawdudi's response is summed up as follows)

An Islamic government has never followed a policy of severing ties with non-Muslim countries, nor can it do so today. But the need for loans does not involve going around with a begging bowl seeking loans, and this at the lender's terms. This kind of relationship with 'donor' countries has been promoted in today's world only by those who lack courage and foresight. Whenever an Islamic government is established, its first priority will be the moral rejuvenation and character building of its people prior to their material advancement. Under a healthy dispensation (between the people and the government), the collection rate of taxes levied will be one hundred percent, and the rate of their proper utilization on people's welfare and development will also be one hundred percent. If the need then arises for loans, the people will voluntarily contribute, while a major sum may be collected as an interest-free loan and some of it on a profit and loss sharing basis. I sincerely believe that if Pakistan can set the pace in Islamic economics, it may not be long before we emerge as a donor country, instead of remaining dependent on foreign loans. Our ability to experiment successfully with the Islamic principles of banking and finance may soon turn us into a model state for the developing world, *offering* loans to others rather than being on the receiving end ourselves.

If a situation were to arise in which we are compelled to seek foreign loans for some pressing national needs and for which funds are difficult to generate locally, we may do this as a last resort. Even in such an eventuality, there will be no justification for retaining the system of interest-based loans within the country. Interest can be abolished and the country's entire financial system can very well function on a *Ribā*-free basis. The banking system can be effectively run on the principles of profit sharing, instead of interest. Similarly, the insurance system can be so remodelled as to conform to the Islamic concept of *Takāful*.

³⁸ Adapted from *Tarjumān al-Qur'ān* of November, 1961.

Chapter 9 – *Zakah* in Theory and Practice³⁹

9.1 Essence of *Zakāh*

Zakāh is the third pillar of Islam after *Imān* and *Salāh*. *Zakāh* follows *Salāh* immediately in the Qur'an wherever the attributes of a worthy believer are described.

9.1.1 Meaning

The word *Zakāh* in Arabic means 'purity' and 'cleansing.' It is the act of apportioning a certain amount of money from one's personal assets to purify one's purse as well as cleansing one's self.

9.1.2 Apostolic tradition

The Qur'an mentions that it is mandatory for all followers of the Prophets of God to observe Prayer and perform *Zakāh*. The Islamic *Shari'ah* has made the two pillars the dominant symbols of the Islamic code of conduct. Those who do not observe them are neither on the path of Guidance, nor will they ever achieve prosperity in this world or the Hereafter.

9.2 *Zakāh*'s place in social life

The Qur'an frequently uses the term *Infaq fi sabīlillah* (spending in the way of Allah) for *Zakāh* and *Sadaqāt* (mandatory and normal charities). Whatever one spends in the Way of Allah is *al qard al-hasan* or a benign loan, which Allah (swt) has made incumbent upon Himself to repay. Whatever we invest for our fellow human beings will eventually benefit us and will be repaid by Allah. Yet, man has inherent weaknesses and is always in a hurry to reap personal benefits. He spends for personal gains and is hardly bothered to help those in need. This kind of mentality leads to wealth accumulating in a few hands, while society succumbs to moral and material degeneration.

The universal truth is that the happiness of an individual depends on the happiness of the society. One who withholds his wealth and does not contribute to societal welfare saves it or allows it to grow on interest. The capitalist world deals in *ribā* (interest) and despite the stockpiles of wealth, societal problems are ever increasing. Interest diminishes wealth while *zakāh* multiplies it. A successful resolution of man's socioeconomic problem lies in faith in Allah (swt) and in the Last Day.

9.3 The Divine Command concerning *Zakāh*

There are three separate injunctions about *Zakāh* in the Qur'an. Allah reminds us in Surah Al-An'am that it is He Who has brought into being gardens and all kinds of crops and fruit-bearing trees. We are therefore ordered to, "Eat of their fruits when they come to fruition and pay His due on the day of harvesting" [Al-An'am, 6:141]. The verses relate to produce from land. According to the Hanafi jurists, *Zakāh* is leviable on everything reaped from the land but excluding self-grown products such as wood, grass, bamboos, etc. Based on prophetic tradition, a tenth of the produce is deducted as *Zakāh* from rain-fed land and a twentieth from land irrigated by streams, rivers, and man-made sources. Specified shares of the produce become mandatory once the crop is harvested.

The real objective of alms is "Take alms out of their riches and thereby cleanse them and bring about their growth in righteousness..." [al-Tawbah, 9:103]. The wealth gathered without paying *Zakāh* remains impure. It is purified by taking from it what is due and giving it to those

³⁹ The original chapter comprises of 41 pages with 11 sections.

deserving it. The prophet (*pbuh*) warned those amassing gold and silver of severe punishment in the Hereafter.

9.4 Various categories of *Zakāh* distribution

The Qur'an [al-Tawbah, 9:60] specifies eight categories of those eligible for *Zakāh* funds. The eight categories may be briefly explained as follows:

9.4.1 *Al-Fuqarā'* (sing. *Faqīr*)

According to the *Shari'ah*, a person dependent on others for his subsistence is a *Faqīr*. This includes everyone in need of help, whether they are permanently disabled or are temporarily in need of assistance, such as orphaned children, widows and the unemployed.

9.4.2 *Al-Masākīn* (sing. *Miskīn*)

A *Miskīn* is one who is suffering from *Maskanah* or distress more than the ordinary poor. Their self-esteem prevents them from begging despite lack of resources to sustain themselves and their families.

9.4.3 *Al- 'Āmilīn* (sing. *'Āmil*)

These are people employed to collect and distribute *Zakāh* and *Sadaqāt* and maintain accounts. Hence government *Zakāh* administrators, though not poor and needy, will be paid from the *Zakāh* funds.

9.4.4 *Mu'allafat'l-Qulūb* or 'those whose hearts are to be reconciled'

Zakāh funds may be used to win the hearts of those engaged in hostile activities against Islam or to win over the support of those who are in the hostile camp of unbelievers. This category includes converts to Islam who are feared could revert to unbelief or become tools in the hands of anti-Islamic forces.

9.4.5 *Fi'l-Riqāb* or 'to free those in bondage'

Zakāh funds can also be used for the freedom and emancipation of slaves, and to redeem and help the prisoners of war and their beleaguered families.

9.4.6 *Al-Ghārimīn* or 'those burdened with debt'

This category includes those who find themselves unable to repay a loan with their available means. They can be helped to restore their economic freedom and dignity.

9.4.7 *Fi Sabīlillāh* or 'in the Way of Allah'

This includes those who are engaged in a concerted struggle for the sake of Allah's cause. The term is comprehensive enough to include every organized struggle, genuine movement or *Jihād* waged for the supremacy of the Word of God and to establish the writ of religion as a way of life.

9.4.8 *Ibn al-Sabīl* or 'the Wayfarer'

A traveler in need, even if he is rich, is entitled to receive help from *Zakāh* funds during his journey.

What are the conditions of *Zakāh* eligibility for the eight categories above under the law?

Nobody can pay *Zakāh* to his own father or son. Similarly, a husband cannot give *Zakāh* to his wife and vice versa. Some jurists are of the view that one cannot give *Zakāh* to close relatives to his legal heirs. However, distant deserving relatives have a better claim over *Zakāh*. *Zakāh* is payable

only to the deserving Muslims. Needy non-Muslims can be paid from funds of normal charity (*Sadaqāt*). *Zakāh* can be distributed individually if there is no organized system or government mechanism for its collection and distribution, but efforts should be made to have a proper organizational structure for this purpose.

9.5 Basic rules of *Zakāh*

In this section, Sayyid Mawdūdī provided answers (**As**) to questions (**Qs**) on several issues on *Zakāh*.

Q 1: How would you define *Zakāh*?

A: *Zakāh* literally means purity and growth. Technically, it is a financial act of worship made mandatory for every *Sāhib al – Nisāb* Muslim, (With a property worth 612.360 grams of silver or 87.48 grams of gold, excluding his household effects, residence, and items of personal use, other than gold or silver jewellery), to purify his property, himself and the society of ills like miserliness, while the qualities of love, generosity, magnanimity, and cooperation may flourish and prosper.

Q 2: For whom is *Zakāh* obligatory? Also, please elaborate in this context the status of women, minor children, prisoners, travellers, insane persons and expatriates.

A: *Zakāh* is mandatory for sane, adult Muslim who is *Sāhib al – Nisāb*. For minor children, some jurists consider *Zakāh* not mandatory for an orphan, while others opine that the orphan must pay it when he reaches puberty. Another view is that the guardian pays *Zakāh* from the orphan's property. Opinions vary on whether *Zakāh* is obligatory for the insane. Personally, I opine that he pays. For a prisoner, a person managing his assets pays *Zakāh* on his behalf. A wayfarer also pays *Zakāh*. A Pakistani Muslim expatriate residing abroad pays *Zakāh* like a Muslim citizen of another country residing in Pakistan. But a Muslim citizen of a non-Muslim country living in Pakistan has a choice to pay *Zakāh* as constitutionally his status is like a non-Muslim in the country of his origin.

Q 3: What should be the age of adulthood that makes a person eligible to pay *Zakāh*?

A: Eligibility to pay *Zakāh* is based on *Nisāb*, not age. In the case of an under-age *Sāhib al – Nisāb*, his *Wali* (guardian) is responsible for ensuring its timely payment until he attains the age of puberty.

4: What is the status of gold and silver ornaments of personal use? Are they subject to *Zakāh*?

A: Opinions vary. In one school, no *Zakāh* is payable on jewellery items for a woman's personal use. In another, *Zakāh* is deducted only once in a lifetime from these items. The third view is that no *Zakāh* is chargeable on jewellery items used regularly but those that are worn occasionally are liable for *Zakāh*. The fourth and largely held opinion is that it is payable on all items of jewellery. This last opinion sounds more logical and correct to me based on the instructions of the Prophetic traditions.

Q 5: In the case of a joint-stock company, is it the responsibility of the company to pay *Zakāh* collectively or should the shareholders do this individually?

A.: In my opinion, the companies should be made responsible for calculating and arranging payment of *Zakāh* for all their shareholders, excluding those holding shares less than the *Nisāb* value or those owning shares for less than a year.

Q 6: Please give your views regarding *Zakāh* on factories and other commercial establishments.

A: There is no *Zakāh* on machinery and factory equipment. It is levied on the cost-value of inventories, both in raw and finished forms, and on the cash balance in a factory's accounts at year end. There is also no *Zakāh* on furniture, stationaries, shops or houses or personal items. *Zakāh* must be paid on goods meant for sale and on cash balance in their accounts at year end. The basic principle is that the factors of production employed to make products are exempt from *Zakāh*.

Q 7: In the case of transferable shares, who is responsible for paying *Zakāh*, the one who purchased the share or the person who sold it?

A: There is no *Zakāh* on shares sold during one *Zakāh*-year, either for the seller or the buyer, because neither of them have owned these shares for one full year.

Q 8: On what type of assets and items is *Zakāh* deductible with reference to the following:

- a. Cash, silver, gold, jewellery and gems?
- b. Coins of gold, silver or metal and currency notes?
- c. Bank deposits, assets in lockers, money taken in loans, mortgaged property, disputed property or property under litigation?
- d. Gifts?
- e. Insurance Policies and the sum of money received from a Provident Fund?
- f. Livestock, dairy products and agricultural produce, including food grains, vegetables, fruit and flowers?
- g. Minerals?
- h. Buried treasure when discovered?
- i. Antiques?
- j. Honey from the wild *and* the bee-farms?
- k. Fish, pearls and other marine items?
- l. Oil?
- m. Imports and exports?

A:

- a. *Zakāh* is levied on cash, gold, silver and jewellery items. There is no *Zakāh* on pearls, rubies, and gems of all categories not for sale, otherwise they are *Zakatable* if they for sale.
- b. Metallic coins and currency notes are subject to *Zakāh* like gold and silver.
- c. All deposits in banks, in government-registered and audited institutions are *Zakatable*. There is no *Zakāh* on loans for personal needs, but loans above *Nisāb*, unspent in one full year is *Zakatable*. A loan invested in business is part of the total amount for business *Zakāh*. For mortgaged property, *Zakāh* is collected from the person holding the property in his custody. *Zakāh* on a disputed property is charged from the person occupying it.
- d. If a gift is up to *Nisāb*, the recipient pays *Zakāh* on it after one year of his ownership.
- e. For compulsory savings in insurance policy or provident fund, *Zakāh* is paid only once after a year from the receipt of the amount. If savings are optional then, in my view, the person must pay *Zakāh* yearly on the sum of money available in his insurance or provident fund.
- f. The livestock of a dairy farm are factors of production, thus not *Zakatable*. Agricultural produce and fruit that are stored are liable for '*Ushr* or *Khums* (one-tenth or one-fifth of its total value). There is no '*Ushr* on perishable items like vegetables, unless they are for sale.
- g. Regarding minerals, the Hanbalis have the best approach, i.e. everything mined is subject to a 2.5% *Zakāh* deduction, if it is a private property and its value is up to the *Nisāb* level.

- h. For discovered treasure (*Rikâz*), the Hadith says that *Khums* is to be charged as *Zakāh*.
- i. There is no *Zakāh* on antiques and precious relics kept at home as souvenirs, but they are Zakatable if they are commercial items for sale.
- j. Regarding honey, according to Imam Malik, Imam Shafi'i, they are not Zakatable. I subscribe to the Hanafi views that honey for sale is subject to *Zakāh* like other commercial items.
- k. There is no *Zakāh* on fish for personal consumption; but Zakatable if it is for sale. As for pearls, ambergris, and other marine items, I consider them minerals and hence Zakatable.
- l. Oil also belongs to the category of minerals and is, therefore, subject to *Zakāh*.
- m. There is no *Zakāh* on imports and exports.

Q 9: Did the Rightly-Guided Caliphs make any addition to the list of items for *Zakāh* from the days of the Holy Prophet (*pbuh*)? What rules were observed for such additions or amendments, if any?

A: During *al-Khilāfah al-Rāshidun*, no additions were made to the list of *Zakāh* items approved by the prophet (*pbuh*). Some additions were made later, for example the Umayyad Caliph 'Umar bin 'Abd al-Aziz imposed *Zakāh* on buffaloes at the rate of *Zakāh* levied on cows by the prophet (*pbuh*).

Q 10: Is *Zakāh* leviable on metal coins other than gold and silver? Is it also payable on coins out of use, those withdrawn by the government or coins of other countries in a person's custody?

A: *Zakāh* is paid on coins of all categories as explained in 8 (b). Coins out of use is subject to *Zakāh* if they are made of gold or silver. Foreign currencies, if easily exchangeable locally, are treated as cash. If these are non-convertible, their values are assessed based on their gold and silver content.

Q 11: How do you define *al-Amwāl al-Zāhirah* (open assets) and *al-Amwāl al-Bātinah* (hidden assets)? Under what category do you place bank deposits?

A: *Al-Amwāl al-Zāhirah* are assets open to government functionaries to assess, while *al-Amwāl al-Bātinah* are assets inaccessible to state operatives. Bank deposits belong to the first category.

Q 12: What is *al-Mâl al-Nâmi* (growing asset). Is *Zakāh* leviable on property of this category alone?

A: *Al-Mâl al-Nâmi* is an asset intrinsically amenable to growth or that which can be increased through efforts and struggle. *Zakāh* is levied only on assets of this category. It is charged on accumulated wealth mainly because its owner has prevented it from further growth.

Q 13: What rules apply to *Zakāh* on immovable property, jewellery and items of rent, like taxis, etc.

A: The market value of rental items is assessed and 2.5% is deducted from earned profit as *Zakāh*.

Q 14: What is the rule of *Zakāh* on domesticated animals like buffalos, chickens, and pets? Is it paid in cash or kind, or both? What is the number and conditions, which these animals are Zakatable?

A: Livestock, including buffalos, are liable for *Zakāh* when reared for breeding and are worth *Nisâb* value. If for sale, they are subject to 2.5 percent of *Zakāh*. Animals and poultry for domestic use are exempt from *Zakāh*, except if they are for sale. *Zakāh* on livestock is collected in cash and in-kind.

Q 15: Please let us know the different rates of *Zakāh* charged on various goods and items?

A: The prescribed rates of *Zakāh* on agricultural produce are 10 percent from rain-fed arid lands and at 5 percent from irrigated lands. Other different items including cash, gold and silver, commercial goods, livestock, mineral, *Rikāz* (Discovered treasure), and factory goods are at 2.5 percent.

Q 16: Has there been any amendment in *Zakāh* rates in the era of *al-Khulafā' al-Rāshidūn* on cash, coins, livestock, commercial goods and agricultural products? If so, why the amendments?

A: There has never been any modification in *Nisāb* and *Zakāh* rate in the era of the *al-Khulafā' al-Rāshidūn* or thereafter. In fact, nobody is authorized to introduce any change as whatever the prophet (*pbuh*) prescribed as a matter of rule is sacrosanct and cannot be changed.

Q 17: In Pakistan, what are the cash equivalents of 200 silver *Dirhams* and 20 golden *Mithqāls* and, the standard weights and measures equivalent to the *Sā* and *Wasaq* for *Zakāh* on food grains?

A: The approved *Nisāb* for cash, silver, commercial goods, minerals, *Rikāz* and factory goods is their worth of 200 Dirhams in value. The established equivalent of 200 Dirhams is 52.5 *Tolas* (= 612.360 grams) of silver and 20 *Mithqāls* is equal to 7.5 *Tolas* (= 87.48 grams) of gold.

Q 18: Is there a fixed term on the expiry of which *Zakāh* is payable on different items?

A: Except for minerals, treasures and agricultural produce, the standard period is one calendar year. There is no term limit for minerals and treasures, while *Zakāh* on agriculture is upon harvesting.

Q 19: Is *Zakāh* calculated according to the lunar or solar calendar? Any month for its collection?

The *Shari'ah* has not made any calendar or month obligatory for *Zakāh* collection. An Islamic government can fix any month and calendar for the collection and calculation of *Zakāh*.

Q 20: What are the main categories for *Zakāh* disbursement? Explain meaning of '*Fi Sabīlillāh*'?

A: The Quran specifies eight categories for the distribution of *Zakāh* funds. These are as follows: *Fuqarā'* (poor), *Masākin* (the needy), *Āmilīn* (those employed for the collection of *Zakāh*), *Mu'allafat'l-Qulūb* (those whose hearts are to be reconciled), *al-Riqāb* (those in bondage), *Ghārimīn* (those burdened with debt), *fi Sabīlillāh* (in the Way of Allah) and *Ibn al-Sabīl* (the Wayfarer).

Q 21: Is it necessary to distribute *Zakāh* to the deserving under each of the eight prescribed categories, or can it be given to the needy according to one's own discretion?

A: It is not essential for the government or an individual to distribute *Zakāh* under each category. The *Zakāh* funds can be disbursed based on the needs of various heads, or a single category.

Q 22: Under what circumstances are the eight categories permitted to receive *Zakāh*? Are the members of Bani Hashim family and Sayyids in Pakistan entitled to receive *Zakāh*?

A: From the *Fuqarā'* and *Masākin*, only those who are not *Sahib al-Nisab* can get *Zakāh*. *Āmilīn*, *Mu'allafat'l-Qulūb*, and *fi Sabīlillāh*, though *Sahib al-Nisab*, receive *Zakāh*. The slave is entitled to *Zakāh* for his freedom. One overburdened with loan is paid *Zakāh* to settle his debt. *Ibn al Sabīl* receives *Zakāh* if he is in need during his journey. *Zakāh* is prohibited for Bani Hashim.

Q 23: Is *Zakāh* payable to individuals, or can it be given to institutions also, like orphanages, destitute homes, educational institutions, etc?

A: When collected by the government, *Zakāh* can be disbursed to individuals as well as institutions.

Q 24: Can *Zakāh* funds be used to provide life-long monthly maintenance allowances to the poor, the needy, widows, the handicapped or those incapable of earning due to old age or incapacitation?

A: Yes, *Zakāh* can be given in the form of stipends or allowances to those in need due to temporary or permanent incapacitation, disease, old age, etc.

Q 25: Can the *Zakāh* funds be used for public welfare schemes, like the building of mosques, hospitals, roads, bridges, wells, and ponds?

A: The category of *fi Sabīlillāh* is not so loose as to include such works of public welfare.

Q 26: Can a person be offered *al-qard-al-hasan*, or an interest-free loan from *Zakāh* funds?

A: There is no harm extending *al-qard-al-hasan* from funds available with the *Zakāh* administration.

Q 27: Is it necessary for *Zakāh* to be spent in the area where it has been collected from, or can it also be sent outside to help in the emergency needs of disaster relief, or to win hearts?

A: It is desirable under normal circumstances to spend *Zakāh* in the area where it is collected. In the case of an emergency, extra *Zakāh* funds can be transferred to other places in need of resources.

Q 28: What is the way of deducting *Zakāh* from the property left behind by one who is deceased?

A: Settlement of deceased's loan, if any, takes priority, then *Zakāh* deduction, and execution of his will. The remaining assets are distributed among heirs, according to Islamic law of inheritance.

Q 29: Can you suggest measures to prevent people avoiding payment of *Zakāh*?

A: These measures may include the appointment of honest officials to forestall possibilities of bribery and irregularities in *Zakāh* administration, or favouritism in its distribution, and the squandering away of funds on staff salaries and allowances. Secondly, the government should build the society's edifice on moral values, good character, love, and fear of God. Thirdly, necessary legislation should be enacted to check the unlawful means for any embezzlement of *Zakāh* funds.

Q 30: Should the administration of *Zakāh* be the responsibility of the centre, or the provinces? If the subject falls under the centre's jurisdiction, what steps need to be taken to determine the shares of the provinces and other areas from the main pool?

A: In my view, the responsibility of the collection and distribution of *Zakāh* should rest with the provinces, while the centre enjoys the powers to divert the surplus of one province to a *Zakāh*-deficient province. The centre should also have the power to launch institutions and schemes to perform charitable work in the Way of Allah and to mobilize emergency relief operations.

Q 31: In your opinion, what is the best way to manage the collection and disbursement of *Zakāh*? Should there be a separate entity, or the government does this job through its existing department?

A: The government needs not establish a separate department for this purpose. The collection and distribution of different kinds of *Zakāh* can be entrusted to the departments engaged in

collecting taxes. As for the distribution and disbursement of *Zakāh* under the different specified heads, a separate set-up can be placed under the Minister of *Awqaf* and other religious institutions.

Q 32: Has *Zakāh* ever been treated as a government tax or is it a tax for the collection and administration of which the government alone is responsible.

A: *Zakāh* is not a tax, but an act of ‘financial worship’. The two differ greatly in concepts and moral backgrounds. Treating *Zakāh* as a state tax will destroy its moral and spiritual value and benefits. To vest the government with the responsibility for its collection and distribution does not mean that it is a tax. Government is responsible to streamline *Zakāh* and ensure its proper discharge.

Q 33: Was there any tax other than *Zakāh* during the days of the Prophet (*pbuh*) and his Caliphs?

A: “There are obligations in one’s property other than *Zakāh*” (Tirmidhi). Thus, Islamic government has the right to levy taxes in addition to administering *Zakāh*. There are precedents for levying taxes during the reign of the Second Caliph, when import duty was imposed for ‘public fund.’

Q 34: What system of *Zakāh* collection and disbursement by Muslims in the past is in practice now?

A: In the earlier days of Islam, collectors were appointed by the government. They physically inspected *al-Amwāl al-Zahirāh* and collected *Zakāh*. The funds were deposited in the public treasury (*Bayt al-Māl*) in separate accounts. It was distributed by state officials responsible for other duties as well. Presently I am not aware how governments in Muslim world administer *Zakāh*.

Q 35: Should the collection and distribution of *Zakāh* be the exclusive responsibility of the government, or can it be managed by a Board of Trustees under joint public-private control?

A: I think *Zakāh* collection and distribution should remain under the control of Islamic government.

Q 36: What should be the terms of employment, viz. pay and allowances, pension, provident fund, etc., for the staff employed to collect and distribute *Zakāh*?

A: The terms of service for *Zakāh* and other government employees should be similar.

9.6 Is any change possible in Nisab and the rate of *Zakāh*’s deduction

Q 1: One gentleman with religious credentials firmly believes that the rate of *Zakāh* may be revised according to the circumstances and needs of the day. He argues that the Qur’an does not mention any rate for *Zakāh* deduction. I tried to impress upon him that the injunctions of the prophet (*pbuh*) are for all times and cannot be amended or changed. Will you please enlighten us on this matter?

A: I fully endorse your argument. We are not entitled to make amendments in the parameters drawn by the Law-giver. Islamic Law is sacrosanct in every respect. Once we allow change, major or minor, it will open the floodgates for willful modifications, sparing no Islamic injunction. This would disrupt the balance and harmony established by the Law-giver for maintaining a just order.

9.7 Company shares and *Zakāh*

Q 1: In a construction company dealing with real estate or machine tools, a shareholder, as you explained, is exempt from *Zakāh*. The cash value of his shares is part of the total value of assets in the joint-stock company. Why then must a shareholder pay *Zakāh* on the value of his share?

A: The shareholder of a joint-stock company with shares worth *Nisāb*, is *Sāhib al – Nisāb*. However, he will not pay *Zakāh* individually. Every shareholder's assets worth *Nisāb* are calculated jointly, after excluding factors of production but including business goods and cash balance at year end.

Q 2: Your answer to *Zakāh* on business shares presupposes the existence of an Islamic government and a central mechanism for *Zakāh* collection. But how to collect *Zakāh* without such mechanism?

A: *Zakāh* on business shares is calculated from a total of business assets plus cash balance at year end. Then 2.5 percent is paid from the total. The same rule applies to *Zakatable* shares held in one or more joint-stock companies, after assessing the market value of those shares at year end.

Q 3: Justice demands that capital invested as shares in a joint-stock venture is liable for *Zakāh* only once. As you explained, a shareholder is exempt from *Zakāh*, as it is deducted collectively by the company after excluding shareholders who are not *Sāhib al – Nisāb* and those who purchased shares in the middle of the year. This is a difficult proposition. It is not easy to ascertain if a shareholder with a value of assets below *Nisab* in the company does not own assets elsewhere that makes him *Sāhib al – Nisāb*. Furthermore, the economic fallout from deducting *Zakāh* from individual's personal holdings and shares will be entirely different from that caused by collective deductions. In the latter case, the management of a joint venture is likely to take annual *Zakāh* deductions as part of the company's total outlay, and will accordingly raise the price of its product to cover that amount because it may be difficult to pay the full amount of *Zakāh* from the company's profits alone; alternatively, it may not leave enough in balance to pay dividends to its shareholders. If individual shareholders pay their *Zakāh* themselves, it will not affect the product's price level. You also say that items which are rented are eligible for *Zakāh*. Then there should be *Zakāh* on the value of vehicles used for rental. Similarly, a person owning houses and shops for rent should not pay *Zakāh* on their value. But I am not aware of any such precedent in the past

A: When *Zakāh* is paid by a private firm collectively, the shareholder is not required to pay *Zakāh* separately on his share. It is therefore incumbent on the shareholders to disclose full information to their company. In addition, the government *Zakāh* collectors should be vigilant of a joint-stock company attempting to include *Zakāh* outlay in its total expenditure and increase the cost of its products to cover this amount. Furthermore, no Muslim company is expected to indulge in such a fraudulent practice. As for *Zakāh* on items for rent, it is deducted from the rental profits. There is no *Zakāh* on tools and furniture. As for rental houses, I find no precedence of *Zakāh* charged on them.

9.8 *Zakāh*'s applicability in *Mushārah* and *Mudārah*

Q 1: Two persons start a business, with one partner investing both capital and labour and the other contributing labour. They decide to divide the profit in three equal parts: one for the capital, and the remaining two equally distributed for their labour. I seek your views on the following:

- a. If *Zakāh* is assessed collectively on the total value of the business, and partner 2 objects and says partner 1 is the sole owner of the venture's capital, he earns profit and is therefore solely responsible for *Zakāh* payment. Is this objection valid?
- b. Every business venture has profit and loss. However, *Zakāh* is concerned with the value of capital. In case of loss, one-third of *Zakāh* amount payable on the share of partner 2 is

still deducted from his next year's profit. For Partner 1, *Zakāh* becomes a tax on his capital. Do you think that such a proposition is contrary to the very objectives of *Zakāh*?

A: The replies to both your queries are as follows:

- a. The objection of partner 2 is incorrect. *Zakāh* is deducted from the total business value, then the profit is divided between the two partners with the proportion mutually agreed.
- b. The profitability of the venture above is based on capital and labor. Thus, two-thirds of the total *Zakāh* is payable by partner 1, and one-third by partner 2.

9.9 Prescribed minimum limit for *Kunūz* (gold and silver)

Q 1: The Nisab prescribed for silver is 200 Dirhams and for gold is 20 Dinars. Some religious scholars are of the view that a person in possession of gold and silver of less quantity than the minimum prescribed limit of *Nisāb*, should assess the worth of his gold with the silver, or vice versa, and whichever is found to add up to the *Nisāb* value should form the basis of his calculation of *Zakāh*. This sounds reasonable. Taking silver as the basic metal for calculating *Zakāh* for silver, and gold for gold, is questionable. This is because a person meeting the *Nisāb* of silver is required to pay *Zakāh* while another richer person with no *Nisāb* of gold is exempt from *Zakāh*. I think the values of gold and silver in the past and now are not different. The Quran has determined the *Nisāb* of *kunūz* based on silver. Hence the value of gold for *Zakāh* should be assessed based on silver.

A: I disagree with your proposition that because of the large difference in the proportionate value of gold and silver now, silver should be the basis for *Nisāb* of *kunūz* (gold and silver) due to the following:

- The Law-giver has given separate injunctions regarding these precious metals and there is nothing to suggest that either silver or gold should be the standard metal for the other.
- The reason that something is apparently more beneficial for the poor also does not provide firm ground on which an amendment could be sought to a confirmed decree.
- The values of gold and silver are subject to frequent change. To ignore their fixed specific quantities for *Nisāb* in favour of their ever-changing values and the market rates will harm the permanence of the *Shari'ah* injunction and cause practical problems for people.
- The problem you mentioned with reference to gold and silver may also arise in the cases of livestock where there are big fluctuations in the proportionate value of their market rates.

The best course is to strictly follow, in letter and spirit, the *Nisāb* determined by the Law-giver.

9.10 The difference between *Zakāh* and tax

Is it correct to impose *Zakāh* on the rich who pay taxes, including income tax?

A: *Zakāh* is not a tax, but an act of worship, and one of the pillars of Islam. Since Islamic government cannot exempt its functionaries from praying regularly on the plea that they already perform duties for the state, the rich cannot be absolved from paying *Zakāh* because they pay tax.

9.11 Is it permissible to levy income tax over and above *Zakāh*?

Q 1: Is it permitted by the *Shari'ah* to levy income tax on people over and above *Zakāh*?

A: Yes. An Islamic state is entitled to generate its revenue through income tax and other taxes, in addition to keeping in place, a proper mechanism for the collection and distribution of *Zakāh*.

Chapter 10 - Islam and Social Justice⁴⁰

10.1 Falsehood in the garb of truth

Among the miracles of man created by Allah as *Ahsan al-Taqwīm* or the best mould is that he is seldom attracted by naked falsehood and open temptation. The eternal truth about man's instinct is that every act of folly and blunder he is encouraged to commit is mainly due either to misleading slogans or a deceitful garb in which temptations are presented to him by the Devil and its disciples.

10.1.1 Deception One: capitalism and secular democracy

The Devil has deceived humanity in the past by raising capitalism and secular democracy under the names of 'liberty' and 'liberalism.' The people then believed that, if there was any panacea for the ills facing humanity, it was to be found in the systems of capitalism and secular democracy as they flourished in the West. However, people started realizing that these systems were actually responsible for inundating the earth with so many imbalances, tyranny, and oppression.

10.1.2 Deception Two: social justice and communism

The Devil hoisted another fraud under the names of 'social justice' and 'communism.' In the garb of these deceptions, efforts are being made to establish yet another system of tyranny and exploitation. This new system has succeeded in taking a number of countries into its stranglehold who are duped into believing that the system is a panacea for all their socio-political and economic ills.

10.1.3 The modern Muslim's intellectual servility

The Muslims are blessed to have the Eternal Guidance in the Qur'an and the *Sunnah* to guide mankind in all spheres of life and to protect them from falling into the Devil's traps. Unfortunately, they are generally ignorant of this and become a part of colonialism's intellectuals and its civilizational servitude. Their desire has been that Islam should invariably toe the 'ism' which they thought was essential for their progress and development so that Islam should not be equated with obscurantism. This is why efforts made earlier to establish liberalism, capitalism and secular democracy as being very much Islamic are now being diverted to prove that the concept of social justice in Islam is exactly the same as that found in socialism and communism.

10.2 Social justice in theory and practice

Let me try to explain the exact meaning of social justice and the right way to establish it as a system.

10.2.1 Islam alone guarantees social justice

⁴⁰ Based on the paper read by Sayyid Mawdūdi at the special session of World Muslim Congress, held at Makkah al Mukarramah during Hajj, 1962. The original chapter comprises of 14 pages with 5 sections.

Let me begin by stating the slogan 'Islam is also a torch-bearer of social justice' is wrong. The correct statement is: 'Islam alone guarantees social justice!' As the Creator and Sustainer of mankind, Allah has the sole Authority to determine what justice stands for and how it can be established among the people. Man is incapable of establishing justice on his own because of the limitations of human sciences and wisdom. Humanity have no perfect model of governance except the one created and revealed by Allah.

10.2.2 Social justice: the goal before Islam

The second thing that must be borne in mind is that justice is not merely an attribute that Islam cherishes, it is, in fact, the objective of Islam. To establish justice, one just needs to establish the writ of the Religion of Truth in both letter and spirit in its entirety.

10.2.3 Growth and development of the human personality

Every human society is made up of a multitude of individuals. Each individual has a personality of his own, for the growth and development of which he needs proper opportunity. Individuals are not designed for the group, but the group is to serve its individual members. They, therefore, need opportunities to fulfil their needs and satisfy the demands of their bodies and souls.

10.2.4 Personal accountability

Each and every person is accountable before his Lord, in an individual capacity. He will answer before the Lord for the opportunities, capabilities, and resources granted to him and the use to which he has put these in order to build his character within the prescribed parameters.

10.2.5 Individual freedom

Both of these aspects – the development of human personality in this world and his accountability in the Hereafter – demand that the individual must have complete freedom of action. A social order that does not allow the individual his freedom is instrumental in distorting and throttling his personality.

10.2.6 Social institutions and their writ

A society is composed of families, clans, tribes, communities and nations. In their different forms, all of these social institutions are needed to provide an individual with the opportunity to grow and develop his personality with their help and support and under their protection. However, this cannot be achieved unless each of these institutions enjoys a measure of control over individuals, with bigger institutions having influence over the smaller ones. This is essential in order to prevent individuals from unbridled freedom and rights; it is also right for harnessing their potential for the common weal of the society as a whole. From this emerges the enigmatic question of the role that social institutions are expected to play in order to streamline the opposing demands of individuals and the collective whole. On the one hand, the imperatives of human advancement demand that an individual should have free play for his personality, which will help him build his character according to his aptitude and potential. Similarly, families, clans, tribes and various other groups should also have the opportunity to enjoy the freedom essential to their respective fields of action in their larger spheres. On the other hand, dictates of human progress and

development also demand that families should have control over individuals, tribes and clans over families, and the community over tribes and clans; over and above all, the state should have full sway over every individual and institution, in order to keep them all in check, and let none transgress its limits. Social justice thus involves a happy blend of checks and freedoms. Each individual, family, clan, tribe, and nation must have the desired level of freedom in their respective spheres, while simultaneously there must be a system of control to keep each of these in check.

10.3 Failings of capitalism and communism

Just as the system based on fallacious theories of personal freedom, which emerged in the aftermath of the French Revolution, was contrary to the norms of social justice, in the same way, or rather even worse than this, is the ideology of communism that is now being introduced, which is in total violation of the dictates of social justice. The drawback of the old system was that it left the individual's unbridled freedom to transgress his limits and encroach upon the rights of others while the new system has endowed the state with all the power, almost totally denying individuals, families, clans and every social institution their respective freedom.

10.4 Communism: the worst form of social oppression

Communism is in fact 'social repression' in its worst form. It is a coercive system of state tyranny worse than any experienced by humanity in its recorded history. No sane person can call it 'social justice' to let a small group of self-seeking autocrats to forcibly grab power, exploiting unchecked authority of the state and to impose their writ on its people and virtually turn the entire country into a police state with no room for personal freedom. Hypothetically, let us suppose that communism could facilitate the equitable distribution of wealth – even then, social justice does not simply mean economic equality. Every effort to establish economic parity, howsoever genuine and sincere it may be, can only be justified if it is not made at the cost of the individual's liberty and personal freedom, or involve a denial of the basic human rights of people.

10.5 Justice in Islam

There is no room in Islam for any individual or group to invent their own concept of justice for the society. It is only the Divine Prerogative of Allah (swt) to dictate His Will to His servants, which the Prophet (*pbuh*) and his companions followed in both letter and spirit. Beyond the Divine Law, there is no restriction on anyone expressing their views. Islam guarantees people's fundamental human rights, and in an Islamic polity, there is no room for a despot or self-willed dictator.

10.5.1 Parameters of personal freedom

Allah (swt) has Himself defined the limits of one's freedom in Islam. A Muslim is expected to know and abide by the parameters clearly determined by the *Shari'ah*, in terms of what he can and cannot indulge in and what his rights, obligations, and restrictions are. All of these have been permanently codified in the sacrosanct constitution of the Qur'an and the *Sunnah*, which none can abrogate or amend. According to the law of personal freedom, which is guaranteed by this Constitution, no one has the right to transgress the limits set for his freedom, and neither is anybody permitted to deny a person the freedom guaranteed to him by Law. Everyone is duty-bound to abide by the rules and contribute the best he can for society's moral and economic

uplift. Nobody is authorized to force another into doing more than his duty, unless he is willing to do it voluntarily. The same is true for the society and the state. It is as binding on them to discharge their obligations towards individuals and give them their due as it is obligatory on individuals to observe the rights of the society and the state. If this Constitution is enforced in its true spirit, it is bound to lead to the establishment of a just social order and a model welfare state.

10.5.2 Preconditions for the transfer of wealth

Islam has approved only three ways for the transfer of wealth to an individual: (i) *Wirāthah* or inheritance; (ii) *Hibah*, or gift; and (iii) *Kasb*, or earning. Islam permits earning through *Halāl* means only, and even a penny earned through unlawful means is *Harām*. No individual or institution is authorized to impose any restriction on income, either to increase it through fair means or foul or to curtail it forcibly if the volume is huge. The source of any dubious income, however, will have to be scrutinized by the Law, and, if it has been earned through unlawful means, the Islamic government has the right to confiscate it in the national interest.

10.5.3 Restrictions on the use of wealth

No individual has been given unlicensed freedom, even to spend the money he has earned lawfully. Some legal restrictions have been imposed by the *Shari'ah* to ensure that nobody misuses his wealth for the detriment of the society or spends it in a way that is unhealthy for his own self morally or economically. Islam similarly puts strict curbs on overspending, living beyond one's means and extravaganza. It allows individuals to use his surplus money to generate more, provided that he follows fair means for this and does not exceed the limits imposed by the *Shari'ah*.

10.5.4 In service of the society

Islam has made *Zakāh* mandatory so that those with surplus money in excess of the prescribed limit (*Nisāb*) use this in the service of society. The benevolent system of *Zakāh* is so revolutionary that, if it were to be introduced anywhere in the world and the funds generated were spent judiciously in the light of the Qur'anic injunctions, no person could remain deprived of the basic necessities of life there.

10.5.5 Eradication of injustice

Islam promotes mutual goodwill and understanding between the Landlord and farmer-worker, mill-owner and labour, in order to enable them to run their affairs amicably without allowing the law to intervene. In the case of injustice, however, the Islamic government is legally bound to intervene and let the law take its course to provide justice to the aggrieved.

10.5.6 Nationalization and public interest

In the absence of a suitable private management to run an industry or trade, the government can assume charge in the public interest. The same holds when a private-sector enterprise is run on lines detrimental to the national interest. However, Islam does not permit nationalization as a state policy. It does not allow the means of production to be monopolized by the government and the state to become the sole landlord, trade, and industrialist of the land.

10.5.7 Use of the public treasury (*Bayt al-Māl*)

The *Bayt al Māl* is the Divine-cum-Public Property, with nobody enjoying an ownership right. Its affairs are to be looked after in consultation with public representatives. All receipts and issues of the Public Treasury are a sacred national trust and are subject to public scrutiny and accountability.

10.5.8 The basic issue!

To conclude, if social justice is taken to mean only economic justice, then what about the economic justice that Islam sets to establish? Can this not suffice to meet our needs? Let us seriously ponder over the basic issue: What is the obstacle that prevents us from establishing the rule of *Shari'ah*? Why can we not base our polity in the Islamic constitution that guarantees the people their basic rights, freedom, social justice, and economic welfare? Why can we not rise to provide the world with a model of governance which is free from the extremes of capitalism and communism?

Chapter 11 - Issues of Labour, Insurance and Price Control⁴¹

11.1 Labour-related issues and their solutions

Our defective economic system remains the main cause of the problems that face industrial and farm labour. The principal factor responsible for the failings of this system is the corrupt social and economic order, which if not set right, no worthwhile improvement can be expected in the lives of the working class.

11.1.1 What has caused the damage?

The current economic system of our country is not simply the legacy of the British imperialism, but it embodies the drawbacks of the pre-*Rāj* period as well. Despite being able to rid ourselves of the imperialist rule, we have failed to make any significant headway to introduce a change in the colonial economic structure due to the absence of any ideological basis for the political changeover. Even a day before independence, there was no roadmap or plan of action before the nation and its leaders to steer the ship through the political chaos and economic backwardness safely to its ultimate destination of an *Islamic Welfare State*. The system introduced by the colonial regime, which was based on its capitalistic, materialistic and imperialistic approach, remains in force even today and continues to get stronger. Had our independence been the natural consequence of a well-planned ideological and moral struggle, there would have been a well-defined roadmap before us since the start.

11.1.2 The real need

⁴¹ Adapted from Sayyid Mawdudi's address delivered at Pakistan Labour Welfare Committee Convention, 13 May, 1957. The original chapter comprises of 14 pages with 3 sections.

Our real need today lies in pulling out the existing system from its very roots and re-establishing it on new moral and ideological foundations which can guarantee social justice to the people. It is only Islam that provides the basis for a way of life and guarantees social justice to man. What we are striving for is to establish this system and way of life. There can be a difference of opinion concerning its details, but the exact blueprint of that system is available in the Qur'an and the *Sunnah*.

11.1.3 Resolution of problems

The first objective should be the establishment of the writ of justice as far as possible. Secondly, no stone should be left unturned in redressing the grievances and removing the difficulties of the working class. Thirdly, no agents of white or red imperialism should be allowed to exploit these problems and use our labour folk as tools for any system other than Islam. Regarding the third objective, a particular group of so-called 'well-wishers' is trying to use the working class as a tool. Their interest in the problems of workers is not to achieve a resolution but to exploit them for a socialist revolution. They attempt to impose a communist system on the people, in which all workers will be reduced to the level of serfs and bonded labour in a communist state. My considered opinion is that communism is worse than capitalism in many ways, especially in its treatment of the working classes, in whose name the communist 'revolution' was staged, and who are now being used as fodder for the unscrupulous and ruthless *Dictatorship of the Proletariat!*

11.1.4 Agenda for reform

I am of the view that for as long as our land remains deprived of the blessings of Islamic rule, some interim measures may be taken to remove the grievances of the oppressed working classes to improve their lot. Islam seeks to completely eliminate all class distinctions and the feudal and capitalist structure of economy and polity, unlike communism which boosts class biases, creates conflict and exploits the poverty and deprivation of the underprivileged in order to impose the dictatorship of the communist system. As harbingers of Islamic revolution, we take human society as one single body where each limb has its own place and function and the survival of the body and all its parts are dependent on the interdependence and support of each other. Similarly, we would like all segments of society to contribute to what they can to the best of their ability and potential, be supportive, compassionate, sympathetic and cooperative with each other. We would like everyone, whether employer or employee to know their rights and duties and discharge them faithfully, to reduce the chance of conflict. We would like to awaken the people's moral sense and release their moral being from the clutches of the animal within, which has overpowered them for too long. Employers must give up unlawful practices, including profiteering; they must give to those whom they employ as labour what is their due, and they must not aim to monopolize every benefit of national progress and prosperity, but should be keen to let these benefits also reach the common man. If dividends are judiciously distributed among all the elements of production, avoiding ways and means disapproved by Islam, the dictates of social justice are bound to prevail. Workers should realize what are the rights due to them judiciously and lawfully. Any movement that people intend to launch for their rights must

essentially be based on justice. The struggle of the workers for their lawful rights must also be made through lawful means.

The measures that we intend to introduce to reform the country's economic system may be summed up as follows:

- To legally ban interest, betting, gambling and all unethical means declared *Harâm* by the *Shari'ah* and keep open only the doors of *Halâl* sources of income.
- To carry out strict accountability of the rich in light of Islamic principles and to retrieve from them everything that they may have amassed through unlawful means to be deposited in the Public Treasury.
- To remove the economic imbalance created by the feudal system of landholding that has given rise to so many problems. For this, action needs to be taken in light of the following *Shari'ah* rule: 'Extraordinary reform measures can be taken under extraordinary circumstances provided these are not in conflict with Islamic principles.' Keeping this precept in view, we can take the following steps:
 - Abolish those feudal landholdings which may have emerged due to the misuse of state authority by any regime, past or present.
 - Reduce the ownership right of land to a certain limit with the government purchasing the surplus as an emergency measure to redress the old wrongs.
 - Land to be offered for sale in easy instalments to landless farmers or those in possession of less than economically-viable amount of land.
 - Islamic injunctions relating to *Muzâra'ah* (a crop-sharing contract) are to be strictly followed.
 - The existing gap of over one to 100 in the remuneration ratio should be reduced to one to 20, and then gradually brought down to a level of one to 10. Also, no remuneration should be less than the minimum level of wages necessary to satisfy the basic needs of an average family.
 - Low-paid employees should be provided with necessary facilities relating to their housing, treatment and children's education.
 - Workers of all industrial units may be offered a bonus in cash, in addition to the minimum desirable wages mentioned above. They may also be made partners through bonus shares in the ownership of the industrial units to which they belong.
 - The existing labour laws should be changed and replaced by a more judicious set of laws aimed at transforming the present state of conflict between capital and labour into a fruitful relationship of cooperation, and, in case of a dispute, facilitating a just and honourable resolution.
 - The country's existing rules, regulations and administrative policies should be amended and reformed so as to remove control by a selected few over the national sectors of trade and industry and allow more members of society to participate as partners in progress.
 - Key industries of basic importance, which cannot be left in private hands in the supreme national interest, maybe managed as national enterprises.
 - Our entire banking and insurance system will have to be changed drastically and rebuilt on the Islamic foundations of *Mushâraakah* (equity participation), *Mudârabah* (trustee financing) and *Takâful* (cooperative insurance).

- By properly organizing the system of collecting and distributing *Zakâh*, the state can effectively introduce the programme of *Kifâlah 'Āmmah* (general security), a scheme that has no better counterpart in the realm of social security in the world so far.

Finally, let us carefully note that the economy is not the sole problem facing human life. If far-reaching reforms are not introduced in all walks of life, no programme of economic reform can bring about the desired results.

11.2. Insurance and measures for reform⁴²

Q 1: I am not quite sure about the permissibility or otherwise of the insurance business according to the *Shari'ah*. If the existing insurance business is not permitted, what measures can be taken for this in accord with the Islamic *Shari'ah*? If it is banned, millions of people will lose the benefits they now get through this worldwide business that every nation has reorganized on an extensive level and is getting dividends from. It is unfortunate that we are not yet quite clear about this. Will you please guide us to the right course?

A: There are three major objections due to which the insurance business cannot be termed lawful according to the *Shari'ah*. The first objection is that a major portion of the amount the premium insurance companies receive is reinvested by them in interest-based businesses. Secondly, the handsome amount that life insurance companies promise to pay to their policyholders in the case of certain eventualities, has an element of gambling in it. Thirdly, the amount paid following the demise of the policyholder ought to be distributed among his heirs, according to the Islamic Law of Inheritance, but this is not the case. As for the question regarding measure which can make the insurance business Islamic, it needs a committee of experts who are also well-versed in Islamic law, while being fully aware of insurance matters, to review the whole issue and recommend viable reforms. The insurance industry is, without doubt, of great importance today around the world. However, this plea cannot make a *Harâm* thing *Halâl*, nor can it serve as an argument for justifying the continuation of anything in a state that claims to be Islamic.

Q 2: You are correct in saying that the insurance business needs basic changes to make it Islamic. But you may also be aware that this needs a long and time-consuming process. I have so far avoided the life insurance business in our insurance company. But on careful study, I have come to the conclusion that the existing drawbacks of the life insurance can be removed by the following measures:

- (a) While depositing security money with the government, the company can advise it against investing this amount in any interest-based venture, but in a state enterprise or in purchasing shares of public sector organizations.
- (b) The company under law can cancel the insurance policy of a policy-holder, or even refuse to accept it at the very outset. We can provide in the rules that a person desirous of getting his policy money distributed to his heirs, according to the law of inheritance, can

⁴² Based on Sayyid Mawdudi's replies to questions on the subject during the 1957 convention of 'Labour Welfare Committee Pakistan.'

do so and the company will facilitate the process. The company may refuse to accept an insurance policy of those declining to agree to this term.

- (c) As a safeguard against the possibility of gambling, those getting insured may be advised and inspired to agree to receive themselves or through their legal heirs the actual policy money they contributed, and not the additional amount which the insurance companies generally promise to pay.

Some time back, I decided to sell my insurance company. Subsequently, however, I realized that this may not be the right step, and I should rather try to find a way to run it on Islamic lines, which others may also follow. I shall be grateful for your guidance.

A: The measures you propose may help in reforming the insurance business and removing the causes of its impermissibility. In my view, the least that can be done to Islamize the insurance company may be summed up as follows:

- (a) The government should be agreeable to the provision of investing an insurance company's security deposit in a state enterprise or semi-governmental industrial or commercial venture on the principle of partnership, and the company should not be given a fixed amount of dividend but only that which is due on a proportionate basis.
- (b) The company may also invest its capital in profitable, non-interest bearing ventures, which may bring it dividends on a proportionate basis, but without any interest.
- (c) Insurance policies should be approved for those clients who agree: (i) to the provision that, after their death, their heirs will receive in claim, only the actual amount they contributed; and (ii) that the said amount will be distributed among their legal heirs according to the Islamic Law of Inheritance.
- (d) Policyholders keen to receive dividends on their policy money may be required to agree to the investment of their amount in non-interest bearing ventures on a profit and loss sharing basis, as mentioned above.

If you succeed in introducing these four terms and conditions in reforming your business, it may help to make your insurance company not only Islamically oriented but may also serve as a trendsetter and a guide for others who wish to follow your lead in this field.

11.3 The question of price control⁴³

Q 1: These are the days of market control, but nothing is available to shopkeepers on a controlled rate and this is why they are compelled to buy essential items at higher rates from the 'black market.' They obviously cannot sell these goods at the government's control rates, and invariably have to charge more to avoid a loss. However, some people describe such dealings as fraudulent and dishonest. The police are also there to apprehend shopkeepers for charging more than the rates fixed by the government. What has the *Shari'ah* to say about this?

A: Morally speaking, the government has no right to enforce '*Tas'ir*' (price control) until and unless it ensures a supply of goods to the people at these control rates. Everybody is aware today that the common man cannot get anything from the big traders at the rate fixed by the government.

⁴³ Based on Sayyid Mawdudi's write-up in *Tarjumân al- Qur'ân*, July-October, 1944.

When they get things at a higher price from the black market, they obviously cannot be expected to sell these on the open market at government rates. Under these circumstances, whoever purchases something at the black market rate does not commit a moral offence. Similarly, a shopkeeper selling things he purchased from the black market at rates higher than those fixed by the government is not guilty of a moral offence. If the government apprehends them, it will be guilty of yet another offence over and above its crime of failing to maintain a regular supply of essential goods in an open market at its own approved rates.

Looking at price control from the Islamic perspective, the Prophet impressed the virtue of maintaining a regular supply and keeping prices steady, and the dire consequences of hoarding and taking advantage of a natural calamity to one's own benefit.

Chapter 12 - Recodification of the Economic Laws of Islam⁴⁴

There has been a dramatic change in the world's civilizational and economic scenes, due to which the format of financial and commercial deals has also changed drastically. Consequently, the juridical laws framed during the early days of Islam fall short of meeting the Muslim world's current needs. This calls for a thorough review and updating of the laws and precepts available in our books of jurisprudence and a fresh codification of the economic and fiscal laws of Islam.

12.1 The constant and the variables

The way that a group of modernists would like to recodify the laws, guided by their own whims, is actually not a recodification of the *Shari'ah* laws, but a daring attempt to distort them wilfully and commit apostasy in the economic domain of our lives. Those who are committed Muslims and would like to follow Islam in all areas of their lives need a set of new rules and regulations in the realms of business and finance. They need this for the sole purpose of following the dictates of the Qur'an and *Sunnah* as they tackle the problems of modern-day business, economics, and finance. It is therefore essential to recodify the economic laws of Islam.

12.2 The need to modernize

Islamic law can provide guidance under changing circumstances at all times and everywhere. While the injunctions of the Qur'an and the *Sunnah* are irrevocable and everlasting; the laws based on these injunctions, which were codified around twelve centuries ago, can be modified. The principal objective of this legislation is to organize social conduct and the interrelationship of people based on mutual trust and a sense of interdependence by defining the people's rights and obligations. It is now up to our religious scholars and legislators to continue drawing upon the guiding principles of the Islamic *Shari'ah* to frame within their broad perspective new laws, rules

⁴⁴ Taken from Sayyid Mawdudi's book *Sūd* (Interest). The original chapter comprises of 15 pages with 5 sections.

and regulations to meet the demands of the changed situation in a manner that fulfils the basic objective of the Law-Giver.

12.3 Essential prerequisites for modernization of statutes and by-laws

The Islamic *Shari'ah* thus offers a comprehensive universal framework according to which fresh legislation can be formed and old ones amended to meet the demands of a particular situation. Religious scholars that are duly qualified are entitled to frame statutes and by-laws, and to explain subsidiary issues within the context of the *Shari'ah*. Let me now explain the necessary prerequisites, rules, and regulations for this onerous task of recodification of the economic laws of Islam.

12.3.1 First prerequisite

The first essential prerequisite for the recodification and framing of by-laws is a perfect understanding of the *Shari'ah* and a complete grooming in its essence and spirit. This is something that can only be achieved through a comprehensive knowledge of the Qur'an and deep insight into the *Sīrah* (life record) of the Prophet (*pbuh*).

12.3.2 Second prerequisite

The next essential requirement is for an overview of the injunctions pertaining to a particular field in which legislation is required, followed by a careful study of these injunctions to understand the real objectives of the Law-giver and the strategy He would have adopted for reorganizing that particular area within the overall scheme of a Muslim's life. In the realm of Islamic Law, the external format of injunctions is not as important as their intent and purpose. The real significance of a jurist's work lies in his ability to focus on the objective of the Law-giver, as well as the wisdom behind a particular law. At times it may happen that acting according to the apparent meaning of a certain ruling (issued in a particular context) may mean losing the very purpose for which that particular ruling was initially given. This goes to show that the application of a rule may vary from situation to situation. This variation must, however, be dictated by the actual aims and objectives of the Law-giver, and not by any personal agenda of the jurist or legislator.

12.3.3 Third prerequisite

The legist must also have a thorough knowledge of the principles of legislation and the style followed by the Law-giver in order to carefully observe these in his legislation. This can be achieved only when one has studied the essentials of the Islamic *Shari'ah* and looked into every injunction in it. How did the Law-giver establish balance and harmony among the rules he gave to humanity? What measures did he take to prevent wrong and secure right? How did he take due care of human nature? On what lines did he reorganize human affairs and how did he subject them to discipline? How did he encourage humans towards their lofty ideals, take into consideration their inherent weaknesses and at the same time, create the necessary facilities for them? All of these aspects need careful study and serious reflection, for which the literal meaning and wisdom of Qur'anic text and Prophet's actions and sayings have to be kept in view.

12.3.4 Fourth prerequisite

The changing circumstances and situations call for modifications or reframing of by-laws, need to be examined in the following two ways. Firstly, we should take note of the exact nature of any change that may have taken place, its essential characteristics and the factors responsible for it. Secondly, we should see these changes from the *Shari'ah* perspective, and frame the necessary amendments in the by-laws to suit the new situation. We can classify these changes into the following two broad categories.

- In category one we may place those changes that take place due to a change in the socio-cultural environment from the natural outcome of the evolutionary process of man's advancements, discoveries, and developments over time. From the point of view of the Islamic Law, these are natural changes which cannot be reversed, nor is it desirable to do so. We are instead required to formulate fresh by-laws, rules, and regulations according to the *Shari'ah's* principles, to cater for such changes taking place in the realms of trade, economy, and finance.
- Under the second category come those changes which are not the natural outcome of the civilizational process of change, but result from the hegemonic control of the capitalist neo-colonialism on the world's trade, economy, and finance. The changes that have taken place as a result of the dominance of the capitalist trend are not natural or real transformations in the eyes of Islamic Law. These are actually sham transformations, which can be effectively wiped out; and this is in fact what is badly needed for humanity's salvation and welfare. We are duty-bound to use all of our intellectual, moral and material resources to remove this repressive system from the world's economic scene and replace it with the benign system of economy and finance bequeathed to us by Islam.

12.4 General rules of exception

The Islamic *Shari'ah* offers sufficient room for relief in exceptional cases and exigencies. Some of the principles of Islamic Jurisprudence are:

الضَّرُورَاتُ تُبِيحُ الْمَحْظُورَاتِ

(‘Exigencies relax the rules.’)

and

الْمَشَقَّةُ تَجْلِبُ التَّيْسِيرَ

(‘Hardship earns relaxation and lets the impermissible become permissible.’)

It is thus an established rule that Islam is for ease and relaxation where there is a hardship. However, this does not mean that it can be made in a routine practice. There are definite rules and regulations for this relaxation, which can be understood when one looks carefully at the exceptions approved by the *Shari'ah*. Among the rules to be observed for exceptions in order to avoid any willful deviation from the established norms of the Islamic Law are:

- The first step is to note the nature of any hardship. Every situation that may appear difficult does not justify a relaxation, otherwise, no law can remain practicable at all.

- Relaxation must necessarily correspond to the level of hardship.
- Thirdly, to prevent harm, no alternative course is permissible that may be either equally or more harmful.
- The fourth rule is to *give priority to repelling the wrong over securing the right*.
- According to the fifth rule, *permission for relaxation ceases to apply once the cause is not there*.

12.5 Relaxation in the case of interest

Let us now see, how far the *Shari'ah* rules can be relaxed in the case of interest and bank loans. One thing is certain: lending money on loans and taking loans on interest are not the same. Circumstances may compel one to take a loan even on interest, but there can be no compulsion for extending a loan on interest. Every necessity cannot be so compelling and unavoidable as to justify taking out interest-based loans. There are plenty of matters which are generally taken as emergency cases but such 'exigencies' have no worth as far as the *Shari'ah* is concerned. An example is lavish spending weddings or funerals. People commit a grave sin who borrow money on interest for such matters. Those who lend to earn interest are the worst losers because they are not only indulging in something forbidden, but they are also serving as the conduit for *Harâm* means. Exceptional cases in the realm of finance for which the *Shari'ah* may consider relaxing its rules are very few. For example, in eventualities like a natural calamity, a situation where someone's life and honour are at stake or where there is a real risk of unbearable loss or irreparable damage, the affected person can obtain a loan on interest if there is nobody to extend him financial help or give him an interest-free loan. The burden of a sin like this actually falls on the well-off Muslims and the entire community because of its failure to establish the Islamic institutions of social security and public welfare, like *Zakâh*, *Sadaqât*, and *Awqâf*. A loan taken on interest should have to be: (i) only as much as is essentially needed for a certain exigency; and (ii) the borrower has to pool whatever resources he can to get rid of it as quickly as possible.

Those who have bank deposits, insurance policies or stakes in a Provident Fund must consider their principal capital alone as their rightful money and are also required to pay *Zakâh* on the principal amount. Secondly, I also do not consider it lawful to leave the amount of interest with these institutions, as this will serve to add strength to their interest-based deals. The best use for this money is to withdraw it and spend it on the needy and indigent of the community. My third point relates to exercising the maximum possible care in order to avoid any profit accruing in financial transactions and business deals which have even a semblance of interest. These relaxations are essentially intended for individuals and can be extended only to those Muslim communities who are under foreign domination, and hence incapable of independently framing their own economic and fiscal policies.