Ethics in Islamic Economics

Abstract

The purpose of this contribution is to shed some light on the inter-relationships between ethics and economics in Islamic religion, and mainly to assert that ethics constitute endogenous phenomena in Islamic economics. In Islam, economic behaviours and transactions cannot be separated from ethics and values. The Islamic principles are intended to govern, direct and control human beings’ behaviours in their daily economic lives. They are aimed at helping people to distinguish between good and bad things while they do any economic activity.

It is worth noting that the moral values in Islamic economics are derived from the main sources of Islam namely: the Quran (the holy book of Islamic religion) and Sunnah (the teachings and behaviours of the prophet of Islam: Muhammad PBUH* 570-632 AD). Both of them represent the principal pillars of Shariah (Islamic laws and guidelines), which is seen by Muslims as the proper way to happiness, not only in economic life but in all aspects of life.

Keywords: Ethics, Islam, Islamic economics

JEL Classification: P40

1. Introduction

Ethics constitutes the cornerstone of Islamic economics. The teachings of Islam aim to enable moral values in all aspects of human life including economic activity. Islam, as a religion, is not restricted to worship – praying and fasting – but

* PBUH: Peace be upon Him.
rather it covers the whole of human life. Islam is seen as a complete way of life since it recognizes both the secular and the spiritual. The following Qur’anic verse states that:

Q2:177 True piety does not consist in turning your faces towards the east or the west - but truly pious is he who believes in God, and the Last Day; and the angels, and revelation, and the prophets; and spends his substance – however much he himself may cherish - it - upon his near of kin, and the orphans, and the needy and the wayfarer, and the beggars, and for the freeing of human beings from bondage and is constant in prayer, and renders the purifying dues; and [truly pious are] they who keep their promises whenever they promise, and are patient in misfortune and hardship and in time of peril: it is they that have proved themselves true, and it is they, they who are conscious of God.

Islamic economics stand primarily on faith and belief. In fact, a Muslim does his economic activities in light of what his religion recommends as guidelines and instructions. He follows the latter because he strongly believes that they help him to distinguish between Good and Bad; between what is allowed and what is forbidden.

Justice, freedom, moderation, compassion and brotherhood are among the values that helps Islam establish itself in the daily life of Muslim society as well as mankind as a whole. To do that, Islamic economics offers a number of alternative instruments that can help attain those values. For example, a Muslim gives periodically Zakat and charity to needy people and orphans, he has to avoid Riba (interest), Israf (extensive use of resources through extravagance) and Iktinez (hoarding wealth)…

This paper intends to shed some light on the role of ethics in Islamic economics; it aims to explore the inter-relationships between moral values and economic behaviours in Muslim society. It focuses equally on of the principle of the ethical endogeneity in the Islamic economics.

2. Islam and Islamic Economics

2.1. Definition of Islam

Islam is a monotheistic religion articulated by the Quran, a book considered by Muslims to be the verbatim word of God (Allah in Arabic) and by the teachings and normative example (called the Sunnah and composed of Hadith) of the prophet Muhammad PBUH (570-632 AD), the last prophet of God. Muslims believe that God is one and incomparable and the purpose of existence is to worship God. Muslims also believe that Islam is the complete and universal version of a primordial faith that was revealed before many times throughout the world, including notably through Adam, Noah, Abraham, Moses and Jesus, whom they consider prophets. They maintain that the previous messages and revelations have been
partially misinterpreted or altered over time, but consider the Arabic Quran to be both the unaltered and the final revelation of God. Religious concepts and practices include the five pillars of Islam, which are basic concepts and obligatory acts of worship, and following Islamic law, which touches on virtually every aspect of life and society, providing guidance on multifarious topics from banking and welfare, to warfare and the environment\(^1\).

Based on official statistics, Islam is the second largest religion in the world. According to the World Network of Religious Futurists, the U.S. Center for World Mission, and the controversial Samuel Huntington, Islam is growing faster numerically than any other religion; this growth is attributed to a higher birth rate, and a higher rate of conversion than other religions. In the U.S., more people convert to Islam than any other faith, especially amongst African Americans\(^2\).

### 2.2. Definition of Islamic economics

According to Hasanuz Zaman, ‘Islamic economics is the knowledge and application of injunctions and rules of the Shariah (Islamic Principles) that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah (God) and society\(^3\).

Islamic economics could be defined also as a branch of knowledge which helps realize human well-being through the allocation and distribution of scarce resources which is in conformity with Islamic teachings without unduly curbing individual freedom or creating continued macroeconomic and ecological imbalances\(^4\).

Based on these definitions, one can define Islamic Economics as the Islamic way and philosophy regarding economic life: It is economics that is governed by Islamic rules and principles which tend to achieve the well-being for individuals and society as a whole.

The Quranic verse denotes that:

\[
\text{[The Prophet] who will enjoin upon them the doing of what is right and forbid them the doing of what is wrong, and make lawful to them the good things of life and forbid them the bad things, and lift from them their burdens and the shackles that were upon them. (Q7:157)}
\]

---

2.3. Main features of Islamic Economics

Islamic Economics is characterized by its own features which make it different from any other kind of economics:

- **It is divine:** Islamic economics is ultimately based on faith and belief because its rules and principles represent the teachings of the Islamic religion. This is also because Muslim people refer to the divine orders when they deal with economic issues; i.e. they obey Allah whenever and wherever they practice any kind of economic activity.

- **It is ethical:** Islamic economics is primarily based on ethics and morale. According to Islam, economics cannot be separated from ethics. This latter is a crucial component of the Islamic philosophy of life, because Islam is primarily an ethical massage from Allah to Mankind. The prophet Muhammad (PBUH) said: ‘I have been sent just to complete the moral values’.

  The link between economics and ethics manifests clearly in different Muslim economic activities such as production, consumption, distribution and so on. For instance, a Muslim cannot produce or consume what is forbidden, like drugs or alcohol since they can damage his health.

- **It is humanistic:** Islamic economics is divine, as pointed out earlier, but at the same time it is humanistic and there is no contradiction between these two features; while the sources of Islamic economics are basically the Quran and Sunnah, their teachings are a priori addressed to a human being who is both the means and the end of them.

  The humanistic aspect of Islamic economics is represented in a set of values which have been highlighted by Islam such as: Freedom, Justice, Brotherhood, cooperation, compassion, private ownership, dignity and so on.

- **It is moderate:** the spirit of Islamic economics is the principle of moderation and equilibrium. In fact, the Islamic economic system mediates capitalism and socialism. While capitalism, for instance, places a great importance on the individual rather than society, socialism, by contrast, reverses the picture. Islam aims to make equilibrium between the individual and society; it allows both private and public ownership.

2.4. The rise of Islamic Economics

Nowadays, the Islamic economic model is in vogue not only in Muslim countries but even in non-Muslim ones. The most evolving part of Islamic economics is especially Islamic finance. In this framework,

---

global Islamic financial assets have soared from less than $600 billion in 2007 to more than $1.3 trillion in 2012, an expansion rooted in the growing pool of financial assets in Muslim-majority countries driven by consumer demand for products that comply with religious codes. Assets are concentrated in the Muslim countries of the Middle East and Southeast Asia, but the sector appears poised to enter Western markets and complement conventional financing. Prime Minister David Cameron announced in 2013 that the United Kingdom will issue a £200 million ($327 million) Islamic bond, or Sukuk (Islamic Bonds), making it the first non-Muslim country to tap into Islamic financing. Companies in the United States are also considering Islamic finance to fund business ventures and infrastructure projects. Demand for new Islamic investments is expected to outstrip supply by as much as $100 billion by 2015, an imbalance that could translate to much-needed liquidity in some tight markets. But the industry remains small and will need to expand considerably to have a significant impact on global financial markets.

Islamic banks are the main providers of Shariah-compliant services and are being entrusted with the majority of Islamic capital/financial assets, which likewise makes financial stability dependent on their success. Islamic banking has been the major driver of industry growth over the past decade, taking the largest share of financial assets. Assets with Islamic banks and Islamic banking windows grew at a compound annual growth rate (CAGR) of 40.3% between 2004 and 2011 to reach USD1.1 trillion:

Figure 1. Islamic banking assets growth trend


3. Ethical endogeneity in Islamic Economics

The Islamic economic system is perhaps the only known social order that has strong features of ethical endogeneity. This is due to the unique goals and principles of this system and the set of endowed policy instruments for attaining these goals.

---


In fact, ethics are an endogenous component of Islamic economics since they represent the fundamental pillars on which it stands. Unlike other economic systems, the Islamic economic system relies on the religious teachings that constitute an eternal ethical structure. Therefore, it is often described as an ethico-economic system. The latter represents today the scope of the study of so-called *Humanomics*. Nienhaus observes the following:

> While Western economists have tended to withhold value judgments and have only begun to return to the treatment of normative questions in the last few years, Islamic economics, in contrast, has always defined itself as a science which makes explicit value judgments and links them to the findings of positive economics.

The figure below illustrates a synthesized view of the inter-relationships between Principles and financial Instruments in an Islamic Economy. The main Islamic principles are namely Unity of God, belief in the Hereafter, and God’s ownership of the universe. But for financial instruments, Islamic teachings contain many of them. In the holy *Quran*, one fifth of its verses are devoted to *Muaamalat* (transactions).

Figure 2. Ethical endogeneity in Islamic economics

---

Figure 2 shows how moral values work within the Islamic economic system. It is worth noting that the principal of Belief constitutes the cornerstone in Islamic economics. The spiritual factor is strongly present in Muslim daily life in general and in its economic activities in particular. Since Muslims believe that Allah (God) is one and that He is the only creator of the universe including human beings, so they must obey what their creator, Allah, asked them to do. In Islam, all the guidelines and orders aim to establish a better life that stands on morals and ethics; humankind cannot live happily in this world without divine teachings.

Meanwhile, every Muslim knows that there will be a hereafter (life beyond death) where he will be asked and judged. If he neglects the divine orders in his life, he will be punished. This evidence spurs Muslims to behave correctly in their economic activities according to the Islamic guidelines. They will be committed to do only what is good and avoid all that is bad.

The Quranic verse attests ‘Allah (God) commands justice, the doing of good, and generosity to fellow men, and He forbids all shameful deeds, and injustice and rebellion’. \( (Q16:90) \)

### 4. Islamic Principles

#### 4.1 The Unity of God:

In Islam, God (Allah) is one; he is the creator of human being and all things in this universe. Therefore, people have to obey His orders. All economic activities should follow the orders of Allah including ownership, working time, modes of work, etc.\(^9\)

#### 4.2 God's ownership of the universe

This principle is related to the preceding one since the unity of God implies that all that exists in this universe belongs to God. Indeed, He is the real owner of all creatures. Although human beings are part of this latter group, they have to behave in conformity with the teachings of God’s holy book (the Quran). Allah says in His holy book that:

\[
\text{He created the heavens and the earth in true (proportions). He makes the night overlap the day and the day overlap the night. He has subjected the sun and the moon (to His law). Each one follows a course for a time appointed. Is not He the Exalted in Power-He Who forgives again and again. (Az-zumar 39:5)}
\]

4.3 Belief in the hereafter

Muslim people believe in the hereafter* and they know that they will be questioned and judged about everything they have done in their lives; have they followed God’s teachings or not? This principle helps people avoid bad behaviours and commit to good ones in practice, and hence maintain values in society. Thus, people will not be punished but rather will enter paradise.

The following instruments are derived from the Islamic sources and every Muslim has to apply them in his economic life. Besides, the state is invited to play its role in order to maintain values in society:

**Zakat**: it is one of the five pillars of Islam, as well as a pillar of public finance for an Islamic state. It is an annual payment ranging from 2.5 per cent to 20 per cent of the value of specified types of property owned by the wealthy, with the primary object of alleviating poverty. It is a clear illustration of the use of wealth to pursue spiritual goals, since it is explicitly intended to create sympathy with and compassion for the poor amongst the wealthy.  

**Mirath** (inheritance): Islam has not left the distribution of inheritance to the whims of a person. In Islam a person cannot favour one relation over another for temporary or subjective reasons as is the rule in the West. Islam distributes inheritable property among several groups of people: a) children, b) husband/wife, c) parents, d) brothers and sisters in certain situations.

**Abolition of Riba** (interest): is defined as an increase, which in a loan transaction or in exchange of a commodity accrues to the owner (lender) without giving an equivalent counter value or recompense in return to the other party. It covers interest both on commercial and consumer loans, and is prohibited according to Islam.  

The Quran states:

> Believers, have fear of God and waive what is still due to you from Riba, if your faith be true; or be warned of war declared against you by God and His Messenger. If you repent, you have the right to your capital sums (principal), suffering no loss and causing loss to none. (2:275–279)

**Charity**: Islam stimulates Muslims spend money in order to help the needy, Muslim or non-Muslim. The charity is a powerful tool to enable social coherence and brotherhood. It helps tackling inequality within society. The Quran mentions charity in many places among which is the following verse: ‘(Allah will help) Those who, if We give them power in the land, establish regular prayer and give regular charity, enjoin the right and forbid wrong’ (Q22:41).

---

* It is called also the Day of Judgment and the last day: it is life after death.
Also, the Quran states: ‘Spend your wealth for the cause of Allah (God), and be not cast by your hands to ruin; and do good. Lo! Allah loveth the beneficent’ (Al-Baqarah (2): 195).

**Islamic finance:** As an alternative to *Riba*, Islamic economics offers many financial instruments that can fund economic activities with equitable and fair results. Among these instruments, there are *Murabaha, Mudaraba, Musharaka, Qard al hasan and Ijara* (see table below). In this context, Islamic Banking can play a major role in enabling these instruments. Islamic finance is unique because it can fund only productive activities that contribute to the creation of wealth. Also, Islamic finance cannot fund forbidden activities such as drug and cigarette production, since they damage health, or any activity that can damage the environment.

Table 1. Islamic financial instruments

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Murabaha</em> (cost plus financing)</td>
<td>This is a contract sale between the bank and its client for the sale of goods at a price, which includes a profit margin agreed by both parties.</td>
</tr>
<tr>
<td><em>Mudaraba</em> (trust financing)</td>
<td>This is an agreement made between two parties: one, which provides 100 per cent of the capital for the project, and another party manages the project using his entrepreneurial skills.</td>
</tr>
<tr>
<td><em>Musharaka</em> (partnership financing)</td>
<td>This Islamic financing technique involves a partnership between two parties who both provide capital towards the financing of the project.</td>
</tr>
<tr>
<td><em>Qard al hasan</em> (good loan)</td>
<td>An interest-free loan given either for welfare purposes or for bridging short-term funding requirements. The borrower is required to pay back only the amount borrowed.</td>
</tr>
<tr>
<td><em>Ijara</em> (leasing)</td>
<td>A contract under which a bank buys and leases out fora fee equipment required by its client.</td>
</tr>
</tbody>
</table>


4.4 **The economic role of the state**

The state in Islamic economics is committed to implementing and maintaining ethics in society. For instance, the state is responsible for gathering *Zakat* and distributing it in favour of the needy. Also, it has to ban and prevent dealing with *Riba* among people and firms. The state is responsible for supervising and controlling the market. It has equally to intervene in order to avoid monopoly and injury. To sum up, the state must play its ‘educative’ role as well as its other roles.\(^\text{12}\)

---
5. Conclusion

Since Islamic economics stems from the religious teachings of Islam, so its main objective is a priori to establish an economic life that stands on moral values. In other words, Islamic economics without ethics would be vain and meaningless. This evidence suggests that ethics are ultimately endogenous in the Islamic economics and they could never be separated from each other. Therefore, Islamic economics is obviously different from Western economics, which considers ethics as exogenous phenomena; Milton freeman, for instance, has strongly argued in favour of economic science being independent of value judgments and ethical values.

The values that Islamic economics tends to realize in economic life are indeed universal, like justice, freedom and brotherhood, but its instruments are unique and specific. It offers a variety of instruments such as Zakat, Mirath, Israf, Iktinez and a ban on Riba. Furthermore, it presents alternatives to finance projects such as Murabaha, Musharaka, Mudarabah and Ijar. They are intended to make all economic behaviors basically ethical.

In summation, the purpose of Islamic religion in economic field is to show clearly the right and the wrong way. Therefore, Muslims are called and recommended to follow the former and to avoid the latter in order to live happily while they exercise their daily economic activities.

References

Quran (The holy book).


