

Institutions in the Economic System of Islam

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In this article, the set of institutions which embody the form and contents of the economic system of Islam is introduced. By institutions, it is meant the economic freedoms, the government, ownership, motivation, the mechanism for coordinating economic activities, power, organization and bureaucracy. After explaining Islam's outlook regarding these institutions, the form and the contents of this system are introduced to some extent in a manner that its outcome is not rendered incompatible with the spirit that religion aims to establish on the pillars of the social system.

1. Introduction:

We start our debate by defining economic freedoms. It must be said that man in the economic system of Islam, whether he is a consumer, producer, or owner of the factors of production, is free from any restrictions except for the rules and criteria that attach him to God, bonds that are equal to freedom. According to the great jurists of Islam, in the framework of causality, man plays the role of an independent element, that is an element who has the choice to adopt or abandon a deed. In other words, a man's deed stems from his wish and full satisfaction as well as the consent of his discernment faculty. And nothing forces him to act against his will, desire, consent and

discernment, neither fate nor any other factor.¹

Verses from the Holy Qoran which speak of man's option to decide his own fate, indicate that a change in the social status of any nation would depend on the decision of that very nation² and that the oppression inflicted on human beings originates in their own deed³. To guide man, showing him the way and leaving him with the option, to choose the path⁴, the adoption of faith or blasphemy and attributing them to man⁵ himself, as well as an explanation of the concept that it is man's bad deed which causes corruption⁶, indicates that man, with his free will, defines himself. It is assumed that man would not enjoy any unknown and pre-determined restriction in employing the factors of production he possesses, and would use his land or capital resources in any form and for production of any goods or services which would not be incompatible with his monotheistic world view. In doing so, he would

1. Morteza Motahhari, Man and Fate, Enteshar Publications, p. 60.

2. Sura: Ra'd, Ayat: 11 "Verily never will God change the condition of a people until they change it themselves."

3. Sura: Ankabut , Ayat: 40

"..It was not God who injured (or oppressed) them: They injured (and oppressed) their own souls."

4. Sura: Dahr, Ayat: 3

"We showed him the way: Whether he be grateful or ungrateful (rests on his will)."

5. Sura: Kahf, Ayat: 29

"...Let him who will, believe, and let him who will, reject..."

6. Sura: Rum, Ayat: 41

"Mischief has appeared on land and sea because of (the need) that the hands of men have earned..."

observe the rule of God's worship according to the presumption⁷, and would make an arrangement that his participation in the production process brings him satisfaction and ambition.

Owners of the labor force freely select their desired jobs which basically take place in accordance with society's needs and in this manner, no Muslim would be forced to work unwillingly.

The psychologically important point is that people have a devotional and emotional concern for rendering positive services to other creatures of God. Therefore, in choosing their involvement in any activity, they select jobs which are compatible with the demand for the labor skills specific to the chosen jobs and professions... At the same time, since man enjoys full freedom, any doubt regarding the urgency of engaging in pre-determined economic activities whose outcome might be opposed to his independent view, would be out of the question. The Almighty's guidance for migration on Allah's spacious earth⁸ when social, economic and other types of difficulties prevent the fulfillment of man's obligations, also attest to the fact that no human being is forced to accept imposed conditions. In other words, he has full free will in choosing his profession and its location. To make this optimal job selection possible for individuals, there is a need for complete information regarding production resources, demand, technology,

7. Sura: Zariyat, Ayat: 56

"I have only created jinns and men, that they may serve me."

8. Sura: Nisaa, Ayat: 97

"When angels take the souls of those who die in sign against their souls, they say: 'In what (plight) ye?' They reply: 'Weak and oppressed were we in the earth.' They say: 'Was not the earth of God spacious enough for you to move yourselves away (from evil)?' Such men will find their abode in Hell, - What an evil refuge! --"

pricing etc. After carefully taking these factors into consideration, man enters the labor force and selects his profession and location. The employment of capital and the use of nature, technology, management and the production method in view of the type of technology too find their justification.

Man has the freedom to spend income he earns from his production in the form of wages, rentals, and profits⁹ (not interest), or his other sources of income and wealth in his preferred manner after paying the Islamic levy which he is obligated to pay on certain goods and services. In doing so, there is no restriction in sight which could disrupt his freedom. A committed and faithful man who settles down in an atmosphere of religious domain and thought and who believes in the principle of monotheism and the mutual responsibility of creatures, would not indulge in expenditures incompatible with his beliefs and convictions. In other words, while living a free life, he spends his income in compliance with his religious aspirations and beliefs.

The presumed freedom of the Muslim man would also be a guide in the path he chooses in selecting the type of consumer goods (durable and non-durable), capital goods, housing, profession, or how to allocate time for leisure and rest. He takes into account that such costs bring him closer towards carrying out his obligatory divine duties. The aim of these expenditures is to prepare him for fulfilling the role he has been

9. Profit (not interest), Sura: Baqara, Ayat: 278

"Ye who believe! Fear God, and give up what remains of your demand for usury, if ye are indeed believers."

Ayat: 279

"If ye do it not, take notice of war from God and His Apostle: But if ye turn back, ye shall have your capital sums: Deal not unjustly, and ye shall not be dealt with unjustly."

assigned. Therefore, the expenditures and the choice of profession and whatever that relates to man's free will in the economic and social life, is automatically separated from cases that religious texts have advised Muslims to abstain.¹⁰

Man's freedom in production or consumption will also automatically remove the conflicts which may emerge between the interests of the individual and society.¹¹ In other words, observing freedom in the area of religious belief would neither damage the principle of man's responsibility towards life nor would be incompatible with the general trend in society.

2. The Islamic State and Economic System

It was said that man is guided by the Creator through the prophets and the Imams and that earth is not devoid of God's evidence.¹² In the stated theory of Islam, the leader of the Islamic society enjoys extensive flexibility and administers the affairs at the top of the pyramid of power through a group of trusted authorities. Of course, there are clear discussions concerning the question as to who are the leaders or Imams of the Islamic society or the Islamic state in each era and we have no

10. Suras: Baqara, Ayats: 20, 219

Maida, Ayat: 90

Qasas, Ayat: 58

Hud, Ayat: 116

Bani Isra-il, Ayat: 16.

11. Safinatol Bahar, Vol. 1, p. 654, quoting 'Economic Messages of the Quran', p. 202.

12. Usul al-Kafi, Vol. 1, p. 334.

intention to discuss them here¹³. But overall it is believed that after the era of the immaculate Imams (peace be upon them) and until the advent of Hazrat Mahdi (PBUH)¹⁴, the Islamic society should be run by a government based on what Hazrat Mahdi (PBUH) has recommended.

It can be said that the main duty of the Islamic state is the administration of justice¹⁵ - the fulfillment of which has been initiated through the apparition of the divine prophets and observed in the manner and tradition of the immaculate Imams (PBUH). Great emphasis is placed on the execution of justice and equity.¹⁶ Those who act equitably are loved by Allah¹⁷ whereas painful chastisement is

13. Sura: Nisaa, Ayat: 59.

. "O ye who believe! Obey God, and obey the apostle, and those charged with authority among you..."

14. Vasael al-Shia, Vol. 18, p. 101.

15. Sura: Hadid, Ayat: 25

"We sent aforetime our apostles with clear signs and sent down with them with Book and the balance (of right and wrong), that men may stand forth in justice;..."

16. Sura: Nisaa, Ayat: 135

"Ye who believe! Stand out firmly for justice, as witnesses to God, even as against yourselves, or your parents, or your kin and whether it be (against) rich or poor: For God can best protect both. Follow not the lusts (of your hearts), lest ye swerve..."

Maida, Ayat: 8

"O ye who believe! Stand out firmly for God, as witnesses to fair dealing..."

17. . Sura: Hujurat, Ayat: 9

"...Be fair: For God loves those who are fair (and just)."

assigned to those who slay the ones who enjoy¹⁸ justice. This all indicates the significance of justice in the Islamic state. In an approach attributed to Imam Ali (PBUH), the goal of sovereignty has been described as administration of equity and rejection of falsehood¹⁹ and restoration of the rights of the poor from the rich²⁰. Imam Ali (PBUH) himself sees sovereignty as carrying out God's promise by the ulama to institutionalize justice and do away with oppression²¹. It is also believed that justice and equity will be established on earth²² at the time of Imam Mahdi (PBUH) and that great man would seek to revenge the blood of all those killed unjustly in the course of history. If we define equity as placing everything in its right place²³, then we may conclude that the duty of the Islamic government would be fulfilled through putting everything in its right place. Observing this equity, in our opinion, is to perfect any potential skills²⁴ and resources created in this world. The duty of the state is to administer the affairs in a manner that all creatures attain the main goals for which they were created. In this way, the role of the state in the economic system can be sought in the

18. Sura: Al-e Imran, Ayat: 21

"...And slay those who teach just dealing with mankind, announce to them a grievous penalty."

19. Nahjul Balagha, p. 165, Mobashaeri, Chapter 1, Part 1.

20. Nahjul Balagha, p. 29, Chapters 2 & 3.

21. Nahjul Balagha, Shaqshaqiya sermon (sermon 3). See also Abdolfattah Abdolmaqsoud, Ali, Peace be Upon Him, Vol. 7, 'System of Equity', and George Jordaq, Imam Ali, the Voice of Human Justice, Vol. 5.

22. Al-Hayat, Vol. 5, p. 185.

23. Al-Hayat, Vol. 6, p. 412.

24. Reflections on Nahjul Balagha, Morteza Motahhari, p. 111.

creation of justice.

When a society comprised of free and Muslim people is created, the state should maintain its constant presence in the economic scene (either in the form of production or consumption) in order to arrange for the members of society and society as a whole to attain their prescribed goals. There seems to be no difference whether the constant presence of the state is in the public or private sector's economic activities. The Islamic state, by pursuing the objective of institutionalizing justice and equity in society, justifies its presence. It enjoys extensive authority in fulfilling this presence²⁵, including expropriation of people's possessions (if necessary)²⁶. Therefore, the Islamic state has every right to supervise and interfere. To sum it up, the state has the right to be present in all aspects of economic life. This is to insure that the resources used for production are allocated appropriately, distribution in society is done properly, economic instability and imbalances are checked, and possible bottlenecks and impediments are removed. In view of the fact that the main criterion is the establishment of justice, equity and balance²⁷ among people, justice and obeying the divine laws are sources of stability of states.²⁸ Principally the world's stability depends on justice²⁹, therefore, no definite limit can be set for the Islamic state to carry out its duties. The general trend of the Islamic community which is the result of the pledge, action and manner of Muslims and whose affairs are administered by them in full

25. Sovereignty in Islam, p. 411.

26. Imam Khomeini.

27. Al-Hayat, Vol. 6, p. 310.

28. Imam Ali (PBUH), "Justice is to obey divine laws and pillar of stability of governments," Ghorar ul-Hekam, p. 226, and Al-Hayat, Vol. 6, p. 33.

29. Al-Hayat, Vol. 6, p. 331.

liberty, is such that the state's direct intervention is never required. This, however, does not mean that the state has no obligation to authorize or close down institutions that are not in line with the distribution of equity.

It goes without saying that general policy-making for fulfilling the goals of the Islamic state enjoys deep stability stemming from recognition of the status quo. At the same time it functions to provide grounds for revealing people's talents and creativity. The people whom alongside the state have a duty to enjoy the good and to forbid indecency to the extent that if the ruler and the state deviate from their goal of attaining justice, the people's duty is not negated³⁰.

Despite what was said concerning the freedom of man and in view of the all-embracing assignments of the Islamic government, no problems seem to emerge on the way of understanding the nobility attributed to the individual and society. If possible problems should arise in this respect, it has to be added that society from the Islamic viewpoint is a real compound of the type of natural compounds. What is meant here is the composition of spirit, thought, affection, determination, and finally cultural composition rather than bodily composition... . Every human being who enters society with innate and acquired (from nature) resources and capital is merged spiritually and finds a new spiritual identity described as "group spirit"³¹. According to the theory of society being a real compound, both the individual and society are genuine. Nobility is individual from the point that the existence of members of society (individual) is not regarded diluted in society's entity and single entity like chemical compounds is considered for society. Nobility is social³² since each individual's spiritual,

30. Reference to Caliph Omar and his sword.

31. Society and History, Morteza Motahhari, p. 18.

32. Suras: A'raf, Ayat: 34.

intellectual, and sentimental composition is viewed as the chemical compound type so that individuals find new identity in society. This new identity is equal to society's identity since society has no separate identity. Of course, it must be noted that the expression of society being a real compound does not mean that its members should necessarily be created³³. When the individual is responsible, he is both responsible to himself and society³⁴. Enjoying the good and forbidding indecency is an order to the individual to stand against corruption and vandalism in society³⁵. But philosophically, since all the real compounds are not identical, the members of society enjoy relatively great independence as society is the most advanced of all creatures.

In conclusion it can be said that human beings as members of society enjoy intelligence and innate will-power which take precedence to their social entity and, therefore, their individual life is not subject to society or collective life.³⁶ Nonetheless, whatever are the interests of the Islamic society, the Islamic state is authorized to treat the preservation of Islamic sovereignty and justice before all other rules including daily prayers, fasting and hajj (pilgrimage). The state has the right³⁷ to unilaterally abrogate the religious agreements it has concluded with people should it find them against the interests of Islam and the country. In our opinion, the flexibility of such principles and the observation of

Jathiya, Ayat: 28

Mu-min, Ayat: 5

33. Ibid, p. 33.

34. All of you are shepherd and responsible, Ershad al-Qolub, p. 257.

35. Society and History, p. 33.

36. Ibid, p. 34.

37. Imam Khomeini in his letter to Ayatollah Khamenei (Jan. 6, 1988).

unity in multiplicity and of multiplicity in unity³⁸ between the individual and society is an optimal relationship.

3. Ownership of Factors of Production:

The question of who has the right to own and employ the factors of production, including natural resources, labor, and capital is a basic debate in any economic system. Knowledge regarding the rights and manner of ownership of the factors of production is in fact the basic determinant of the distribution of income and wealth. Given the principle of freedom of economic agents in production and consumption activities and the state's presence which serves the interests of society, the economic system in Islam is based on various kinds of ownership of production factors which will be discussed separately:

1. Private Ownership: Anyone is permitted to be the conventional owner of one or all production factors through one's efforts³⁹ and in any other way that divine religion has recognized as lawful⁴⁰. There are no limits except for

38. History and Society. p. 35.

39. Sura: Najm, Ayat: 39

"That man can have nothing but what he strives for."

40. Sura: Baqara, Ayat: 180

"It is prescribed, when death approaches any of you, if he leaves any goods, that he make a bequest to parents and next of kin, according to reasonable usage; This is due from the God-fearing."

Sura: Nisaa, Ayat: 7

"From what is left by parents and those nearest related there is a share for

those limits which if absent will cause conflict between private and social interests. The ownership which has been obtained in accordance with the criteria and regulations of Islam requires the owner to observe all aspects of its utilization and deployment as required by religious laws⁴¹. Also the infallible Imams are quoted as saying that if someone is killed for preserving his property, he should be regarded as a martyr⁴².

Therefore, while observing the criteria mentioned in the religious principles of Islam, a Muslim can own land, mines, water and energy resources.⁴³ The result of his ownership of nature is capital goods.

People are owners of their labor and can use it in any economic activity compatible with the interests of society, whether these activities serve themselves or others reap the benefits of their participation in production of goods and services⁴⁴. Furthermore, the profit of capitalists

men and a share for women, whether the property be small or large, __ a determinate share."

41. Imam Reza (PBUH) says: God is the real owner of people and properties and other things, and what people own are borrowed, Al-Hayat, Vol. 3, p. 68.

42. The Prophet (PBUH) says: Respecting the property of the faithful is equal to respecting his blood, Al-Hayat, Vol. 3, p. 158.

43. Imam Reza (PBUH) says: That who is slayed for protecting of the faithful is equal to respecting his blood, Al-Hayat, Vol. 3, p. 158.

Imam Reza (PBUH) says: That who is slayed for protecting his own property is a martyr, Tohaf ul-Oqul, p. 309.

44. Sura: Nisaa, Ayat: 32

will remain in the possession of the owner through participation in economic activities⁴⁵.

Since it is likely that everyone is unable to own a factor or factors of production, people have been given the right to participate in economic activities on the basis of religious criteria⁴⁶ and earn the income and benefits according to the rules. Therefore, this kind of private ownership, whether individually or collectively, of production factors is accepted by the economic system of Islam.

2. State ownership: Distinctly, the Islamic state is the primary owner of nature which here means the earth and whatever exists on it and, therefore, owner of lands seized in wars against unbelievers as well as wastelands, unowned uncultivated and cultivated land, mines and seas, in addition to a category which is mentioned under the title of 'Anfal'⁴⁷. Of course, according to the criteria which are set forth for

"...To men is allotted what they earn, and to women what they earn: But ask God of his bounty. For God hath full knowledge of all things.."

45. Capital goods through gaining profit and cash capital through participation in activities such as commercial operations and sharing the profit, step into the game of production, Tahrir ul-Vasilleh, Imam Khomeini, Vol. 1, pp 621, 638, 645 and 573.

46. Tahrir ul-Vasilleh, Vol. 1, pp 626 and 627, and also Surah Nissa, Verse 12.

47. Sura: Anfal, Ayat: 1

"They ask thee concerning (things taken as) spoils of war. Say: '(Such) spoils are at the disposal of God and the Apostle: So fear God, and keep straight the relations between yourselves: Obey God and His Apostle, if ye do believe'."

the establishment of ownership, people can take actions and therefore take hold of instances or parts of what is under the possession of the state⁴⁸ and, thus, bring the productive factor initially held by the government under the control of the individual or group. Furthermore, the Islamic state's ownership of capital goods and the resulting profits is recognized officially and, therefore, whatever the benefits of the economic system in general and/or the Islamic system in particular require, the state can set forth and validate its holding on capital through exchange or other procedures such as transfer of private ownership of capital to state ownership and so forth.

The various types of ownership in the Islamic economic system can be considered as flexible so that there exists the possibility of transferring private ownership of production to state ownership or vice-versa according to circumstances and needs as well as the benefits of the Islamic society. In this way, the necessary means exist for the private and government sectors to control production, taking into account that man or the Islamic society are the conventional owners of these production devices and, therefore, the accountability of the manner of their utilization as well as the resulting impacts and responsibilities lie with them.

48. It must be noted that despite the different interpretations of the great Muslim religious jurists over, say, land ownership, it would not change the economic impacts of the issue. In other words, it would make no difference whether a person is the owner of land without possessing it or is given the concession to exploit it.

The Islamic state provides the required labor force by creating appropriate motives which will be defined separately, and, therefore, state ownership of the labor force becomes meaningful.

4. Motives:

One of the most important and valuable institutions in any economic system is the quality of motives of economic activities. The point is that what makes economic agents enter the production and consumption scene and what is the engine of such economic activities. From our point of view, the answer to this question which is rooted in the soul, mind, beliefs and at the same time the needs and objective desires of mankind, cannot be determined easily nor is easy to define clearly their individual share. Nevertheless, with regards to the traditions and laws which dominate the existence, as well as taking into account the viewpoints, the beliefs and the world view of the Muslim man, the following motives can be mentioned as the incentives behind economic activities in the Islamic economic system:

- 1. Value motive:** Being sure about the origin of creation and the Resurrection Day, the faithful and religious people consider it their primary duty to tread the path of securing the goals which comply with their creation⁴⁹ and make their evolution possible and meaningful through various means including the contribution they make to the production of goods and services. In this context, materialization of the ideals and goals of the

49. Sura: Zariyat, Ayat: 56

"I have only created jinns and men that they may serve Me."

Islamic system (which we summarized in the term 'justice') in addition to the achievement of the goals designed for the economic system can be regarded as a value incentive for any Muslim -- a motive according to which people make utmost efforts to provide the preliminaries for building a society in which Muslims would be revered. They believe that attempting to meet the demands and needs of people would bring them security Hereafter⁵⁰. A set of moral beliefs and information about the conduct of the Imams (peace be upon them) will confirm this strong value motive in the economic scene. Numerous recommendations made to the principle of infaq⁵¹ require that before carrying it out, one should make economic efforts. In other words, infaq, and the donation of properties to fulfill activities serving society require possession of assets which are themselves accumulated through economic activity. Sadaqeh or voluntary Islamic charity which is greatly encouraged in Islam is another strong value motive for performing economic activities because the believer in this manner ensures

50. Bahar ul-Anwar, Vol. 74, p. 319, Imam Kazem (PBUH) says: God has creatures on earth who endeavor towards meeting the people's needs, they are safe and sound on the Resurrection Day.

51. Sura: Baqara, Ayat: 261

"In the way of God is that of a grain of corn: It groweth seven ears, and each ear hath a hundred grains. God giveth manifold increase to whom He pleaseth: and God creath for all and He knoweth all things."

permanent reward for himself⁵² by donating to charity.

**Financial
motive:**

Despite the extensive emphasis placed on revealing value motives, Islam has never been ignorant of the financial motives. In our opinion, Islam has instead taken financial motives into serious consideration. It can be said that Islam has paid due attention to the delicacy and subtlety of the human soul and has not made any recommendations contrary to it. The importance of the role Islam assigns financial motives is mixed with value motives devoted to worship and, therefore, while Islam authorizes paying attention to it, it encourages the Muslim towards value interests. Earning a living⁵³ lawfully is considered the best of the 70 parts of the prayer. Man can quickly cross the Sirat (a kind of bridge which the righteous can only cross on the road to paradise).⁵⁴ He is viewed as a mujahid in the path of God at the time he is striving to make a living for his family⁵⁵. In fact the best grounds have been provided for creation of motives for economic activities of Muslims. It has been also said that earning a livelihood by a person places him in the category of the prophets and he would, thereby,

52. Al-Tahzib, Vol. 6, p. 326, Imam Ali (PBUH) freed one thousand slaves with the revenue he earned from working.

53. Bahar ul-Anwar, Vol. 103, p. 7.

54. Bahar ul-Anwar, Vol. 103, p. 9.

55. Bahar ul-Anwar, Vol. 103, p. 13.

receive spiritual reward.⁵⁶

By acknowledging both value and financial motives and by executing certain regulations and criteria in cases that people are required to enter into some economic activity, the economic system of Islam regulates the engine of economic activities. The use of force and the sovereign power can also be set forth among the mentioned motives as one applicable in periods of time and certain places. Therefore, it is thoroughly conceivable that owners of good skills or holders of production factors ask for wages proportional to the characteristics of their productive facilities. Since what is expected is for people to organize their activities in order to obtain profits. Acquiring financial rewards includes also gaining spiritual benefits. Therefore, while innate demands of mankind are respected, society and the individual would automatically be immune from the consequences of individual interests without taking into account the interests of society⁵⁷. In fact, Islam shapes and directs man's interests in a receptacle of restrictions and criteria of the shar' (divine law) in order to supply, produce and offer the goods and services needed by society. The outcome of the combination of spiritual and financial aspects in the mental context of Islam is the introduction of a strong "voluntary" element in the economic conduct of man because the reasons for economic growth are not only financial but spiritual as well. There is no need to mention that when financial and spiritual powers

56. Al-Hayat, Vol. 5, p. 296.

57. Sura: Al-Imran, Ayat: 14

"Fair in the eyes of men is the love of things they covet: Women and sons; heaped-up hoards of gold and silver; mares branded (for blood and excellence); and (wealth of) cattle and well-tilled land. Such as the possessions of this world's life; but in nearness to God is the best of the goals (to return to)."

are mixed, they act stronger even if the goal is to attain material objectives⁵⁸.

5. The Mechanism For Coordinating Economic Activities

We referred to a Muslim as an economic factor who decides freely what job to choose or how to supply production resources in his possession. We also introduced the state as an institution which deals with domestic issues to insure that the economic system is compatible with judicial criteria. Now we should specify precisely the mechanism that coordinates activities of millions of free people or firms engaged in producing goods and services without having any organic links with one another. In other words, the question is what mechanism in the economic system of Islam allocates scarce economic resources for various uses?⁵⁹ Considering the economic freedom enjoyed by people and firms, it seems that an automatic linkage between the demands⁶⁰ of consumers and the derived demand⁶¹ of the owners of economic firms set up to meet the consumers' needs and allocate resources is logical. In other words, supply can play its role only in meeting demand and, therefore, it is demand that brings supply into existence.

To explain the issue, it is necessary to pay attention to the freedom

58. Ethics and Economy in Islam, Professor Haidar Naqavi, Translated by Hassan Tavanayan.

59. Allocation of resources.

60. In demand both the elements of desire and or purchasing power are taken into account.

61. Derived Demand.

of consumers in spending their income and wealth based on their beliefs and the value system of Islam and also to take into account the suppliers of goods who, either because of value or financial motives which themselves are somehow linked with social values, are producing and supplying the requested commodities and services. To this end, the satisfaction of both parties involved indicates⁶² the proper function of the market. The idea that supply creates demand cannot be of much value in the economic system of Islam because when a supplier commits himself not to violate his beliefs when allotting production possibilities, he will never launch false advertisements in a bid to increase demands for his goods and services. Of course, favorable coordination depends on the information services rendered by the state and on the so-called transparency of the market, a measure by which both consumers and producers have been recommended to abide by⁶³ and which can be considered among the duties of the state. This is because the state's presence is in line with fulfilling its duties which include providing information to producers and consumers.

Arrangements devised by producers to expand output of goods when there is demand,⁶⁴ and treating customers equally as regards the

62. Imam Khomeini says in *Tahrir ul-Vassileh*, Vol. 1, p. 507 that puberty, intelligence, the intention to make a deal, authority and freedom of action, not banning possession and ownership are among the conditions of buyer and seller.

63. Imam Khomeini, in pp 501 of *Tahrir ul-Vasilleh*, explains some points which are religiously abominable as regards business and trade, such as exaggeration by the seller in praising his goods, finding fault of the customer with the goods, etc.

64. *Tahrir ul-Vasilleh*, Imam Khomeini, Vol. 1, p. 501, hoarding and storing

prices of goods, supplying goods at lower prices to people of merit, namely the scientific, virtuous, and religious⁶⁵, emphasis on taking profits from the believers as much as necessary⁶⁶, considering as unlawful purchase at a higher price an item another person intends to buy⁶⁷ (except in tenders), all prompt the market to automatically organize allocation of resources through supply and demand on the basis of appropriate gradients that these beliefs create. In other words, it is the pricing system that acts as the coordinating mechanism between economic activities.

It seems that by taking into consideration the circumstances governing the behavior of producers and consumers, many of the issues which may arise in small scale economic activities as shortcomings and flaws of the market, will not happen in the economic system of Islam⁶⁸. In the meantime with regards to the role the presence of the Islamic government plays and its direct and indirect policy-making authority concerning the economic organization of society, all possible shortcomings of the pricing system would be eliminated.

In addition to its planning in areas relating to public goods, the state will make large-scale individual investments in areas ignored by the private sector or in areas which society benefits as a whole such as in areas where monopolies would develop because of huge fixed costs or economic and social infrastructure requirements.

The compatibility of the pricing system and the state's planning in

up foodstuffs needed by Muslims with the intention to sell them at higher prices, is religiously forbidden.

65. Ibid, Vol. 1, p. 500.

66. Ibid, Vol. 1, p. 501.

67. Ibid.

68. Economics, Samuelson, Eleventh Edition, p. 41

the economic system of Islam and the complete flexibility in implementing the policies due to the state's presence in the economic scene which may vary from complete interference to passive observation depending on the kind of activities and production, renders the price as an information, allocation, distribution and stabilization index.

It is important to realize that viewing the pricing mechanism as incompatible with private or public interests does not necessarily mean privatization or nationalization of the activities. Moreover the pricing mechanism says nothing about the degree or intensity of competition between firms or households. It does not even discuss the presence or the degree of the state's interference in the economy and the condition of the factors creating the prices and allocating of resources and so on⁶⁹.

6. Power:

Since power is defined as the capability to influence the activities of others on the basis of predictable means or procedures⁷⁰, we observe that the source of power in the economic system of Islam lies in the owners and controllers of production factors who on behalf of Almighty God and as His trustees⁷¹ are authorized to possess and utilize the production factors⁷².

Since the employment of production factors depends on the motives and goals of their owner, it is not difficult to examine how this power is

69. Economic Systems, Grossman, pp 19-20.

70. Economic Systems, Grossman, p. 30.

71. An Introduction to Islamic Economy, p. 101, the Bureau for Cooperation Between the Seminary and University.

72. Nahjul Balagha, Chapters 2 & 3, p. 55.

used in gaining satisfaction of the real owner of the production factors who is Almighty God. This is the knowledge we have from the Muslim economic agents who because of the nature of their motives, beliefs, and goals, something that has its proper manifestation in both the deed and conduct of the economic agent from the viewpoint of microeconomic activities. A glance at the ethics and inseparable characteristics existing between them and the economic activities, gives rise to the confidence that the power manifested in people has its best position and origin. In other words, power is internal and arises from the people and has the best distribution procedure as well. Numerous recommendations made on infaq stress the fact that infaq would be carried out in secret or in public⁷³, donation of properties more than one's expenditures⁷⁴, the Muslim's investigation into his affairs to make sure that his revenue has been halal (lawful) or haram (religiously unlawful)⁷⁵ and thousands of other moral recommendations provide the chance and give the power to the masses of people to possess production factors and pave the way to gain political power as well as power of freedom and honorable Islamic liberation and so forth.

Power can be sought in the manner of ownership of properties and whether they are private or state-owned as well as in the capacity of influencing the labor force. It seems that with regards to the extensive authority of the Islamic state and its possession of production factors,

73. Sura: Baqara, Ayat: 274

"Those who (in charity) spend of their goods by night and by day, in secret and in public, have their reward with their Lord: On them shall be no fear, nor shall they grieve."

74. Bahar al-Anwar, Vol. 96, p. 117.

75. Analytical Plans of Islamic Economy, Dr. Mahdi Bana' Razavi, Vol. 1, p. 85.

power is manifested to a great extent in the state. Naturally, bureaucracy as a means of sovereignty, control of information flow, the press, the mass media, statistical information, labor unions, political parties⁷⁶... are manifestations of power in relative possession of individuals by observing the interests of society. Any individual or group who owns these facilities, has power which is eventually used for further obedience to God and to gain His satisfaction.

7. Centralization and Decentralization:

The issue whether bureaucracy or the economic organization under the Islamic economic system is centralized or decentralized is revealed in the content of the previous "institutions". The main issue is the procedure according to which economic decisions are made and which process is adopted for the flow of information within that organization. Is the information accumulated all in one place (centralization) with economic decisions being made and communicated from the top of organization and the Islamic state? Or, on the contrary, are decisions made by consumers (households) or producers (firms) independent and free from each other (decentralization)?

Given the economic freedom existing for all strata of people as well as the philosophy surrounding the presence of the Islamic state characterized by the criterion of justice, it seems that parallel with the complexity of relations and expansion of societies the need is being felt for the centralization of data and information collection in an Islamic economic system. Offering guidelines and instructions or any other interference by the state in the economic affairs aims at adjusting the economic organization and security. Justice requires access be expanded,

76. Economic Systems , Grossman, p. 30.

with all-out and sound information disseminated, information covering such fields as choosing a suitable job or a proper work place and even ways in which revenues should be spent and invested. A strong need is felt for an efficient flow of information in order to make sound economic decisions.

Access to such an information flow could be easily achieved through a suitable communication system compatible with the extent of progress society has made and by using computer networks to the extent that each economic agent is able to have permanent and safe access to the package of required data. Therefore, by storing and timely processing of information,⁷⁷ concentrated data would be available for economic authorities.

As far as the economic decisions of firms and households are concerned, decentralization exists and, no doubt, in connection with state policies, regulating rules and regulations, taxation or subsidies, nationalization and management of economic firms, for whatever reasons under government administration, centralization or decentralization would become a matter of discussion. The concentrated decisions of the state in cases where economic activities entail positive or negative externalities⁷⁸, would take such outcomes into consideration and, thus, many affairs would become united and coordinated, a development which takes place for creating suitable incentives and necessary decisions. Finally, in general, in this economic system centralization is discussed as far as information flow is concerned and decentralization in the case of taking economic decisions.

77. Up-to-date.

78. External Economies and Diseconomies.

8. Adjustment and Conformity:

One of the advantages of each economic system is in its ability to adjust⁷⁹ to shocks it receives. Obviously, an economic system is active as a living organism and, therefore, is occasionally exposed to fluctuations or unexpected events, namely economic shocks. To this end, the importance and validity of each economic system depends on its ability to adjust to such shocks. Also, conformity⁸⁰ with the situation is another outstanding characteristic of economic systems. Of course, such adjustment or conformity is permitted to the extent that no harm threatens the nature of the systems. Therefore, economic systems which are not capable of adjusting or conforming are doomed and will disintegrate sooner or later.

Exogenous shocks such as changes in the rate of population growth, changes in the growth rate of production capacity, new discoveries, depletion of natural resources, technological innovations, changes in expectations and changes in values and tastes, either at the individual or social level, ... are among events which may at one time affect the economic system. Therefore, the system should be ready to respond appropriately and make the required adjustment. Also, the ability to accept formation of new institutions or to remove the existing institutions at necessary times, are among methods to deal with such shocks, rendering the system durable and lasting.

In our view, the Islamic system enjoys the best and highest capacity to adjust and conform. The proof to this claim can be sought in one of the most basic ideological subjects, the Sharia. The primary rules of the Sharia are rules specified in a manner where there is no room for any

79. Adjustment.

80. Adaptation.

interpretation and explanation. However, for such issues the Islamic system will show necessary and fundamental flexibility under certain circumstances to the extent that it would practically show its non-dogmatic characteristics. For example, it is likely that on the basis of a religious ruling of a jurispudent on the impracticability of possessing an abandoned piece of wasteland previously exploited by one or more individuals who have not given it up yet⁸¹, numerous problems would be created for a number of Muslims or the Islamic society as a whole because, on the one hand, they need the land but they do not possess any and, on the other hand, there is an abandoned piece of land which has an owner who has left it unused. Therefore, according to the early ruling there is no authorization for the exploitation of the abandoned land. Under such circumstances, and upon the discernment of the jurisdiction that the land should be exploited, the first ruling could be temporarily terminated and upon secondary ruling the needs of society would be met⁸². The interesting point in this connection is that the

81. In the book, "An Introduction to Islamic Economy", it is said: "If the land is revived and made unprofitable again, would it come out of its owner's possession or still remain under his ownership? Another question is whether the owner could still possess the land when he is indifferent towards its development to the extent that there are no traces of life in it? Despite different views in this respect, Imam Khomeini says in his book, "Al-Baya" (Vol. 3, p. 32): "As long as the land owner does not give up, it will remain under his ownership and no one has the right to possess it."

82. In the early years after the victory of the Islamic Revolution in Iran, Imam Khomeini the Vali-e Faqih (religious jurispudent) announced that the 'yes' vote of two thirds of the Majlis (parliament) deputies was needed for provisional execution of secondary rules.

religious legislator has stipulated such an inflexibility in the principles of the state administration since there is the possibility that discernment of the need might not find its proper place for the discussion of secondary rulings, relying on state rulings would be raised⁸³ with the aim to further strengthen and consolidate the economic system in countering the disorders and shocks. Therefore, the highest degree of adjustment and conformity could be found in the Islamic economic system, a criteria which will add to the survival and perpetuity of the system and would, thus, save it from misrepresentation or as having a dogmatic nature in the eyes of others⁸⁴.

In addition to the cases mentioned above, it should be noted that the internal structure of the system will provide some kind of automatic adjustment in the process and individuals who enjoy complete freedom and at the same time consider this prestige and personal values in praying to Almighty God and rendering social services in a way that would lead to the perfection of the Islamic society, would perform their duties in a way that would facilitate the performance of the economic

83. Economic messages of Quran (pp. 209 & 210).

84. Imam Khomeini as the Vali-e Faqih (religious jurisprudent) of the Islamic system believes: "The state as a branch of absolute authority and the Prophet (PBUH), is a primary rule of Islam and prior to all secondary rules, even daily prayers, fasting and Hajj (pilgrimage). The ruler is authorized to demolish a mosque or a house on the way of a street and pay compensation to the owner. He can also close down mosques, if necessary. The state can abrogate the religious contracts it has signed with the people should they turn against the interests of Islam. The state can also temporarily prevent hajj which is an important divine obligation, if the interests of the Islamic state requires so." (6.1.1987)

system and create suitable flexibility to preserve its Islamic nature.

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