

## ISLAMIC ECONOMICS: AN ALTERNATE ECONOMIC SYSTEM FOR THE THIRD MILLENNIUM

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### ABSTRACT

The biggest problem today is the increased disparity and inequity that exists in the world. Fortunately, this has been realized and many economic systems emerged that attempted and aimed to bring about more equity and reduce poverty in the world, but failed to do so. Although this is true that the existing systems, namely capitalism, socialism and welfare state, have to different extents been successful in expansion of economies but simultaneously has led to increased inequitable distribution of wealth. The paper attempts to present centuries old 'Islamic economics' as an alternative to existing systems, the root of which is in economic justice that leads to social justice as well.

**KEYWORDS:** Capitalism, Socialism, Equity, Islamic Economics, Justice, Welfare State

### INTRODUCTION

The world today is witnessing an increased level of social and economic inequality. The result of this is unrest in the society. Various economic systems emerged and evolved to cater to the fundamental problem of judicious use of resources in the society in order to benefit the human beings. Economies emerged and have prospered also but distribution of income has been greatly inequitable. Poor and the downtrodden remain exploited and do not get a fair share in the income generated. This, therefore, leads people to realize that there is a need for some other system which can eradicate this problem. Islamic economics has been in practice since time immemorial but lost its strength in the eighteenth century, when muslim countries became colonies of the western powers. And it is since then only that inequity has also increased which is leading to question of again adoption of the principles of Islamic economics for a just and equitable society.

### Equity and Justice in Islam

Islam is a rule based religion and is guided for all aspects of life by the teachings of the Holy Quran and the Sunnah. Islam lays great emphasis on justice and equity and provides many social and economic rights for the individual. These rights are elaborated and specified through the Quran and the Sunnah. The following are few mentioned verses which emphasizes equity and justice:

- Racism is not allowed in Islam, for the Quran speaks of human equality in the following terms:

“O mankind, we have created you from a male and a female and have made you into nations and tribes for you to know one another. Truly, the noblest of you with Allah is the most pious. Truly, Allah is All-Knowing, All-Aware.”  
(Quran, 49:13)

- Islam is a religion of justice, as described in the Quran:

“Truly Allah commands you to give back trusts to those to whom they are due, and when you judge between

people, to judge with justice....” (Quran, 4:58)

- And the Almighty has said:

“And act justly. Truly, Allah loves those who are just.” (Quran, 49:9)

- We should even be just with those who we hate, as Allah has said:

“And let not the hatred of others make you avoid justice. Be just: that is nearer to piety....” (Quran, 5:8)

- The life and property of all citizens in an Islamic state are considered sacred, whether a person is Muslim or not. Islam also protects honor. So, in Islam, insulting others or making fun of them is not allowed.

The Prophet Muhammad (saw) said: “Truly your blood, your property, and your honor are inviolable.”

- Islam rejects certain individuals or nations being favored because of their wealth, power, or race. Allah created human beings as equals who are to be distinguished from each other only on the basis of their faith and piety.

The Prophet Muhammad (saw) said: “O people! Your Allah is one and your forefather (Adam) is one. An Arab is not better than a non-Arab and a non-Arab is not better than an Arab, and a red (i.e. white tinged with red) person is not better than a black person and a black person is not better than a red person, except in piety.”

- And those who have not gotten their rights (i.e. what they have a just claim to) in this life will receive them on the Day of Judgment.

The Prophet Muhammad (saw) said: “People, beware of injustice, for injustice shall be darkness on the Day of Judgment.”

- And those who have not gotten their rights (i.e. what they have a just claim to) in this life will receive them on the Day of Judgment.

As the Prophet (saw) said: “On the Day of Judgment, rights will be given to those to whom they are due (and wrongs will be redressed)...”

The holy Qur’an lays great emphasis on fairness, equity, justice, equality and balance in all our dealings. Truth too has a very important place in Islam so much that it is one of the ninety nine names of Allah. The dictionary equivalents for Equity and Justice are the words *Insaaf*, *‘Adl* and *Qist*. The word *Insaaf* has its root in the concept of dividing equally in halves, which however, may not always be Just or Equitable and hence the Qur’an does not use this word in the sense of Justice or Equity. The words *‘Adl* and *Qist* are more comprehensive and are extensively used in the Qur’an. The root meanings of the word *‘Adl* include the sense of Justice, Equity, Fairness, Non- Discrimination, Counter-Balance, to Rectify, Put in Order, Evenness, Proportion and the like. The root meanings of the word *Qist* include Equity, Fairness, Justice, Fair Distribution, Correctness, Balance, and Scale. Muslims are urged to be just and deal with one and all in a way that equity, fairness, safeguarding the rights, property, honor and dignity of all is maintained as a reflection of His attributes of *Al-‘Adl* (The Just One) and *Al-Muqsit* (The Upholder of Equity), another two of beautiful names of Allah.

### Understanding Economic and Social Justice

Justice is defined as “giving to each what he or she is due.” The real issue is knowing what is “due”. Functionally, “justice” is considered to be a set of universal principles which guide people in judging the difference between the right

and the wrong, no matter what culture and society they live in. Justice is considered to be one of the four “cardinal virtues” of classical moral philosophy, the other three being courage, temperance (self-control) and prudence (efficiency). Among the religious virtues are faith, hope and charity. Virtues result in the elevation of dignity and sovereignty of an individual thus helping to develop fully their human potentials, enabling them to work in harmony with others for their common good besides serving their own self-interests.

Justice is not charity. On the one hand, justice deals with the substance and rules for guiding ordinary, everyday human interactions and on the other charity deals with the spirit of human interactions and with those exceptional cases where strict application of the rules is not appropriate or sufficient. The basic objective of charity is to relieve the suffering of a person in need. This is also true that the ultimate objective of charity and justice is to elevate each person to a level where he becomes self sufficient and may even become charitable himself. The many aspects to justice and the creation of a just world includes social and economic factors as well as the principles of equity and equal rights.

Social justice ensures equal rights for all, immaterial of gender, race, class, ethnicity, citizenship, religion, age etc. to which one belongs in workplaces, homes and public life. It also includes economic justice, which means need to take necessary steps to alleviate poverty and redress past injustices. Unfortunately, even today millions starve and minorities are discriminated against, making social justice goals look a long way off. Injustice can take the form of repression, discrimination, harassment, or simply the failure to redress inequalities.

Social justice encompasses economic justice. Social justice is the virtue which helps in creation of social institutions that provide us with access to what is good for the person, both individually and in our associations with others. It is the social justice that ensures that each of us acts responsibly to work with others to design and continually perfect our institutions as tools for personal and social development. Social justice incorporates the concept of basic rights, the realization of human potential, social benefit, a healthy planet, an equitable distribution of resources, equal opportunities and obligations, security, and freedom from discrimination. Ched Myers has rightly quoted “The degree to which social justice is achieved in a given time and place should be measured by two notions: 1) the greatest good for the greatest number, and 2), how the least powerful and the smallest minorities in a society are faring.”

Economic justice includes the moral principles that touches the individual person as well as the social order and which guides us in designing our economic institutions. These institutions determine how each person earns a living, enters into contracts, exchanges goods and services with others and otherwise produces an independent material foundation for his or her economic sustenance. The primary objective of economic justice is to free each person to engage creatively in the unlimited work beyond economics, that of the mind and the spirit. The ultimate objective of economic justice is to seek the equitable distribution of world’s natural and intellectual wealth so that everyone is able to gain a fair share.

### **Significance of Equity and Justice in an Economic System**

An economic system is said to be a collection of institutions set up by the society to deal with the basic problem of an economy namely allocation of resources, production and exchange of all goods and services and then finally the distribution of the resulting income and wealth within a specified geographical boundary. There are, defined or undefined, existence of certain sets of formal and informal rules of conduct to achieve a specified set of objectives and systems and procedures for the enforcement of these rules. Human well-being has always been the primary objective, difference however arising as to what all constitutes human well-being. It is accepted by one one and all that well being is a broader

concept but it necessarily has to include goals like elimination of poverty, fulfillment of other basic physical needs, the availability to everyone an opportunity to earn a living and an equitable distribution of wealth. All the systems emphasize on bringing in equity and justice to all and it is realized that its absence will never result in human well-being. Different systems accomplish the tasks of bringing in human well being which would result only if there is social and political equity differently. However, unfortunately not a single country in the entire world no matter which they adopted has been able to successfully achieve these material goals.

### **Critical Analysis of the Prevalent Economic Systems**

Different economic systems evolved an answer to the achievement of these goals each based explicitly or implicitly on its own worldview and each providing a different strategy for solving the economic problem. There are broadly three different economic systems prevalent in the world today - capitalism, socialism and their joint offspring, the secularist welfare state. All these three systems have evolved over time and are very different from the original version. Although the countries following these systems have created enormous wealth and their is relatively abundance of resources, however these countries have been unsuccessful to different extent to realize the goals, which is equitable growth and development, they aspire for. Many of them are also facing serious macroeconomic imbalances. Their problems have in fact increased continually. Social unrest and crime have also risen and they are in general facing a crisis situation. The reason for the current situation is mainly the failure to recognize the conflict in their goals, which are rooted in their moral and religious past, and their worldview and strategy, which are an outgrowth of secularism and reflect a discord with their religious traditions.

In spite of the fact that Capitalism has undergone many modifications to overcome the limitations that has been identified from time to time, yet it is not able to achieve the objective of efficiency and equity. Capitalism is based on few assumptions, for instance individuals in their capacity as consumers as well as in their capacity as producers act rationally. As consumer, the individuals but the goods and services at the lowest price to maximize their utility, their preferences being depicted by their demand and willingness to pay the market price In order to respond to this demand from consumers, the producers produce at the lowest cost that will also help them maximize their profits. The interaction of these utility maximizing consumers and profit maximizing producers determine the market clearing prices of all goods and services. It is this price system that regulates the economy of a capitalist country. This phenomenon it is believed finally results in a system that is most efficient and most equitable. It is thus believed that government intervention is also needed only to ensure competition and orderly markets. However, in all countries where capitalism existed or exists today, it has failed to release equity. In reality, the twin objective of efficiency and equity has never been realized and there has been an asymmetry between private and social interest. The market forces have been guided solely by self-interest and this has resulted in social division and a class conflict between the employer and the employee, ruler and the ruled etc. The reason is that the assumptions on which capitalism is based are primarily unrealistic which is almost impossible to satisfy under normal conditions.

Utilitarianism reinforced by materialism, advocated consumption as the ultimate objective of life and this provided the logical rationale for single-minded pursuit of wealth and bodily pleasures. According to Adam Smith there would be a harmony between the private interests and public good, if everyone pursued his self interest, the invisible hand of market forces would, through the restraint reinforced by competition, promote the interest of the whole society. The sanctity accorded to self-interest and positive economics freed economists from any sense of social or moral obligation and

exonerated them from blame for the inadequacies and injustices of the system and this finally played an important role in undermining the long-standing moral commitment to socio-economic justice and equitable distribution of income and wealth. This market system led to high rates of economic growth and expansion in wealth but not to removal of poverty or the fulfilment of everyone's needs. In fact, this system led to increased inequalities of income, economic instability and unemployment.

The conflict between the goals of society and the worldview and strategy of capitalism is the reason behind capitalism's failure to actualize the socially-desired goals. The goals were based on a moral foundation and were humanitarian; the worldview and the strategy were social Darwinist. The claimed harmony between the private and public interests was based on certain assumptions about background conditions which were false and so unrealistic that they could never have become true. Although these background conditions are not mentioned clearly in economic literature, and thus it is not normally realized how their absence is bound to frustrate the realization of both 'efficiency' and 'equity' in the allocation of scarce resources, defined in relation to the humanitarian goals of society and not social Darwinism.

The reason why capitalism failed in almost all the countries where it exists in spite of the fact that it has undergone multiple revisions are the wrong assumptions that it is based on. Primarily among the wrong assumptions is that individual preferences reflect social priorities and that a consumer limits his claims on the scarce resources to only need satisfaction. Another assumptions that there would be equal and fair distribution of income and wealth in the economy is impractical. The existing inequalities causes richer to use resources and produce goods that satisfy their wants, which may not necessarily be socially desirable. Also the assumption that the prices are a reflection of the urgency of wants is also questionable. The prices generally are a reflection of the desire of people who are ready to pay more and not generally on need based. Although almost everywhere perfect competition ceases to exist, yet capitalism assumes that market operates under perfect competitive conditions.

Capitalism is also considered to be very efficient and productive. Profit motive and private property are considered to be the biggest motivator towards achievement of greater efficiency and improved quality. It is assumed that the perfect competition forces the producer to take the price from the market and hence prevents him from overcharging and therefore serves the interest of the consumers and the society at large. Healthy competition also pressurizes the producer to keep the costs at the minimum and thus resulting in increased efficiency. However, to be noted is that competition becomes unhealthy if every firm try to eliminate its competitors or go to the other extreme of colluding with them, both of which results in extreme exploitation. Government regulations if in place, ensure a socially acceptable standards of quality and behaviour in the interest of the public at large. Since in reality, in capitalism in almost all industries there are few big players as in oligopoly unlike the assumption of many small players as in perfect competition, large wealth and hence social and political influence is concentrated with them. Corporate expansion increases the problem of unemployment as to enhance profits, these big firms go in for capital intensive production.

The biggest drawback, however, of capitalism is the inequitable distribution of income. The income distribution prevalent was considered fair and thus no effort to change the existing distribution system was desired. Wide disparities of income was readily accepted as appropriate and never was there an emphasis on economic and social equality. The emphasis rather was on economic growth. It was argued that increased economic growth would automatically reduce inequality of incomes and would bring about redistribution of wealth. Instead of bringing in equality, higher growth gave a greater boost to the incomes of the rich. The undue emphasis on economic growth also caused accelerated depletion of

scarce natural resources and brought about ecological imbalance.

Thus it would not be wrong to say that capitalism has failed not only in allocating the scarce resources efficiently but also in equitable distribution of resources.

As a reaction to the failure of capitalism in removing the misery and suffering of the poor, socialism came into being. There are many different versions of socialism, main among them being Marxist, market and democratic. Hence we will restrict our discussions to the characteristics which are common to most of them. The main argument was that the capitalist mode of production and free and uncontrolled markets would surely favour the rich and promote inequality of income and wealth.

Marxist's idea was essentially based on a distrust of human beings. It was argued that private property must be taken away from them because it is a source of power and leads to exploitation. However, they failed to understand that the officials in a totalitarian state also exercise immense power, much greater than the powers of property owners. So, if individual human beings cannot be trusted in a decentralized decision-making system to manage their private businesses within the overall constraint of social well-being, then they should not be trusted to manage the whole nation's means of production in a totalitarian system too. And thus there is no guarantee that they will not exploit the tremendous power at their command through their control over all means of production to serve their self-interest. Marx suggested of a stateless society, without realizing that a stateless society carries the potential for even greater exploitation and injustice through the unhindered collusion of individual vested interests against other members of society. The emphasis on state ownership of means of production and central planning – was expected to bring about such 'efficiency' and 'equity' in the allocation of resources that it's vision of 'from each according to his ability to each according to his needs' would be realized. The rationale was that once the privileges that private property provides had been eliminated, the state machinery would be able to end the distortions, misallocations and inequities that the blind operation of market forces introduces. However, these too are based on some unreasonable assumptions. The major being that when individuals failed in capitalism when it came to their behaviour for social well-being it was assumed that the same human beings in their capacity as consumers, workers, managers of enterprises and government officials would keep the interest of the society above their self-interest after the introduction of socialism. In the absence of any concept of accountability before the All-Knowing God and where the total life-perspective of an individual is limited to span of this world, it is simply unrealistic to expect individuals to ignore their pecuniary self-interest. Another faulty assumption was that the central planning machinery would have at its disposal all the information about consumer preferences, production costs and prices necessary for taking numerous decisions, which is almost impossible to estimate without the free interaction of supply and demand in the market place. Decisions are often taken on the basis of political considerations and the whims of the planners.

The primary objective of socialism was equity, but in reality socialism could reduce inequalities only a little. The property less labourer continued to be a property less labourer; his position only changing that instead of being an employee of the individual capitalist, he has become the employee of a more powerful employer, the monopolist state enterprise, with unrestricted powers to punish or reward. In capitalism the workers were able to influence the decision makers to a limited extent through the labour unions, the news media, and the elections but in socialism he lost that as well and thus his position worsened. The class divide also continued unabated as in capitalism.

The primary goal of market socialism was to bring about a partial decentralization of the decision-making machinery in the economy by allowing market signals and private initiative to play a greater role in the allocation and

distribution of resources. It was decided that State enterprises would be granted autonomy in planning their operations, securing their inputs and pricing their outputs. Self management was to be encouraged for these enterprises. Subsidies were to be reduced to balance the deficits and prices, wages and exchange rates were to be market determined. However, economic reforms were not accompanied by political democracy and political dictatorship and suppression continued. The absence of political freedom crippled economic reforms and did not allow them to take their full course. Reforms took the direction that suited the vested interests of the suppressive regimes. Partial and half-hearted fulfillment of reforms could not lead to the needed revitalization of the economies. Goals hence remained unrealized. Corruption and inefficiencies also took a heavy toll of resources leading to serious shortages and difficulties.

Democratic socialism believed that socialism as an idea is inseparable from democracy and should be brought about peacefully in a gradual manner through democratic processes without revolution. Complete state ownership of means of production and central planning were nevertheless considered necessary in the earlier discussions for realizing socialist aims. The principal objectives included abolition of poverty, more social and economic equity full employment and economic stability. Although this form of socialism did bring some positive economic reforms and improved the labour conditions but have largely failed in realizing their principal objectives In spite of the great wealth of their economies: poverty still persists, needs remain unfulfilled, inequalities of income and wealth have in fact risen, unemployment has taken a higher toll, and imbalances and instability have risen, with unhealthy consequences for economic growth, efficiency and equity.

The welfare state emerged and gained momentum, first after the Great Depression and then after the Second World War, as a response to the challenge posed by socialism and the difficulties created by the Depression and the War and was undoubtedly considered a welcome development in capitalist countries. It attracted all sections of the population, workers as well as capitalists. Its underlying philosophy was the belief that the welfare of the individual is very critical and cannot be left merely to the operations of market forces. This resulted in a formal recognition by mainstream economics that poverty and inability to provide for one's own needs are not necessarily evidences of personal failure but the reason for the poor state of workers could be exploitation. It was felt that there should be some social security for every member of society that should cover risks including industrial accidents, disability and unemployment, and to provide social services like education, housing, medical care and public transportation which are essential in a modern society. Full employment and equitable distribution of income and wealth were among the important goals of state policy. It was argued that the allocation of resources could be handled efficiently by the market system with the help of some government intervention aimed at reducing the imperfections, which create inefficiencies in the operation of the market, and offsetting market failure, which prevents the market from reaching certain desirable results in resource use. The public sector's main role lay in the area of distribution, particularly through transfer payments and provision of public goods and services equally to all members of the society. Regulation of private enterprise were introduced to ensure healthy competition, maintain order and standards, and safeguard the rights of others. The budgetary problems arose everywhere and hence, more as a matter of financial necessity and less as a matter of political choice, privatizations became a worldwide trend and gained momentum.

The trade union movement which was considered to be a panacea for raising the incomes of labour, improving their working conditions, and providing them with a sense of economic security, started to loose momentum as a result of inflation and high unemployment. Infact, rising wages were blamed for cost-push inflation, and wage rigidity was considered to be a major cause for unemployment. Fiscal Policy that included public expenditure, progressive taxation and

borrowings to achieve goals became one of the most important tools of the welfare state. Increased expenditure in defense and transfer payments were financed by raising taxes or resorting to increased public borrowings. In spite of the fact that public spending, tax burden, and deficit all increased exponentially, but the inequalities of income and wealth did not decrease, which the welfare state had aimed at reducing. The lack of an agreed filter mechanism of humane values in the welfare state caused a deprivation of well-established, long-term priorities in expenditure planning, and failed to differentiate between the rich and the poor in terms of the access to benefits from public spending on education, health care, and a wide variety of subsidized goods and services. This resulted in reduced redistributive effect of government spending and, also increased to unbearable levels the public sector expenditure. Progressive taxation was introduced to reduce inequalities but failed to do so. Thus in spite of high expectations the welfare state too failed to bring about an efficient and equitable allocation of resources.

### **An Alternate Economic System: the Islamic Economic System**

There is a need for an economic system which is able to provide all the elements needed for human well-being along with socio-economic justice. A system that is able to achieve the goal of efficiency and equity through appropriate allocation of resources. The system should be able to motivate the participants to follow the principles and to keep the interest of the society above their own self-interest. There is a need for a system where human beings are considered to be most important and the system should focus on human beings rather than on the market or the state. Human beings should be at the centre stage of the economic system as they are both the ends and means of an economic system. There is a need for a money and banking system that supports and lay emphasis on high rates of employment, need satisfaction and broad-based ownership of means of production and also reduces inequities, conspicuous consumption and unemployment. These desired principles are rooted in Islamic worldview and strategy.

Islam specifies rules for social and economic activities of the society. The foundation of Islamic economics is based on economic development and growth along with social justice. In Islam, the economic policy is to secure the satisfaction of basic needs for every individual completely and to enable him to satisfy his luxuries to the maximum possible. Islam looks at every human being individually rather than as the total of individuals who live in the country. The purpose of the economic policy in Islam is not to raise the standard of living in the country without ensuring the rights of life for every individual completely. Nor is it just to provide means of satisfaction in the society, leaving people free to take from such means as much as they can, without securing the livelihood for each individual. In this respect, economic principles of Islam deal with rules of resource allocation, production, exchange, distribution and redistribution and thus if these principles are incorporated in true letter and spirit we may get an ideal economic system as envisioned by Islam. The central tenet of Islamic economics propagates the equal distribution of resources for the development of the different strata of society and to maximize and utilize the talent of all individuals so that they can contribute towards development of the society as a whole.

Islam relates the legislation to the individual to secure the right of livelihood and to secure the luxuries, while it verifies that the society has a special way of life. So it takes into consideration what the society should be, at the same time it seeks to secure livelihood and to enable satisfying luxuries. Thus the divine rules have secured the satisfaction of all of the basic needs completely, for each and every citizen of the state. This is achieved by obliging each capable person to work in order to earn and fulfill basic needs for one self and dependents. Islam urges people to earn, seek the provision and strive and it made striving to earn the provision compulsory. Islam also obliges the children or the heirs to support the



parents if they are not able to work or obliges the state treasury to do so, if there is nobody to support them.

The rules that deal with the economy are based on three principles; initial ownership, disposal of the ownership and distribution of wealth amongst the people. With regard to the issue of ownership, it belongs to Allah (swt). Property, therefore, belongs to Allah (swt) alone and He has put mankind in charge of property, provided them with it, and has given them the right of owning it. The distribution of wealth amongst the people is carried out naturally through the means of ownership and contracts. The natural differences among people in their abilities and in their tendencies to satisfy their needs result in variations in wealth distribution among them. This may result in poor distribution and concentration of wealth in the hands of few. Islam has forbidden circulation of wealth among wealthy only and has obligated it to be circulated amongst all the people. Islam also forbids hoarding of gold and silver. It is believed that the real cause of poverty is wasteful and extravagant behaviour of the rich and not scarcity of resources.

Islam takes into account the disparity in the physical and mental abilities among the humans and thus has made provisions to help the poor and the weak by commanding the wealthy to give to the needy. Islam has guaranteed the livelihood for each citizen of the state and ensured that the community does not fragment but remains cohesive. There are two matters that lead to misdistribution of wealth; first is circulation of wealth exclusively among the rich and the second to deprive people from that wealth and prevent them from acquiring the means of circulation of that wealth. Shariah rules are designed in a way that wealth is circulated amongst all without any exception. It is the state's responsibility to provide and fulfill one's need not only temporarily but such that he is able to sustain over a long term.

Islam emphasizes that wealth is a blessing by the Creator to be used wisely to support the lives of all of mankind. Extremes of wealth and poverty needs to be avoided and thus prohibits overspending and waste. It lays stress on the fact that after moderate spending necessary to maintain a modest living standard, surplus must be returned to the members of the society who, for a variety of reasons, are unable to work and hence the resources they could have used to produce income and wealth were utilized by the more able. Islam considers the more able as trustee-agents in using these resources on behalf of the less able. The less able get a share in the income and wealth of the more able through a network of mandatory and voluntary levies. Islam prohibits hoarding of money as it is believed that it damages the entire economy. Saving for a purpose is allowed but hoarding of monies by some individuals with large fortunes is strictly prohibited as this leads to a fall in the standard of income and causing wide unemployment thus pushing people into poverty. However, an obligatory tax, zakat, is to be paid to the needy if the savings exceed a certain level

Islam also prohibits the give and take of any form of interest and is referred to as riba and usury. Riba also includes the practice of taking property for another property of the same type unequally. It is forbidden for a person to lend something to another, and to expect more or less for it, or to receive something different in return. The settlement of the loan or anything borrowed should be by the same amount and the same type of goods borrowed, Interest however, can be said to be the basis of capitalist economy and plays a key role even in socialist economy. Islam lays emphasis on the sharing of loss and gain by all parties in a transaction, unlike in the conventional systems where one party receives a risk-free return in the form of interest on their capital and the entire risk is borne by the borrower. Islam also prohibits speculation, gambling and short-selling.

In Islam, the concept of Vicegerency or khilafah raises the stature and position of all human beings. Islam places higher emphasis on duties rather than on rights. The logic behind this is if duties are fulfilled by everyone, self-interest is automatically controlled and thus results in safeguarding the rights of every single human being. Human beings are

expected to submit to one and only God, Allah and are responsible to Him for all their deeds in this world. Life is not confined to this world except that this world is a place of trials and tests. The real destination of all is the Hereafter and there is no escape from accountability before God.

Islam lays emphasis on a three dimensional concept of development in Islam: individual or self-development, the physical development of the earth, and the development of the human collectively. It is believed that happiness and fulfillment in a person's life is only achieved with a full development of a person along all three dimensions. These concepts result in greater unity and brotherhood of mankind and also bring in more social equality. A man's worth is determined by his character and service to humanity rather than his worldly possessions. This results in keeping mutual sacrifice and cooperation to fulfill the basic needs of all above one's own self-interest. It is emphasized in Quran that resources are for the benefit of all mankind and not just a few and hence needs to be utilized equitably for the well-being of all. The Quran has also mentioned clearly the rightful ways of acquisition and disposal of resources.

## CONCLUSIONS

It is true, that all contemporary economic system maintains that while answering to the basic questions of what to produce and how to produce, their objective is to bring in greater social and economic equity along with economic development. However, none of them have been able to achieve its objective. In fact, it is observed that disparities in incomes are continuously increasing over the years, be it in countries that have adopted capitalism, socialism or even the welfare state. The countries have amassed enormous wealth but have failed to provide social and economic equity. Various form of injustices are evident like starvation, discrimination, harassment etc. This has lead to a need for an economic system where human being is regarded as most important and is at the centre of the economic system with focus on reduction of inequality and unemployment. Economic growth has to be accompanied by social equity. This is found to be the basis of Islamic economics. The belief is that all members of the society has same right on the resources gifted by God. More emphasis is given on duty rather than on rights. For the upliftment of the downtrodden, it is the duty of the privileged to give them ample opportunities so that they can become self-sufficient. Charity is considered to be a deed praised by God and that in turn gives great rewards. Economic equity is more explicitly emphasized in Islamic finance as compared to conventional finance. The reasons why Islamic finance scores better than the conventional finance to enhance financial inclusion and bring in greater economic and social equity is because it is interest-free and the two pillars of Islam are risk-sharing and redistribution of wealth.

Thus it is clear that Islamic economics lay great emphasis on socio-economic justice. It unambiguously declares as its objective the eradication of inequality, injustice, exploitation and oppression of all forms. This basically are the drawbacks of the conventional economic systems which can be taken care of by the Islamic economic system if implemented with the right spirit.

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