

# **ECONOMIC FUNCTIONS OF THE STATE: AN ISLAMIC PERSPECTIVE**

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## **Abstrak**

*Tanggungjawab pihak pemerintahan dalam ekonomi menurut perspektif Islam adalah bersifat semula jadi, tetap dan berkekalan. Berbeza dengan tanggungjawab pemerintah menurut perspektif ekonomi konvensional yang bersifat bermusim, bergantung kepada keadaan dan keperluan, pemerintah dalam negara Islam bertanggungjawab mewujudkan negara kebajikan untuk mencapai matlamat kerohanian dan kebendaan yang unggul dan menyeluruh kepada semua rakyatnya. Dari sudut ekonomi Islam, pemerintah bertanggungjawab memenuhi kebajikan ekonomi mengikut sumber yang ada dan keadilan pengagihan kekayaan dan pendapatan negara kepada pihak berkenaan tanpa wujud unsur-unsur negatif seperti eksploitasi dan seumpamanya. Artikel ini bertujuan menganalisis peranan negara dalam ekonomi menurut rangka kerja Islam.*

## **INTRODUCTION**

Islam has a set of goals and values encompassing all aspects of human life including social, political and economic. All aspects of life are interdependent and the Islamic way of life is a consistent whole, therefore, its goals and values in one aspect of life determine the goals and values in the other aspects as well. This article critically analyse the goals and economic functions of the state according to the Islamic framework.

## THE NOTION OF STATE IN ISLAM

The Islamic way of life cannot look forward to that 'ideal' stage of communism when the state would wither away. It is inconceivable without an organized community governed in accordance with the principles of Islam. The Qur'an unequivocally condemns disorder and anarchy.<sup>1</sup> The Holy Prophet SAW stressed the principles of organization and authority in Muslim society by exhorting Muslims to select an amir (leader) even if only three of them were traveling together,<sup>2</sup> and by saying that, "It is for a Muslim to listen and to obey in what he likes or dislikes as long as he is not asked to disobey Allah; however, if he is asked to disobey Allah, then there is to be no listening and no obeying."<sup>3</sup>

This stress is also reflected in several statements as well as the actual behaviour of His Companions and the thinking of Muslim Jurists. For example, 'Umar b. al-Khaṭṭāb, the second caliph, emphasized that there could be no organized society without an Imām (sovereign) and that there could be no Imām without obedience.<sup>4</sup> Al-Imām al-Shāfi'ī, the founder of the Shāfi'ī school, recorded the mood of his age (150-204H.) by stating that there is an *Ijmā'* (consensus) among the Muslims that there must be a caliph.<sup>5</sup> Ibn Hanbal also stressed that the absence of an Imām could only result in disorder.<sup>6</sup>

This teaching of Islam with respect to authority and organization has continually influenced all Muslim political thinking except perhaps that of the al-Khawārij. Two outstanding jurists, Abū Ya'la<sup>7</sup> and al-Māwardī,<sup>8</sup> both contemporaries in Baghdad

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<sup>1</sup> Sūrah al-Baqarah (2): 205.

<sup>2</sup> Abū Dāwūd (n.d.), *Sunan Abī Dāwūd*, "Kitāb al-Jihād," Cairo: Dār al-Hadīth, V. 3, p. 37 (hadith no. 2608).

<sup>3</sup> Al-Bukhārī (1983), *Ṣaḥīḥ al-Bukhārī*, "Kitāb al-Aḥkām," (tr.) Dr. Muḥammad Muḥsin Khan, Lahore: Kazi Publications, V. 9, No. 258; Abū Dawūd, *op.cit.*, "Kitāb al-Jihād," V. 3, p. 41 (hadith no. 2625 & 2626).

<sup>4</sup> Al-Qurtubi, Yūsuf b. 'Abd al-Barr (n.d.), *Jāmi' Bayān al-'Ilm wa Fadlih*, Madīnah: Maktabah al-'Ilmiyyah, V. I, p. 62.

<sup>5</sup> Al-Shāfi'ī (1940), *al-Risālah*, (ed.) Aḥmad Muḥammad Shākīr, Cairo: Mustafā al-Bābī al-Ḥalabī, p. 419.

<sup>6</sup> Abū Ya'la Muḥammad b. al-Ḥusayn (1938), *Al-Aḥkām al-Sultāniyyah*, Cairo: 'Isa al-Bābī al-Ḥalabī, p. 3.

<sup>7</sup> *Ibid.*

<sup>8</sup> Abū al-Ḥasan b. Muḥammad al-Māwardī (1960), *Al-Aḥkām al-Sultāniyyah*, Cairo: 'Isa al-Bābī al-Ḥalabī, p. 5.

during the first half of the fifth century of Hijrah (7th. AD.), and both writing on the characteristics of an ideal state, stressed that the exercise of *Imāmah* (sovereignty) is an absolute necessity. Al-Māwardī went even further stating that the existence of an *Imām* was as necessary as the striving for truth and the acquisition of knowledge.<sup>9</sup>

Ibn Khaldūn emphasized that the institution of caliphate is a Shari'ah obligation and that Muslims are obliged to establish and maintain it.<sup>10</sup> Furthermore, a number of Muslim scholars such as Ibn Taymiyyah<sup>11</sup> and Shāh Walī Allāh al-Dihlawī<sup>12</sup> also expressed the similar ideas. Such an attitude toward the state is quite natural since Islam advocates certain goals and ideas which would be difficult of realization without a value- and goal-oriented state.<sup>13</sup> The famous Muslim poet-thinker, Muhammad Iqbal (d. 1938) expressed this idea beautifully when he stated that, "The state according to Islam is only an effort to realize the spiritual in human organization."<sup>14</sup>

The state is viewed by Islam as an instrument for the realization of the ultimate goals, both spiritual and material, of the Islamic society. However, the authority exercised by the state is not absolute. It is a trust from Allah SWT and is to be exercised in accordance with the terms of the trust as laid down in the Shari'ah. The state must respect individual freedom and yet exercise sufficient authority to establish the rule of the Shari'ah ethical norms, implement the goals of social and economic justice, and bring about an equitable distribution of income and wealth.

Therefore, the concept of sovereignty in Islam vests in Allah SWT and it is only His will that should prevail in this world. Al-Qur'an says, for example:

"It is not His to create and to govern?"<sup>15</sup>

"The command is for none but Allah"<sup>16</sup>

<sup>9</sup> *Ibid.*

<sup>10</sup> 'Abd al-Rahman b. Khaldūn (n.d.), *Muqaddimah*, Cairo: al-Maktabah al-Tijāriyyah al-Kubrā, pp. 191-196.

<sup>11</sup> 'Abd al-Salām Ibn Taymiyyah (1961), *al-Siyāsah al-Shar'īyyah fī Islāh al-Rā'i wa al-Ra'iyyah*, (ed.) Muhammad al-Mubārak, Beirut: Dār al-Kutub al-'Arabiyyah, pp. 138-144.

<sup>12</sup> Al-Dihlawī (1953), *Hujjat Allāh al-Bālighah*, Lahore, V. 2, p. 601.

<sup>13</sup> M. Umar Chapra (1979), "The Islamic Welfare State and Its Role in The Economy," in Khurshid Ahmad and Zafar Ishaq Ansari (eds.), *Islamic Perspectives: Studies in Honour of Mawlana Sayyid Abul A'la Mawdudi*, Leicester: The Islamic Foundation, pp. 195-196.

<sup>14</sup> Muhammad Iqbal (1954), *The Reconstruction of Religious Thought in Islam*, Lahore: Shaikh Muhammad Ashraf, p. 155.

<sup>15</sup> Sūrah al-A'rāf (7): 54.

<sup>16</sup> Sūrah Yūsuf (12): 40.

*"Follow the revelation sent to you from your Lord, and follow not, as friends or protectors other than Him."*<sup>17</sup>

The sovereignty of Allah SWT implies sovereignty of the Shari'ah as revealed by Him in the Qur'an to The Holy Prophet Muhammad SAW, and as elaborated by The Prophet's Sunnah during the course of His mission. In this regard, man is regarded as vicegerent (*khalifah*) of Allah SWT on earth<sup>18</sup> can neither make or abrogate The Divine Law. Man must necessarily submit to it if he realizes that Allah SWT is the best guide of man in all his affairs.

### CONCEPT OF WELFARE STATE IN ISLAM

The mission of the Prophet SAW is defined by the Qur'an to be a merciful blessing (*rahmah*) for all mankind.<sup>19</sup> The manifestations of this merciful blessing are stated explicitly in the Qur'an, among others, the fostering of "good life" (*ḥayāh tayyibah*)<sup>20</sup> and "welfare" (*falāh*),<sup>21</sup> provision of ease and alleviation of hardship (*ḥaraj*),<sup>22</sup> generation of prosperity,<sup>23</sup> nurturicy a climate of love and affection,<sup>24</sup> and ensuring freedom from moral corruption,<sup>25</sup> hunger and fear<sup>26</sup> and mental tensions.<sup>27</sup>

Allah SWT says,

*"Whoever, male or female, does good and is a believer, We shall certainly make him live a good life (ḥayāh tayyibah) and give him his reward for the best of what he did."*<sup>28</sup>

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<sup>17</sup> Sūrah al-A'rāf (7): 3.

<sup>18</sup> Sūrah al-Baqarah (2): 30; al-An'ām (6): 165.

<sup>19</sup> Sūrah al-Baqarah (2): 107.

<sup>20</sup> Sūrah al-Nahl (16): 97.

<sup>21</sup> Sūrah al-Hajj (22): 77.

<sup>22</sup> Sūrah al-Baqarah (2): 185.

<sup>23</sup> Sūrah al-A'rāf (7): 96, 58.

<sup>24</sup> Sūrah Maryam (19): 97.

<sup>25</sup> Sūrah al-Anfāl (8): 73; al-Rūm (30): 41.

<sup>26</sup> Sūrah al-Nahl (16): 112; al-Quraysh (106): 4.

<sup>27</sup> Sūrah al-Ra'd (13): 28.

<sup>28</sup> Sūrah al-Nahl (16): 97.

*"Serve your Lord and do good that you may have welfare (falah)."*<sup>29</sup>

*"Allah desires ease and not hardship (haraj) for you."*<sup>30</sup>

*"And if the people of the towns had believed and kept their duty, We would certainly have opened for them blessings from the heavens and the earth."*<sup>31</sup>

*"Those who believe and do good deeds for them the Beneficent will surely bring about love."*<sup>32</sup>

*"If you do it not there will be discord and great mischief."*<sup>33</sup>

*"Corruption has appeared in the land and sea on account of what people have done to make them taste a part of their doing so that they may return."*<sup>34</sup>

*"So let them serve the Lord of this house who feeds them against hunger and gives them security against fear."*<sup>35</sup>

Hence, the state including all organizations and institutions should reflect the characteristic of merciful blessing, and cater to the "welfare" of all people.

The Prophet Muḥammad SAW emphasized that the Islamic State is a welfare state. He stated:

*"Any ruler who is responsible for the affairs of Muslims but does not strive sincerely for their well-being will never enter paradise with them."*<sup>36</sup>

*"One day's work of a just ruler for [the welfare of] his subjects is better than the prayers of a pious man for a hundred years in his family."*<sup>37</sup>

The Companions of the Prophet SAW clearly understood the welfare function of Islamic State as is evidenced by numerous utterances of the Caliphs and their instructions to their governors. For instance, 'Umar b. al-Khattāb is reported to have written

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<sup>29</sup> Sūrah al-Ḥajj (22): 77.

<sup>30</sup> Sūrah al-Baqarah (2): 185.

<sup>31</sup> Sūrah al-A'rāf (7): 96, see also verse 58.

<sup>32</sup> Sūrah Maryam (19): 97.

<sup>33</sup> Sūrah al-Anfāl (8): 73.

<sup>34</sup> Sūrah al-Rūm (30): 41.

<sup>35</sup> Sūrah al-Quraysh (106): 4; see also surah al-Nahl (16): 112.

<sup>36</sup> Abū Dāwūd, *op.cit.*, V. 3, pp. 136-137.

<sup>37</sup> Abū 'Ubayd Qasim b. Sallām (1353 AH.), *Kitāb al-Amwāl*, Cairo: al-Maktabah al-Tijāriyyah al-Kubrā, p. 6 (hadith no. 14).

a letter to Abū Mūsā al-Ash‘arī, the governor of one of the provinces, “The best of men in authority is he under whom people prosper and the worst of them is he under whom people encounter hardships.”<sup>38</sup> The letter addressed to Caliph Hārūn al-Rashīd by His Chief Justice, Abū Yūsuf also stresses the welfare concept of the Islamic state.<sup>39</sup> The same opinion can also be found in the writings of early muslim scholars such as al-Māwardī<sup>40</sup> and Abū Ya‘lā.<sup>41</sup> The evidence from the Qur’anic verses, the Prophetic ḥadīth and the writings of Muslim scholars of the concept of welfare function of the Islamic state is so overwhelming, therefore, it would be absolutely unjustified not to term the Islamic state as a “welfare state.”

### ECONOMIC FUNCTIONS OF THE STATE FROM AN ISLAMIC PERSPECTIVE

#### a. To maintain law and order, and to safeguard life and property of all individual

The function of the state is universally recognized and its importance cannot be overstressed. The reason is the degree of law and order in a society and the extent of security of life and property is one of the prime factors of the stability and growth of an economy and also the inner happiness of all individuals.<sup>42</sup> The remarkably terse but powerful farewell pilgrimage address by the Prophet Muhammad SAW forcefully enunciated a number of principles for the socio-economic system of Islam. The Prophet declared: “Your lives, and your properties are as sacred as this day of the ḥajj.”<sup>43</sup> On another occasion the Prophet said: “Whatever a Muslim possesses is unlawful for another Muslim, his wealth and property and his life.”<sup>44</sup> Based on this basis,

<sup>38</sup> Abū Yūsuf Ya‘qūb b. Ibrāhīm (1352 AH.), *Kitāb al-Kharaj*, Cairo: al-Maṭba‘ah al-Salafiyyah, pp. 14-15.

<sup>39</sup> *Ibid.*, p. 3-17.

<sup>40</sup> Al-Māwardī, *op.cit.*, pp. 15-17.

<sup>41</sup> Abū Ya‘lā, *op.cit.*, pp. 11-12.

<sup>42</sup> Muhammad Umar Chapra (n.d.) *The Economic System of Islam*, Karachi, p. 56.

<sup>43</sup> Ibn Mājah (1965), *Sunan Ibn Mājah*, “Kitāb al-Fitan,” Cairo: ‘Isā al-Bābī al-Halabī, V. 2, p. 1297 (ḥadīth No. 3931).

<sup>44</sup> Muslim, *Ṣaḥīḥ Muslim*, “Kitāb al-Birr,” V. 4, p. 1577 (ḥadīth No. 2564); Ibn Mājah, *op.cit.*, V. 2, p. 1298 (ḥadīth No. 3933).

Muslim jurists have unanimously opined that the duty of the Islamic state is to safeguard the life and property of all individuals in the jurisdiction of the state.

**b. To enforce the Islamic code of business ethics**

Since the early beginning, Islam lays a preponderant stress on ethical values especially in the economic activities. In this regard, the Islamic state cannot be a passive observer of the ethical scene in its boundaries. Enforcement of the ethical code has been stressed by all Muslim thinkers and jurists. This does not mean that the Islamic state is a police state forcing people into certain channels by the use of its political or military power. To achieve this objective, Islam gives great value to individual freedom and at the same time lays stress on education and the creation of conditions conducive to the practice of the ethical norms of Islam on which the edifice of the Islamic economic system is raised.<sup>45</sup>

**c. To ensure that the market mechanism works efficiently and to the benefit of all individuals**

The government must therefore regulate the price system where necessary and play an important role in the economy in order to help attain the goals of the Islamic economic system. Under normal circumstances, the Prophet discouraged the use of controls. For example, during the days of the Prophet SAW, price rose in Madinah. Some people requested him to fix prices in the market. He refused to do this because as he said, He was looking forward to face His Lord where there is no one claiming against him for injustice done in blood or money.<sup>46</sup> Fixing of prices below the equilibrium level in situations where an artificial shortage through monopoly or hoarding has not been created by producers and distributors, does not only do injustice to the sellers but also provides no incentive for the long-run increase in supply if the price set is far below the long-run supply price. Price fixing also encourages black market and corruption on reason of effective consumer rationing is normally difficult.<sup>47</sup>

This should not however make us oblivious of the teaching of social and economic justice in Islam which applies to consumers just as it does to suppliers and must be rendered to them. Justice may itself demand the use of price controls if the price increase is due to an artificial shortage and not due to natural circumstances. Accord-

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<sup>45</sup> Chapra, *The Islamic Economic System*, p. 57.

<sup>46</sup> Ibn Mājah, *op.cit.*, "Kitāb al-Tijārāt," V. 2, p. 741 (ḥadīth No. 2200); Abū Dāwūd, *op.cit.*, "Bāb fi al-Tas'īr," V. 2, p. 270.

<sup>47</sup> Chapra, *op.cit.*, p. 58-59.

ing to Muslim jurists, if the rise in prices is due to monopoly or hoarding, the state should intervene by fixing prices, or by requiring the hoarder to sell the hoarded merchandises, or the monopolist to increase his output so as to remove the cause of price increase and thus undo the injury done to the people.<sup>48</sup> This principle is stated by al-Marghinani, a Hanafi jurist, who says:

It is not proper for the ruler to fix prices.... Because the price of a commodity is the right of the seller and should go to him. It is not proper for the ruler to deprive the seller of his right except when the fixing of prices is necessary to remove the injury done by the public.... If the sellers of food items despotically cross the limits of fairness in fixing prices and the ruler finds it impossible to safeguard the rights of the public without fixing the prices, then there is nothing wrong in fixing prices in consultation with experts.<sup>49</sup>

Discouraging price controls under normal conditions does not imply that appropriate restrictions of other kinds cannot be imposed under normal conditions if "public interest" and "social justice" demand this. It may, for instance, be perfectly justifiable for the state to impose controls on the quality of products sold to protect the interest of consumers, on advertising to ensure greater honesty, and on accounts of public companies to safeguard the interest of investors. In fact, the state would be failing in its duty if it does not do this. There is a famous case in the life of the Prophet Muhammad SAW relevant to this discussion. Once He was passing through an open-air market, He saw a grain merchant selling a heap of grain. The grain was perfectly dry outside but on thrusting His hand inside, it was wet inside. The Prophet therefore inquired why it was wet inside. When tried to justify himself by saying that the grain became wet due to rain, the Prophet asked him why he did not put the wet grain outside so that the customers would be able to see the defect. The Prophet then stressed that he who deceived could not be His (the Prophet's) followers.<sup>50</sup>

In this connection, it would be perfectly justifiable for the state not only to intervene but also to use its powers to eliminate social and economic injustice such as exploitation of labours. Caliph Abū Bakr enunciated his policies during his first address after being elected as the first Caliph of al-Khulafā' al-Rāshidūn. He said:

By Allah, the powerful among you will be weak before me until I have

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<sup>48</sup> Abū Yūsuf, *op.cit.*, pp. 48-49; Abū al-Ḥasan 'Alī al-Marghinānī (1965), *al-Hidāyah*, Cairo: 'Isā al-Bābī al-Halabī, V. 4, p. 92.

<sup>49</sup> *Al-Hidāyah*, V. 4, p. 93.

<sup>50</sup> Abū Dāwūd, *op.cit.*, "Bāb fī al-Tas'īr," V. 3, p. 270 (hadīth No. 345).



taken from him the right of the weak; and the weak among you will be powerful before me until I have taken for them their right.<sup>51</sup>

Caliph 'Umar b. al-Khattāb declared this concept when he said:

I will not allow anyone to treat others unjustly or to encroach upon their rights. If anyone does so, I will put one of his cheeks on the floor and step on his other cheek until he yields the right of others.<sup>52</sup>

**d. To eradicate poverty and create conditions for full employment and optimum rate of growth**

The inevitable outcome of the Islamic belief that human beings are the vicegerents of Allah is that they must lead a life that befits their status. The divine guidance embodied in Islamic teachings is intended to help them in the realization of this objective. Muslim jurists have unanimously held the view that the welfare of the people and relief of their hardships is the basic objective of the *Shari'ah*. This view would, in the economic field, necessitate economic well-being through satisfaction of all basic human needs, removal of all major sources of hardship and discomfort, and improvement in the quality of life, morally as well as materially. It would also necessitate the creation of an economic environment where the vicegerent of Allah is able to utilize his time and physical and mental abilities for the enrichment of his own self, his family and his society.<sup>53</sup>

In this regard, Dr. Chapra maintains that economic well-being with full employment and optimum rate of growth would be an indispensable goal of the Islamic system, because it would help realize not only the objective of broad-based economic well-being, but also impart to human beings the dignity demanded by their status as Allah's vicegerents.<sup>54</sup> Full and efficient employment of material resources would also be an essential goal because, according to Islam, all resources in the earth is meant for human welfare and need to be exploited adequately, without excess or wastefulness, for the purpose for which they have been created. Anybody who is unable to work deserves, without recrimination, reasonable assistance, which Islam has incorporated in its social solidarity programme.<sup>55</sup>

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<sup>51</sup> Abū 'Ubayd, *op.cit.*, p. 5.

<sup>52</sup> Abū Yūsuf, *op.cit.*, p. 117.

<sup>53</sup> Muhammad Umar Chapra (1986), *Towards A Just Monetary System*, U.K.: Leicester, pp. 34-35.

<sup>54</sup> *Ibid.*

<sup>55</sup> *Ibid.*

Dr. Chapra elaborates that a reasonably high rate of economic growth should be the natural outcome of policies leading to full and efficient employment of human and material resources and to broad-based economic well-being, the optimum rate of growth is by itself not of prime importance. The reason is that the requirement to achieve material prosperity within the framework of Islamic values requires, that; (i) it should not be achieved through the production of inessential or morally questionable goods and services, (ii) it should not widen the social gulf between the rich and the poor by promoting conspicuous consumption, and (iii) it should not harm present or future generations by degenerating their moral or physical environment.<sup>56</sup>

**e. To promote stability in the value of money**

Stability in the value of money should be an indispensable goal in Islam because of the unequivocal stress of Islam on honesty and fairness in all human dealings. The Qur'an unequivocally stresses honesty and justice in all measures of value: "And give full measure and weight with justice."<sup>57</sup>

So give full measure and weight without withholding from people what is theirs, and do not corrupt the world after its reform. This is better for you if you are believers.<sup>58</sup>

These measures apply not only to individuals but also to society and the state, and need not be confined merely to conventional weights and measures. They should encompass all measures of value including money. Money also being a measure of value, any continuous erosion in its real value may be interpreted in the light of the

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<sup>56</sup> *Ibid*; It may be argued that while the production of a bewildering assortment of conspicuous consumption goods raises the rate of economic growth, it does not contribute to real welfare. In fact, it generates social tensions by accentuating unhealthy competition to keep up with the pace-setting consumption of neighbours. For example, if fashions and prestige symbols are discouraged, the unnecessary spending on these would decline. This might lower the growth rate but would also reduce social tensions and conserve resources for satisfying the essential needs of the majority of the population. For a detailed discussion of the Islamic concept of economic development, see Khurshid Ahmad, "Economic Development in an Islamic Framework" in Khurshid Ahmad and Zafar Ishaq Ansari (eds.) (1979), *Islamic Perspectives: Studies in Honour of Mawlana Sayyid Abul A'la Mawdudi*, Leicester: The Islamic Foundation, hal. 223-240

<sup>57</sup> Sūrah al-An'ām (6): 152.

<sup>58</sup> Sūrah al-A'rāf (7): 85; see also Sūrah Hūd (11): 84-85, al-Isrā' (17): 35 and al-Shu'arā' (26): 181.

Qur'an to be tantamount to corrupting the world because of the adverse effect this erosion has on social justice and general welfare.<sup>59</sup>

One of the most serious problems of contemporary economic is persistent inflation with accompanying decline in the real value of money and monetary assets. In fact, stability in the real value of money is vitally important not only for the continued long-term growth of an economy, but also for social justice and economic welfare.<sup>60</sup> Inflation means a rise in the general level of prices in an economy<sup>61</sup> and it implies that money is unable to serve as a just and honest unit of account. It makes money an inequitable standard of deferred payments and untrustworthy store of value. It enables some people to be unfair to others, even though unknowingly, by stealthily eroding the purchasing power of monetary assets. It impairs the efficiency of the monetary system and imposes a welfare cost on society. It rises consumption and reduces savings. It worsens the climate of uncertainty in which economic decisions are taken, discourages capital formation and leads to a misallocation of resources. Furthermore, it rewards speculation at the expense of productive activity and intensifies inequalities in distribution of income and wealth.<sup>62</sup>

Inflation is thus a symptom of disequilibrium and is not compatible with the Islamic principles on balance and equilibrium. The concept of balance created by Allah SWT in the universe and desired in all aspects of life has been emphasized by the Qur'an in many verses. For example, Allah SWT says, "We sent our prophets with clear signs and sent down with them the Book and the balance so that people may establish justice."<sup>63</sup> Allah SWT also says, "He raised the sky and set the balance so that you do not transgress it; hence weigh with justice and do not depreciate the balance."<sup>64</sup>

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<sup>59</sup> Chapra, *Towards*, p. 37.

<sup>60</sup> Chapra, *Islamic Welfare State*, p. 204.

<sup>61</sup> McConnell Brue (2002) *Economics: Principles, Problems and Policies*, New York: McGraw-Hill/Irwin, pp. 146-147, 150-154; Douglas Greenwald (1982), *Encyclopedia of Economics*, New York: McGraw Hill Book Co., pp. 410-511.

<sup>62</sup> McConnell Brue, *op.cit.*, pp. 150-154; J. L. Hanson (1986), *A Dictionary of Economics and Commerce*, London: Pitman Publishing Ltd., pp. 215-216; Christine Ammer, at el (1984), *Dictionary of Business and Economics*, New York: The Free Press, p. 229; Donald W. Moffat (1983), *Economics Dictionary*, New York: Elsevier, p. 159; Chapra, *Towards*, pp. 37-38.

<sup>63</sup> Sūrah al-Hadīd (57): 25.

<sup>64</sup> Sūrah al-Rahmān (55): 7-9.

Moreover, inflation conflicts with a riba-free economy because it corrodes the principle of social justice. Although Islam urges justice to the borrower, it does not approve of injustice to the lender. In this connection, inflation does injustice to the lender in Islamic economy by eroding the real value of *qard al-hasan*, a loan extended without either *ribā* or profit-sharing.<sup>65</sup> In other words, any activity or behaviour of individuals, groups or institutions in an Islamic state which significantly erodes the real value of money should be considered to be a national issue of paramount importance and should be treated with a sense of concern.

It may be considered obligatory for the Islamic state to implement a healthy monetary, fiscal and income policies and also appropriate direct controls when necessary including wage-price controls in order to minimize erosion in the real value of money and preventing others from violating the Islamic norms of honesty and justice in measures and exchanges. According to Dr. Chapra, this step does not imply that Muslim countries, individually or collectively, would be able to stabilize the value of their currencies by their own effort. It would be achieved by all countries which are mutually interdependent and where the monetary and fiscal policies of some industrial countries are responsible for a substantial degree of price stability, to work together to stabilize the global rate of inflation.<sup>66</sup>

**f. To ensure socio-economic justice and foster equitable distribution of income and wealth**

The establishment of socio-economic justice and equitable distribution of income and wealth are unanimously considered to be the essence of Islam based on human brotherhood. Justice is one of the greatest contributions of Islam to humanity as a whole. Justice is a fundamental and crucial condition for man without which he cannot prosper in his economic and spiritual life.<sup>67</sup> In fact there is such a great emphasis on justice and brotherhood in the Qur'an and the Hadith. For example, Allah SWT declares:

*"Verily, Allah commands justice, the doing of good, the liberality to kith and kin and He forbids all shameful deeds, injustice and rebellion. He instructs you so that you may receive admonition."*<sup>68</sup>

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<sup>65</sup> Chapra, *Towards*, pp. 38-39.

<sup>66</sup> Chapra, *Towards*, pp. 38-39.

<sup>67</sup> Abul Khair Mohd. Jalaluddin (1991), *The Role of Government in an Islamic Economy*, KL: A.S. Nordeen, pp. 54-55.

<sup>68</sup> *Sūrah al-Nahl* (16): 90.

*"Verily, Allah commands you to restore the trusted deposits to their deserving owners, and if you judge between mankind, He commands you to judge justly."*<sup>69</sup>

Islam considers mankind as one family, all members of this family are alike in the eyes of Allah and before His law. There is no difference between the rich and the poor, the high and the low status, the white and the black. There is to be no discrimination due to the differences in race, colour, position and so on. The only criteria for a man's worth are character, ability, service to Islam and humanity which constitutes an Allah - fearing man. In this connection, Allah SWT and His Prophet Muhammad SAW say:

*"Verily, the most honoured of you in the sight of Allah is he who is the most righteous of you."*<sup>70</sup>

*"Certainly, Allah does not look at your faces or your wealth; He looks at your heart and your deeds,"*<sup>71</sup> and *"The noblest of you are the best in character."*<sup>72</sup>

The caliphates of the Islamic golden age played a major role in establishing justice in society. 'Umar b. al-Khaṭṭāb, the second caliph of al-Khulafā' al-Rāshidūn, once wrote to Abū Mūsa al-Ash'arī, one of his governors, asking him to treat everyone before him alike in respect so that the weak did not despair of justice from him and the high did not crave for undue advantage.<sup>73</sup> This spirit of social justice thoroughly permeated the Muslim society during the period of the Khulafā' al-Rāshidūn and the later period of Muslim caliphates. It may be pertinent to quote what the renowned chief justice, Abū Yūsuf who wrote a letter to caliph Hārūn al-Rashīd: "Treat alike all individuals irrespective of whether they are near you or remote from you" and "the welfare of you subjects depends on establishing the Divine Law and eliminating injustice."<sup>74</sup>

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<sup>69</sup> Sūrah al-Nisā' (4): 58.

<sup>70</sup> Sūrah al-Ḥujurāt (49): 13.

<sup>71</sup> Muslim, *Ṣaḥīḥ Muslim*, "Kitāb al-Birr," V. 4, p. 1577.

<sup>72</sup> Al-Bukhārī, *Ṣaḥīḥ al-Bukhārī*, "Kitāb al-Adab," V. 8, p. 35 (ḥadīth No. 56; p. 39 (ḥadīth No. 60).

<sup>73</sup> Abū Yūsuf, *op.cit.*, p. 117.

<sup>74</sup> *Ibid.*, pp. 4 and 6.

The Islamic concept of brotherhood and equal treatment of all individuals in society and before the law would not be meaningful unless accompanied by economic justice so that everyone gets his due for his contribution to society or to the social product and that there is no exploitation of one individual by another.<sup>75</sup> The Muslims are urged to “withhold not what is justly due to others”<sup>76</sup> meaning that every individual has to be given what is really due to him, and not more by depriving others of their shares. The Prophet Muhammad SAW warned: “Beware of injustice for injustice will be equivalent to darkness on the Day of Judgement.”<sup>77</sup>

Justice and brotherhood are essentially two different profiles of the same face. Both in turn cannot be realised without equitable distribution of income and wealth. The capitalist conversion to socio-economic justice and equitable distribution of income is, on the contrary, not based on a spiritual commitment to human brotherhood. Accordingly, the system as a whole, particularly its money and banking systems, is not geared to these goals and an unjust distribution of income and wealth continues to be perpetrated. In addition, because of the influence of socialism and political pressures, some efforts have been made to reduce these inequalities, particularly through taxation and transfer payments. However, these efforts have not proved to be very effective.<sup>78</sup>

In contrast to this, Islam believes in striking at the roots of inequality rather than merely alleviating some of the symptom. It has included into its programme a number of measures which would not allow an unjust distribution to take place. In addition, its programme is to reduce the remaining inequalities even further through zakat and numerous other methods to implement the equitable distribution of wealth and income which in line with the concept of brotherhood.<sup>79</sup>

**g. To provide physical and social overhead capital.<sup>80</sup>**

In order to achieve growth of an economy and the development of a healthy and prosperous society, the existence of certain infra-structure in the form of physical and social overhead capital is generally recognized to be the absolute necessity. Much of the

<sup>75</sup> Chapra, *Islamic Welfare State*, p. 206.

<sup>76</sup> *Sūrah al-Shu‘arā’* (26): 183.

<sup>77</sup> Muslim, *op.cit.*, “*Kitāb al-Birr wa al-Ṣilah wa al-Adab*,” V. 4, p. 1584.

<sup>78</sup> Milton Friedman (1962), *Capitalism and Freedom*, Chicago: The University of Chicago Press, p. 172; David Howell (1981), *Freedom and Capital*, Oxford: Blackwell, p. 3.

<sup>79</sup> Chapra, *Towards A Just Monetary System*, p. 37.

<sup>80</sup> Chapra, *Economic System of Islam*, pp. 66-68.

investment in physical capital would lead to the development of an economy, and the allocation of the such capital does not attract the private entrepreneurs on reason the direct monetary returns for investors are small and a lot of the capital required is required in this type of investment. Since the social benefits are so much in excess of private benefits, investment in these sectors must rank high in the development budget of an Islamic state.

Based on the historical evidences, public works programmes received considerable importance during the days of caliph 'Umar al-Khattāb. For example, road were constructed, canals were built, well were dug and scarcity of water was significantly reduced. Al-Māwardī has stated that one of the several functions necessary to be performed in order the make the state beloved by the people is the development of the infra-structure in the country such as build up the building and improve the quality of the road and highways.<sup>81</sup> According to Abū Yūsuf that if there is a possibility of increase of output and in tax receipts through the construction of canals, partly or totally funded from the state treasury.<sup>82</sup> Furthermore, Muslim scholars such as al-Marghināni mention that it is incumbent upon the state to use public funds to build bridges, rest house, canals and frontiers, and to maintain these in proper condition, to pay of sufficient salaries to judges, governors and teachers, to award pensions and scholarship to those eligible to receive them.<sup>83</sup>

The provision of social capital such as education, public health, etc would also be in undisputed area of the activity of an Islamic state. Since the "acquisition of knowledge is compulsory for every Muslim,"<sup>84</sup> state investment for education would be necessary. In the case of public health, it is the responsibility of an Islamic state or Muslims to provide adequate medical facilities in order to reduce suffering from debilitating diseases and to improve the health standard of the people.

#### **h. To harmonise international relations and ensure national defend**

With respect to the wider role of the Islamic state to make as rich a contribution as it can toward the spiritual and material uplift to Muslim Ummah and if resources permit, it should provide economic assistance to promote growth and development as well as relieve hardship in the countries concerned. The principles of its international economic relations is to co-operate in all matters contributing to "righteousness" and

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<sup>81</sup> Al-Māwardī, *op.cit.*, p. 123.

<sup>82</sup> Abū Yūsuf, *op.cit.*, p. 109-110.

<sup>83</sup> Al-Marghināni, *op.cit.*, V.2, p. 164.

<sup>84</sup> Ibn Mājah, *Sunan Ibn Mājah*, V. I, p. 81.

“piety,” to work positively for the welfare of mankind, and to refrain from co-operation in “sin” and “aggression.”<sup>85</sup> These principles relate to all Muslim countries and all people whom the Islamic state is linked by bonds of Universal human brotherhood as propounded by Islam. All Muslim countries are also united with the principles of solidarity and co-operation in all matters to enhance the unity, solidarity and dignity of the Ummah, and the glory of Islam.<sup>86</sup>

The Islamic state should also promote international understanding and peace in line with the teachings of Islam and should honour any treaties and agreement with other Muslim countries. At the same time, it should also strengthen its defences in order to prevent any aggression against its territory and freedom since the Qur’an says: “And prepare against them whatever force you can.”<sup>87</sup> However, its military strength should only be used for a “just” cause in a “just” manner against those who resort to aggressive designs. Allah SWT says, “And fight in the way of Allah against those who fight you, but do not transgress limits for Allah loves not the transgressors.”<sup>88</sup>

## CONCLUSION

From the above discussion, it could be concluded that the role of the Islamic state in economic activities is duly recognized in Islam. The Islamic state is essentially a welfare state raised on an ethical foundation, not excessively liberal to the extent of being indifferent to the ethical and material welfare of the people, and yet not despotic. The Islamic state has to carry out some basic economic functions in an economy such as eradication of poverty, the maximization of economic growth, the creation of employment, the establishment of an equitable distribution system and socio-economic justice and so on. The economic function of the Islamic state also include the spiritual upliftment and the material development in an economy.

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<sup>85</sup> Chapra, *Islamic Welfare State*, p. 210.

<sup>86</sup> *Ibid.*

<sup>87</sup> Sūrah al-Anfāl (8): 60.

<sup>88</sup> Sūrah al-Baqarah (2): 190.