

Economic Development in Islam

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1 INTRODUCTION

All nations irrespective of their ideological leanings strive to achieve for their people a reasonable measure of economic and social well-being consistent with their national aspirations. Muslim countries, in particular, need to do so with a sense of urgency and conviction. After having been systematically eclipsed from the forefront of politico-economic power and glory for centuries, they now find themselves riding the tide of Islamic resurgence in thought, word and action. In this context, it is important to clarify the concept of economic development from an Islamic perspective.

The basic theme of this paper concerns the role, place and meaning of economic development in Islam. It presents a theoretical construct showing how economic development is related to the achievement of welfare in the two stages of human life : the fleeting worldly life and the eternal life of the hereafter, and then the index of economic development.

2 ECONOMIC DEVELOPMENT : A HEURISTIC EXPOSITION

Let me first begin by emphasizing that Islam's basic concern is human welfare. The Quran and the Sunnah reveal an overriding interest in the overall welfare of mankind¹, while a unanimous view of the Fuqaha (Muslim jurists) is that the welfare of the people and their relief from hardships is the basic objective of the Shari'ah.² Development or Economic Development should be consistent with this central objective of Shari'ah. Economic development in Islam may be defined as a balanced and sustained improvement in the material and non-material well-being of man, and development as a multi-dimensional

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¹For example, see Al-Quran 2:201.

²See M. Umer Chapra, *Towards a Just Monetary System* (Leicester: The Islamic Foundation) 1985, p. 35.

process which involves improvement of human welfare through advancement, reorganisation and reorientation of entire economic and social systems in accordance with the norms and values of Islam.

In this context, I would like to emphasise the concept of a two-stage permanent life of human beings. The life of mankind consists of two sequential stages: the worldly life (from birth until death) which is temporary, and the life of the hereafter (that begins after death) which is eternal and permanent.³ Thus, human life per se is one complete whole which is eternal, although divided into two stages. Islam desires welfare of mankind for this complete whole.⁴ Human welfare, W , is thus a function of welfare in both the temporary stage, W_t , and that in the permanent stage, W_p , of life.

In a functional form,

$$W = f_1(W_t, W_p) \dots (1)$$

Here, W_t and W_p are again functions of separate sets of variables which determine welfare in the temporary and permanent stages of life respectively. The functions are as follows :

$$W_t = f_2(X_t, D) \dots (2)$$

$$W_p = f_3(X_p, D) \dots (3)$$

with $f_t, f_p, f_d > 0$

Where D stands for economic development, X_t and X_p are variables unrelated to economic development but responsible for welfare in the temporary and permanent stages respectively. Some of the important determinants of X_t are the sense of satisfaction derived from human accomplishment in this world (philanthropic contributions etc.), compassion in human relationship, environmental peace and harmony,⁴ and the like; X_p , on the other hand, depends on formal Ibadah, services to humanity, and so on. We shall concentrate our attention, however, on the determinants of D exclusively, and on an attempt to relate them to the human welfare functions spelt out above.

These formulations show that economic development is a common argument in both the individual welfare functions, W_t and W_p , which implies that economic development is an explanatory variable in the overall welfare function, W .⁵ In other words, economic development has an important role to play in the achievement of welfare in both the stages of human life.

³Al-Quran 87:16-17; 2:217.

⁴Al-Quran 2:201.

⁵Al-Quran 7:31; 28:77.

The uniqueness of the Islamic concept of economic development is that the terminology incorporates within it the welfare elements in both stages of human life.⁶ The welfare of these two stages is so related that W_p cannot alone maximize W , if W_t is zero or negative. And since the permanent stage (life of the hereafter) is definitely longer than the temporary one, W can never be maximized by sacrificing a major and significant portion of W_p .⁸

There may, however, arise a trade-off problem: an increase in W_t may involve a decrease in W_p and vice versa. In such a situation the individual concerned may choose an appropriate combination of W_t and W_p on the basis of the weights of arguments in the objective function. An individual with preference for W_p is expected to maximize W subject to the constraint of some minimum value of W_t . An individual at the other extreme may prefer to maximize W subject to the constraint of a minimum scale of W_p . A conscientious person with knowledge and practice of Islam may make his whole life as Ibadah by adhering strictly to the norms of Islam in all activities of life.⁹ So, W_t and W_p reinforce each other instead of creating a trade-off problem. The strength of such reinforcement depends, however, on the degree of such conscientiousness exhibited by different persons.

Since W_t and W_p are arguments of a constrained maximization function both of which have economic development as an explanatory variable, it follows logically that merely the welfare of the worldly life cannot be the sole objective of economic development in an Islamic economy. It thus becomes apparent that economic development also contributes to welfare in the hereafter.¹⁰

3 INDEX OF ECONOMIC DEVELOPMENT

Economic development in Islam would be that which contributes to welfare in the both stages of human life. The relevant question to ask now is: what is the index of such economic development? Broadly speaking, the index is based on (1) economic growth, (2) equity in the distribution of income and wealth, and (3) a healthy and congenial social environment of Islamic norms and values. A high economic growth and a reasonably high income level are important for the provision of food, shelter, clothing, education, medicare and necessities and comforts of human life.¹¹ A high income growth or a high income level is not, however, sufficient for providing the basic necessities and

⁶ Al-Quran 2:201.

⁷ Al-Quran 7:31; 2:201; 28:77.

⁸ Al-Quran 2:254; 42:20; 9:38; 16:107; 63:10; 87:16-17.

⁹ Man is created only for Allah's Ibadah (Al-Quran 51:56); and when economic activity is also ordained (Al-Quran 62:10), then it would also be an Ibadah.

¹⁰ Al-Quran 28:77.

¹¹ Al-Quran 62:10; 28:77; 7:31.

comforts to all the population. Because, if income is very unevenly distributed among the population, only a few will enjoy the fruits of growth and development while the others will suffer. This is not desirable as far as Islam is concerned. It requires that income and wealth should be distributed equitably.¹²

A healthy social environment enriched by Islamic norms and values is important for peaceful and disciplined living. If the people have all the material items, but the moral standard of the people is low, it will disturb the achievement of a good standard of living. Indeed, Islamic values help maintain a disciplined, harmonious and cordial life in the society. In their absence, an undisciplined life may create intolerable social problems and evils in this world, and unavoidable miseries in the hereafter due to the displeasure of Allah.¹³ Islamic values are considered essential in creating an environment of better living and hence for welfare in both stages of human life.

Economic development is related to Islamic values in two ways. First, economic development has been defined as a balanced and sustained improvement in material and non-material well-being of man which is not complete without a high moral standard resulting from Islamic values. Second, the establishment of Islamic values requires spending on Islamic education, propagation of Islam and so on.¹⁴ This spending is expected to be positively related to income level and the strength of one's Iman (belief).

Therefore, the index of economic development in Islam consists of economic growth, distributive equity and Islamic values (henceforth called growth, equity and values or Islamic values). That is, economic development (D) is a positive function of growth (G), equity (E) and Islamic values (V). Functionally,

$$D = f_d (G, E, V) \dots (4)$$

$$\text{with } f_g, f_e, f_v > 0$$

Each of these three components of economic development is now elaborated upon separately in what follows.

4 ECONOMIC GROWTH

In this context, it is relevant to investigate whether Islam provides any incentive for economic growth, and if yes, what are the factors which facilitate growth, and what is the product-mix to achieve human welfare. This is done below.

¹² Al-Quran 59:7.

¹³ Al-Quran 103:1-3; 85:10.

¹⁴ Al-Quran 9:41; 28:77.

4.1 *Growth Incentive*

Economic growth is not only allowed in an Islamic economy, there exists a strong incentive for making efforts to exploit resources in order to eradicate poverty and achieve growth of income and wealth.¹⁵ A fundamental economic principle of Islam is to prohibit monasticism and encourage economic activities not for the sake of accumulating wealth, but for the welfare of mankind.¹⁶

Poverty makes people unable to perform individual, social and moral obligations and, therefore, man is asked to seek Allah's protection from poverty, scarcity and ignominy.¹⁷ Poverty is declared undesirable as much as Kufr (apostasy) is abhorred.¹⁸

The search for material gain is considered so important that one is commanded to seek it on the earth when formal Ibadah (worship) is over;¹⁹ and earnings through right means have been declared fard (obligatory) after fard Ibadah (obligatory worship).²⁰ These are clear incentives for economic activities of man which would contribute to economic growth.

Development of agriculture, industry,²¹ trade and commerce is highly encouraged in an Islamic economy.²² No piece of cultivable land is allowed to be left unused. Development of manufacturing industries that cater for the needs of the people is treated as a religious obligation.²³ In addition, trading and business activities are given such a prestigious religious status that faithful and trustworthy businessmen are said to be with prophets on the day of judgement.²⁴

It is thus clear that enough growth incentive tempered with religious sanctions are provided in an Islamic economy.

4.2 *Growth Factors*

Growth incentive would be fruitless if the philosophical framework of Islam did not facilitate the mobilization of the factors necessary for economic growth. In fact, the framework of the Islamic economic

¹⁵ Al-Quran 62:10; 28:77; 2:22,29; 16:5-16,68-69,81; 15:20,22; 20:54; 36:71-73.

¹⁶ Al-Quran 57:27.

¹⁷ Hadith reported in Nasai, *Sunan*, Kitab al-Istia'za.

¹⁸ The Prophet (sm) once prayed, "O Allah, I ask your refuge from Kufr (apostasy) and poverty", thereupon a person asked: "Are the two similar?" The Prophet (sm) said: "Yes". - Nasai, *Sunan*, Kitab al-Istia'za.

¹⁹ Al-Quran 62:10.

²⁰ The Prophet (sm) said, "Searching for a halal livelihood is obligatory after obligatory ibadal". (Baihaqi, Tibrani).

²¹ Abu Ubaid, *Kitabul Amwal* (Egypt: Darul Fikr) 1975, pp. 367-368.

²² "Necessary industries are among the *fard al-Kifaya*" - Ibn Abidin Shami, *Radd Al-Muhtar Ala Al-Durr Al-Mukhtar*. (Egypt: Matba Maimana, 1318 AH), Vol.I, p. 32.

²³ Hadith of the Prophet (sm) in Tirmizi, *Al-Sunan*, Bab Ma Ja'a F. Al-Tijara.

system does this.²⁴

The Quran states that all the natural resources are meant for the benefit of mankind.²⁵ Man should explore them, use them for production, enjoy the fruits of producing goods and services, and use them for meeting moral and social obligations.²⁶

Optimal and efficient use of human resources is important for accelerating production as well as attaining other aspirations of life. This needs development of human resources and their proper and efficient use which are highly emphasised in an Islamic economy.²⁷ Among other matters, two things are necessary for the efficient performance of responsibilities assigned to a person : skill and sincerity. Neither of the two alone is sufficient for efficient economic activities. For, if a skilled person is not sincere in work efforts, or if a sincere person lacks skill, his performance is expected to be poor. The former requires education and knowledge which are strongly ordained by Islam, and the latter needs a high moral standard which is a basic objective of the Islamic code of life and of its moral teachings and formal Ibadah.²⁸

The contribution of capital in the process of production is duly recognised by Islam. Instead of denying the contribution of capital (like socialism) or paying capital a nominal interest out of large net revenues (like capitalism), Islam makes provisions for a due share for it as a predecided percentage of profits (or losses).²⁹ This recognition of the contribution of capital acts as a financial incentive for investment.³⁰ In addition, saving and capital formation is highly emphasised in Islam.³¹

The development of entrepreneurship is encouraged in several ways.³² First, man is commanded to work hard, and to have high

²⁴See A. H. M. Sadeq, "Economic Development and Islam," *The Dhaka University Studies*, Part C, June 1985, pp.59-64; also see by the same author "Socio-Cultural Environment for Entrepreneurship Development in Bangladesh" (mimeo) (Dhaka: World Bank and University Grants Commission of Bangladesh) 1986.

²⁵Al-Quran 2:22; 15:19; 57:25; 79:32-33; 16:5-6,10-11, 68-69; 36:71-73.

²⁶Al-Quran 63:10; 28:77; 7:31; 3:92; 61:11.

²⁷Al-Quran 53:39; 39:9; also see Khurshid Ahmed, "Economic Development in an Islamic Framework", in Khurshid Ahmed et al (eds.), *Islamic Perspectives* (Leicester: The Islamic Foundation), 1979, pp. 223-240.

²⁸Al-Quran 39:9; 83:1-3; 103:1-3.

²⁹For a detailed analysis, see A.H.M. Sadeq, "Distribution of Wealth in Islam" in K.T. Hussain et al (eds.) *Thoughts on Islamic Economics*, (Dhaka: Islamic Economic Research Bureau) 1980, pp. 44 - 93.

³⁰For a detailed analysis, see A.H.M. Sadeq, "Banking Revolution and The Problem of Personnel Development", *Thoughts on Economics*, Vol. 7, No. 1, Winter 1986, pp. 39 - 57.

³¹See M.Umer Chapra, op. cit., pp. 44, 85, 111 - 1117.

³²See A.H.M. Sadeq, "Achievement Motivation, Entrepreneurship Growth and Economic Development in Islam", *Thoughts on Economics*, Vol. 6, No. 1, Summer 1985, pp. 1 - 7.

achievement motivation. Second, the Islamic state is required to create, maintain and foster the growth of entrepreneurship and business. Third, entrepreneurs get incentive to undertake risky ventures under an Islamic economy since the risks are borne entirely by the contributors of capital, and not by the entrepreneurs.

The system of sharing profits (or losses) has the potential to increase investment up to the level at which marginal profit is zero. This is elaborated by Figure 1.

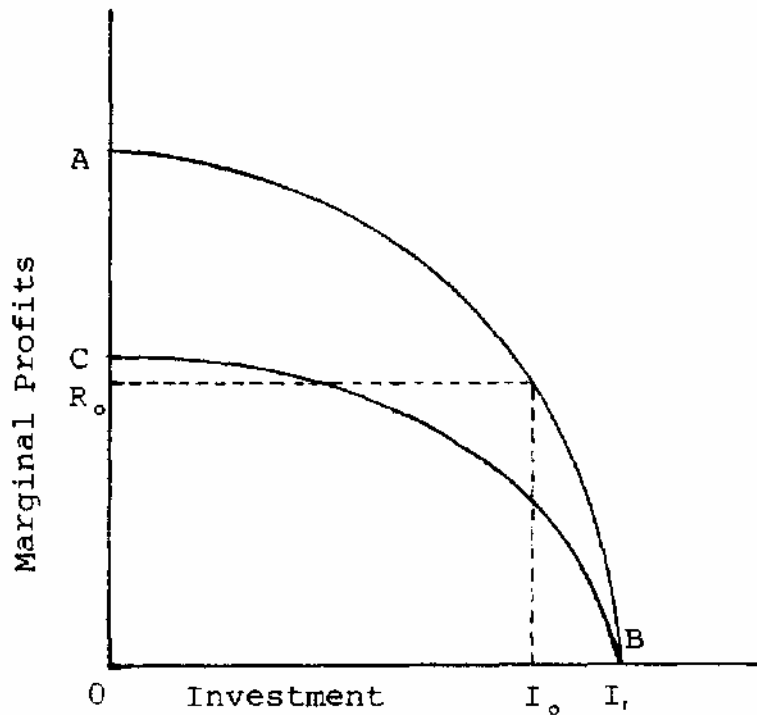


Figure 1

In Figure 1, AB depicts marginal profits (gross sales revenues of successive investments minus all costs other than payments to capital) which fall at the margin as investment increases, and BC is derived by subtracting vertically from AB a fixed percentage share of marginal profits payable to the contributor of capital, because profits are distributed on the basis of a ratio such that at each investment level the vertical distance between OB and BC is retained by the entrepreneur and that between AB and BC is received by the contributor of capital.

In a capitalist economy, investment will be carried out only to OI_0 when interest rate is OR_0 ; beyond this, losses will be incurred because an additional unit of investment adds more to cost than to profit. In an Islamic economy, investment can be carried out to OI_1 , since each additional investment up to OI_1 adds to profits both for entrepreneurs and contributors of capital.

An upward shift in production possibilities and profit function can be brought about by technological change. This involves research

and development (R & D) activities. The high Islamic incentive for economic growth and for devising ways and means towards that end implies encouragement for technological change in an Islamic economy. In addition, the direct commandment in the Quran to search for the bounty of Allah after prayer clearly implies a high incentive for search and research which includes R & D activities.³³

4.3 *Product-Mix*

Since human welfare is the basic objective of the Shari'ah, it cannot logically encourage economic growth irrespective of welfare implications. It has, therefore, clear instructions with respect to the choice of product-mix to be developed in an Islamic economy.³⁴ Such goods and services are prohibited which adversely affect physical and moral well-being of the people. Less harmful items are discouraged. All the rest are allowed, and the good things are recommended.

There is also a selection problem among the permitted goods and services. This selection would depend on the level of economic development attained by a country. A developed country which has attained a high standard of living and an equitable distribution of income may leave the production priorities to market forces. But if this is not attained, production priorities should be planned in such a way that the availability of basic needs is guaranteed; because a complete reliance on demand and supply forces may lead to socially undesirable product-mix in the economy.

It is thus important in an Islamic economy for an appropriate product-mix to be chosen — a mix which would depend on the level of economic development and the nature of existing income distribution and the corresponding phenomenon of meeting human wants in descending order of the hierarchy of needs, namely, survival necessities, basic needs and items of comforts.

Survival necessities are those without which human survival is impossible; basic needs are those without which life becomes difficult but not impossible; and items of comforts are those which make life comfortable.

5 EQUITY IN THE DISTRIBUTION OF INCOME

A high economic growth can add very little to welfare if the generated income and output is concentrated among a small section of the population. In fact, such growth may adversely affect welfare if it intensifies inequality in the distribution of income and thus create imbalance in the socio-political and economic power structure and distort the product-mix. Therefore, such growth cannot be regarded

³³ Al-Quran 62:10.

³⁴ See Khurshid Ahmed, *op. cit.*, pp. 223-240.

as true economic development. The economic system of Islam rejects such a growth game which may reduce rather than increase welfare.

A fundamental principle of the Shari'ah is equity in the distribution of income. "..... so that it (wealth and income) cannot circulate among a few rich of you".³⁵ Equity is built into Islamic economic system. Growth and equity are non-seperable and compatible phenomena in this system. Based on this equity principle, the size or distribution of income and wealth is effected through two channels : functional distribution and transfer payments.

5.1 *Functional Distribution of Income*

Functional distribution of income explains how national income is distributed among the factors of production. From the equity point of view, it is a basic objective of an Islamic economy that the goods and services produced in a particular year should be equitably distributed among the contributing factors right in the process of production.³⁶ Each factor is to be paid its due share in the produced goods and services according to its contribution and based on the principles of justice and equity.

One need not be doubtful about the compatibility of growth and equity in the Islamic economic system even if this compatibility or the degree of compatibility is not apparent in the contemporary economic systems. The system we are concerned with is efficiently designed (but yet to be fully demonstrated in modern terms) to make it logically consistent and compatible with seemingly two conflicting goals. For instance, in Figure 1, if the share of the contributor of capital is increased under a contemporary system by increasing the rate of interest, investment falls below OI_0 , whereas if capital's share is raised by increasing its percentage share in profits, the curve BC shifts downwards, but investment can still be carried out to the highest potential because successive units of investment continue to add to profits up to OI_1 despite movements in BC. (BC & AB still meet at B).

Thus the growth and equity goals are compatible in an ideal Islamic economic system. As a consequence, one may expect that the production possibility curve of an economy will shift to the right and the Lorenz curves to the left while the Gini co-efficient would fall with economic development.

5.2 *Transfer Payments*

The uniqueness of the Islamic economic system is that it incorporates in it unalterable provisions for compulsory transfer payments as well as optional charities from the relatively better-off people in the

³⁵ Al-Quran 59:7.

³⁶ See A.H.M. Sadeq, "Distribution of Wealth in Islam", op. cit., pp. 54-64.

economy to the relatively worse-off population.³⁷ This is done through the institutions of Zakat, Fitra etc. In addition, optional payments are so encouraged and emphasised that even if these are optional from legal point of view, they appear to a good Muslim to be morally binding on him.

Islam's concern for equity in the distribution of income is very profound, and constant efforts are made and all opportunities are used to promote the equity consideration.³⁸ For example, even the opportunity of the simple breaking of a vow after its confirmation is used for the purpose, and an atonement is ordered in the form of paying a sizeable amount to the less fortunate people of the society.³⁹ Such provisions are made used of to affect transfers to those societal groups.

6 ESTABLISHMENT OF ISLAMIC VALUES

Human welfare cannot be improved in societies that thrive on lawlessness, fetishism and hedonistic pursuits, despite the relative affluence that such societies may attain. In the context we are analysing, economic achievement is therefore not a sufficient condition for ensuring welfare even in the temporary stage of life. The establishment of Islamic values provides this missing link in the sufficiency conditions, and introduces a humane element in societal aspirations.

Since welfare in the permanent stage of human life is an argument in the human welfare function, the maximization of this objective function is constrained by the particular values taken by the variable V in Function (4) above. A high V value contributes to well-being in this world, and connotes Allah's mercy and pleasure which is a necessary condition for, and positively related to, welfare in the permanent stage of human life.

7 CONCLUSIONS

This brief exposition highlights the crucial interplay of factors particularly on the elements of economic development that go into the making of an Islamic human welfare function whose maximization is sought in a sequential two-stage framework of human life. Human welfare is as much desired in the life hereafter as in this worldly life. The two complement each other. Both economic and non-economic factors have their due share in the attainment of welfare in both stages. We have however, focussed our attention mainly on economic development as an explanatory variable, and have shown how this variable helps in the attainment of human welfare.

³⁷ Ibid., pp. 65 - 80.

³⁸ Ibid., pp. 76 - 78.

³⁹ Al-Quran 5:92.

Welfare of this worldly life cannot be the sole objective of economic development in an Islamic economy; economic variables also facilitate attainment of welfare in the life hereafter. The index of economic development in an Islamic perspective is thus seen to work through three principal determinants: growth, equity, and Islamic values.

An Islamic economic system not only provides all the required incentives but also exhorts people to work hard to attain economic growth. Entrepreneurship is encouraged and technological advancement fostered. Growth and equity are non-separable considerations. Equity in the distribution of income is highly emphasised. In addition to equitable functional distribution, there are unalterable as well as optional provisions for transfer payments on equity grounds from the relatively better-off to the relatively worse-off groups of the population. Finally, the establishment and nurture of Islamic values provides the missing link between economic development and human welfare both in the temporary and permanent stages of human life.

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