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Islamic Economic System and Pakistan: An Analysis

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ABSTRACT

This study focuses on the Islamic economic system. Islam is a complete code of life and it's a Deen. Some sources of income in Islamic economic system are Zakat, Ushr, Jizya, Fai, Khums, Khiraa, Ushoor, Nawaib and Zaraib. Capitalist is an economic system in which rich becomes richer and poor becomes poorer. There is no right of private ownership in Communist or Socialist economic systems. Socialism is the soft form of Communism. Zakat is an only system in Islamic economic system. Pakistan's economic system is mixed system. In Pakistan, unfortunately Zakat system is poor. There are many irregularities in Zakat and Baitul Mal funds in Pakistan. Class segregation, corruption, undocumented money and interest (*Riba*) are the major flaws in Pakistan's economic system.

Keywords: Capitalism, Communism, Interest, Islamic Economic System, Pakistan, Zakat

Introduction

Islam is a complete code of life. Islam is not just a religion but it is a Deen. It provides complete guidance to all the aspects of life. An economic system is a system of production of goods, distribution of resources, earning and spending within a state or federation. Various institutions, agencies and decision making processes are include in an economic system. So an economic system is a system of circulation of wealth and resources within a state. Islamic economic system is based on the teaching of Islam. Islamic economic system is the combination of those rules, values and standards which are recognized by The Holy Quran and Sunnah.

There are many economic systems in the world but major economic systems are Islamic economic system, Capitalism and Communism or Socialism. Ideological basis of two known economic systems i.e. Capitalism and Communism or Socialism is material while Emaan is the ideological basis of Islam. A good economic system provides benefits to every individual of the society. It also destroys the causes of corruption in a society. A good economic system deals equally with everyone and distributes wealth equally. A good economic system also creates a proper balance between capital and poor.

All the other economic systems of the world are man-made but Islamic economic system is not man-made. It is a system of Allah Almighty. Islamic economic system satisfies all the human needs in a state or society. All the other economic systems of world took good

aspects from Islamic economic system. It also focuses on the equal distribution of wealth. In Islamic economic system, rich and poor both get same benefits. Islamic economic system also emphasizes on the rights of poor and needy.

In the Holy Quran, chapter 59, verse 7 Allah Says:

“Allah has commanded that you spend on the beggars, and the needy, and the orphans, and the relatives in order that, wealth may not become concentrated among the wealthy.”

The Last Prophet of Allah, Hazrat Muhammad S.A.W.W. Said:

“He who has weapons and tools more than his needs and strength, should give them to the weak, and he who has food and nourishments above his needs, should give them to the pauper the needy.”

So Islam gives a clear message to help needy and poor and Zakat is the system which is very effective to reduce poverty. Islam also emphasizes on the circulation of wealth. So in this way, every society in the world can make progress, when rich will help poor. Islamic economic system emphasizes on the equal distribution of resources among rich and poor.

Islamic Economic System and its Sources of Income

Islamic state is like a federation where units or provinces have powers and all the powers are not in the hand of central government. Before Islam, in Arabia, people’s condition was very bad. Economic condition was also worst. Islam and The Last Prophet of Allah, Hazrat Muhammad S.A.W.W. gave an economic system which created the ideal society in the world. Islam told about the basic fundamental principles in economy which completely changed the economy of Arabia and Muslim world 14 hundred years ago. Those fundamental principles of economy are following:

Islam clearly told that there are two ways of earning. So Islam ordered not to use unlawful (Haram) means of earning.

In Surah Al-Nisa, Verse 161 Allah Almighty Says:

“Taking interest despite its prohibition, and consuming people’s wealth unjustly. We have prepared for the disbelievers among them a painful punishment.”

Islamic economic system reduces difference between rich and poor. There is a system of Zakat in Islam. In Zakat, rich (*Sahib-e-Istatat*) people pay 2.5% of their income to poor and needy. Islamic economic system follows Islamic law. There are two levels in Islamic economic system.

1. Spiritual level
2. Constitutional level

Spiritual Level

There are four principles of spiritual level in Islamic economic system which are followings:

- I. The owner of everything in the world is Allah Almighty.
- II. A human in the world whatever he/she earns or his/her wealth is because of Allah's blessings (*Fazal*). '*Fazal*' means a thing which a person has but he does not deserve to have.
- III. A person has right on his wealth only according to his necessities.
- IV. If a person has extra wealth from his necessities that should be spent in the way of Allah Almighty.

Constitutional Level

According to the constitutional level, in Islamic state, the sources of income are those which are prescribed by Islam. Following are the sources of income in Islamic economic system.

Zakat

In Islam Zakat is a major source of income in an Islamic state. Everyone in an Islamic state, who has Gold 7.5 tola or 52.5 tola silver, he or she has to pay Zakat. Zakat ratio is 2.5%. If anyone purchases any property or equipment with the intention of selling later or with business intention, also has to pay Zakat.

Jizya

In an Islamic state, non-Muslim will pay Jizya instead of Zakat. Those who permanently live in Muslim lands, called dhimmi and they pay Jizya according to the Islamic law. So non-Muslims pay Jizya because state protects them.

Ushr

In Islam, Ushr is a tax on agriculture land. 10% of agricultural production will be given to the government if produced by rain. If agriculture production will be through irrigation then tax or Ushr will be 5%. And if the production of agriculture is less than 1 ton then there will be no Ushr. Hazrat Umar (R.A.) was the first Muslim ruler to levy Ushr.

Fai

If any enemy of Islam left his money or wealth being frightened and surrendered then he has to pay 20% of his income in the form of tax to government. If a Muslim state attacks or during war gets the land of enemy and allows enemy masses to live in the land then they pay Fai. As on the occasion of *Fatah Makkah*, enemy or kuffar did not show any resistance and surrendered.

Khums

Khums is another form of tax in Islam. If someone finds some mineral or treasures from his land then he pays 20% to the government from his income. And during war, if enemy left wealth (*Al-Ghanima*) then Khums will be paid to government. And if a Muslim sales land or transfer land to non-Muslim then Khums will also be paid. If the lawful (*al-halal*) is mixed with unlawful (*al-haram*) then 20% has to pay to government to make it lawful.

Khiraaj

Khiraaj is a type of tax in Islamic state on the land which is under the territory of state but that land or state has its own rules. Like in Khyber, Jews of Khyber finally surrendered because they had no way out and were allowed to live in the oasis on the condition that they would give one-half of their produce to the Muslims.

Ushoor

Ushoor is a tax on import and export in Islamic state. Ushoor is laid by Hazrat Umar (R.A.).

Nawaib

Nawaib is a type of tax in Islam. During extraordinary circumstances like war then people pay extra taxes to government.

Zaraib

Tax on Public goods is called Zaraib. Hazrat Umar (R.A.) imposed these taxes on import and export.

Key Features of Islamic Economy System

Some of the key features of Islamic economic system are following:

1. Islam is a complete code of life. And ideological basis of Islamic economic system is Emaan. Islamic economic system is a system given by Allah Almighty so it is **flawless system**.
2. Islamic economic system allows **free market** and private ownership.
3. Islamic economic system also believes in equality. In Islamic economic system, rich pays and poor gets. There is a concept of **Zakat** in Islam. All the other economic systems do not have such kind of concept.
4. Islamic economic system focuses on the **circulation of wealth**. It is against the keeping money.
5. There is no place of interest in Islamic economic system. Interest is like a war against Allah Almighty and The Holy Prophet S.A.W.W. according to the Islam.

6. Earning money through unlawful ways like gambling is haram in Islam. Earning profit in business through lie is not acceptable in Islamic economic system.
7. According to the Islamic economic system combined business is allowed. If one person invests and other runs business then both will get profit but in the case of loss, only investor will have pay all the loss.
8. Islamic economic system is against monopoly.

How Islamic Economic system is better than all the other economic systems of the world? A comparison with Capitalist system

There are many economic systems in the world but major economic systems are three i.e. Islamic economic system, Capitalism and Communism or Socialism. The purpose of this study is to compare Islamic economic system with Capitalist economic system.

Capitalism

Capitalism is an economic system of modern age. It politically supports democracy and economically supports free and open market. According to the Capitalism, business and industry will be in the hands of private people. All the means of production will be in the hands of private people in a state. And any company or business will earn profit has to pay tax to government. In Capitalism, wealth circulation always remains in the hands of rich people.

- Capitalism is a system which says that if you believe in God that's your personal thing.
- Capitalism stresses on three rules
 1. We are liberal
 2. Men, women are equal
 3. Everything will be done in the interests/ Decisions of majority will be accepted.

Poor, rich ratio in Capitalist economic system.

1820	1 rich: 3 poor
1913	1:11
1950	1:35
1973	1:44
1992	1:72
2010	1:115

So Capitalism is a system in which poor is getting poorer and rich has everything. So in this system rich always gets and poor get nothing. Some strong economies of the world

which are following this system have more than half of its money in the hands of only 10% population.

10% People Have Wealth of the Countries

Switzerland	71.3%
USA	69.8%
Denmark	65%
UK	58%
Canada	53%

(Haseeb, 2017)

A comparison of Islamic and capitalist economic system

	Islamic Economic System	Capitalist economic system
Distribution of Wealth	Circulate wealth and distribute.	Increase production/ Increase GDP
Desires	Basic Desires like Bread, Cloth and House will be provided.	Some desires will be fulfilled of some people.
Wealth in the Hands	Wealth will be in the hands of rich and poor equally	Wealth will be in the hands of rich only.
Ownership	Hazrat Muhammad S.A.W.W said that "All Muslims have equal share in Water, Meadows and Fire." Fire means Oil, Gas and Electricity. No one will pay for these things.	Wealthy can take all the resources like Oil, Gas in their hands. Everyone can buy resources like Gas, Oil.
Agriculture	I. Everyone who will make barren land able to cultivation will be the owner of that land. II. And if one person don't use agriculture land for three years	Everyone can buy land for their interests.

(Haseeb, 2017)

Islamic economic system is the best system for economic growth. After The Last Prophet of Allah, Hazrat Muhammad S.A.W.W., Khulf-e-Rashdeen followed the same economic system where during the reign of Hazrat Umar (R.A.) people used to find poor people for Zakat where nobody accepted Zakat because of good economic conditions. So this is an ideal economic system.

Both Capitalism and Communism have been failed in contemporary world. In today's world, almost in all the countries of the world, the wealth is only in the hands of some people which are being richer day by day. Almost 2000 billionaire of the world have more than 60% money of the whole world. And more than one billion people are living under the poverty line which means their daily income is less than 2 dollars. In 2019, top 10 companies of the world had total income of \$3600 billion. So this shows the inequality in economy in the world.

In today's world, China does not have communist economic system. China's political system is communist where one party is ruling but they have changed their economic

system. Now China has neo-socialist system for its economy. It's a very soft form of socialism where people also have their private businesses.

Pakistan and its Economic System

Pakistan is an Islamic state where all the laws are according to the Islamic teachings but unfortunately Pakistan's economic system is mixed economic system. Pakistani economy is based mostly on the capitalist economic system. There is a complete concept of Zakat in Pakistan. But unfortunately interest/Riba is also common in Pakistan's economic system. In Pakistan like other world, there are two classes, one is rich and other is poor. Rich are being richer day by day while poor people don't even have food for two times in a day. In Pakistan, more than 25% people live under the poverty line. It means they earn less than 2.5 dollars for a day. On the other hand, some families in Pakistan have billions of dollars. Pakistan is not a poor country. Allah Almighty blessed Pakistan with natural resources.

1. Young Population more than 65%. While Japan, Denmark and Sweden have old population therefore the retirement age in those countries is 65.
2. Reko Diq mine. An estimated idea is that there is only gold in Reko Diq more than \$2500 billion.
3. Thar Coal.
4. Largest Canal system in the world is in Pakistan.
5. Pakistan is at 4th place in wheat production. Denmark and France economy also is based on the agriculture land.
6. Pakistan exports fighter jet and drones.

Capitalist economic system is a system in which rich earn more and poor gets nothing. In Pakistan, the same thing is happening. Zakat system is very weak in Pakistan. People have a lot of money but they are not ready to pay Zakat. Therefore in the society, there is a big difference between rich and poor. If Pakistan implements Zakat system according to Islam then economic condition of Pakistan will be better. In this way, poor will get and rich people will pay.

In Pakistan, Zakat and Ushr system was introduced through Zakat and Ushr ordinance, 1980 by General Zia-ul-Haq on the request of Council of Islamic Ideology in 1980. Federal Zakat Council was the institution to check Zakat system in Pakistan. And at federal level, the custodian of FZC was the Justice of Supreme Court of Pakistan. At province level, the Justice of High Court was appointed as the custodian. In 1983, 32 thousand Zakat committees were established in the country at federal and province level to collect Zakat. That system of Zakat remained in country for 30 years till 2010.

In 2010, after 18th amendment of the constitution, it shifted to provinces. Collection of Zakat from banks goes to federal government then it goes to the provinces according to the share. Auditor General of Pakistan conducts Audit of Zakat every year. In Punjab, 'Zakat and Ushr Department' is responsible for the disbursement of Zakat funds. There are two types of audit in 'Zakat and Ushr Department', one is external and other is internal audit. In

2020, Auditor General of Pakistan disclosed to the Supreme Court of Pakistan about their regularities of 3.67 billion rupees' out of 5.96 billion in Zakat and Baitul Mal funds. Irregularities and corruption are the main reason of failure of Zakat system in Pakistan.

Pakistan is an Islamic state but interest (*Riba*) system is common here. Riba is an Arabic word which means 'profit'. It means increasing or exceeding in term of business or exchange. System of exchange in 7th and 8th century was based on coins or metal money. In that time, there was no concept of inflation. Prices of goods remained constant. So in this situation, if one person 'A' gives money to person 'B' and if 'A' asks more money on given money or take some money after specific time and actual money remain same then that would be interest.

But now in 21st century, there is a concept of inflation. Prices of goods are not stable. The currency goes up and down with the price of dollar. Circulation of wealth in 2013 in Pakistan was 2500000 million and 2018, it was 4990508 million rupees. If one person 'S' gives one million rupees to 'T' in 2013 for 5 year period and in 2018 the value of that money is almost half. If 'T' returns 1 million rupees in 2018 that would be very disastrous for 'S'. So to sustain the value, inflation adjusted amount will not be considered interest or riba. But on the other side, if one person gives 1 ton wheat and asks 1 ton wheat + x amount in return then that is interest (Malhan, 2019).

Suggestions for Pakistan's Economy

Pakistan is an Islamic state and but its economic system is not Islamic but mixed economic system. Pakistani people every year donate a large amount. There are some suggestions for Pakistan's economy which are following:

1. **Class segregation** is one of the biggest reasons of Pakistan's bad economic condition. Rich people are being richer day by day while poor are being poorer. Pakistan has to finish the gap between poor and rich. Poverty gap is a very affecting tool and Pakistan should try to remove this gap. Taxes should be only for rich people. And some money should be for the poor society in the country. Pakistan has to reduce this poverty gap. **Zakat** is a best system to reduce class segregation in Islamic economic system. There is a concept of Zakat in Pakistan's economic system but there are many flaws in this system. Government has to take solid steps to collect Zakat. There should be a proper system of Zakat collection.
2. Pakistan has to introduce a **micro economic system**. Economy starts from grass root level. If one poor person earns well then economy will grow fast. There should be some loans for poor and deserving people on merit bases. And women also should be the part of economic development.
3. One of the major problems in Pakistan's economy is **undocumented money**. Unfortunately many rich people and politicians looted money in Pakistan which is the basic reason of bad economic condition. Imran Khan's government tried to bring back that looted money to Pakistan but some countries like Great Britain, Switzerland and USA refused it. But undocumented money and property which is in the country, that money should be traced. There are billions of rupees in Pakistan which are undocumented. Pakistani government should focus on it and try to find it.

4. There is a need to make Pakistan Bait-ul-Mal more effective. In 2018, **Pakistan Baitul-Mal Board** disbursed 2429 million rupees for poor and needy which was more than collection of Zakat. But that all was in papers only. Government need to find actual deserving people to help them. According to the research-based advocacy report, Pakistan donates 554 billion annually. Pakistani people pay 72% in the month of Ramadan. So there is a need to remove flaws from PBM to get good results.
5. Pakistan takes loan on high **interest** from World Bank and IMF. Interest is forbidden in Islam then how Pakistan's economy can grow with this. And within the country, there should be no business with interest.
6. Government need to take **incentives for poor**. More than 25% people in Pakistan are living under the poverty level.
7. **Corruption** is the main reason of destruction of economy in Pakistan. In corruption, Pakistan's ranking is 124 out of 180 with 31 score according to the Transparency International report 2020. In 2019, it was 120 out of 180 with 32 score. So there is need to strengthen Anti-Corruption institutions like NAB and FIA in Pakistan to get good results in all the fields of country (Dawn, 2020).

Conclusion

Islamic ideal society's base is on the principles of Islam. In ideal society everyone gets peace, justice and social security. Today Muslim world needs to understand the importance of Islamic economic system and need to highlight the ways earning like lawful (*Halal*) and unlawful (*Haram*). Interest needs to be banned in Islamic society which is one of the problems in economy. And Pakistan needs to build a society where everyone gets justice, basic needs of life which are bread, house, cloth and water according to the Islam. Islamic economic system is the only solution for better economy in today's world. Capitalism and Communism/Socialism have been failed in the world. Poor people in the world are not getting benefits with such economic system like Capitalism. To reduce class segregation in Pakistan, Zakat is the best solution but there is a need to make Zakat system better in Pakistan. There are many irregularities and corruption in Zakat system of Pakistan. Pakistan needs to implement actual Islamic economic system otherwise economic condition will be worst day by day because it is the system of Allah Almighty.

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