

Chapter 1

The Social Aspects of Islamic Economics

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Introduction

In this introduction to the social aspects of Islamic economics, I would like to emphasize four points. First, the role of Islamic finance in regard to the social aspect of finance or of the economy in general; second, the principle of cooperation and how it is entrenched in Islamic economics and in the Islamic economics system, an outcome of which is the Islamic form of insurance; third, the principle of caring about others, the principle of mercy, which is also entrenched and functionalized in the Islamic economic system; and fourth, *Zakāt*, *Ṣadaqa*, or charitable giving, and *Waqf* which may be translated as endowment or trust.

1. The Role of Islamic Finance

Islamic finance for profit is itself based and founded on the social aspect and social consideration of the Islamic economic system, so it is not alien from that, although it is action for profit. It is definitely founded and based on the principle of realism. We do not deal with anything that is only imaginary, fake, virtual or anything like that. We deal with things that are as they are in their reality on the ground. This also means that we consider all things that do not harm individuals or society or the environment, even harming pieces of things that could

be very remote, not only other creatures but even things that are called in our religion part of the nothingness, and nothingness is extremely disliked and is made to be remote from Islamic economics and the Islamic system in general.

The point that I want to make here is that Islamic finance, even when it is for profit, deals with things that benefit or at least do not harm society, individuals, or the environment. So, when we restrict the concept of financing as derived from the concept of property, because Islamic finance is definitely asset based — not asset based in the meaning of Moody or other rating agencies, but asset based in the real sense that to provide any finance you have to count on an asset that is transferred again with the finance — when we talk about profit, or for-profit Islamic finance, we talk about it as a kind of finance that focusses on things that benefit society, benefit human beings, benefit the environment, and benefit creatures in general. We do not accept anything that is outside this kind of basket.

Now to that I want to add another element which is very important, and which is often missed by many writers, which is the implication of realism which is the rejection of any financing of any asset that does not generate benefit, does not generate added utility. This is why recycling of debts is not acceptable in profit making Islamic finance. That includes what we call Islamic banks. For the same reason we reject financing any virtual asset like for instance options and futures. When you talk about this kind of realism in Islamic finance, being asset based, it means that we are focusing, we are rechanneling all resources to be produced and to be used only in the production and exchange of added value. When there is no added value to human beings and their environment then Islamic finance that aims at making profit is not valid. In other words, Islamic finance that makes profit by its nature and by the nature of the concept of the asset that it can use, is an Islamic finance that is not only

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friendly to society but rather it is extremely friendly. It does not allow using financial resources outside anything that does not generate added value to humanity, meaning that many pure financial transactions are not really acceptable in Islamic finance.

Let me give a brief example before going on to another point. Does the economy increase from transferring the creditor of a debt to be X instead of Y? Or the debtor of a debt to be M instead of N? There is no added value created in this transaction, and this is why we do not include it in the realm of profit-making Islamic finance. We do not include trading debts or transferring debts from one bank to another, or one person to another, and this includes most of the fake transactions that do not produce added value that are done in the world today, and where a lot of finance is being used which we do not allow, and we redirect all this finance to produce goods and services that benefit humanity. In other words, the nature of Islamic finance is definitely making it society friendly and very much important to increasing the welfare of human beings.

Now of course this is based on justice. When we say that you earn by asset you do not earn by fake transactions. Examples of fake transactions are gambling, or pure speculation which is similar to gambling. Islamic for-profit finance always takes care of the ethical values of benefitting society, benefitting others, and creating value. A transaction without added value creation, like the charge that you take for transferring a debt from one person to another, is a fake value added. It is not a value added although our current statistics calculate it as part of the GDP. It is not as a matter of fact, because it is not a true added value.

The point here is that Islamic value for profit finance is itself the main block of Islamic social finance all over the world, and it is a big block in that consideration.

2. Principle of Cooperation

The second point is the principle of cooperation. The principle of cooperation is well established in the Holy Qur'an. There are specific verses in the Qur'an and examples in the sunna that mention it from which we get the concept of Islamic Insurance. The Organization of Islamic Cooperation (OIC) Fiqh academy decided to use the term Islamic Insurance rather than "*Takāful*" for several reasons. One of them is that the term *Takāful* is too broad. Islamic Insurance is founded on cooperation, not on the sale of risk. The elimination of the sale of risk is also a socially friendly principle because risk is something that always relates to an asset or to an action. How can you sell it by separating it from an action or an asset? This is similar to the mentality that separates profit from production. Making profit without producing anything is an alien concept for Islamic finance.

The principle of cooperation is very important in Islamic Insurance because the idea here is that instead of the sale of risk, we create an institution. This is not new as a matter of fact because it does exist in the capitalist society among that small number of wise people who look at the idea from a cooperative basis. The same principle is adopted in Islam, but the difference here is that we do not accept the sale of risk, and we say that the only alternative, the only way to face the increasing risks in the contemporary mechanical society where we use many machines, is through the principle of cooperation, not through the principle of the sale of risk. Cooperation is to put resources together and then face that risk that any one of us may be exposed to and we compensate the person to whom a loss causing peril may occur.

The older form of this kind of insurance was really *Waqf*. That idea was undertaken in the full sense by *Waqf* on one hand and on the

personal level by *Zakāt*. Essentially there were *Awqāf* (*Waqf* pl.) that were set up partly with the intention of helping those people who were exposed to any disaster or any peril instead of it destroying their lives. A modern form of this is *Takāful*.

The concept of *Takāful* is to put resources together, especially of those who are exposed to similar perils. We put resources together and compensate those who are actually exposed to any of those personal or economic disasters. *Takāful* is based on this, and recently we see many writings seeking to reform Islamic banking. After some experiences we definitely need reforms in several areas, although there are many areas of excellent performance by Islamic banks, such as not financing anything that is harmful to the society or to human beings. That is one of the proud claims of Islamic banking today, even though they still need some reform, and maybe some revitalizing of their Islamicity. My point here though is that unfortunately, the *Takāful* principle and the *Takāful* idea was hijacked by profit making companies. There were reasons which we will not go into here, but the principle of *Takāful* which must be purely cooperative has been hijacked by those who rush to make a profit, and they have transformed it into an entity within their entity; they have established a company that aims at making profit to manage only a fund that is a cooperative fund. I remember when the first company of that kind was established, it was the Jordan *Takāful* company in Amman, Jordan.

During the process of establishing that company, I happened to meet its founder who later became the CEO and when he explained the idea to me, I looked him in the eye, and I asked him, “Did you learn that from the Devil himself, or from anything else?” And of course, the Sharia advisor of that company who gave them that idea was really a devilish person. But anyway *subhāna llāh*, (glory be to the God), this is the way life goes. They abused the principle of cooperation, instead of it

remaining managed on a cooperative basis as we have now only in very remote areas like the island of Trinidad, where there is a cooperative insurance union based on cooperative principles and it is still managed on a cooperative basis not on a for profit basis like what has happened to almost all the *Takāful* companies in the world today.

We need to go back really, to reform the *Takāful* companies and go back to create them either on the basis of a *Waqf* as one of the scholars suggested or on the basis of pure cooperation both on contribution and in management without having a profit maker among them to control and manage and create problems for Islamic insurance companies, the *Takāful* companies in today's world.

3. Caring about Others

My third point is that in the Islamic economic system we do not believe in the invisible hand. I remember about forty years ago, in a discussion at Lafayette University in Indiana with Dr. Abraham Yudovich, I told him that the invisible hand myth had already been broken. It does not really work for your own interest, does not assure the interest of society nor the interest of the minority that might be neglected in that society and that is represented in the Holy Qur'an, Sūra Yā Sīn 36:47, which says, "Why should you ask us to feed those whom God could have fed?" This is the "invisible hand" which we do not accept in Islamic economics. Yes, we need you to feed those who God could have fed if He so wishes, but God wants their feeding to be through you. You express a concept of caring about others, and you develop the concept of *Rahma*, of mercy and caring about others in your heart because that benefits you yourself. It not only benefits financially or economically or materially the poor whom you are helping, but in fact it may benefit you equally or maybe more, and this is why Sūra at-Tawba, 9:103, talks

about *Zakāt* as purifying and some English translations translate that as “On the Day of Judgement,” but it is in this life! It purifies the heart of the giver. It makes him a person who cares about others. It gives him that pleasure, and that elation, as a matter of fact, a pleasure that when you give you know that you really are helping. You are activating the concept of mercy and the concept of caring in your heart and once it is activated that takes care of you first of all before any other thing and that helps you more than anybody else. You are financially helping the other, but here the Islamic concept of mercy and caring is extended to the environment, to all creatures, even to (inanimate) things. Without it the action is rejected, it is worthless like sitting on the bank and throwing stones in the river. Action without mercy and benefit is not acceptable in the Islamic economic system and in our religion in general.

4. *Zakāt*

The principle of mercy, of caring about others is also a civic requirement because the Islamic economic system is the only system in the world that institutionalizes this concept, among religions and among economic systems. It is institutionalized at a minimal level that you cannot avoid. If you do not fulfill that minimum level, you are not a Muslim. If a country does not uphold this minimum level, it is not a Muslim country, it is not Muslim majority, so you are required to do that minimum as a religious requirement, because the Holy Qur’an 9:103 addresses the Prophet Muhammad as a leader, as the head of a state, saying, “Take out of their properties the *Zakāt*.” Now this *Zakāt* that is taken out of properties is actually a kind of unique levy. It has strong religious support to the extent that if you do not do it, you are not Muslim, so it defines who is and who is not Muslim. More importantly, it is a civil thing that is collected from the rich and it is about wealth and

income, not income alone. There are many researchers today in America who say that a taxation system that focuses on income alone is the main reason for the increasing gap between the poor and the rich. *Zakāt* is not on income only. It is an example of a duty that is actually considered as the right of the poor and needy and that financial duty is not only on income but also on wealth.

There are several obligations, I should say the *Zakāt* obligation in any country would make something between 2½ to 3 % up to 7 to 7½ % of GDP. There are several studies. I made one of them earlier and other studies came after mine in different countries which show that *Zakāt* can actually bridge the gap between the poor and needy and the wealthy. Notice that *Zakāt* is a yearly obligation that continues year after year, and one of its objectives is not to freeze or avoid investment in your properties, because the Prophet also said you should invest in properties in order to avoid their being depleted by the consecutive payment of *Zakāt*.

Zakāt is a minimum obligation throughout the history (of Muslims), but Muslims gave a lot more than the obligatory *Zakāt*. Muslims throughout history were not satisfied to pay their *Zakāt* alone. They were paying their *Zakāt* and historically their *Zakāt* used to be distributed immediately to the poor and needy, but historically Muslims were not sufficed by *Zakāt* alone. Actually, the Qur'an calls for making charity a lot more than it calls on the obligation of *Zakāt*. There are about 167 verses that talk about voluntary charity and encourage it whereas there are about 28–30 verses that talk about the obligation of *Zakāt*, and in the Hadith, the sayings of the Prophet Muhammad, there are also many references to charity. In fact, some of these charities are very marvelous, as the Prophet narrates in a Hadith Qudsi, God says, "I was hungry, and you did not feed Me." How could it be that my Lord would be hungry? God answers that there was a person who was hungry, and you knew

about that, and you did not feed him, and if you had fed him, you would have seen Me there as if you had fed Me.” So, the idea is so strong in the Hadith that Muslims as a matter of fact did multiples of the *Zakāt* through voluntary donations. They have historically given a lot of voluntary donations and there are a lot of stories about this in history and also in the present day.

5. *Waqf*

Definitely, if we want to talk about voluntary donations there are several multiples of the requirement of *Zakāt*. One of these voluntary donations is a kind of unique form although it was not invented by the Prophet Muhammad or by his companions. But yet the Prophet Muhammad apparently did not know about earlier examples because when he suggested to ‘Umar ibn al-Khattab, he suggested a unique form of endowment. He did not suggest an endowment like it was done in other societies. There are reports that in ancient Egypt and in ancient Rome there were some kinds of endowment, but these endowments were exclusively in the hands of the religious quarters and religious ranks. When Prophet Muhammad advised ‘Umar ibn al-Khattab, his companion to create an endowment, a *Waqf*, he advised him to make it civil. He told him, “Hold on to the property itself so that it cannot be inherited by anybody, like any of your heirs, it cannot be sold, it cannot be disposed of, and assign its fruits to the poor and needy and their right.” ‘Umar ibn al-Khattab did that and he kept himself as the manager and the name that came to be used historically is *Mutawallī* or *Nāzīr*, manager of this endowment, of this *Waqf*, and when he was dying, he did not assign the imam of the mosque or the khalifa who would succeed him. He did not assign either of them as the manager of his *Waqf*, but he assigned his daughter and after that he said anybody

from our descendants of the Khattab family, so it is a civil institution not a religious institution. This is what Prophet Muhammad established in the form of *Awqāf*, and then it was carried out by Muslims throughout history until the 1800s when the government started controlling it, unfortunately. In the 1800s the first successful attempt was the creation of a Ministry of *Awqāf* in the Ottoman state and that was when they took *Awqāf* from being a civil institution to an addendum with all the bureaucracy and the mismanagement of the public sector. Now the *Awqāf* idea is a civil organization which is run on the basis of efficiency and given to the poor and needy.

Of course, we can distinguish between two kinds of *Awqāf*. There was a house in Damascus that was made for unwanted cats, and I knew it and I visited it. I was born and grew up in Damascus, and I visited that house more than once. In my time it was in the hands of the government, and it was really neglected, and no cats were in it, but it was used or rather abused by the governments for other projects. This house of the cats was part of the endowment of *Waqf*, and it included an orchard from which the fruits were to be sold and to provide money to feed the cats. The cat house still carries the name Cat House even today, but it is used for other projects. So, the *Awqāf* in the Islamic context were expanded to create many kinds, many forms, many objectives.

One of the forms that was created by our ancestors was what we call a family trust. In fact, it was taken in the UK on the example of the Mālikī school in Morocco in the seventeenth century so the *Waqf* that is a trust for the family that is to benefit your descendants one generation after the other and that could be a very helpful and useful thing for creating the assets to be used by different generations in the future.

Muslims throughout history expanded not only by adding other kinds of trust like family *Awqāf*, but they also expanded the objectives of *Awqāf* to areas that are unimaginable. There are many areas of *Awqāf*

based on mercy. There is a *Waqf* for mercy to birds in the Umayyad Mosque in Damascus.

Another *Waqf* is a field to produce grain to feed the birds. There are *Awqāf* in Algeria and other countries to give grain to the birds. Also, in the grand mosque in Mecca and also in the Prophet's Mosque in Medina.

There is an interesting *Waqf* that is to boost the spirit of a terminally ill patient in a hospital. You hire two people to stand near the head of his bed and chat as if they are talking to themselves only and saying that this person is going to be well, he is improving, he is responding to medicine, he is going to leave the hospital soon. They do not mention that it is to the graveyard but do it simply to improve his spirit. These people are hired by the *Waqf* for that objective. There is *Waqf* for wild animals in the mountains to give them food so that the wild animals will not come down from the mountains to attack villages.

There were *Awqāf* of all kinds and of course Cash *Waqf* is one of these *Awqāf* which are marvelous, and they were used in Muslim Spain in the period of Andalucía to help businesses, to give loans to small businesses without any increment. They also existed during the Ottoman State. I say "state" here because our Turkish scholars do not like the use of the words "Ottoman Empire." It is the name used by westerners, but the Turkish writers prefer the name Ottoman State. During the Ottoman State, Cash *Waqf* was used to provide financing for small business and also to compensate for losses when disasters happened like the big fire that engulfed over one hundred shops in Istanbul. So, the earlier Muslims invented Family *Waqf*, and the later Muslims invented Cash *Waqf*, and they used it to give interest-free loans to help small businesses when they needed it, or to support relief from disasters for the micro and small businesses in the Muslim lands.

So, the principle of mercy and caring about others is expressed in

three pillars. The minimum required obligatory part of the system, the first pillar, is *Zakāt*, which is estimated to be around 2½ % and 7½ % GDP which is not a small amount, and the second pillar is *Ṣadaqa* or general charity which is not less important in its amount than the *Zakāt*, and then the *Awqāf* which is a permanent form of charity where you distribute the fruits of it or the benefits of it while you keep the assets for future generations to benefit from.

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Professor Monzer Kahf is a well-known researcher, scholar, writer, and instructor in many areas of Islamic economics, Islamic banking, and finance. He has published numerous books and articles in English and Arabic on Islamic banking and finance, Islamic economics, and *Awqāf*. Several of his works on *Zakāt*, *Waqf*, Islamic finance, and other areas of Islamic economics have become standard resources for researchers in the field. He has taught at many universities and is currently a professor at Istanbul Sabahattin Zaim University, Faculty of Economics and Management.