THE ORIGINS AND DEVELOPMENT OF ISLAMIC ECONOMICS

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Abstract: *According to Islamic thinkers, the reason for restructuring the economies according to Islamic principles is based on two assertions: the first one argues that the current system has disappointed and the second argues that the history of Islam beginnings proves the superiority of this system compared to others. In the view of thinkers mentioned, it's important to raise the following question: What did this system represent in the "golden age"? By today's standards, they argue, it can be said that the economy of the seventh century in the Arabian Peninsula was very primitive, producing few consumer goods, using simple technologies; it was devoid of the pollution affecting the major economies and was based on the oldest division of labor. The answer to many of the emerging problems from back then was given in the specific economic provisions found in Islamic writings (the Koran and the Sunna). Some of them were perceived as universally valid, while others were subject to change in order to meet new conditions.*

Keywords: *Islamic economics, Islamic financial system, riba, mudaraba, musharaka.*

Introduction

Islamic economics studies are part of a relatively recent field of interdisciplinary research developed in economics, a research field focused on the interface between economics and theology. Regardless of its internal systems, it is believed that the Islamic economy had to appear „as a whole" in order to legitimize its existence and viability. Its followers believe that the dominant systems of our time are responsible for injustice, inefficiency and moral shortcomings. In capitalism, the interest rate encourages rigor and exploitation; in socialism, the suppression of trade leads to tyranny and monstrous imbalance. The fundamental books of Islam prohibit the interest rate, but allow trade, therefore – it is argued by the ideologists of this economic system – a proper Islamic economy would have all the virtues of these two systems and none of their flaws. This assertion is supported by references to the canonical „Islamic Golden Age" period, between the years 622-661, which includes the last decade from the life of Prophet Mohammed, followed by leadership of the land by

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righteous caliphs. During this period, the Islamic code of economic behavior had massive recognition among the masses, maintaining a spirit of brotherly cooperation. Seeing as everyone was „subject to the same laws" and had the same obligations, injustices have been reduced to the maximum. The resources have been allocated in a very efficient way, allowing a rapid increase in living standards. Historical developments show, however, that after the so-called "golden age", the Muslim community's attachment to Islamic percepts fell, creating a pronounced downturn and prolonging the process of waning the global position (in the context of the Muslim world) of the Islamic economy.

Stages of historical development

Although the introduction of the concept of "Islamic economics" took place only in the twentieth century, it was initiated and developed, as shown above, long before. A large number of scholars have brought major contributions to the establishment and development of Islamic economics, examples of which are: Abu Yusuf (d.798), al-Mas'udi(d. 957), al-Mawardi(d. 1058), Ibn Hazm (d. 1064), al-Sarakhsi(d. 1090), al-Tusi(d. 1093), al-Ghazali(d. 1111), al-Dimashqi(d. 1175), Ibn Rushd (d. 1198), Ibn Taymiyyah (d. 1328), Ibn al-Ukhhuwwah (d. 1329), Ibn al-Qayyim(d.1350), al-Shatibi (d. 1388), Ibn Khaldun(d. 1406), al-Maqrizi (d. 1442), al- Dawwani (d. 1501) and Shah Waliyullah (d. 1762). These scribes were not specialized in economics (there was no strict compartmentalization of the sciences back then), but in a number or other related areas, being great intellectuals of their time and leaving behind a vast literature (much of it lost due to the vicissitudes of those times and Mongol invasions). Perhaps because of this, Islamic economics has developed as an inter-disciplinary subject, which shares the Islamic belief that lies in the Islamic teachings promoted by the Koran, lawyers, historians and social philosophers, politicians and moral thinkers.

In "Introduction to History", Ibn Khaldun examines[1] the relationships established between the roles of moral, psychological, political, economic, social, demographic and historical factors over a period of three generations, that is 120 years, from the rise to the fall of a dynasty. All the work of his predecessors seems to have been intensely fructified in this fundamental book. His analysis is not static and based only on economic variables, but rather dynamic, multidisciplinary and highly useful in the context of the Muslim civilization decline (1332-1406) and the need for reaffirmation of the Muslim identity. Moreover, Ibn Khaldun also contributes to the development of economic science by asserting certain economic principles.

Sadly, however, his contributions have not been sufficiently exploited later in order to continue the development of economics because, as he said himself, science only progresses if society progresses. This theory was supported by the history of Islam, because after a "golden age" in the middle of the eighteen century, development continued at a much less accelerated pace for more than two centuries. Thereafter, a brilliant mind stood out from time to time in a less than stimulating environment, and the economy was no exception to this state of

[1] Khaldun, Ibn, *The Muqaddimah: an introduction to history*, 1969, Princeton University Press.

"numbness". No major contribution was made after Ibn Khaldun, except for a few isolated illuminists like al-Maqrizi (d. 1442), al-Dawwani (d. 1501) or Shah Waliyullah (d. 1762).

Thus, we can say that while conventional economics has become a stand-alone scientific discipline after 1890[2], after the publication of Alfred Marshall's fundamental paper "Principles of Economics", it kept evolving, but the Islamic economics stayed, mostly, part of the Islamic unitary philosophic and morality system until the end of World War II. The independence of the majority of the Muslim countries after the war and the need to develop their own economies in a way that is compatible with the Islamic vision, has led to the "manifestation" of Islamic economics. Islamic economics doesn't disregard the previous findings of conventional economic science, but introduces a new style of making business, encouraging individuals to put self-interest below society's interest.

Umer Chapra, one of the most influential writers of Islamic economics issues, sees capitalism as a provider of a life of plenty for few members of society, while bringing poverty for most. Social Darwinism is blamed and his view on capitalism is that it is unable to resolve the conflict between public and private interest. The priorities have become distorted due to material imperatives and spiritual needs are overlooked as society becomes increasingly influenced by utilitarian ethics, which are focused on obtaining short-term and morally narrow satisfaction, and will ultimately lead to frustration and the removal of the individual from the main goals of humanity. However, Chapra[3] seems to be realistic in terms of comparison between the Islamic countries and the West. He is aware that the practical applications of Islamic economics are far from superior from the Western capitalist system. He considers that Islamic economics is abused by many government systems from the Muslim world because, ever since pre-Islamic Arab tribes, the principle of free elections[4] and the rule of law was either ignored or manipulated by the autocratic and corrupt state administration. The religious elite of scholars at the top of the sectarian hierarchy, *ulama*, have failed to follow the teachings of their predecessors and became more preoccupied with "trivial matters" from everyday life than with applying Islamic principles in the contemporary economy. *Fiqh* stagnation, that is the stagnation of the Islamic jurisprudence, is identified as the main cause of the Muslim decline, but Chapra sees new hope looming with the *Ijtihad* rebirth, the reinterpretation of Islamic law constructed so as to guide believers in choosing the most appropriate moral path. This is, however, increasingly difficult in our world that is constantly moving and filled with temptations at every step, even for faithful Muslims.

Syed Naqvi is a capitalism critic as harsh as Umer Chapra, but he believes that Islamic economics must be rebuilt part to whole, rather than whole to part. His attention is directed more towards microeconomics rather than macroeconomics and he is more concerned about the decision-making behavior

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[2] After Mark Blaug, economic science became a standalone discipline in the 1890s.

[3] Chapra, Umer, 2000, *Is it necessary to have Islamic Economics?,* Journal of Socio-Economics, pp. 21-37.

[4] Called *shura* in the days of pre-Islamic tribes.

of every Muslim rather than searching in vain for a better society achieved through political means. Muslims can exert free will, *ikhtiyar*, when making decisions regarding doing business, but it should be a moral incentive for the believers who are responsible for their decisions, both before the concerned parties and God. If they feel closer to God, it does not mean that they are losing their responsibility, but that they are becoming less selfish and more driven to serve the general interest of society. Syed Naqvi is aware of the fact that the Western capitalist society is developing a kind of social responsibility and capitalists are rather altruistic than the brutal exploiters described by Marx, but in Islam social obligations are central.

According to Islamic thinkers, the reason for restructuring the economies according to Islamic principles is based on two assertions: the first one argues that the current system has disappointed and the second argues that the history of Islam beginnings proves the superiority of this system compared to others. In the view of thinkers mentioned, it's important to raise the following question: What did this system represent in the "golden age"? By today's standards, they argue, it can be said that the economy of the seventh century in the Arabian Peninsula was very primitive, producing few consumer goods, using simple technologies; it was devoid of the pollution affecting the major economies and was based on the oldest division of labor. The answer to many of the emerging problems from back then was given in the specific economic provisions found in Islamic writings (the Koran and the Sunna). Some of them were perceived as universally valid, while others were subject to change in order to meet new conditions.

Historical evidence questions some of the virtues attributed to The Golden Age, such as the original Islamic community being a parity paragon, whereas there were rather very frequent conflicts within the community, force played a very important role in governance and 3 out of the 4 very righteous caliphs would have perished at the hands of other fellow Muslims. Moreover, even this era had corrupt practices attributed to contemporary capitalism and socialism, such as nepotism or malpractice. During this period, the state reinforced the zakat collection and although a large proportion of the money raised from these proceedings have reached the more disadvantaged social groups, there is no strong evidence that this would have led to the reduction of social inequalities.

What spurred Mawdudi to lay the foundation of Islamic economics, with various other Islamic disciplines, was the desire to defend Islam "against various external influences from external policies and intellectual domination". He wanted to support the authority of Islam in areas where Muslims had come to rely on the guidance of Westerners, the Muslim community's confidence in its own abilities to successfully face the outside world, such as in the period before the rise of the West as a military and economic superpower. Therefore, for Mawdudi, Islamic economics was primarily a means to reestablish the superiority of Islam and secondly an instrument for radical economic change. Islamic economics intends to promote harmony and growth as much as justice and to intensify the Islamic political order. It would support the idea of pan-

Islamism where Muslims would enjoy the benefits of commercial trade between continents, without having to compromise their religious beliefs.

The defining characteristics of Islamic economics

Is the concept of business at odds with what Islam means and stands for or can they collaborate successfully both for the business in question and the Islamic economics?

Islam is often perceived as an impediment to successful business development as most Muslim countries are considered to be poorly developed (in addition to standard statistical data on the level of economic development, the literature also brings into question "anecdotal" arguments, such as the fact that the Muslim states only have 5 companies included in the Financial Times Top 500 index). Also, these countries are considered to be at high risk due to political unrest, religious extremism and the confusion that arises between the "conventional"[5] judicial code of most states and the Islamic jurisprudence. Could this be the reason why multinationals don't "flock" to invest in Muslim countries, but Islam wants to receive foreign business? And if so, how can it attract FDI in this context?

Besides the banking sector, another area where Islamic values have an increasing influence on multinationals is satellite television, especially in the Middle East[6] where the main channels are owned by Saudi Arabia, but most are located in Lebanon or in other member countries of the Gulf Cooperation Council[7]. Even if, in theory, the state does not censor television channels, entertainment programs from channels Lebanese Broadcasting Company (LBC), Middle East Broadcasting Company (MBC), Arab Radio and Television (ART) and Orbit are specially designed for Muslim viewers and do not include the kind of content they would find offensive. However, LBC and MBC, despite the fact that their viewers were very pious, they took a great risk in broadcasting, including an Arabic version of the controversial Big Brother, which was subsequently withdrawn because of objections from viewers in Riyadh, the capital of Saudi Arabia.

Many Muslims also hold investments outside the "Muslim world", but after the events of 2001 which strained the relations between Saudi Arabia and the United States of America, investments of approximately \$ 1.2 trillion in 2001 were reduced considerably. It is also worth mentioning that strong Muslim shareholders of some "western" companies have not tried to change their policy, to "Islamize" it (Prince Waleed, the richest member of the royal family in Saudi Arabia, did not try to change the policies of Citicorp or Ancor, where he holds a significant share). However, many foreign companies which want to lay the

[5] It concerns the civil law system, adopted by most countries, and the joint one (UK, Canada, USA, Australia and the former British colonies).

[6] The Middle East defines a general area, so there are no precise boundaries. Most geographers consider that it includes Saudi Arabia, Bahrain, Egypt, United Arab Emirates, Iran, Turkey, Iraq, Israel, Jurdan, Kuwait, Lebanon, Oman, Qatar, Syria, Yemen and the Palestinian territories (West Bank and the Gaza strip).

[7] Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.

foundations of their business in Muslim countries want to follow the *shari'a* law (the companies that produce/sell pork, alcohol, that deal with the organization of gambling or focus too much toward debt are excluded).

In the past, opposition to foreign direct investment of multinational corporations in the Arab world was rather caused by a sense of nationalism than by religious objections against the penetration of Western business. The opposition was rather a product of the post-colonial world, when small enterprises were preferred in order to be able to contribute more effectively to solving the unemployment problem they were facing back then. Some of the followers of Islamic economics were also in favor of cooperative societies, organized locally instead of globally, because they considered that within multinational companies Muslims were removed from power and the decision-making process. However, they have accepted recently, with resignation, the limits of cooperative societies.

Some Muslim countries have adapted to globalization better than others. In this sense we could name Malaysia; it did not hesitate to lead an aggressive policy to attract foreign direct investment from Western corporations, which allowed it to overcome the almost total dependency of production and trade of palm oil and rubber and to develop their economy so that it falls into the category of modern, industrial nations, exporting high-tech goods. On the other hand, one can notice that, with regard to the Middle East, traditional monarchies have adapted best to globalization, while the so-called reformist governments of Arab republics have adopted a closed mentality and failed to attract foreign direct investment and modern technology.

Considerations on the Islamic financial system

While Islamic economics defines the principles of exchange, production, distribution and consumption of economic resources to ensure the balanced and proper functioning of the system, the Islamic financial system, which is based on the prohibition of *Riba* (the word "Riba" means interest, usury, excess or addition), dictates the principles of capital mobility, trade, funding, investment and payment methods.

Islamic finance is ultimately derived from Muslims' belief that God is the absolute creator: "Allah is the true owner of all that is on Earth and beyond, and man is nothing but a property manager of the goods He owns. As such, man is obliged to follow the directions of the one he serves."[8] And, as this property is given by God onto man, *shari'a* should monitor the way it is used. When a bank calls itself "subject to *shari'a* law", it means that it undertakes the implementation of Islamic principles to financial transactions, whether it operates within the Islamic world or outside it. In order to ensure that the bank complies with the principles, a *shari'a* internal oversight committee is established. There are international institutions working for the standardized implementation of *shari'a* and in some countries their existence is mandatory by

[8] Maududi, Abul A'la, *The economic problem of man and its Islamic solution*, Lahore (Pakistan), Islamic Publications, 1941.

law. Under this regulatory framework, compliance with a set of principles and provisions is required, such as the following:

- One should not lie when a product is sold.
- Under any circumstances should anyone be deceived.
- The seller must not resort to advertising practices in relation to their products.
- The seller must not sell products that can have a negative impact on individuals and society as a whole.
- To comply with the law in all transactions carried out, both with friends, strangers or enemies.
- Gambling and other activities that involve risk and are purely speculative are prohibited.

The black market, cheating, concealing certain defects of the commodity that is intended to be sold and forgery are prohibited activities, as well. The sale of certain products such as alcohol and murdered animals is prohibited. Keeping large amounts of certain products in order to market them later and causing a decline in prices is also prohibited. Transactions with individuals forced by someone/something or under some constrained should not be carried out, and businesses should be done in an open economy.

However, beyond such restrictive provisions, there are two “directives” which have the greatest impact on the Islamic financial system, namely those concerning the prohibition of *riba* and *gharar*. *Riba* means “excessive” tax collection or, in other words, what is known as interest. Thus, the one who borrowed money cannot ask to receive an amount of money greater than the original amount. Prohibition of *riba* means that taxes on products that are too large should not be claimed. On the other hand, prohibition of *gharar* means that transactions should be conducted in a transparent and reliable manner, free of hidden or omitted parts (for example, the sale of wool with the omission that the wool is still on the sheep’s body).

Coming back to the “issue” of interest, one must address the question “Why is interest avoided?” “Interest”, writes an Islamic economist, “generates love for money and the desire to accumulate more wealth for their own well-being. It makes people selfish, miserable, narrow-minded and with hearts of stone.” (ibid.) Another sin attributed to interest is that “it transfers wealth from the poor to the rich, increasing inequality in income distribution” (ibid.).

It is considered that in this case it is the duty of those who decide to know that it is necessary to give at least 2.5% to the needy who cannot provide for their basic needs on their own. This is called *zakat* and it is managed by the one who is responsible with the treasury in the community (a sort of Minister of Finance), and the amount of money raised is redistributed among community members who need and deserve help. It is estimated that this is the best form of insurance, which removes all the evil that can occur due to a lack of an arrangement for collective help and cooperation. There is no need for the bank accounts that were created due to fears for the future, no insurance policy, no fear of hunger or lack of a roof over one’s head, because you can always call the social agent who will help anyone in need. However, it is known that however much one may try to inoculate these principles, there will still be people who will want to invest their surplus wealth in order to gain even more. These people are strictly forbidden to borrow money with interest, whether they do so for an individual's personal interest or in order for them to open a business.

The purpose of the Islamic banking system is to prevent such operations that are deemed to generate inefficiency, immoral behavior and injustice. In theory, an Islamic bank only accepts two types of deposits: demand deposits, which are considered risk-free, but do not bring any additional benefit, and investment deposits (under the principle of sharing, the deposit which is not in sight is an investment, i.e. an investment that generates profit) which are set up with the risk of capital decrease, but provide a certain rate of profit. The loan operations of the Islamic bank are based on the principle of sharing (risk and profit) between creditor and debtor. In the absence of interest, when lending money to a company, the bank agrees to bear a certain loss of company activity in exchange for a certain rate of profit, where the company had favorable outcome.

However, while both theorists and practitioners of Islamic economics agree that interest is sinful, there is no agreement on what the concept of "interest free" lending constitutes. In this context, the occurrence of dilemmas is inevitable. For example, under inflation circumstances, must loans be indexed to the inflation rate in order to protect their purchasing power? Although some writers say that in these conditions, indexing is not only legitimate, but also a requirement of justice, a majority believes that indexing is un-Islamic.

How does the Islamic bank function in practice? Traditional banks (broadly) operate attracting deposits and lending money. Profits are generated by the difference between the interest (deposits are offered a lower interest rate, while loans are offered a higher one) and the bank's ability to adequately measure the risk each transaction implies. In this context, the Islamic bank is rather an asset manager than a financial intermediary and depositors become investors. Islamic banks operate on the principle of "profit and loss sharing": depositors agree to conclude a deal in which the profits gained are shared between the bank and the depositor (including a management fee to the bank). However, this system means that depositors' money are at risk as well if the business goes wrong, even if the bank remains solvent.

As the financial system develops, the tools implemented by Islamic banks under the principle of "profit and loss sharing", are becoming more complex and different. The best known tools are *mudaraba*, *murabaha şi musharaka*.

Mudaraba and *musharaka* were related to the financing techniques used by venture capital industries of today's advanced economies. Mudaraba is a contract by which the bank and the potential customer agree on the implementation of a project. In Mudaraba, one of the partners provides 100% of the capital (financer/rabb-ul mal), while the other one provides 100% of the work and management (worker partner/mudarib). Simply put, one partner provides all the capital, and the other one provides all the work. For a better understanding, we should translate the words from Arabic. Rabb-ul mal translates as "wealth lord" or “master of the capital”. The word *mudarib* comes from the verb “daraba”, which has several meanings, including “multiply”. So the mudarib is the one who, through his work, makes the money invested by the rabb-ul mal multiply, by the profit obtained. Losses are borne entirely by the financier (*rabb-ul mal*), while the mudarib wastes time and work, without receiving remuneration. *Musharaka* means “partnership” in Arabic. For customers, the advantages of musharaka are obvious, since if there is a profit, it is divided with the bank, which is also the case for losses. Namely, if the bank has contributed with 70% of the capital to create a project, and the client contributed with 30%, that means that if there are losses 70% of them are borne by the bank and 30% are borne by the client. If the client had taken a loan from a conventional bank for the same project, in case of losses, the client would have borne 100% of them and, moreover, they would have to give the borrowed money with interest back to the bank. The main difference between the two is the financial involvement of the contractor, in musharaka, the contractor will contribute with equity capital alongside the investors.

Three factors distinguish an investor who makes loans based on risk capital (a venture capitalist) from a conventional bank. First, while a bank bases its lending decisions on applicants' creditworthiness, the investor (venture capitalist) bases its decision mainly on the potential profitability of the projects proposed. Thus, an applicant without collateral, but with a promising economic project can fail to obtain the bank loan, but succeed in obtaining venture capital. Secondly, while the conventional bank earns interest from the loan, the investor receives a share of company profits. Third, the investor, unlike the bank, can also provide management and technical assistance through the so-called know-how. Thus, the investor's involvement in the business development shows the greater interest he takes in business profitability. A conventional bank does not care whether the business man will have profit or not, since he must pay the monthly interest, regardless of how well the business goes.

Murabaha is a contract in which an individual wants to purchase certain goods or services, but lacks the money to do so. He will negotiate his business and will contact the bank, which will pay for the customer purchases and then sell it at a later date. The price the two of them will negotiate will be higher than the original price of the product/service, and usually the difference between these two prices is equal in value to the interest charged by conventional banks. But between murabaha and interest there is an essential difference: the risk of theft, fire or destruction the bank is exposed to during the time the product is in its possession, which needs to be paid accordingly. In practice, however, the period of time while the bank is the owner of the goods is very short, so the risk is negligible. If the buyer will not repay the loan, then the bank will not be entitled to charge any penalty or resell the product back to the initial seller at a higher price.

This type of loan typical to the Islamic financial system had difficulty being integrated in the UK, problem that arose from the fact that Islam is the second most widespread religion from the UK, with about 4% of its citizens being

Muslims[9], difficulties arising from the existence of certain taxes specific to the sale-purchase process in the UK. For example, stamp tax (stamp duty) is paid by everyone who buys a home and, through murabaha, it has to be paid twice (because the bank both buys and sells the property). The double stamp duty on Islamic mortgages was abolished in April 2003.

The main disadvantage of the system of "profit and loss sharing" is that it is more exposed to losses than the interest system. For example, if an entrepreneur would have to choose between financing the business in one of the two ways, the outcome would be that entrepreneurs with below average success expectations would choose "profit and loss sharing" in order to minimize losses, and those with above average expectations would choose interest in order to maximize profit. Conventional banks would thus create a problem of "adverse selection" for Islamic banks, and it would result in the sharing of the risk rather than the profit with the entrepreneurs they decide to finance. Also, because of mutual distrust between bidders and recipients of the funds, interest, a mechanism which requires no monitoring, becomes preferable against the procedure of "profit and loss sharing".[10]

The last few decades of theory and practice development of Islamic banking[11] can be divided, roughly, into three periods: the first period, between 1950-1975, defined by theory development, the second period, between 1975-1990, defined by experimentation, and the last period, starting from the early 90s to present day, defined by recognition and implementation.

The year 1945 marked the end of World War II and Japan, due to defeat, was forced to withdraw its troops from Indonesian territory, therefore the latter declared its independence. The following decades have meant the end of European colonization in the Middle East, and when Algeria gained independence from France, most of the Muslim world was free from foreign occupation. Prior to declaring their independence, the colonizing countries were managing the economy and finance of the Muslim countries. However, the colonized countries believed they can manage themselves better, so that any form of organization would be compatible with Islamic values. Therefore, between 1940 and 1960, there was an attempt to produce a workable model of Islamic banking system through which collecting or paying interest on loans or deposits would be avoided. In practice, the models proved to be a failure at a business level, yet projecting a feasible banking system did not stop. This was subsequently tried through investigation and experimentation of other models to put Islamic beliefs into business practice.

In 1975 the first Islamic bank was founded, Islamic Development Bank (Dubai Islamic Bank), authorized by special laws which enabled it to operate in accordance with shari'a (Muslim religious law). By 1985, another 27 Islamic banks were founded, and today Islamic banks carry out operations in more than

[9] Study by The Times in 2009.

[10] Timur Kuran, *Islamic economics and Islamic Subeconomy*, Journal of Economic Perspectives-Volume 9, Number 4 Fall 1995-Pages 155-173.

[11] Iqbal, Zamir și Mirakhor, Abbas, *Progress and challenges of Islamic banking,* Thunderbird International Business Review, Volume 41, Issue 4-5, 1999, pages 381–405.

60 countries. The growth of financial institutions, instruments and transactions with no interest rose from $ 5 billion in 1985 to more than $ 150 billion today. Moreover, even non-Islamic banks have started to set up Islamic departments, in order to provide such banking services, in the UK and other countries outside the Islamic world today there are over 200 Islamic financial institutions. In Great Britain, the first Islamic bank, Albaraka Bank, has established a branch in London in the late 80s, becoming the first Islamic bank with banking license to operate in the UK. The branch was closed in 1993. The speculated reasons for the closure are diverse: internal problems, pressure from the central bank or the bank's inability to guarantee full deposit refund to depositors, which has led to the suspending of the banking license.

Conclusions

Islamic economics applies classical solutions to current problems, and where solutions are missing, they seek justifications in the holy books (Koran and Sharia'a law code) in order to favor some reforms. Therefore, at first glance, this economy is more of a nostalgic attempt to take refuge in the simplicity, harmony and prosperity of a traditional social order than a response to contemporary issues. Although it intends to restore parts of the way of leadership of the 8th century peninsula, in reality it has more capacity to adapt to economic reality than theory would show. This doctrine, which they call "fundamentalist" claims to be based on fundamental principles, but in practice these are more malleable than it seems. Moreover, this doctrine (together with others of the same type) imposes monopoly on knowledge and sound judgment, even if it shows responsiveness to external influences.

The Islamic doctrine is not secular, indifferent to values, materialistic, or social-Darwinistic. It attaches primary importance to moral values, the spirit of brotherhood, socio-economic justice and it does not rely solely on the state or market to accomplish its vision. Rather, it is based on the integration of values in society, institutions, market, families, society and the state in order to ensure the welfare of all its citizens. It places great emphasis on social change through individual or collective reform so that neither the state, nor the market perpetuates inequalities.

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