



## PHILOSOPHICAL FOUNDATIONS OF ECONOMICS – A COMPARATIVE STUDY OF ISLAMIC ECONOMICS, CAPITALISM AND MARXISM

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### ABSTRACT

The philosophy of economics is concerned with the nature of reality, sources of knowledge, and the way knowledge is created. Based on their respective philosophical frameworks; capitalism seeks solution to economic problems through its laissez-faire model, Marxism attempts to resolve the problem through a planned economy model, and Islam on the other hand keeps the balance between the two approaches. The study is based on a comparative qualitative analysis of the philosophical frameworks, making reference to practical world problems. The paper maintains both Capitalism and Marxism have contributed to poverty, economic inequality, unemployment, and financial crises of the world at large. The study provides a model of the righteous economic system based on Islamic teachings for the sound functioning of the economy which can be adopted by the countries intending to switch from the conventional systems to the Islamic economic model.

**Keywords:** Islamic Economics, Capitalism, Socialism, Poverty, Economic Stagnation, Unjust Distribution, Sustainable Development

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### INTRODUCTION

Economics has been an important debate in human history. Man has been interested in understanding economics and seeking solutions for the problem of livelihood for thousands of years. In modern times Economics is considered as a body of social science. Although Economics has been an important debate of man life in all periods of history, it was not emerged as a discipline of study before 18th and early 19th centuries.

Economics is the study of how societies use scarce resources to produce valuable goods and services and distribute them among different individuals. Adam Smith (1723-1779) is thought to be the founder of modern Economics. His book “The Wealth of Nations” provided the basic discussion of economics in a more systematic way. Adam Smith defined economics as a science of wealth (Smith, 2010). The definition of economics has evolved over time. In modern times, Economics is defined as a science of growth and efficiency. According to Samuelson; the contemporary economist, economics is concerned that how to produce the maximum economic goods efficiently in a condition of scarcity (Samuelson et al., 2021).

This article engages in a comparative analysis of the philosophical foundations of three major economic systems: Capitalism, Marxism and Islamic Economic System. In addition, it aims to reveal the principles, and a way forward for establishing a righteous economic system in the world.





## Research Questions

1. What are the philosophical foundations of Capitalism, Marxism and Islamic Economics?
2. How the philosophical foundations contribute to the building of economic theories, economic and ethical frameworks?
3. What are the philosophical distinctions and connections among Capitalism, Marxism and Islamic Economics?
4. What are the failures of Marxism and Capitalism?
5. What is the way forward to build a righteous Economic order in the light of Shariah?

## Research Objectives

The study sets out the following objectives to address its research questions:

1. To conduct a critical and philosophical analysis of Capitalism, Marxism and Islamic Economic System.
2. To perform a comparative analysis of the three major Economic Systems for elucidating the philosophical distinctions and conjunctions .
3. To study the deep-rooted values, principles and beliefs of the three systems that contribute to the shaping of economic theories, economic and ethical frameworks.
4. To reveal the failures of Marxism and Capitalism by making references to the theoretical and practical problems of these systems.
5. To provide a framework, and show a way forward of building righteous economic system in the light of shariah that address both the needs economy, society and environment.

## Research Gap

The current economic literature though is robust and extensive; covering all practical aspects of different economic systems, models and approaches but however, it lacks a comprehensive, and ingrained study of the philosophical foundations of economic systems, and their impacts on the economic theories and frameworks. Our study addresses this gap by conducting an inclusive examination of the philosophical foundations, i.e., ontology, epistemology, methodology, and ethics of these economic systems. The study intends to fill this gap and allow for deepening the understanding of origins of economic systems, and their implications.

## RESEARCH METHODOLOGY

This study employs a literature review methodology to explore the origins of economic thoughts, and analyze the underpinning of economic systems. The literature review method is followed to investigate, study and scrutinize the existing literature on Capitalism, Marxism, and Islamic Economic systems for understanding the philosophy, values, ethics and approaches of these systems towards economic problem.

## Data Collection

The study collects data from the original texts of Capitalism, Marxism, and Islamic Economics, along with scholarly works performed by previous researchers, and authors including books,





peer-reviewed journals, and reports and other relevant sources. The selection criteria are based on the relevancy, and authenticity of the sources.

### **Data analysis**

The process of data analysis involves a critical examination of the selected literature in order to understand the philosophical foundations, principles and values of each economic system including their ontology, epistemology, methodology and ethics that shape economic thoughts, and practices significantly. The data analysis approach is entirely analytical, and critical in nature; guided by utilitarianism, and the study's inclusion and exclusion criteria.

### **Inclusion Criteria**

- Original texts of Capitalism, Marxism and Islamic economics (Quran, Sunnah, works of Adam Smith, Karl Marx and Friedrich Engel, John Maynard Keynes)
- Peer-reviewed journal articles, books and reports that provides insights into the underpinnings of Capitalism, Marxism and Islamic Economics
- Publications available, in English, Urdu, and other foreign relevant languages, and accessible in author's personal and institutional collection, English, Urdu and other comprehensible relevant foreign languages

### **Exclusion Criteria**

- Literature which does not engages directly in philosophical foundations of economic systems
- Articles that are not accessible and/or fully comprehensible due to particular format or language
- Non-academic sources i.e., Wikipedia, newspapers, and general websites
- The methodology employed in this study enables a holistic comprehension of existing literature, and supports the construction of new economic model by effectively synthesizing the findings of researchers.

## **LITERATURE REVIEW**

Philosophy of economics is concerned with issues related with the inception of economics as a body of knowledge, its methodology, values and ethics centered to the discipline. The focus of the philosophy is to consider the underlying methodologies, basic concepts, and theories which are based by the economists to develop understanding about economic phenomena. Furthermore, the philosophy of economics seeks to define and refine the structures, processes and economic entities through which economic activities take place, initiate and completes (Hausman, 2018).

The philosophy of economics includes studying ontology, epistemology, methodology, and ethics of economics. (Jabareen, 2009). Ontology is a branch of philosophy dealing with nature of reality. Ontology describes the metaphysical position of things. Epistemology is concerned with the questions that how the knowledge is created, and what are the sources of knowledge. Methodology is a field of philosophy that deals with procedures to create and acquire knowledge. The economic methodology is primarily concerned to provide a system to develop economics (Hausman, 1989). Methodology is not merely an approach and methods towards building economic models, instead it is concerned with studying the underlying





principles which are employed to accept and reject different propositions in relation with a body of knowledge (Furqani, 2015). The methodology of economics or more precisely, the methodology of political economy is influenced significantly by the philosophical framework of an economic model. Ethics is a branch of philosophy dealing with certain fundamental questions relating with human behavior such as what is good and bad. It provides framework of ethical behavior.

### **Philosophical foundations of Capitalism**

The philosophical analysis of capitalism is conducted to understand its fundamental truths, concepts and theories. The analysis covers its different philosophical perspectives including ontology, epistemology, methodology and ethics.

#### ***The Ontology of Capitalism***

The ontology of economics is a philosophical study of economics which studies and examines the nature of reality. It is concerned with the refinement of the theories, approaches and concepts of economics (Maki & Mäki, 2001).

In capitalism the fundamental reality is market. It regards market as a true source of knowledge that is self-regulating, driven by its two essential forces – demand and supply, and self-interest of economic agents.

#### ***The Epistemology of Capitalism***

The philosophical approach adopted by capitalism towards economic problem is based on three basic factors including private ownership, profit pursuit, and free market. From the capitalistic perspective the economic agents act in their own interest, and do not intend to promote public good. But, however, an invisible hand, lead him to promote it and contribute for general betterment, even without having any intention (Smith, 2005).

The capitalistic epistemology states that knowledge about economics is generated from free market, market competition and the profit motive of economic actors. In capitalism the knowledge is a product of market, it cannot be created without a free market in place. The capitalist scholarship is of the view that rationality, and individual choice of economic actors contribute to the development of knowledge about economic activities which is a precondition for the growth, technological development and innovation. They view market as a self-regulating and self-sustaining force that is capable to allocate resources, produce goods and services as per the true needs of society and regulate economy in a just and fair manner.

#### ***The Methodology of Capitalism***

The methodology of mainstream economics is based on philosophical framework of economics, and mathematics and statistics (Filipenko, 2022). The methodological framework of capitalism is also determined by its ontology – free market which is self-adjusting.

In Capitalism economic phenomena are studied, and theories thereto are created by employing deductive methods – historical-deductive method, and hypothetical-deductive method. But, Bresser-Pereira (2003) though validates both methodologies, yet stresses on using historical-deductive method.





### *The Ethics of Capitalism*

Ethical stance of Capitalism can be assessed from Adam Smith's writings where he states that "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest" (Smith, 2005). The Smith's statement uncovers the ethical position of capitalism where all economic actions that are guided by self-interest are morally good. Ethics of capitalism is based on economic rationality, and egoism. As capitalism allows individuals and firms to maximise profit, and utility, therefore, in principle, the question of ethics become irrelevant and insignificant in capitalism (De Soto, 1999). Capitalism or free economic model is unethical, unless regulated by government to make firms cognizant of ensuring stakeholders concerns in their activities (Nicolaidis, 2016). In contemporary world, though sustainability, ethics, environmentalism and corporate social responsibility have become the slogans of corporations, but it appears these slogans couldn't be translated into concrete results in a capitalist framework.

### *Critical analysis*

Capitalism is market-based economic model which believes in free competition, individualism, growth and efficiency, and eliminating government role in economy.

The harmful consequences of capitalism can be summarized as market failure, destruction to ecosystem, income inequality, business cycles, stagflation, poverty, debts burden, and being inconsistent with the objectives of sustainability.

- Market failure – monopolies are the common characteristic of capitalistic economy. Monopolies provide means of consumer exploitation to economy, and hinder economic growth. The myth of a perfect market is a is yet to be turned into reality (Upadhyay & Singh, n.d.).
- Business cycles – business cycles refer to fluctuations in economic activities. Business cycles are character of capitalism, and does not exist in Marxism and Islamic Economics. Fiat currency is one of the reasons which gives birth to economic cycles in economy.
- Stagflation – is stagnant economic situation characterized by high inflation and unemployment (Olson, 2022). Stagflation is caused by imprudent monetary and fiscal measures. In capitalistic framework, interest is used to suppress inflation and control stagflation, but it leads often to recession as maintained by Ha et al. (2022)
- Debts burden - Debt burden is an integral part of capitalistic economy. In capitalism, economic agents are allowed debt financing. Individuals, firms and governments rely heavily on debts to finance their expenditures. Debts are claimed to expand economic activities and achieve growth. But, a study by Pattillo & Ricci ( 2011) establishes that debts burden has negative impact on growth. Similarly, a study by Abdullahi et al. (2016) has established a negative relationship between debts and economic growth over a period of five decades in SSA region.
- Planet destruction - is the predominant devastating impact of capitalism. Capitalistic philosophy, ethics and approaches caused severe devastation to ecosystem, and environment (Voice, 2019). Capitalistic methodology prioritizes short run needs over long run. In the words of John Maynard Keynes "in the long run, we are all dead" (Keynes, 1936). This statement reflects the true stance of capitalism on sustainability, and environment.
- Poverty - Capitalism caused severe poverty in the world. A global study conducted by Sullivan & Hickel (2023) rejects the claim that world population lived in severe





poverty, and the welfare of humanity began with capitalism after 19th century. The study shows capitalism caused poverty, destitution and inequality in the world.

### **Philosophical foundations of Marxism**

Marxism is a social, economic and political philosophy presented by Karl Marx (1818-1883) and Friedrich Engels (1820 -1895). The underlying objectives of this study are to understand the fundamental theories, assumptions, concepts and approaches of Marxism and their impacts on society. For this purpose, the ontology, epistemology, methodology, and ethics of Marxism will be considered.

#### *The Ontology of Marxism*

The ontology of Marxism is based on the materialist interpretation of history. Marxism believes that the world is material; which provides basis of all relationship in society. The ontology of Marxism has several components:

- **Historical materialism:** According the historical materialism, the economic condition of a society give rise to social and political structures and organization in a society. In Marxist view, the reality of social structures and the world, is shaped by the historical materialism (Croce, 1914).
- **Dialectical materialism:** Dialectical materialism states the reality comes into being as a result of contradictions of opposing forces which are named as thesis, antithesis and synthesis (Lefebvre, 2009). The dialectical materialism states that all changes and developments take place as a result of contradiction between the opposing forces.
- **Class struggle:** class struggle is another ontological view of Marxism about the reality of change. Marx views class struggle as a driver of social change. He believes the society is divided into working class and capitalists, and the capitalist class would be eventually overthrown by working class, and it would lead to the establishment of socialist, communist and/or Marxist society (Wood, 1983).
- **Alienation:** Alienation is the fundamental element of Marxist's ontology. Marxists believe that capitalism deprives working class both from the economic and social value of their efforts (Thompson, 1979).
- **Base and Superstructure** – In Marxist ontology, the social and political structures (culture, law, religion, norms) are primarily determined by the economic condition and mode of production in a society (Williams, 2013).

#### *Epistemology of Marxism*

The epistemology of Marxism provides the philosophical framework to the economic theory and practice of Marxism. Marxism is in fact, a materialist interpretation of history, and believes that social and political structures of a society are determined by material forces.

In Marxist epistemology the knowledge – knowledge about economic phenomena is constructed in a society which is governed and regulated by historical and dialectical materialism. Marxist epistemology views knowledge as a product of dominant social and political condition, and negates its neutrality and objectivity. Therefore, Marxists believe in critical and skeptical approach towards knowledge development.





### *The Methodology of Marxism*

The Marxist methodology is derived from the theories and ideas presented by Karl Marx and Friedrich Engels. Marxism seeks to understand and analyze social and economic dynamics through observation, and social experience. The methodology of Marxism is based on historical and materialist analysis of economy (Carver, 1984). It is characterized by dialectical materialism, stresses on the analysis of contradictory forces in a society, and holds knowledge is acquired and tested through observation and social experience (Easton, 1970).

### *Ethics of Marxism*

In Marxism, ethics are regarded as the behavioral property of people, shaped by social, economic and historical conditions. Marxism believes in socioeconomic justice, equality, and attempts to build a society where class struggle is eliminated, individuals are not deprived, and exploited by monopolists and capitalists.

### *Critical analysis of Marxism*

Marxism as mentioned above, seeks to establish a society where economic decisions are centrally made to ensure economic stability, socioeconomic justice, and general wellbeing. But, however, in practice, it badly failed in establishing such a utopian society.

Though Marxism appeared as the ultimate truth to restore economic prosperity, justice, and well-being of man, at its outset, however, its proponents failed to translate the theory into practice, and Marxism itself was rejected by history (Khan, 2003). The Marxist states used ruthless approaches to establish communist society including censorship on social, religious and economic freedom of man which led to the failure of Marxism in USSR. Nimni, (1985) attributes historical failure to Marxism in understanding the phenomena of nationalism and imperialism.

It would be better to quote president Boris Yeltsin's statement here to describe the historical failure of Marxism, who was reported to have said on the collapse of the USSR: "it would have been far better if we had made the experiment of communism in a small village in Africa, rather than in great Russia" (Usmani, 1993)

Marxism emphasized on economic determinism, and failed to identify the significant role of cultural, ideological, religious and national factors that shape human behavior. Marxism proved to totalitarianism in USSR, China and other parts of the world which led to oppression of human rights. Ultimately, the planned economic model collapsed due to a lack of transparency, accountability, corrupt bureaucracy, and concentration of economic and political power in the hands of the ruling class in socialist states.

### **Philosophical foundations of Islamic Economics**

The philosophical analysis is conducted in order to understand certain aspects of Islamic economics including ontology, epistemology, methodology, and ethics. The following paragraphs highlight the aforementioned aspects.

### *The Ontology of Islamic Economics*

The ontology of Islamic Economics provides about the nature of economic reality. In the ontological perspective of Islam, Allah (swt) is the creator and sustainer of all creatures. The ontology of Islamic Economics prevails its epistemology, methodology, ethics and politics. In





the ontological framework of Islamic economics, there is no evidence of scarcity, but abundance (Wahbalbari et al., 2015a). Further, the framework stresses unity of reality which is described as oneness of God (Choudhury, 2008).

### ***The Epistemology of Islamic Economics***

The epistemology of Islamic Economics is the philosophical framework that underpins the theory and practice of Islamic economics. In Islam the sources of knowledge about world, objects and events are based on the divine revelation and human reasoning. The sources of divine revelation are Qura'n and sunnah, and the reason is the application of human intellect in a critical way to understand and interpret revelation in the light of time, space and possibility. Qura'n being the primary source of knowledge in Islamic scholarship; makes a very strange indication that what is knowledge, and where man can find it.

*“We will show them our signs in the horizons and within themselves until it becomes clear to them that it is the truth” (41:53)*

This Quranic verse provides man will gain knowledge in horizons - by studying the universe, and reflecting on their own experience and insights. Thus, we can extract the Quranic (Islamic) epistemology based on revelation, reason, nature and human behavior at large as maintained by Kamali (2006).

Social justice, fairness, sustainability and belief in God's sustenance are the epistemological tools of Islamic economics.

### ***The Methodology of Islamic Economics***

The methodology of Islamic economics is primarily derived from its principles of jurisprudence (*usul fiqh*). The fiqh methodology of Islamic economics seeks to determine shariah position of economic transactions in terms of permitted and prohibited activities (Saleem, 2008). But, however, it cannot be confined to the traditional legal (fiqh-based) approach. The methodology of Islamic economics is therefore, determined by the ontological, epistemological and axiological frameworks of Islam. The criteria and rationality of the methodology to develop, evaluate and appraise economic theories and models, are the Maqāsid-shariah framework, and Islamic jurisprudence. The ontology of Islamic economics (oneness of God – tawhid) allows to consider all scientific methods equal, and integrate them into a single methodology (Furqani, 2015). For me, the methodology of Islamic economics has theological, axiological, phenomenological and empirical aspects.

### ***The Ethics of Islamic Economics***

Ethics of Islamic economics is based on divine revelation, and defines actions in the context of justice, equality, general wellbeing, and social responsibility. Charging interest, hoarding, gambling and speculative trading are prohibited in Islamic Economics. Moreover, Islam discourages accumulation of wealth even from legitimate sources, and emphasizes on circulation of wealth through zakat, charity, and donations. Quran says:

*“ .... And they ask you what they should spend. Tell them, “The excess (of your needs)” 2:219*





“ ..... And those who hoard gold and silver, and spend them not in the way of Allah – give them tidings of painful punishment” 9:34

In addition, Islam regards greed for the hoarding of wealth as a reason for man’s destruction and declares painful punishment to those who hoard and evade distribution (Maududi, 1997). It reveals from various Quranic verses that Islam doesn’t allow wealth to be concentrated in few hands, and attempts to circulate it among poor.

The ethics of Islamic economics contributes to establishing and maintaining moral economy which is free from negative competition among firms and individuals. The imprudent competition among firms in capitalism caused wastage of resources and destruction to environment. Ethics of Islamic economics promotes sustainability (Ismail & Shaikh, 2017), and stresses social responsibility.

### *Critical analysis of Islamic Economics*

Islamic economics is normative in nature, which seeks to establish highest and righteous economy by discovering the eternal principles of economics – principles that provides pillars of an economy wherein the issues pertaining to allocation of resources, rewards of factors of production, and interest are corrected spontaneously (Sewharvi, 1939).

The sources of knowledge (epistemology) of Islamic Economics are divine revelations and human reason. It Extracts its basic concepts, principles and values from Qura’n, Sunnah, and human intellect. It seeks solution to the prevailing economic problem of the world through just distribution of wealth. Islam though permits private ownership, but discourages accumulation of wealth even from the legitimate sources (Maududi A. A., 1967)

It must be made clear that Islam is neither an economic system like capitalism, socialism and or Marxism nor it is an alternative solution to economic problem of the world (Usmani, 1993). Rather it is a religion which encompasses the entire (social, economic, political and spiritual) life of mankind, and which primarily aims at establishing and strengthening a relation between Allah and man. Therefore, there is no well-articulated and designed Economic System proposed by Islam, and it cannot be traced as a separate field of enquiry in Islamic history, rather the Muslim scholars, and jurists adopted a multidisciplinary approach encompassing economic, social, political, moral, spiritual, demographic and historical considerations towards the total wellbeing of human (Chapra, 2008).





Table 1: Comparative Analysis of Capitalism, Marxism and Islamic Economics

	<b>Capitalism</b>	<b>Marxism</b>	<b>Islamic Economics</b>
<b>Ontology</b>	<p>Market is a true source of knowledge, and reality. The capitalistic ontology promotes individualism, private ownership and relies on market forces (Smith, 1776) which results in market efficiency, consumer choice, and sovereignty, income inequality, monopolies, and compromised sustainability needs.</p>	<p>In Marxism, historical materialism is the source of knowledge, which implies that material condition of society shapes economic and social structure of society. It recognizes class struggle, and dialectical materialism, which ultimately shape economy and society (Marx, 2018a). The ontology of Marxism implies socioeconomic equality, which may lead to economic inefficiency due to absolute state control, as maintained by (Harvey, 2005)</p>	<p>The ontological framework of Islamic economics is based on divine guidance. It recognizes abundance of resources, and negates that scarcity is a root of economic problems (Wahbalbari et al., 2015b)</p>
<b>Epistemology</b>	<p>Knowledge about economic phenomena is acquired from the market behaviors, and trends through empirical analysis (Hayek, 2013). The epistemological framework of capitalism stresses innovation, and productivity, but may cause to ignore sustainability objectives, as maintained by Friedman, (1982).</p>	<p>Marxism acquires knowledge about economic phenomena from the dialectical materialism, and materialistic interpretation of history. This philosophy leads to critical examination of social and economic relations in the society, and provokes revolutions (Marx, 2018b)</p>	<p>Quran, sunnah and Islamic jurisprudence are the sources of knowledge of Islamic Economics (Chapra, 2016). The offspring of Islamic epistemology are socioeconomic justice, ethical behavior in economics transactions, and equity. However, it depends greatly on juristic interpretation (Iqbal &amp; Mirakhor, 2011a).</p>





<p style="text-align: center;"><b>Methodology</b></p>	<p>Capitalistic methodology employs market tools such as free competition, and pursuit of profit in order to efficiently utilized resources, and overcome economic problems. The methodology efficient resource allocation, but often causes environmental issues, and disparity among income groups, as maintained by Piketty (2014), and Friedman (1982)</p>	<p>Marxism seeks to establish a just economic system through establishing a collective ownership over resources, centralized planning, and building classless society (Lenin, 2020). Collective ownership, and classless society may protect society, but at the cost of individual, as maintained by Gorz, (1985)</p>	<p>Islamic economics doesn't discourage market forces (Usmani, 2021), and impose certain legal and ethical restrictions on economic transactions (A'la Mawdudi, 2013). Islamic approach to economic transaction ensures justice, and equity, but it has been found incompatible with modern financial system as maintained by (Iqbal &amp; Mirakhor, 2011b)</p>
<p style="text-align: center;"><b>Axiology (Ethics)</b></p>	<p>The capitalistic axiology permits freedom in economic transactions, which encourages entrepreneurship, but results in wealth accumulation, negative competition, income inequality, and other ethical dilemmas, as maintained by Rand et al. (1986)</p>	<p>Marxist ethics promotes collective wellbeing, and socioeconomic equality (Marx &amp; Engels, 1848). But, however, it stifles personal incentives, and eliminates freedom of enterprise, as maintained by (Roemer &amp; Roemer, 2009)</p>	<p>The axiology of Islamic economics emphasizes on prohibition of interest, and promotion of zakat (Quran, Surah Al-Baraqah, 2:275). Qura'n discourage hoarding of wealth, and asks for spending to benefit orphans, widows and other needy (Quran, Surah Al-Hashr, 59:7).</p>

### PROPOSED ISLAMIC SOLUTION TO THE WORLD'S ECONOMIC PROBLEM

The economic problems of the world including inflation, unemployment, poverty, income inequalities, debt burdens on national economies, etc., have been further intensified by the capitalistic and Marxist solutions. None of the two is capable to provide sound solution to the aforementioned economic problems of the world as maintained by Kellner (1977) and Sullivan & Hickel (2023). The capitalistic model seeks to resolve the economic problems of the world through its laissez faire or free economy model, encouraging free competition, and efficient use of resources. Marxist model on the other hand, focuses on establishing collective ownership over economic resources, discouraging free competition, eliminating private ownership on productive capacity of a society, and regulating economy through centrally-planned economic model. In brief, to eradicate economic problems, Marxism seeks to safeguard the collective interest of society by sacrificing an individual, and his economic personality while capitalism attempts to resolve the world problem by allowing individuals interest to prevail collective interest. Hence, we can see that both of the prominent economic models have been working on one and another extreme.





What could be the Islamic solution to the current economic problems of the world, how poverty, income inequality, unemployment, inflation and other issues could be managed in the light of Islamic philosophy of economics. These and other issues have arisen as a result of economic systems such as Capitalism and Marxism, which have either failed to address or have contributed to the development of these issues (Zwass, 2016). A righteous economic model has the potential to provide solutions to these challenges and create a more sustainable and prosperous society. Islam seeks to establish such a righteous economic model.

An economic model which can be proposed in the light of Islamic worldview, should have the following characteristics:

1. Interest free economy
2. Debts-free economy
3. Commodity-backed currency
4. Ethical economy
5. Equity-based financing
6. Sustainable development

What will be the impacts of the above proposals on economy and how these can be incorporated in a full-fledged economic model, let's elaborate.

### **Islamic Monetary Policy**

The monetary policy of capitalism is ineffective, devastating in its nature (Qaysr, 2018) . In theory, monetary policy is primarily concerned with the regulation of money supply, and financial (banking) system of a country in order to achieve objectives including price stability, economic growth, full employment, exchange rate stability, etc., but in practice it is failed in serving its underlying objectives. In capitalist economy, money supply is regulated through different tools such as interest rate, bank rate, open market operations, credit rationing, and reserve ratio to overcome inflationary and deflationary trends in an economy (Goldberg et al., 2020).

Monetary policy could be refined in the light of Islamic economics. In the philosophy of Islamic economics, fiat currency, credit creation, and interest have no space, they must be avoided, as they are the root causes of instability in modern economies.

Fractional reserve banking adds to financial instability as it causes assets bubble, and inflation. Fractional reserve banking makes an economic model less sustainable. Sorrell (2010) maintains the fractional reserve system is inconsistent with the objectives of sustainability, and hence it must be reconsidered. Interest has devastating effects on the economy. A study by Maiga (2017) conducted in Nigeria over a period of 1990-2013 to examine the impacts of interest on economic growth. The study findings reveal that low interest have positive impacts on economic growth. It's eye-opening fact that after great depression in 1929, the renowned economist John Maynard Keynes (1883–1946) recommended that interest rate should be lower to accelerate investment, and recognized government role to stimulate demand and revive economy (Schumpeter, 1936).

The fiat currency must be replaced by commodity-backed currency, preferably by gold standard as the conventional fiat currency not only leads to inflationary trends in economy but also adds to income inequality. Gold standard, as maintained by Othman et al.(2020) can reduce income inequality, and inflation. On the, other hand, under fiat currency, volatility in exchange rate has negative impacts on growth (Olamide et al., 2022) and contributes to inflation and BOP deficit (Shaheen, 2013).





## Islamic Fiscal Policy

Fiscal policy is in theory concerned with regulation of public expenditures and revenues, and allocation of resources in a way to maximize public goods, promote social welfare, and remove income inequity between poor and rich (Muinel-Gallo & Roca-Sagalés, 2011). However, the traditional fiscal policy has been proved ineffective in achieving its underlying objectives, and its time redesign it as maintained by Arestis & Sawyer (2003) and Ihuri et al. (2003). Taxation is the most important tool of fiscal policy. Tax is in its very nature a financial burden which is transferred by states to those who are able to carry it. In other words, it is based on canon of equity which means taxes must be imposed on people proportion to their respective abilities. But, in capitalistic practice, the taxes are imposed contrary to this basic principle. The burden of taxes is more of poor comparatively to rich which eventually cause to widen further the income inequity in society, and increase budget deficit.

The Islamic fiscal policy aims at establishing socioeconomic justice, removing income inequity among people, promoting public wellbeing and ensuring smooth operations of state machinery in achieving Maqāsīd-e-Shariah (objectives of shariah). These objectives could be achieved by crafting a fiscal policy on the following basis:

- Establishing Effective and efficient system of direct taxes for collecting sufficient revenue for financing public expenditures, correcting budget deficit, and accelerating distribution and circulation of wealth in economy.
- Removing indirect taxes such as VAT and GST as it causes inflation (Możdziejz, 2017), and are regressive in nature which furthers income inequity in society as found by Bogenschneider (2015) and Wang & Piesse (2009)
- Cutting non-productive public expenditures, and minimizing fixed public cost such by keeping minimum police and army forces. It doesn't mean to compromise public security and defense. Islamic philosophy emphasizes on spiritual purification, moral teachings, and state-provided welfare, which leads to a reduction in crime rates. Consequently, there is a need to reduce expenditures on maintaining law and order. Similarly, in Islamic philosophy, expansionary politics is discouraged, and war is permitted only for ensuring the objectives of shariah, not for exploiting other nations and establishing of hegemony. Therefore, minimum expenditures would be required for defense.

## Equity-financing

Debts-financing is prohibited in Islamic economics. According to Nyazee, (2020) all loans, either bearing fixed interest or not, are prohibited with exception of *qard hasan*. The reasons of prohibition are clear that debts lead to asset bubbles, accelerate inflation, and impair economic growth significantly. A literature study conducted by Salmon (2021) on relationship between public debts and economic growth reveals there is a negative impacts of debts on growth. Therefore, in our proposed economic solution, debt-financing must be entirely replaced by equity-financing. Our model is supported by findings of Khan & Bhatti, (2008), Fianto et al. (2018), and Almonifi & Gulzar (2021) at microeconomics level.

The financial crises of 2007-2009, was caused by income inequality that was driven by debts burden, financialization of economy, and unregulated market (Goda, 2017).





## Regulated Economy

By the term “regulated economy”, I mean an economy that is driven both by ‘visible’ and ‘invisible’ hands. The visible hand refers to an ethical and political authority, while invisible hand means market forces. The visible hand will drive the economy in an ethical direction to ensure sustainable development, socioeconomic justice, and general well-being while the invisible hand will move the economy in the natural direction.

The term ‘regulated economy’ also encompasses a morally enriched society where wealth is circulated at a high velocity among people through zakat, charities, donation, social endowments, and trading, and people are highly equipped with morality, social responsibility, and accountability that they dislike accumulation of wealth, economic monopolies and exploitation of others. In other words, to be successful, the proposed economic solution requires the existence of a resilient, but sound ethical and political framework.

## CONCLUSION

In conclusion, the study initiates a philosophical discourse on Economic systems that how the fundamental principles, values and beliefs of Capitalism, Marxism and Islamic Economics impact the economic thoughts, and practices. The study allows an in-depth, critical examination of philosophical frameworks of each economic system; revealing their respective strengths and weaknesses.

The philosophical framework of capitalism emphasizes and recognizes free market, and unhindered interaction of market forces to efficiently allocate resources, establish consumers sovereignty, and freedom of entrepreneurship (Smith, 1776). This approach, irrefutably, has led to innovation and economic growth. But it costs much to economy, society and environment as found by Rand et al. (1986) and Friedman (1982). Debts burden, economic cycles, income inequality, destruction to planet, and income inequality are the offsprings of capitalist approach that necessitate a holistic approach ensure sustainable development.

The philosophical study of Marxism reveals that it emphasizes on restoring socioeconomic justice, equality and building of classless society (Marx & Engels, 1848). Marxist approach seeks reality in materialistic interpretation of history, and recognizes that society, social and political structures are shaped by economic conditions (Marx, 2018b). Marxism theoretically claims higher ethical values such as socioeconomic justice, equality, and elimination of monopolies. However, it faces significant challenges in practice as it ignores diverse cultural, social and religious factors which take active part in shaping social and economic order in the world. Marxism believes in collective ownership, and eliminates private property (particularly of productive capacity) to ensure socioeconomic justice, while the aim is magnanimous, but constraining individualism may engender passive orientation to economic agents as maintained by Gorz, (1985) and (Roemer & Roemer (2009)

Islamic economics, contrary to capitalism and Marxism, arises from divine guidance, and has a moderate perspective on economic problems. It recognizes market forces, and regulate them ethically (A’la Mawdudi, 2013). The philosophical study of Islamic economics reveals that scarcity is a myth, and abundance is a reality. What distinguishes Islamic Economics from others, are its roots in divine revelation which implies sustenance and abundance, rather than scarcity (Wahbalbari et al., 2015c).

The Islamic approach to economics ensures socioeconomic justice through equity rather than equality, as the later seems unnatural. Though a fully-fledged Islamic economic system is yet to emerge on the global economic landscape. However, the fundamental principles of Shariah can be employed to propose a righteous economic system. This study also





proposes a model of Islamic Economics with distinctive characters, that may be incompatible with contemporary financial systems, but could offer alternative solutions to global economic problems.

The study uncovers the philosophical stance of Capitalism, Marxism and Islamic Economics on economic matters, and critically analyzes their respective impacts on economic thoughts and practices. It also provides how the world can benefit from synthesis of diverse theses integrating the elements of sustainability, socioeconomic justice, equity and well being of humanity.

### **Limitation of The Study**

The study conducted above has certain limitation such as the absence of any historical reference on the successful implementation of Islamic Economics. Additionally, the study requires a legal, ethical, and political framework for the sound functioning of the proposed economic solution, which makes it specific to the Muslim context.

### **Future Research**

The future researchers may conduct studies on implementing the monetary and fiscal policy, as proposed above, with a particular focus on eliminating debt financing and replacing it with equity-financing on a macro level. Additionally, developing a methodological framework for this approach would be beneficial and warrant further research.

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