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# Islam's Market Ideology: A Brief Outline

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## Abstract

*Many of the studies on the Islamic market doctrine have failed to integrate the idea within the broad social objective of its Islamic doctrinal origin. Consequently, the outcomes of such studies have only partially explicated the Islamic market theory. This brief study attempts to contextualize the Islamic market ideology within the broad social goal of the Islamic Shari'ah (law), in order to give it a more complete understanding. Using an interpretative approach that attempts to integrate market moral injunctions, pricing and profit, and price control, among others into the broader social doctrine of Islam, we established that the Islamic market ideology, broadly, seeks to promote the overall economic well-being of the members of society through creating fair opportunities for economic gains, enforcing the right to private property, and curbing exploitative tendencies of economic agents towards one another, among other things. Consequently, the Islamic market ideology is founded on the ideals of economic justice, which, generally, emphasize fairness as a moral duty enforceable by the state. It is further established that the individual has the right to engage in exchange activities and earn fair rewards, and this must not, ordinarily, be interfered with. However, when, in the course of exercising this right, the individual's pursuit of self-interest puts the overall public welfare into jeopardy, the state is obliged to give public welfare precedence over individual self-interests. Thus, there is room for the state to intervene even in pricing; though, under normal circumstances, prices in the market should depend on the prevailing market conditions.*

**Keywords:** *Islam, market, economic justice, pricing, profit, public welfare.*

## Introduction.

The market doctrine of Islam (or aspects of it) has (have) received considerable attention in literature. The earlier scholars have usually approached it from a legalistic perspective, mostly content with distinguishing between the permissible and impermissible market behaviors. The more recent studies, on the other hand, have tried to derive an ideology similar to modern ideologies on the subject (such as capitalism and socialism). For instance, recent studies on the history of Islamic economic thought (such as, Essid;<sup>1</sup> Abdul Azim Islahi;<sup>2</sup> Ghazanfar and Islahi;<sup>3</sup> Hosseini;<sup>4</sup> Ghazanfar and Islahi;<sup>5</sup> Hosseini;<sup>6</sup> and Islahi<sup>7</sup>) have often attempted to derive a coherent idea of an 'Islamic free market' in their discussions, based on the literature of the early scholars. However, some of these studies have often treated the subject briefly, limiting their discussions to aspects of it. Oguz and Tabakoglu,<sup>8</sup> for instance, briefly discuss market pricing in Islam as a background to analyzing state pricing behavior in the Ottoman State; another example is Puthenpeedikayil who presents the subject simply as "either in the form of certain market norms or in the form of some prohibitions."<sup>9</sup> Other studies are simply attempts to coherently summarize expositions

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1 M. Yassine Essid, "Islamic Economic Thought," in *Pre-Classical Economic Thought*, ed. by S. Todd Lowry, (Dordrecht: Springer Netherlands, 1987), pp. 77–102.

2 Abdul Azim Islahi, *Economic Concepts of Ibn Taimiyah*, (United Kingdom: Kube Publishing Limited, 1988).

3 Also published as Abdul Azim Islahi, "Explorations in Medieval Arab-Islamic Economic Thought: Some Aspects of Ibn Taimiyah's Economics." In Shaikh Mohammad Ghazanfar (ed.), *Medieval Islamic Economic Thought: Filling the Great Gap in European Economics*, (Francis: Taylor & Francis, 2003), pp. 53-71.

4 Also published as Hosseini Hamid, "Understanding the Market Mechanism Before Adam Smith: Economic Thought in Medieval Islam." Vol. 27, issue 3, 1995. In Shaikh Mohammad Ghazanfar (Ed.), *Medieval Islamic Economic Thought: t...*, pp. 88-107.

5 Also published as Abdul Azim Islahi, "Explorations in Medieval Arab-Islamic Economic Thought: Some Aspects of Ibn Al-Qayyim's Economics (691-751 AH/ 1292-1350 AD)." In Shaikh Mohammad Ghazanfar (Ed.), *Medieval Islamic Economic Thought: t...*, pp. 128-141.

6 Hamid S. Hosseini, "Contribution of Medieval Muslim Scholars to the History of Economics and Their Impact: A Refutation of The Schumpeterian Great Gap," In Warren J. Samuels, Jeff E. Biddle, and John B. Davis (eds.), *A Companion to the History of Economic Thought*, (United Kingdom: Blackwell Publishing, 2003), pp. 28-45.

7 Abdul Azim Islahi, *Contribution of Muslim Scholars to Economic Thought and Analysis*, (Jeddah: King Abdul Aziz University Press, 2005), pp. 25-33.

8 Orhan Oguz and Ahmed Tabakoglu, "An Historical Approach to Islamic Pricing Policy: A Research on the Ottoman Price System and Its Application," *J.KAU: Islamic Economics*, Vol. 3 (1991), pp. 63–79.

9 Sajid Puthenpeedikayil, "Notions of Free Market and Social Welfare in Islamic Economics," *Journal of Modern Accounting and Auditing*, Vol. 11, No. 9 (2015), p. 479.

of early scholars on the subject. Abdul Azim Islahi, Ghazanfar and Islahi, for instance, discuss the economic ideas of Ibn Taymiyyah, and, in these, explain his understanding of the Islamic market ideology; Ghazanfar and Islahi, also discuss the ideas of Ibn al-Qayyim (d. 1350) in a similar style.

Undoubtedly, Ibn Taymiyyah (d. 1328) has made significant contributions to the subject matter (i.e., Islamic market), especially with his work, *Al-Hisbah fi-l-Islam* (translated as: *Public Duties in Islam*), dedicated to, among other things, juristic discussions on many aspects of the subject – including market pricing, price regulation, etc. It is the basis upon which a lot of recent studies on price control in Islam have been conducted, a testament to its valuable contribution. An example of such recent studies is the third chapter of Abdul Azim Islahi's *Economic Concepts of Ibn Taymiyyah*, which attempts to synchronize Ibn Taymiyyah's ideas, from his various writings,<sup>10</sup> into some coherence. On its own, this study is a valuable addition to the literature. Other examples include Muhammad L. Bashar's *Price Control in an Islamic Economy*<sup>11</sup> and Muhammad H. Kamali's *Tas'ir (Price Control) in Islamic Law*,<sup>12</sup> both of which give detailed discussions of scholarly positions on the fixation of price by public authority, using Ibn Taymiyyah's book as their main reference material. However, as far as the subject matter of Islamic market doctrine is concerned, price control is just an aspect; Islam's market ideology is wider and more comprehensive than issues of price control (*tas'ir*), though such issues form an integral part of the ideology. Some attempt must be made to widen the discussion, by putting together all relevant aspects of the subject matter into some coherent whole, in order to convey a much more complete understanding. A study based on such an approach would be important to the attempt to understand the economics of historical Islamdom, as well as future attempts [if any] to apply such a doctrine in organizing society.

In view of the above, this study seeks to undertake an integrated analysis of the Islamic market doctrine. In the forthcoming sections, we will attempt to explicate the Islamic market ideology as one that functions toward the fulfilment of economic good, an integral

10 Including collections of religious verdicts (*fatāwa*) issued by him.

11 Muhammad Lawal Ahmad Bashar, 'Price Control in an Islamic Economy,' *J.KAU: Islamic Economics*, Vol. 9 (1997), pp. 29–52.

12 Mohamad Hashim Kamali, "Tas'ir (Price Control) in Islamic Law", *American Journal of Islamic Social Sciences*, Vol. 11, No. 1, (Association of Muslim Social Scientists, 1994), pp. 25–37.

component of the public good that Islamic law functions to fulfil. Economic good, from the Islamic perspective, entails fair and equitable provision of the means of sustenance to all members of society, and an equitable distribution of wealth, among other things. We will attempt to present the market as an institution that functions to achieve these ends, a function that necessitates its structuring on the ideals of justice. Thus, in a nutshell, our study seeks to explain Islamic market as an ideology that is structured on the ideals of justice to ensure the attainment of society's economic good. We will establish that though the interest of individuals is upheld, public welfare is given precedence when the two [i.e., individual interest and public welfare] are in conflict. Our approach, we hope, will convey a more complete understanding of the Islamic market doctrine, and put the legal norms and prohibitions, with respect to market activities, into proper perspective.

The approach to this study draws inspiration from the Qur'anic conception of human life on earth – a struggle towards the attainment of ranks in servitude of the Creator.<sup>13</sup> This conception implies that life is “*an integrated whole with integrally functional components, each of which functions towards the fulfilment of service to God.*”<sup>14</sup> Scriptural guidance reflects this idea,<sup>15</sup> and thus lays down the moral code in line with it. On the basis of this, it is possible to postulate that Islam's social ideology, in its entirety, seeks to enhance the individual's quest towards spiritual success by organizing his/ her relations and social setting in a manner harmonious with the ultimate goal.<sup>16</sup> Each aspect of the social doctrine has an integral role to play towards the fulfilment of this overall goal. For any Islamic intellectual social discourse to remain true to its character and purpose, it must be conducted within the boundaries of this conception and in harmony with it. The renowned scholars of the early generation(s) understood this idea and, thus, conducted their intellectual endeavors on a methodology in tune with it. Scholars such as Abu Yusuf (731-798), Ahmad Ibn Hanbal (780-855), Abu Muhammad Ibn Hazm

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13 Adada Mohammed Abdul-Rahim, “Economics In An Islamic Society: A Theoretical Exposition”, *Adam Academy Journal of Social Science*, Vol. 8, No. 2, (Ankara Center for Thought and Research-ADAM, 2018), pp. 301–23. Also see Qur'an 51: 56.

14 *Ibid.*, p. 305.

15 “O you who have believed, enter into Islam completely [and perfectly] and do not follow the footsteps of Satan. Indeed, he is to you a clear enemy” [Qur'an 2: 208 (Saheeh International Translation, 2010)]

16 Scholars of *Maqāsid Ash-Sharī'ah* (Objectives of Islamic Law) attest to this postulation. See Jasser Auda, *Maqasid Al-Shariah as philosophy of Islamic Law: A Systems Approach*, (London: International Institute of Islamic Thought (IIIT), 2007).



(994-1064), Abu Hamīd Al-Ghazālī (1058-1111), Ibn Taymiyyah (1263-1328), Ibn Al-Qayyim (1292-1350) rendered their intellectual works based on the “holistic” intellectual methodology,<sup>17</sup> which presumed that “all behavior... is teleological, in that its ultimate aim is God and salvation.”<sup>18</sup> In their scholarly endeavors, the prominent Islamic scholars of the pre-modern times did not simply decorate secular discussions with scriptural texts, as contemporary Muslim thinkers and researcher are wont to do; they contextualized social discussions as integrative components of an Islamic social ideology. Every idea or concept that relates to human life is, thus, expressed as a component of an ethos (i.e. the Islamic value system) that guides and organizes human life towards the fulfillment of the ultimate (spiritual) end. In applying this interpretative approach to this study, we would be establishing a context for the broad understanding of the Islamic market philosophy and the specific issues that constitute its character, such as the moral injunctions, pricing and profit-making, state intervention, etc. This should create a more integrated picture of the idea than has been presented in the current literature. To establish the market doctrine as integral to the attainment of the broad social object of the *Shari'ah*, we link all the specific aspects of the subject to the ideals of social justice from the Islamic perspective.

Before we proceed, two clarifications are necessary. First, with respect to commodities subject to the normative laws of the market, Islamic scholars distinguish between *necessities* and *luxuries*, and this distinction has a bearing on legalities of action in relation to commodities. For instance, Ibn Khaldun (*d.* 1406) contends that “people have no compelling need” for *luxuries* (relative to *necessities*) and that they demand them simply for “the diversification of desires.”<sup>19</sup> Consequently, people “*spend their money voluntarily and willingly [on luxuries], and they retain no hankering after (the money) they have paid.*”<sup>20</sup> Thus, there is no blame on a seller/merchant if he hoards luxury goods in order to make higher economic gains. In this study, the discussion is limited to commodities that are considered *necessities*; these obviously vary according to location

17 Shaikh Mohammad Ghazanfar, Abdul Azim Islahi, “Economic Thought of an Arab Scholastic Abu Hamid Al-Ghazali (AH 450-505/1058-1111 AD).” In Ghazanfar (ed.), *Medieval Islamic Economic Thought:...*, p. 23.

18 *Ibid.*, p. 12.

19 ‘Abdurrahman ibn Muhammad Ibn Khaldun, *The Muqaddimah: An Introduction to History, Vol. II*, (Franz Rosenthal, trans., (New York: Pantheon Books, 1958), p. 339.

20 *Ibid.*

and time, but the general rule applies to them as long as they are considered *necessities*. Secondly, the Islamic market doctrine, as a normative ideal, applies to an Islamic context, where a legitimate Islamic political authority is recognized as such, though aspects of it are applicable, generally, in non-Islamic settings. Thus, our analysis assumes an Islamic setting, with a functioning Islamic government.

The rest of the paper is organized as follows. In section two, public interest is discussed as an object of Islamic law, from which derives economic good as an objective of the Islamic economic doctrine. The concept of justice is introduced as an integral element of the Law, and a means through which public good is realized; as a subset of justice, economic justice is presented as the concept upon which the Islamic market doctrine is founded, and as a necessary means to attaining economic good. Section two discusses the role of the market in society, from the Islamic perspective, as a precursor to an overview of the Islamic market ideology, which is discussed in section three. In section four, we analyse price formation in the Islamic market, to which issues of production and factor returns are relevant, and are, thus, duly discussed. Finally, we discuss price control (*tas'ir*) in Islamic law, in section five, and then present a historical summary of how the various legal positions on it have been applied in Islamdom. Then we present a conclusion to our discussion in section six.

## Public Interest and Social Justice in Islamic Law.

It is a consensus among Islamic scholars that one of the central objects of Islamic Law (*Shari'ah*) is the advancement and preservation of public interest. Auda contends that the term *maṣāliḥ* (public interests), for many Islamic legal scholars, is synonymous with *maqāṣid al-Shari'ah* (purposes of the Islamic Law), citing, as an example, Abd al-Malik al-Juwayni's (d. 1085) usage of *al-maqāṣid* and *al-masāliḥ al-'āmmah* [public interest] as synonymous terms.<sup>21</sup> Al-Qarafī (d.1868) elaborates this relationship, asserting that "[a] purpose (*maqṣid*) is not valid unless it leads to the fulfilment of some good (*maṣlahah*) or the avoidance of some mischief (*mafsadah*)."<sup>22</sup> Thus, the *Shari'ah* seeks to promote all that is good (for society and its members) and to thwart all that is bad (for society and all individuals within it). So, what specifically does *maṣlahah* (public

<sup>21</sup> Jasser Auda, *Maqasid Al-Shariah as philosophy of Islamic Law: A Systems Approach*, (London: The International Institute of Islamic Thought-IIIT, 2007)

<sup>22</sup> *Ibid*, p. 2

“good”) imply with respect to the application of the *Shari’ah*? Fazl-u-Rahman Ansari answers this question, profoundly, with his assertion that the *Shari’ah* enjoins the political authority of an Islamic society (i.e., the state) to pursue “*the spiritual, moral, intellectual, physical and social preservation and development of the individuals, with a view to the establishment of a righteous society, i.e. a society which is healthy in all respects.*”<sup>23</sup> Clearly, the object of the *Shari’ah* is linked with the Islamic concept of human life, and public ‘good/ interest/ welfare’ implies a broad terminology that entails all the facets of a complete life; Imam al-Ghazālī (d. 1111) opines that “Islam sets goals<sup>24</sup> for human life” and that “[all] matters (be they activities or things) that help in achieving these goals increase social welfare, and are called *maṣāliḥ*...; those opposite are *maḥāsib* [i.e., things that cause losses in public welfare].”<sup>25</sup> The spirit of the law, thus, is to help the individual achieve success in life by promoting a positive development of his/ her personality and creating a society that supports this agenda. In order to achieve this all-important goal of promoting public good, there are very important principles that must be adhered to, and which have been made an integral part of the law. One of such principles is the duty of establishing justice in society. This Ibn al-Qayyim al-Jawziyya (d. 1350) alludes to with his assertion that the “*Sharī’ah* is God’s justice and mercy amongst His people” and that “[life], nutrition, medicine, light, recuperation and virtue are made possible by it.”<sup>26</sup>

Justice, divinely ordained<sup>27</sup> upon human beings and the political state, may be defined as “*giving to everyone his due on the basis of equity.*”<sup>28</sup> The Qur’an portrays it “*as an imperative which is*

23 Muhammad Fazl-u-Rahman Ansari, *The Qur’anic Foundations and Structure of Muslim Society Vol. II*, (Karachi: Elite Publishers, 2008), Fourth ed., p. 57.

24 The ultimate goal is the attainment of eternal bliss [see Al-Ghazālī, *Ihya Ulum-Id-Din (Revival of Religious Learnings) Vol. II*, Fazl-ul-Karim, trans., (Karachi: Darul-Ishaat, 1993), p.45]

25 Shaikh Mohammad Ghazanfar, Abdul Azim Islahi, *Economic Thought of Al-Ghazali (450-505 A.H./ 1058-1111 A.D.)*. *Islamic Economics Research Series*, (Jeddah: King Abdulaziz University Press, 1997), p. 7.

26 Nurdeng Deuraseh, “New Essential Values of Daruriyyah (Necessities) of The Objectives of Islamic Law (Maqasid al-Shari’ah),” *Jurnal Hadhari*, Vol. 4, No. 2, (2012), pp. 107-116.

27 Part of the mission of the prophets sent by God to various nations was to establish justice among the people: “*We have already sent Our messengers with clear evidences and sent down with them the Scripture and the balance that the people may maintain [their affairs] in justice*” [Qur’an 57:25 (Saheeh International Translation, 2010)].

28 Muhammad Fazl-u-Rahman Ansari, *The Qur’anic Foundations and Structure of Muslim Society Vol. I*, (Karachi: Elite Publishers, 2008), Fourth ed., p. 209.



*unconditionally, universally and absolutely binding...on everyone, under all circumstances, and in all situations.*"<sup>29</sup> It is "an absolutely indispensable ingredient of the *maqāṣid al-Sharī'ah*, so far so that it is impossible to conceive of an ideal Muslim society where justice has not been established."<sup>30</sup> Establishing justice is not just a duty but a virtue of a very high regard; it is "nearest to piety" according to the Qur'an.<sup>31</sup> In its broad sense, it is classified into two categories: justice at the individual level; and justice at the collective level.<sup>32</sup> At the individual level, justice implies the active pursuit of self-development in harmony with the ethics of the Qur'an, and the observance of fairness in dealings with other members of society (i.e. giving to others their due in the most deserving manner).<sup>33</sup> At the collective (communal) level, justice relates to four aspects of the social organization, including justness with respect to: (1) social relations; (2) the process and enforcement of the Law; (3) economic administration; and (4) political administration;<sup>34</sup> all these have their respective roles to play in bringing about public good. In line with the theme of this study, we focus on two aspects of justice; individual justice, and the administration of economic justice at the communal level. We discuss them not as separate themes, but as aspects of the overall concept of economic justice, which, in turn, is an integral component of the broad conception of justice from the Islamic viewpoint.

The administration of economic justice (at the individual and communal levels) is important to the Islamic market doctrine; the ideals of the Islamic market doctrine are built on the principles of justice within the above-mentioned forms. The establishment of the ideals of economic justice is as indispensable to the achievement of economic good as the establishment of justice, in its broad sense, is to the achievement of public good. Thus, the Islamic market doctrine cannot be properly understood without first understanding the ideals of justice at the communal and individual economic levels. First and foremost, it is important to highlight some key Qur'anic

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29 Muhammad Fazl-u-Rahman Ansari, *The Qur'anic Foundations and Structure of Muslim Society...*, pp. 208-9.

30 Muhammad Umer Chapra, *Islam And The Economic Challenge*, 6th ed., (Leicester, UK: Islamic Foundation, 1992), p. 209.

31 "...Be just; that is nearer to righteousness" [Qur'an 5:8 (Saheeh International Translation, 2010)].

32 Muhammad Fazl-u-Rahman Ansari, *The Qur'anic Foundations and Structure of Muslim Society Vol. I*, (Karachi: Elite Publishers, 2008), Fourth ed.

33 *Ibid.*

34 *Ibid.*

concepts upon which the principles of economic justice are built. The first important Qur'anic concept is that "all human beings are equally honorable in respect of their humanity."<sup>35</sup> The Qur'an states: "*And We have certainly honored the children of Adam and carried them on the land and sea and provided for them of the good things and preferred them over much of what We have created, with [definite] preference.*"<sup>36</sup> This principle enjoins all individuals to treat fellow human beings in the manner befitting their humanness, and in the manner they would wish other human beings to treat them. Secondly, the Qur'an guarantees every member of the society the right to sustenance.<sup>37</sup> This, according to Fazlur Rahman Ansari, implies that "*all human beings have equal right to the means of sustenance found on earth-and that, consequently, the citizens of the Islamic State have equal right to the means of sustenance found in the State.*"<sup>38</sup> The third Qur'anic concept is that the reward of labor must be commensurate with the effort applied: "*And that there is not for man except that [good] for which he strives.*"<sup>39</sup> This implies that the state is duty-bound "*to establish an economic order wherein the labor of every citizen is fully rewarded.*"<sup>40</sup> Finally, it is also a Qur'anic concept that material wealth in society must not be concentrated in the hands of a few privileged members, thus creating wide income and material disparity among members of society.<sup>41</sup>

On the basis of these four concepts (among others), the state has a duty to create an economic order with the following features:

1. It should guarantee all members the right to private property and protection against its unlawful violation. Sheikh Yusuf al-Qaradāwi says, in this regard, that "*[since] the Shari'ah sanctions the right to personal property, it protects it, both by means of moral exhortation and legislation, from robbery, theft, and fraud.*"<sup>42</sup>

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35 Muhammad Fazl-u-Rahman Ansari, *The Qur'anic Foundations and Structure of Muslim Society, book III, Vol. II* (Karachi: Elite Publishers, 2008), Fourth ed., p. 73.

36 Qur'an 17:70 (Saheeh International Translation, 2010)

37 "*And He placed on the earth firmly set mountains over its surface, and He blessed it and determined therein its [creatures'] sustenance in four days without distinction - for [the information] of those who ask*" [Qur'an 41:10 (Saheeh International Translation, 2010)]

38 Muhammad Fazl-u-Rahman Ansari, *The Qur'anic Foundations and Structure of Muslim Society, book III, Vol. II...*, p. 72.

39 Qur'an 53:39 (Saheeh International Translation, 2010)

40 Muhammad Fazl-u-Rahman Ansari, *The Qur'anic Foundations and Structure of Muslim Society, book III, Vol. II...*, p. 73

41 See Qur'an 59:7; it lays out this principle clearly.

42 Yusuf Al-Qaradawi, *The Lawful and the Prohibited in Islam*, K. Al-Hilbawi, et.al, trans., (Cairo: Al-Falah Foundation for Translation, 2001), 2nd ed., p. 326.

2. It should provide equitable opportunity for all abled members of society to engage in economic activity and earn just rewards from it.
3. The system should ensure fair and balanced distribution of wealth in society by:
  - a. Creating a production and exchange arrangement that guarantees fair outcomes to all participants.
  - b. Ensuring productive use of resources, without wastage, idleness, and extravagance.
  - c. Enforcing the welfare system through which the rich take care of the poor and needy. It is important to note that Islam frowns upon deliberate economic inactivity (and, consequently, permanent economic dependence upon others) and encourages its adherents to earn their livelihood with their own hands. It is forbidden for man *"to depend on charity while he is able to earn what is sufficient for his and his family's needs through his own efforts."*<sup>43</sup> However, it also recognizes that some members of society, due to circumstances beyond their control, find themselves in a position of weakness, and thus have their right to sustenance upon the society.<sup>44</sup>
  - d. Enforcing the prohibition of usury and interest (of all forms) as a means of preventing the rich from milking the poor and widening the economic gap.
4. It should enforce the prohibition of all forms of economic exploitation at all levels of society.<sup>45</sup> And this is important to the preservation of equality in human value, the labor's right to fair reward, and the right to fair economic opportunities for all persons.
5. The individual members of society must be morally trained/persuaded (and/or legally compelled) to:

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43 Yusuf Al-Qaradawi, *The Lawful and the Prohibited in Islam...*, p. 121.

44 This is taken care of through the zakat system and other similar interventions.

45 *"The way (of blame) is only against those who oppress men and wrongly rebel in the earth, for such there will be a painful torment."* [Qur'an 42:42 (Saheeh International Translation, 2010)]

- a. Actively pursue economic activity in order to be self-reliant;
- b. Act within moral bounds in their economic dealings;
- c. Desist from exploiting other persons for their personal economic benefits;
- d. Desist from denying others the opportunity to seek their sustenance by either seeking to monopolize aspects of the production and exchange arrangement or using force;
- e. Refrain from causing damage to, or wasting, resources that are owned individually or collectively;
- f. Willingly contribute to the welfare scheme that seeks to take care of those in need.

The above-mentioned principles are by no means exhaustive in regards to the completeness of the Islamic concept of economic justice. However, they are enough to support the argument to be presented in forthcoming sections of this study.

So, in light of the principles enumerated above, the Islamic economic order (or any aspect of it) would seek to establish a society that promotes the overall economic well-being of its members through creating fair opportunities for economic gains, enforcing the right to private property, curbing exploitative tendencies of economic agents towards one another, and other measures like these that are consistent with the value system of Islam. The market component of the Islamic economic doctrine plays the role of ensuring that the market institution accords all members of society a fair chance of fulfilling their needs in the most just manner, whether they are acquiring or they are providing. Most essentially, economic interests of individuals must not put the general need of the society into jeopardy; that is, the pursuit of the private profit motive must not result in undue denial of other people's right to sustenance, impede others' right to participation, or result in exploitative behaviors.

## The Role of The Market in Society.

Islam recognizes the market as an avenue for people to acquire what they need in exchange for what they possess according to mutual terms. It also recognizes it as a means through which people translate their productive labor into fair economic gains. In a nutshell, it is an avenue through which the economic needs of society are fulfilled. Without such an avenue, people would simply be stuck with their own possessions, unable to obtain the materials they require to have a balanced life. Its absence may even threaten order in society as this would impede production of, and access to, the necessities of life. Every necessity of life is only obtainable through an exchange avenue, and that is what the market represents. Imam al-Ghazali emphasizes the role of the market in society with the following example: "...a man has got food, but has got no riding camel. He who has got a camel has got necessity of food. So between them there is the necessity of exchange of these two things and fixation of their value."<sup>46</sup> In the Qur'an, God asserts how integral the markets were even to the lives of previously sent prophets and messengers of God: "And We did not send before you [O Muhammad] any of the messengers except that they ate food and walked in the markets."<sup>47</sup> This citation highlights, among other things, the role of the market in providing an avenue for access to foodstuff, a necessity of life, and also how the prophets and messenger did not allow spirituality to prevent them from seeking livelihood through the markets. Indeed, among the first things Prophet Muhammad is reported to have done, upon migration to al-Madinah, was to designate a place for setting up a market,<sup>48</sup> a proof of how important the Prophet considered the market to the order of society. The market is, thus, pivotal to the attainment of the economic good. It brings to a point the collective outcome of the society's productive activities, and ensures their appropriate distribution. It also serves as means of actualizing the divinely-ordained right to own and earn, such that private individuals are able to attain rewards for their legitimate offer of labor.

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46 Abu Hamid Muhammad ibn Muhammad at-Tusi Al-Ghazali, *Ihya Ulum-Id-Din [Revival of Religious Learning]*, Vol. IV, Fazl-u-l-Karim, trans., (Karachi: Darul-Ishaat, 1993), p. 83.

47 [Qur'an 25: 20 (Saheeh International Translation, 2010)].

48 Sayed Kazem Sadr, *The Economic System of the Early Islamic Period: Institutions and Policies*, (Tehran: Shaheed Beheshti University Publishing, 2016)

As important as the market is, Islam also recognizes it as a meeting point of individuals who, by their innate nature, have an avaricious tendency (see Qur'an 100:8).<sup>49</sup> Ibn Kathīr (d.1373), in his Qur'anic commentary, says the verse (i.e., Qur'an 100:8) implies either that man is "severe in his love of wealth" or that "he is covetous and stingy due to the love of wealth."<sup>50</sup> The Prophet is also reported to have said: "If Adam's son [man] had a valley full of gold, he would like to have two valleys, for nothing fills his mouth except dust [of the grave]."<sup>51</sup> If allowed to act freely in such avenues for exchange, the avariciousness of men would be nurtured into producing disastrous consequences for both men (in their persons) and society at large.<sup>52</sup> Love of wealth and the desire to acquire them in multitudes will become the dominant intent of men in their economic pursuits, and eventually destroy their spirituality. For society, there are two possible consequences of such freedom. First, the public would be at the mercy of greedy merchants/suppliers, who would apply all means necessary to increase their market shares and economic gains; consequently, public economic welfare suffers, even though a few private individuals make enormous gains. Such a phenomenon would be contrary to the Qur'anic principle that encourages a wider dispersion of wealth rather than its concentration in the hands of few privileged members of society.<sup>53</sup> Second, the market, if absolutely free, reorganizes its distribution toward areas that attract the largest economic gains. Though economic theory predicts a normalization of profits in the long-term for such free markets, the intermittent short-term movements according to magnitude of gains is, obviously, detrimental to basic needs of the public; the self-regulating market responds to its own needs rather than the needs of the larger public.

49 "And indeed he [man] is, in love of wealth, intense" See in A.B. al-Mehri (ed.), *The Qur'an: With Surah Introduction and Appendices: Saheeh International Translation* (UK: Maktabah Booksellers and Publishers, 2010).

50 Imam Abu al-Fida Isma'il Ibn Kathīr, *Tafsīr Ibn Kathīr*, Vol. X, J. Abualrub, et.al, trans., (Riyadh: Maktaba Dar-us-Salam, 2003), p. 568.

51 "If Adam's son had a valley full of gold, he would like to have two valleys, for nothing fills his mouth except dust. And Allah forgives him who repents to Him." [Sahih al-Bukhari, Vol. 8, Hadith No. 6439]

52 "Satan threatens you with poverty and orders you to immorality, while Allah promises you forgiveness from Him and bounty. And Allah is all-Encompassing and Knowing" [Qur'an 2: 268 (Saheeh International Translation, 2010)]

53 In [Qur'an 59: 8 (Saheeh International Translation, 2010)], God says: "And what Allah restored to His Messenger from the people of the towns – it is for Allah and for the Messenger and for [his] near relatives and orphans and the [stranded] traveler – so that it will not be a perpetual distribution among the rich from among you..."



In view of the above, Islam places moral obstructions on the freedom of the market to self-regulate; such obstructions are moral obligations upon market participants, fulfilment of which are integral to the Muslim personality. Those with the requisite moral training are, naturally, able to fulfil these; on the other hand, the state is obliged to impose their fulfilment upon men when they falter on their own. Market regulation, therefore, is an integral duty of the state, whose primary objective is to promote public good—a comprehensive concept that captures all aspects of society. Thus, the Islamic market provides a balance between the individual's right/ freedom to produce, trade, and earn fair rewards, on the one hand, and society's overall economic welfare, on the other. The individual's exercise of his freedom is not allowed to produce detrimental effects on the welfare of society.

### The Islamic Market Ideology in Brief.

In line with the ideals of economic justice and the spirit of the Law, the Islamic market ideology is oriented towards a *conditionally-free*<sup>54</sup> enterprise and fair competition; it frowns upon monopolistic tendencies and unjustified restrictions on the individual's freedom to own and earn. It allows for acquisition of property, and permits "any trade except that which involves injustice, cheating, making exorbitant profit,<sup>55</sup> and the promotion of something haram [prohibited]."<sup>56</sup> It places injunctions against actions of economic agents oriented towards unjustifiably manipulating market conditions to suit their personal interests. It organizes the market in a way that promises fair outcomes to participants if allowed to function without undue manipulations. And, it places a duty upon state authority to act as the moral superintendent of the market, guarding against all that contradict the ideals of justice and jeopardize public interest, including taking actions to correct imbalances that emerge in the market.

It is clear, from the above, that there is no absolute freedom within the Islamic market. Freedom is conditioned by the demands of morality (upon all important stakeholders), exerted through moral inducement, and then through legal coercion (when persuasion fails). The individual is free to make economic gains,

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54 There are moral bounds that define the freedom. Where the moral sense of the individual fails to induce him into acting morally, the law coerces him to do so.

55 This will become clearer in the course of the discussion.

56 Yusuf Al-Qaradawi, *The Lawful and the Prohibited in Islam...*, p. 136.

but, in doing so, is not permitted to violate the economic (and other) rights of the other members of society. In fact, it is a principle in the application of the law that “any transaction in which one person’s gain results in another’s loss is unlawful.”<sup>57</sup> Such is in line with the principle of fairness; one which looks out, especially, for people who find themselves in disadvantaged positions with respect to exchange transactions. In the prophetic traditions (hadīth), specific acts have been mentioned, which, if perpetrated by private market participants, would threaten the fairly competitive market environment Islam seeks to create; three of them – *najsh*, hoarding, and forestalling – would suffice for our discussion here. *Najsh*<sup>58</sup> occurs when a person “offers a bid merely to incite another needy buyer into paying a higher price.”<sup>59</sup> Hoarding,<sup>60</sup> on the other hand, occurs when a supplier restricts supply to the market, by hiding what should be delivered for sale, in order to make extra gains. According to Ibn Khaldūn (*d.* 1406) the outcome of such an act is tantamount to “taking people’s property for nothing” since such people paid the resultant high prices out of “compulsion” and their “souls continue to cling” to whatever they may have spent.<sup>61</sup> Finally, *forestalling* refers to the interception of goods before they reach the markets.<sup>62</sup> In addition to the tendency (of *forestalling*) to restrict supplies to the market, the original merchant may be unaware of the prevailing market conditions,<sup>63</sup> and this disadvantage exposes him to being cheated. This, perhaps, is the reason why the Prophet added that the merchant has the right to annul any such transaction that takes place outside the market if he arrives at the market and finds better terms. It is clear that these restrictions are in place to protect the fairness of the market and to prevent profiteering out of high prices

57 Yusuf Al-Qaradawi, *The Lawful and the Prohibited in Islam...*, p. 141.

58 Ibn Umar narrated that: “The Prophet forbade the *Najsh*.” (Sunan Ibn Majah, Vol. 3, Hadith No. 2173)

59 Imam Muhammad bin Yazeed Ibn Majah Al-Qazwini, *English Translation of Sunan Ibn Majah, Vol. 3*, Nasiruddin Al-Khattab, trans., (Maktaba Dar-us-Salam, 2007), p. 244.

60 The Prophet is reported to have said: “Whoever hoards is a sinner” [Sahih Muslim, Vol. 4, Hadith No. 1605].

61 ‘Abdurrahman ibn Muhammad Ibn Khaldun, *The Muqaddimah...*, p.339

62 It is narrated from Abu Hurayrah that the Prophet said: “Do not meet the traders on the way, and whoever meets any of them and buys from him, the vendor has the choice of annulling the transaction when he comes to the marketplace.” [Sunan Ibn Majah, Vol. 3, Hadith No. 2178].

63 Communication was difficult at the time and thus information about market conditions could only be obtained by presence in the market; merchants on journey could be unaware of changes in market conditions until they arrived at the markets.

on the needy consumer. This, then, is again consistent with the ideals of justice and the objective of protecting public welfare. This also brings into question the issue of price and its determination within the Islamic market. But, first, the role of government or state authority is briefly examined.

The state has a duty to ensure the achievement of public welfare through the enforcement of the ideals of justice. It is duty-bound to act as a moral police over market activities. It must thwart all monopolistic and monopsonistic tendencies, prevent any form of exploitation, and check all immoral behaviors within the market. In a nutshell, it must protect the interest of the public by ensuring a natural flow of commodities (especially those that constitute necessities) within the market as well as fair outcomes in terms of prices and profits. It has the power to punish violators of market principles, and, where necessary, directly intervene to restore market conditions to normalcy when imbalances emerge. The question of what exactly the state authority can do when prices are the subject of market imbalance will be answered under the discussion on price control in Islamic markets. As a precursor, it is important to examine price formation in an Islamic market.

## Price and Profit in The Islamic Market.

### Price Formation.

The central position that justice occupies in the Islamic market doctrine implies that emergent market prices (and profits that accrue to sellers/suppliers) must necessarily be fair to all market participants. This idea finds proof in a prophetic tradition reported in most of the famous books of hadith collections.<sup>64</sup> It is recorded in *Sunan Abi Dawood*<sup>65</sup> that:

The people said: Messenger of Allah, prices have shot up, so fix prices for us. Thereupon the Messenger of Allah said: Allah is the one Who fixes prices, Who withholds, gives lavishly and provides, and I hope that when I meet Allah, none of you will have any claim on me for an injustice regarding blood or property.<sup>66</sup>

In this report we find that Prophet Muhammad did not only refuse to interfere with the rising prices, but also declared doing

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64 Musnad Ahmad, Jami' at-Tirmidhi, Sunan Ibn Majah, etc.

65 This is a collection of prophet traditions compiled by Imam Abu Dawood Sulayman ibn al-Ash'ath (d. 889)

66 Sunan Abi Dawood, Vol. IV, Hadith No. 3451.

so as injustice. This suggests that whatever price that emerges from the market, under normal conditions (i.e. conformity with the ethic of market behavior), must be harmonious with the ideals of justice; they must not unfairly favor either the buyer or the seller, and both must willingly agree with it as the correct valuation of the commodity in question. For the producer/seller this implies that the price is consistent with his/her basic considerations for cost and profitability. For the buyer, this implies that the price carries no element of exploitation or overvaluation.

In light of the above, and other relevant textual and historical information, I categorize price into two levels; the *Basic Price* ( $P_b$ ), and the *Prevailing Price* ( $P_p$ ). The *Basic Price* is the price that reflects the exact per unit cost of producing the commodity in question (including the cost incurred in bringing it to the market). It is a simple summation of all the elements of cost (per unit) in the production process. Its relevance is to serve as a benchmark, for both the seller and public authority, in determining the fairness of the terms of exchange transactions. This is in line with, and makes sense of, the ideals of justice and fairness. Ibn Khaldun (*d.* 1406), in *The Muqaddimah*, gives some historical proof of the role of cost in pricing. Firstly, he explains that the cities had higher food prices than the desert regions because the cities had custom (and other) duties “levied on (foods) in the markets and at the city gates” by rulers while such levies were “few or nonexistent among (the Bedouins).”<sup>67</sup> What he implies is that the suppliers transferred the burden of these levies onto consumers (since necessities normally have highly inelastic demand curves), thus translating into higher food prices. Secondly, and perhaps more conspicuously, he explains that foodstuff was more expensive in Spain of his era as opposed to the Berber region because,

*The Christians pushed the Muslims back to the seacoast and the rugged territory there, where (the soil) is poor for the cultivation of grain and little suited for (the growth of) vegetables... Thus, (the Muslims) had to treat the fields and tracts of land, in order to improve the plants and agriculture there. This treatment required expensive labor (products) and materials, such as fertilizer and other things that had to be procured. Thus, their agricultural activities required considerable expenditures. They calculated these expenditures in fixing their prices, and thus Spain has become an especially expensive region... The Berber countries are in the contrary. Their fields are fine and their soil is good. Therefore, they did not have to procure anything*

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67 ‘Abdurrahman ibn Muhammad Ibn Khaldun, *The Muqaddimah...*, p. 278.

(from outside) in order to be able to cultivate agriculture... This is the reason for the cheapness of foodstuffs in their country.<sup>68</sup>

The *prevailing price*, on the other hand, is the value at which the commodity is actually traded in the market at any particular point in time. This *Prevailing Price*, it appears, is what Ibn Taymiyyah (d. 1328) refers to as the *price of the equivalent (tsaman al-mitsl)*, which, in his words, is "that rate at which people sell their goods and which is commonly accepted as equivalent for it and for similar goods at that particular time and place."<sup>69</sup> He asserts that the *tsaman al-mitsl* of a particular good could change as a result of "deficiency in production or decline in import [of the good]."<sup>70</sup> Clearly, Ibn Taymiyyah (d. 1328) ascribes the determination of the prevailing price to market conditions (that is, availability of the commodity vis-à-vis its demand) at a particular point in time. In the primary texts, we find the prohibition of hoarding, and other practices with similar potential effects, as proof of the admission that prices are indeed affected by the quantity of the commodity available in the market versus the extent of need for it. This is even more explicit in the prophetic tradition in which Prophet Muhammad is reported to have said: "No one withholds goods till their price rises but a sinner"<sup>71</sup>. Thus, in a nutshell, prevailing market conditions determine the *Prevailing Price* while the cost of production determines the *Basic Price*. The difference between the *basic price* and the *prevailing price* is the economic gain (profit) that accrues from an exchange transaction. But before we discuss this in detail, it is important to discuss capital and labor as essential components of the production and exchange process.

## Factors of Production and their Returns.

Muhammad Baqir As-Sadr (1935-1980) derives a theory of production from Islamic jurisprudential sources, aspects of which are relevant here. Basically, the theory puts man as the pivot of production activity. Man is not placed on the same status as

68 'Abdurrahman ibn Muhammad Ibn Khaldun, *The Muqaddimah...*, p. 279.

69 Abdul Azim Islahi, *Economic Concepts of Ibn Taymiyyah...*, p. 83.

70 Abdul Azim Islahi, *Contributions of Muslim Scholars to Economic Thought and Analysis* (Jeddah: Scientific Publishing Centre, 2005), p. 29.

71 Narrated Ma'mar b. Abi Ma'mar, one of the children of 'Adi b. Ka'b: The Messenger of Allah (ﷺ) as saying: "No one withholds goods till their price rises but a sinner". I said to Sa'id (b. al-Musayyab): "You withhold goods till their price rises". He said: "Ma'mar used to withhold goods till their price rose..." [Sunan Abi Dawood, Vol. IV, Hadith No. 3447]

the various factors he combines to produce. He is an end in the production process, not a means.<sup>72</sup> Factors of production are *“servants of man for the accomplishment of the operation of production since the operation of the production is for the sake of man and as such the share of the producing man differs from the share of the material means on the theoretical basis.”*<sup>73</sup> This is corroborated by the ideals of justice, mentioned earlier, that make it a *moral duty* upon men to accord each other the value of humanness, and not treat each other as mere tools for private economic gains. As-Sadr highlights two general principles in developing his argument. First, if a man produces a commodity from a natural base material (resources without any specific right to ownership in their natural state) the commodity produced is the property of the person whose labor brought it into being; *“labour-works in nature produce no effect or special right for a person until and unless the person himself performs the labour or spends directly his efforts in the work of cutting wood or grass or similar labour-works.”*<sup>74</sup> The producer still possesses the right of ownership even if he was employed to undertake the production by someone else (who himself cannot claim ownership of the base material). If other tools (belonging to persons other than the producer) were utilized in the production process, the producer is obliged to pay the owners of the tools a compensation for usage. Such compensations are not shares of ownership in the produced article because the tools (or their owners) are not entitled to any such shares; they are obligations due them for services they rendered. Consequently, any such compensation for usage will be meaningless if the tools belong to the producer himself. Second, if the base material upon which labor is exerted to produce a commodity is owned by the one who sanctions the production, then the commodity is the property of the owner of the base resource, and not the laborer. Thus, *“when an individual acquires ownership of a material on the basis of labour and the basis continues in existence, it will not be permissible for another person to acquire a new ownership to the material even if he were to contribute to*

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72 This concept is derived from the Qur’an principle, which makes everything on earth subservient to man: *“Do you not see that Allah has subjected to you whatever is on the earth and the ships which run through the sea by His command? And He restrains the sky from falling upon the earth, unless by His permission. Indeed Allah, to the people, is Kind and Merciful”* [Qur’an 22:65 (Saheeh International Translation, 2010)].

73 Muhammad Baqir as-Sadr, *Iqtisaduna - Our Economics, Vol. II Part II*, P. E. Trust, trans., (Tehran: WOFIS, 1984), p. 12.

74 *Ibid.*, p. 5.



*it a new value by his labour.*"<sup>75</sup> This principle simply upholds the rule of "constancy of ownership"; it is not a conferment upon capital the right to share in the commodity thereby produced. In other words, the produced commodity is still the base material "in a particular state of its transformation" and thus the property of its initial owner.<sup>76</sup>

There is a separation between ownership of the commodity produced and its exchange value such that

*the material forces which contribute their share in the act of the production of a commodity always receive their reward – on the basis of this separation as his (man's) servants...and not in the produced commodity itself as included in the formation of its exchange-value.*<sup>77</sup>

Ibn Khaldūn's (d. 1406) asserts that "the value of the resulting profit and acquired (capital) must (also) include the value of the labor by which it was obtained"<sup>78</sup> since "gains and profits, in their entirety or for the most part, are value realized from human labor."<sup>79</sup> Thus, broadly, two forms of compensation for the services of labor are recognized – compensation/rent (*'ujrah*) and a share in profit/output. In the first mode, labor enters into an agreement with the hirer to provide its service in return for a specified compensation (wage). The hirer/producer is obliged to pay the compensation, upon labor's fulfillment of its obligation, irrespective of whether the outcome of exchange is a gain or loss. Hence, this arrangement promises security of reward for the laborer in the rendering of labor services, though the reward may be relatively smaller and limited. The second mode of reward for labor is profit-sharing, in which the laborer agrees to take a percentage of the emergent profit in return for his/her labor service. Thus, the labor provider becomes a risk-sharing partner with the owner of the base property in the production. In the event of a loss, the base property owner bears it all; the laborer, on his part, gets nothing for the labor expended. Thus, while the laborer stands to gain relatively higher reward under this arrangement, he/she also stands to gain nothing for his/her effort in the event of a loss. *Mudārabah* is an example of this mode, defined as a "profit-sharing commercial partnership in which one partner supplies the capital and the other

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75 Muhammad Baqir as-Sadr, *Iqtisaduna - Our Economics...*, p. 23.

76 *Ibid.*, p. 29.

77 *Ibid.*, pp. 25-26.

78 'Abdurrahman ibn Muhammad Ibn Khaldun, *The Muqaddimah...*, p. 313.

79 *Ibid.*, pp. 312-14.

the time, skill and effort to invest it.”<sup>80</sup> *Mudārabah*, perhaps, was the commonest non-agricultural capital-labor production arrangement in the entire history of Islamdom. It was the basic arrangement in international commercial trade, both in the early years of Islamdom (the prophetic era) and in later times (caliphal era).

Capital (at the enterprise/ firm level) is defined as any resource that is utilized by labor to produce a commodity or service;<sup>81</sup> this would include monetary holdings because “*they represent enterprise’s entitlement to a certain quantity of real goods, existing on the market, which will make up its fixed capital and circulating capital.*”<sup>82</sup> Thus, we have two categories of capital: physical (or fixed) capital – buildings, machinery, necessary tools, etc.; and liquid (monetary) capital. It is relevant to mention two important distinctions between these two forms of capital. First, physical capital itself goes through a production process, through which one thing is transformed into another; money holdings can only be used to either purchase physical capital, or pay for other services related to the production process (such as labor wages). Secondly, physical capital offers direct and immediate benefits (*assured and measurable*) to its user. The benefits of money holdings, on the other hand, do not derive from some labor embodied in them, for which compensation is justified; such benefits derive from the inherent feature of the money itself and thus cannot serve as basis for compensation to its original possessor. Given these differences, a pre-determined rent on *borrowed* tools utilized in the production process would be justified while rent on money would not. Sheikh Yusuf al-Qaradāwi buttresses this point with the assertion that:

*When the owner of an article lends it to another person and charges rent for the use of it, he is rightfully entitled to this rent in consideration of the fact that he prepared the article in question for the renter’s use; as the article becomes worn out by usage and depreciates over time, the owner deserves compensation...The person who rents a house lives in it, thus receiving a direct benefit, while the man who rents a piece of machinery uses it and thus derives an immediate benefit.*<sup>83</sup>

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80 William J. Donaldson, *Sharecropping in the Yemen: A Study in Islamic Theory, Custom and Pragmatism*, (Boston: Brill, 2000), p. 35.

81 This definition follows Ibn Khaldun’s analysis of the value of labor in the production process, which will be discussed in the next part of this section.

82 Attributed to Fabra (1991) in Shamim Ahmad Siddiqui, “Factors of Production and Factor Returns Under Political Economy of Islam,” *J.KAU: Islamic Economics*, Vol. 8, (1996), pp. 3-28.

83 Yusuf Al-Qaradawi, *The Lawful and the Prohibited in Islam...*, pp. 280-81.

When physical capital belongs to the producer, charging rent on it would be meaningless; it forms part of his/her total capital, ownership and utilization of which entitles him/her to a profit. The proof of this is the *mudārabah* (partnership) and *muzāra'ah* (share-cropping) arrangements which entitle the owner of capital only a share in profit based on a preexistent profit/loss sharing agreement. In the case of borrowed money holdings, the owner of capital is not entitled to rent on cash (interest). Such a rent falls under the prohibition of *ribā*, which according to majority, and most correct, opinion, includes all forms interest on capital,<sup>84</sup> it "makes no distinction between usury and interest, between its simple and compound forms, between productive and unproductive loans, or for that matter between money and commodity borrowings."<sup>85</sup> Further, "[it] makes no difference whether the rate of return is small or big, or a fixed or variable per cent of the principal, or an absolute amount to be paid in advance or on maturity, or a gift or service to be received as a condition for the loan [or credit]."<sup>86</sup> Commercial capital (cash) differs from physical assets/tools on the bases of the distinctions mentioned earlier. Thus, borrowed money holding enters the process as either a partner (*mudārabah*) or a goodly loan (*Qard Hasan*) – interest-free loan.

The abovementioned modes of compensation for capital and labor are based on the principle that acquisition of gain must be founded on labor expended in an activity. The laborer is entitled to a compensation for the labor he applies directly in the production process. The owners of tools utilized in the production process are entitled to recompense because their tools embody some previously expended labor (that prepared them for use), which become utilized in the course of the production. The difference between the two is that the laborer of the tools is paid for the utilization of its previously expended labor while the laborer in the production is paid for the direct utilization of his labor. It follows, as an auxiliary principle, that a person is not permitted to make a gain by selling a previously acquired material for a higher price unless he improves it through some labor expended on it.

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84 Muhammad Fazl-u-Rahman Ansari, *The Qur'anic Foundations and Structure of Muslim Society*, book III, Vol. II..., p. 73.

85 Zubair Hasan, "Theory of Profit: The Islamic Viewpoint," *Journal of Research in Islamic Economics*, Vol. 1 No. 1, (1983), p. 9.

86 Muhammad Umer Chapra, "The Nature of Riba in Islam," *Journal of Islamic Economics and Finance*, Vol. 2, No. 1, (2006), p. 3.

## Profit/Surplus.

The difference between the *basic price* and the *prevailing price* is the *profit/surplus* to the seller/producer per unit of the commodity. The *Basic Price* is the summation of all rents paid, as well as other expenses incurred, in the production of a unit of the commodity. Where the provider of labor agrees to a pre-determined wage, the wage also forms part of this price. The *Prevailing Price* derives from existing market conditions; it is the actual rate at which the commodity is traded in the market. Its change is determined by factors that affect the availability of the commodity vis-à-vis its demand. This implies that the *Prevailing Price* could be greater than, less than, or equal to the *Basic Price*. A *surplus (profit)* emerges when the *Prevailing Price* is higher than the *Basic Price*, a loss occurs when the reverse is true. The higher the difference between the prevailing price and the basic price, the larger the per unit profit a tradesman makes. If the production/exchange was organized as a form of partnership between primary capital and labor, this profit will be shared between them on a pre-agreed term. A loss will be borne by the owner of capital while the provider of labor earns nothing for his/her labor services.

The *Prevailing Price* (and profit for that matter) is outside the control of any single market agent under normal market conditions<sup>87</sup>. It is the price concordant with the will of God, and this equitably serves the interests of the interacting parties within the market.<sup>88</sup> This is the meaning of Abu Yusuf's (d. 798) comment that "[there] is no definite limit of cheapness and expensiveness that can be ascertained" and that "[prices] are subject to command and decision of Allah."<sup>89</sup> Tradesmen must not seek to widen the gap between the two prices (and make larger profits) through immoral means – dishonesty, profiteering, etc. When such acts are suspected, state authority has the duty to intervene in order to protect the consuming public. The hadith of the Prophet's refusal to fix prices also points to the fact that there is no defined limit for market (prevailing) price, and for that matter profit, as long as the

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87 See the hadith referenced in footnote 71. [Sunan Abi Dawood, Vol. IV, Hadith No. 3447].

88 Muhammad Yassine Essid, "Islamic Economic Thought." In S. Tood Lowry (ed.), *Pre-Classical Economic Thought From the Greeks to the Scottish Enlightenment* (Kluwer Academic Publisher, 1987), pp. 77-102.

89 Abdul Azim Islahi, *Contributions of Muslim Scholars to Economic Thought and Analysis...*, p. 28.

functioning of the market is not unduly tempered with, and this point has been alluded to by a number of scholars.

### Price Control (Tas'ir) in Islamic Law.

On the basis of the aforementioned hadith, in which Prophet Muhammad refused to fix prices and associated doing so with injustice, majority of the scholars of Islamic jurisprudence hold the opinion that price control (known as *tas'ir* in jurisprudential texts) is, in principle, not permissible<sup>90</sup>; that is, market price should not be authoritatively imposed upon market participants. However, it is also widely held that the Prophet's response to the request (of price imposition) would have been different if there was suspicion of artificial inducement of the prices through deliberate immoral market behaviors. Ibn Taymiyyah (*d.* 1328), for instance, suggests that the event "was a special case and not a general ruling" and that the report did not mention that "someone had refrained from selling [i.e. hoarding] or doing something which was obligatory, or charged more than the compensation of the equivalent (*'iwad al-mithl*)."<sup>91</sup> Based on this general presumption, majority of the scholars also make price control permissible under circumstances that violate the fair conditions of the market.

The Mālikī and Hanafī schools of Islamic jurisprudence consider it permissible for the state to intervene when market conditions demand for it.<sup>92</sup> Imam Abū Hanīfah, for instance, is reported to have stated that "[the state] should not interfere except in a condition where welfare of the people demands it,"<sup>93</sup> while Imam Mālik "is reported to have approved of *tas'ir* only if there are excessive price hikes in necessities or if such a rise is seen as imminent."<sup>94</sup> The followers of Imam Shafi'ī and Imam Ibn Hanbal, on the other hand, oppose price control, and insist on a literal interpretation of the pivotal prophetic tradition of the Prophet's refusal to fix prices. Ibn Qudāmah al-Maqdisī (*d.* 1223), a Hanbalī jurist, insists that "the Prophet did not control prices despite people's pressure on him" and that "the Prophet equated price control with injustice

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90 Ahmad F. Oran, "An Islamic Socio-Economic Public Interest Theory of Market Regulation," *Review of Islamic Economics*, Vol. 14, No. 1, (2010), p. 134.

91 Abdul Azim Islahi, *Economic Concepts of Ibn Taymiyyah...*, p. 96.

92 Muhammad Lawal Ahmad Bashar, "Price Control in an Islamic Economy," *J.KAU: Islamic Economics*, Vol. 9, (1997), p. 33.

93 *Ibid.*, p. 33.

94 Mohammad Hashim Kamali, "Tas'ir (Price Control) in Islamic Law...", p. 29.

(*zulm*) and injustice is forbidden."<sup>95</sup> This summarizes the position of this second group on the issue, though Imam ash-Shafi'ī makes a concession for price control when the poor are threatened by hunger due to exorbitant prices.<sup>96</sup> Ibn Taymiyyah (*d.* 1328) also recommends price control when doing so "facilitates the administration of justice among people; i.e. when traders are forced to sell the commodity which they are obliged (by law) to sell at the market price, or they are being prevented from undue profiteering."<sup>97</sup> This, generally, is also the view of his student Imam Ibn al-Qayyim al-Jawziyya (*d.* 1350). Ibn Taymiyyah (*d.* 1328) further suggests that emergency situations, such as famine, also call for price control, so that when a person possesses "surplus food and people are faced with starvation, he will be forced to sell at a just price."<sup>98</sup> Thus, it appears that the norm is to allow the market to function without any interference. When undue influence is placed on the balance of the market, thereby threatening public interest, the state is permitted (and sometimes obliged) to intervene in order to bring market conditions back to normalcy. How, then, does the state ensure this is done without violating the principles of justice?

Justice in price control implies upholding the fair interests of both the public (buyers) and the suppliers. Thus, Ibn al-Qayyim al-Jawziyya (*d.* 1350) implores the authority to not ignore the cost and profit considerations of the producer/supplier.<sup>99</sup> The producer is entitled to earn a fair reward for his/her exertions in a legitimate economic endeavor. Thus, some scholars propose a consultative approach, whereby "the big traders, buyers and other experts" are summoned for price negotiations. Such a method is useful for understanding the cost structure of the producers, as well as the real plight of the buyers, so that a satisfactory outcome is attained. According to Abul Walid Baji (*d.* 1081), the Mālikī scholar, this approach will ensure that "the traders are guaranteed as much profit as is necessary for carrying out their business and will not burden

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95 Muhammad Lawal Ahmad Bashar, "Price Control in an Islamic Economy...", p. 32.

96 Mohammad Hashim Kamali, "Tas'ir (Price Control) in Islamic Law...",

97 Muhammad Lawal Ahmad Bashar, "Price Control in an Islamic Economy...", p. 33.

98 Abdul Azim Islahi, *Economic Concepts of Ibn Taymiyyah...*, p. 98.

99 Shaikh Mohammad Ghazanfar, Abdul Azim Islahi, "Explorations in Medieval Arab-Islamic Economic Thought: Some Aspects of Ibn Al-Qayyim's Economics (AH 691-751/1292-1350 AD). In Shaikh Mohammad Ghazanfar (Ed.), *Medieval Islamic Economic Thought: Filling the "Great Gap" in European Economics*, pp. 128-141.



people.”<sup>100</sup> This is one of the functions that the determination of the *Basic Price* performs, i.e., serving as a benchmark for determining the right price when control becomes necessary. In the history of Islamdom, both opinions on price control have been applied in different times, and under different caliphal authorities, though the Shafi'i-Hanbali opinion has been the more pervasive.

The function of market supervision, generally, was performed through *al-Hisbah*<sup>101</sup>. This name was accorded to market supervision in the era of the 'Abbasids (with the officeholder known as "*al-Muhtasib*"),<sup>102</sup> though the idea, itself, dates back to the era of Prophet Muhammad, who is said to have appointed 'Umar Ibn al-Khattab and Sa'ad Ibn Al A'as Umayyah to oversee markets in al-Madinah and Makkah respectively.<sup>103</sup> Further, al-Ghazali (*d.* 1111) suggests that 'Ali Ibn Abi Talib "used to roam in the bazaar of Kufa", presumably during his term as the fourth caliph of Islamdom,<sup>104</sup> to check the pricing activities of merchants and would reprimand culprits for their wrongdoings.<sup>105</sup> Islamdom, between the assassination of the third caliph<sup>106</sup> and the enthronement of the 'Abbāsids, was largely plagued with political turmoil. However, sometime after the rise of the 'Abbāsids to the caliphate, Islamdom experienced a period of relative peace, which allowed the economy to flourish, with international commerce playing an important role. Though some market supervision existed before this era of economic prosperity, as mentioned earlier, it is recorded that the 'Abbasids, especially, intensified the supervision of the market through the *hisbah*, and supported it with the moral police [*Shurtah*] in the wake of the

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100 Muhammad Lawal Ahmad Bashar, "Price Control in an Islamic Economy," ..., p. 34.

101 *Hisbah*, in the general sense, is a Qur'anic concept of enjoining good and forbidding evil: "And let there be [arising] from you a nation inviting to [all that is] good, enjoining what is right and forbidding what is wrong, and those will be the successful" [Qur'an 3:104 (Saheeh International Translation, 2010)].

102 The officeholder was known as *sahib al-sūq* prior to the 'Abbasids.

103 Syed Khalid Rashid, "Peculiarities and Religious Underlining of ADR in Islamic Law," *Mediation in Asia Pacific: Constraints and Challenges*, (Kuala Lumpur: Conference papers of 4<sup>th</sup> APMF, 2008)

104 Shortly after his enthronement as the fourth caliph of Islamdom, 'Ali Ibn Abi Talib moved administrative activities away from al-Madina to Kufa, thus effectively making Kufa the new capital of Islamdom. Central administrative activities never returned to Arabia afterwards.

105 Abu Hamid Muhammad ibn Muhammad at-Tusi Al-Ghazali, *Ihya Ulum-Id-Din (Revival of Religious Learnings)*, Vol. II, Fazl-ul-Karim, trans., (Karachi: Darul-Ishaat, 1993), p. 55.

106 'Uthmān Ibn Affān was the third caliph, following Abu Bakr (first) and 'Umar Ibn al-Khattab (second).

growth in commerce and general economic activities.<sup>107</sup> Later, when the Saljūks ascended the throne of leadership in the 11<sup>th</sup> century, following the erosion of the ‘Abbasids’ authority, *Nizām al-Mulk*<sup>108</sup> recommended a continuation of the *hisbah* tradition. He asserted that if the office was not strengthened by the rulers, “the poor would be in trouble and the people of the bazaar would buy and sell as they liked, middlemen... would become dominant, corruption open, and the [*Sharī’ah*] without prestige;”<sup>109</sup> the sultans responded positively to his recommendation and supported the functioning of the *hisbah*. However, the office became known as *ihtisāb* in Saljūk-dominated territories. The new name continued to be used under the Ottoman caliphate, while the *muhtasib* became known as *ihtisāb aghasi* (or *emini*).

Generally, the ‘Abbāsīd authority is said to have avoided price fixation in its market regulatory activities. The *muhtasib* “saw it as a duty to prevent price controls by ensuring that merchants and traders avoided arbitrary price changes in essential commodities.”<sup>110</sup> Available record does not also point to any government in historical Islamdom as having, on a deliberate and consistent basis, applied price fixation in the markets, thus leading to the conclusion, by Lewis, et.al. (1986), that the *muhtasib* “did not normally have power to fix them [i.e., prices]”, and would punish merchants “whose prices were higher than the accepted rate [i.e. the prevailing price].”<sup>111</sup> The reason for this could be ideological or, perhaps, simply the absence of conditions that necessitated such an intervention. The case of Mamlūk-Egypt, however, is an exception. Between the fifteen and sixteenth centuries, Egyptian districts experienced high and volatile food prices, with intermittent scarcity of bread causing mayhem.<sup>112</sup> However, in spite of the intermittent food shortages, high prices, and the general hardships these brought upon the poor, price fixation was not one of the measures the state adopted. One of the reasons

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107 Ahmad Farras Oran, Ghaida Khaznehkatbi, “The Economic System Under the ‘Abbasid Dynasty.” In Muhammad Nejatullah Siddiqi (ed.), *Encyclopaedia of Islamic Economics, Vol. I*, (London: Encyclopaedia of Islamic Economics, 2009), pp. 257-266.

108 Abu ‘Ali Hasan ibn ‘Ali ibn Ishaq al-Tusi (1018/9-1092) [*Nizām al-Mulk*] became an influential policy advisor to the Saljūk Sultans when ascended power.

109 Bernard Lewis, et.al, (Eds.), *The Encyclopaedia of Islam*, Vol. III, (Leiden: Brill, 1986), p. 490.

110 Mohammad Hashim Kamali, “Tas’ir (Price Control) in Islamic Law,”..., p. 29.

111 Bernard Lewis, et.al, (Eds.), *The Encyclopaedia of Islam*, Vol. III..., p. 488.

112 Isa Mahmoud Alazzam, “Factors Influencing the Phenomenon of Rising Grain and Foodstuffs Prices in Egypt during the Circassian Mamluks Era (784 AH/1382 AD – 923 AH/1517 AD),” *Asian Culture and History*, Vol. 6, No. 1, (2014), pp. 53-63.

(for the volatile and high food prices) was that the sultan and other senior state officials, who, themselves, engaged in the trading of grains, used their position of power to create monopoly in the grain market. In 1431, for instance, "a decree was issued to buy all the yields from all areas of Egypt for the sultan due to its cheap prices, and that for the purpose of storing those yields until the prices go up so that they can be traded."<sup>113</sup> Such a violation of the Islamic moral code would have been difficult to check by the *muhtasib* even if he/she was willing to do so, especially since it originated from members of the political elite. Thus, the office of the *hisbah* was, perhaps, incapacitated to deal with such issues in Mamlūk-Egypt.

The Ottoman era represents a general exception to the history of market regulation in Islamdom; a deliberate policy known as *nerkh* was institutionalized to regulate the market, and among its functions was the fixing of prices for necessities. Under this system, prices were determined by a committee that included the leadership of guilds, experts, and state officers in charge of market activities. Pricing took great consideration for cost of production and reasonable profit margins for suppliers. Consequently, the "[nerkh] prices were flexible vis-à-vis genuine changes in supply conditions." Other aspects of the system ensured a relatively even distribution of merchandise by transferring traders to markets in need. Also, "[price] discrepancy was allowed over certain markets in different locations" to ensure that "flow of goods, especially foodstuff, from countryside to the cities did not cease." Such market interventions, according to researchers, were in response to the potential challenges that accompanied the structure of the Ottoman market.<sup>114</sup> As an economy with the features of a traditional society, insufficiency in production could easily have resulted in higher prices while excessive production could cause prices to plummet; this regulatory system was thus "in the interest of both consumer and producer."<sup>115</sup> Besides, the agricultural supplies were, generally, volatile, while the anticipated increased demand in the month of Ramadan resulted in advanced seasonal adjustments.<sup>116</sup>

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113 Isa Mahmoud Alazzam, "Factors Influencing the Phenomenon of Rising Grain...", p. 56.

114 Orhan Oguz and Ahmed Tabakoglu, "An Historical Approach to Islamic Pricing Policy: A Research on the Ottoman Price System and Its Application", *J.KAU: Islamic Economics*, Vol. 3, (1991), pp. 63–79.

115 Halil İnalçık and Donald Quataert (eds.), *An Economic and Social History of the Ottoman Empire, Vol. I: 1300-1600*, (UK: Cambridge University Press, 1994), p. 53.

116 Orhan Oguz and Ahmed Tabakoglu, "An Historical Approach to Islamic

## Conclusion.

This study was an attempt to explain the Islamic market doctrine within a functional framework. Islamic Law (*Shari'ah*) seeks the promotion and advancement of public good, and each aspect of the law plays its role in achieving this end. Imperative to the achievement of public good is the establishment of justice at all levels, and in all aspects, of society. In light of this, the *Shari'ah* sets up its economic institution in such a way that ensures the fulfilment of its role in the advancement of public good. Thus, the Islamic economic doctrine is oriented towards establishing a society that promotes the overall economic well-being of its members by ensuring the right to private property and fair opportunities for economic gains, curbing exploitative tendencies of economic agents towards one another, and other measures like these that are consistent with the value system of Islam. Consequently, the market structure is set up, ideally, to provide for the exchange needs of society in an equitable manner, to provide fair opportunity for private gains through exchange, and to ensure justice and fairness in all exchange dealings. Individual interests are important in this, but their advancement must not put public welfare in danger.

The Islamic market, thus, upholds freedom of the individual to engage in trade and earn fair rewards, and the freedom of the market itself to function without undue external influence. Normal market conditions, of scarcity and abundance, interact to bring about the prevailing price, which in turn determines the profit on the exchange of a commodity. Such a price is outside the control of any individual market participant, and is seen, philosophically, as harmonious with the will of God. The freedom accorded to individual members of society, on market participation, however, is not absolute; it requires that market behaviors are harmonious with Islamic ethics. This implies that individuals must refrain from dealing in things that are, in themselves, prohibited for public consumption in Islamic Law (such as alcohol, pork, etc.). It also implies that individuals refrain from self-centered behaviors that put the welfare of society into jeopardy; behaviors that are exploitative in nature, and are intended to create advantages for individuals to the detriment of the larger society.

The state has a duty to establish a market that fulfils the

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Pricing Policy: A Research on the Ottoman Price System and Its Application," *J.KAU: Islamic Economics*, Vol. 3, (1991), pp. 63–79.

abovementioned ideals. Its duty also extends to overseeing market behaviors to ensure conformity with Islamic ethics. This implies two things. First, it must neither impede individual freedom nor interfere with the normal conditions of the market when there is no reason to do so. Second, it must ensure that market participants do not unduly interfere with the normal working of the market through self-centered behaviors. In the event of such unethical behaviors, the public authority must act to restore the market to its goal-fulfilling path. On price control as a corrective measure, there are two basic juristic opinions. The first (Hanafī-Mālikī) opinion grants the state a right to fix prices of commodities in the interests of both the public and market suppliers; the second (Shafī'ī-Hanbalī) opinion suggests otherwise. Both positions are practically represented in the annals of market supervision in historical Islamdom. Where the state opts for price fixation, it is required to act in accordance with the principle of just valuation; it is required to take the interest of the merchant into consideration so as to produce outcomes that are fair from the merchant's perspective. Both the rule and the exception are concordant with the Qur'anic injunction: "O you who have believed, do not consume one another's wealth unjustly but only [in lawful] business by mutual consent."<sup>117</sup>

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<sup>117</sup> Qur'an 4:29 (Saheeh International Translation, 2010)

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