

# Understanding Macroeconomics for Islamic Economic Development

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*This paper discussed modern macroeconomics vis-à-vis Islamic economics. A description is given of the relevant macroeconomic fields under relevant headings and then discussed, scrutinized and Islamic perspective offered. The paper believed that capitalist macroeconomy is unsustainable and detrimental to human welfare and environment and that Islamic model is the best model to sustain human welfare, environment and economic growth and the only option we have to replace capitalist system of economy.*

*Keywords: consumer, Islam, Shariah, Muslim, welfare, debt, GDP, immigration, human capital, Iran, China, sanctions, export, import, economic growth, currency, inflation, deflation, exchange rate, macroeconomics, human capital*

## INTRODUCTION

Muslims must decide what they want and how they want to live. Islam obligates them to live by Shariah and have a purpose to uphold and sustain Shariah law. Shariah is life, Shariah is the pathway to life. As long as Muslim countries and economies are blindly copying everything the west creates and makes, we will always be dependent on them and on their follow up solutions. An independent economy addresses needs and wants of the consumers in a creative and research-based model so that it continues to remain independent. Muslim countries need and wants are to be defined and clarified by Shariah, the objectives of Shariah and Quranic goals of *wala wa al bara*. While being economically independent we must compete with our enemies in research and development so that we always strive to maintain a leverage. Islamic governments must always keep an eye for creative ideas from its subjects whether Muslim or non-Muslims, ideas which can be matured and used to empower the Ummah.

The consumers under Islamic jurisdiction should also see workability in the products and services of the Islamic jurisdiction. Yes, high quality, unavailable and cost-effective products and services can be imported but only from neutral or other Muslim countries. Either the consumer taste should change regarding these products and services or a better version of the same quality and services need to be developed. However, a better-quality foreign product or service may be abandoned by one made in Islamic jurisdiction if such fulfills need, happiness and/or utility.

Muslims were living peacefully in their simple and basic lifestyles until European colonialism came with their technological and military might and enslaved the Muslim world en masse. People can live a simple but fulfilling economy but the threat of a tyrant coming and crushing down on them remains high. Due to this reason Muslims must always strive to remain worthy of being challenged. Muslims must know how they have suffered and suffering, so their governments must be ready to drastically suspend relations and/or pressure on hostile powers who are persecuting Muslims or supporting Muslim persecution on any people. This drastic measure will have a shock just like a pandemic has a shock on the economy. While

apathetic soulless politicians inject billions during pandemic, Muslim governments must inject the required amount supporting human rights and justice.

While westerners have settled on a stable culture and world view, Muslims are in a conflict between western liberalism and political Islam. This is impeding Islamic economic empowerment due to the nature of decisions the Muslim governments are taking and its various levels of effects. This internal conflict must be eradicated but the tides are not favoring the Islamists. One way to change the tide is to accumulate a bloody persecution from Islam's enemies. This had happened in Iran 1979, and now Iraq is also on the pathway of becoming free from this conflict. Early Syrian revolution also started to change this internal conflict until the Assad regime exploited the foreign fighters and manufactured a terrorist narrative to kill the people's revolution.

## **WHAT IS MACROECONOMICS?**

When we talk of economy, we are talking of money generation and flow, income and expenditure (public/private), employment, savings, investments (private/foreign) and trade (local/international/transnational). Economy is broader than finance and it is all about theorization and quantification of activities related to money vis-a-vis human capital and citizens. This economic activity of western world has been driven by their worldview and political agenda of a) Maximizing standard of living b) Maximizing corporate wealth. These may not be always evident concurrently in their economic and political histories, but this trend exists and remains today. Western geopolitics and their international relations are primarily driven by these two goals.

## **METRICS OF MACROECONOMICS**

The two, essential metrics of modern economy are measurements of factors of production and human capital. The measurements are geared to model and quantify input and output vis-à-vis these metrics. The result of these measurements is to capture the accuracy of total growth (Total Factor Productivity) of the economy but neither welfare, human rights nor environment. Islamic economic system is unique in this regard as its consideration and protection of these issues are embedded within its legal system and legal literature. Islamic system not only legislates punishments for crimes or wrongdoings but also models and prescribes protocols so that the probability of crimes or wrongdoings occurring is greatly reduced. A system which considers welfare, human rights and environment will have a different total factor productivity than a system which considers primarily profit, deregulation and predatory consumerism. Sustaining a welfare model, human rights and environment is the purpose of economy and economic policies as per Quranic and Sunnah principles.

One important thing to note is that a mathematical quantification model can be identified by assumptions, observations and/or deductions from previous ones. Just because it is possible to identify doesn't mean it is economically efficient and effective or morally right. Remember they used mathematics to plan the economy, finance and logistics of the mass murders in the concentration camps! Another important thing to remember is that economic measurements are based on assumptions and theories, which are often probabilistic and inductive. It is thus first beneficial in the long term if we establish some axioms and principles which we can always hold as universals. For Islamic economy these are the Quranic economic principles around which further economic theories, assumptions and measurements must be modelled and developed. In Islamic texts such as Quran, Sunnah and traditional legal books numerous variables of economic and financial nature have been mentioned, which can be starting point of mathematical and statistical analysis.<sup>1</sup>

Three accounts are generally used to capture national economic activities: current account, financial account and capital account. The current account measures trade surplus/deficit from export/import done by individuals, businesses and governments, income of residents whether working locally or foreign, income on loans, foreign investments and foreign aid, and direct transfers from residents sending money back to home countries and finally asset deposits such as central bank reserves, bonds and securities, and

real estate investments. Financial account measures whether the national wealth is flowing out of country or foreign wealth is flowing in the country. The inflow and outflow may be good or bad for the economy depending on the nature and context of inflow/outflow. For an Islamic economic model these inflow and outflow must be scrutinized and monitored on the basis of Shariah principles, objectives and values of Islamic and Muslim empowerments. When it comes to export/import through buying and selling, Islamic laws and practices regarding business models need to be implemented. Classical Islamic books detail these models<sup>2</sup>. When it comes to loans and investments classical Islamic financial models need to be implemented<sup>3</sup>.

## **WHAT IS ECONOMIC GROWTH?**

Economic growth can be actual or potential. Growth is a measure of total economic output in relation to actual employment. It is not possible to measure potential vis-à-vis actual growth objectively. A human capital may be employed 100 % but with low productivity due to weak skills and capacity, while it may be possible that 50% employment of the human capital with high skillset and productivity will cause more growth. Which is potential vis-a-vis which is actual thus may be ambiguous. It is thus proper to measure the growth to see how good it is sustaining public welfare, research and development, public security and social welfare.

While measuring this growth, the technique employed is simple and it takes in to account the total investments in the economy and the total human capital employed. While measuring the human capital modern economic measurements and system only consider their skills but not humanity or morality which affect directly or indirectly the efficacy of skillsets, by how these modify individual and collective conscience and psychology. The education system, cultural existence, legal system and the efficacy of the job industry of a country decide creation of the human capital, which can either focus on the research, skillset or, morality and humanity, or all of these. Islamic education system under guidance of Quran and Sunnah proposes a guideline to create moral, upright and knowledgeable human capital which is needed in an efficient and well-functioning economy because, among other things, corruption, exploitative tendencies and fraud will be portrayed destructive and unwanted in the conscience of the human capital while honesty, sincerity, commitment, research and seeking of knowledge will be portrayed positive and beneficial.

Western colonialism has boosted western economic potentials for a long-term period because of this colonialism enabling vast amounts of investments and human capital across its vast areas of colonies. The total enormous growth from these colonies were not spent on colonies but exported to respective host nations. In modern capitalist system it is almost always the case that the large part of the total investment is done by the elite, the richest of the economy. So, it is fair to say that growth in a rich man's wealth is growth of the economy irrespective of how this growth is distributed among the people and the economy. It should be noted that the economic growth is like a motion of tortoise. It takes time to reach its goal given there are some conditions already existing. Among these are political stability, security, bureaucratic and technological efficacy. For this reason, western countries, Japan or South Korea and some authoritarian countries such as China do not allow dissent or political deadlock, security breach or bureaucratic breakdown because this hampers productivity which impedes growth.

There is one more critical issue that impacts growth, which is cultural monolithism of the economy, that is when one culture is dominating the economy economic metrics and conditions are easier to implement and achieve. This is one of many reasons why Muslim countries have been culturally targeted to create imperial markets and fashion westernized human capital reaching even the highest level of political authority. Can you not see how western world is now able to attract global human capital? Just because of western culture dominating influence over the world, west is accepting. Another example is Dubai which has allowed prostitution and alcohol in the heart of Prophetic Arabia most likely to attract western investments and human capital by accommodating their lifestyle. I use the term cultural monolithism widely and I include even structural reforms of the economy in this. Structural reforms such as implementing secularized laws and protocols to reform financial and agricultural sectors for example. In the beginning I

suggested Islamic countries adopting Islamic business and finance models as mentioned in classical Islamic law books to replace this structural culture of economy.

Modern economy can grow (GDP) as a result from consumer spending, international trade, and local and foreign business investments. A country which is self-reliant and is based on research and development will find consumer spending directed to home made goods. Country which is primarily depended on natural resources such as oil or gas will depend on international trade through export. Country which depends on foreign investments will depend on foreign nations investing in it. Modern economies are hybrid even though one of these categories may have a dominant effect. In case of Germany and US for example consumer spending is a big part of the economy. Arab countries rely heavily on oil exports whereas many tourist centric countries depend on foreign investments. Foreign investments make a country heavily dependent on investor countries. This limits the invested country's political and military flexibilities. If a country can focus on creating local values to boost consumer spending and also international trade through export, then it can remain independent, self-reliant and empower its currency in the process. Muslim countries have become overly dependent on foreign investments such as that of China and others, and thus became locked in China's debt slavery and technological and logistical managements and maintenance. This has caused Muslims to abandon more important things such as fight for justice, humanity and equity. Muslims have self-inflicted themselves this. Islamic republic of Iran however, theoretically free from such dependence. I say theoretically because Iran has both potentials of increasing consumer spending and international trade due to its technological and determined human capital. Both of these are results of Islamic revolution. However, in reality, due to sanctions Iran has been forced to rely on tyrannical nations such as China. If Iran has a trade surplus with China and then Iran starts supporting the Uyghurs or third parties who support Uyghurs will China still allow Iran achieve trade surplus with it?

Growth is dependent on the quality of value creation in the form of goods and services as well as international diplomacy and foreign policies. Such goods or services may fulfill a real and genuine necessity of the consumer or may fulfill a need of the consumer which makes the consumer's life easier and comfortable. Depending on the consumer mindset, national laws and economic and financial policies either local products and services will be preferred over foreign ones or the opposite.

## **THE EXCHANGE RATE**

Even though trade deficit<sup>4</sup> may be beneficial in a fair international system, however in an unfair and imperial international system trade deficit is a choking point because of sanctions. When a country is heavily dependent on import, sanction will just cripple it. Also, a trade deficit will open the doors of foreign economic and financial occupations of the home country as foreign businesses will become vital for the home country's survival. The Islamic Ummah needs to be self-sufficient and should focus on a trade surplus in important sectors of trade, at least. Germany had 250 billion Euro of surplus on 2016 making it a top international creditor while US had a 740 billion of USD deficit. One reason why US is always busy in military adventurism, why US job industry is brutal, and the employment condition is detrimental to human rights. A surplus country will create more jobs to support export and will need stable export market to maintain the status quo.

A minor trade deficit may be allowed but only on non-essential goods and services. A continuous trade surplus will empower currency, but it will make it difficult for foreign nations to buy goods and services of the Ummah due to rising currency rate. To deal with this, the foreign currency of the said nation can be bought as per the dictates of shariah to maintain an acceptable exchange rate. However, an increased currency rate of the Ummah will allow the citizens of the Ummah to purchase foreign goods easily. This may cause also a trade deficit if the citizens buy more foreign goods and services than that of the local ones and/or if exports decline due to this. This will not fully materialize if the foreign goods and services quality are weaker, not cheaper and/or also if the local economic value creation is stronger ensuring availability, quality and cost effectiveness. On the other hand, a weak currency will prevent the Ummah to buy foreign goods, and in absence of a self-reliant economy the Ummah will suffer. In case of Islamic republic of Iran, even with their weak currency the people of Iran are thriving due to Iran's self-reliance and a strong value

creating human capital. They could have thrived even more without the sanctions and their currency could gain value.

In this imperial unjust international system<sup>1</sup> even high valued currency is demanded by less developed nations. For example, if British pounds increase in rate, the British people will enjoy more for example, by increasing social utility through touristic activities. On the other hand, the British products and services demand will not fall from mostly underdeveloped foreign nations due to Britain's hold onto them through colonial legacy and neocolonialism. For example, British education will be always globally in demand even when British currency value increases. As I said earlier that colonialism has created market and political models over their former colonies, that escaping this neocolonial grasp needs a spiritual, mental and political revolutions much like that of Iran of 1979.

In a fair international economic and financial systems currency rate would not matter that much, as welfare of the global community would precede profit making. So, for example a fair system would implement an affordable education globally so that British education for example would be discounted for poorer nations or lifesaving medications won't be patented but rather shared among the global community with an affordable price for this technology training, development and implementation.

## **THE HUMAN CAPITAL**

Any theory's, policy's or system's realization of maximum potential of its applicability, workability and efficacy depend on the devotion and skillset of the human capital serving it. There are many democracies in world, but some are miserable and some in a better condition. This goes back to the human capital. Islam's practical success and efficacy also depend on the nature and quality of Muslim people and non-Muslim people under its jurisdiction. So, building an Islamic and Islamised human capital is essential for Islam's success.

Islamic golden age, many Islamic localities of the caliphate eras and today Islamic Republic of Iran had and have created an efficient and moral human capital which led to the creation of Islam's golden age, various successful Islamic localities and the recent success of Islamic system in Iran, however a true 21<sup>st</sup> century success is impeded by sanctions against Iran.

When I say Islam's success, I mean how effective and efficient Islamic law, economic and financial systems, ethical and moral norms have been in empowering human capital, society, welfare, security, economy, morality and humanity.

The human capital can be stated as the labor force and there are two types: Skilled labor and hard labor. During colonialism and currently in neocolonialism most of the hard labor existed in the colonies and today it exists in labor supplying countries such as Bangladesh, Pakistan or India, while the skilled labors were almost always supplied by the host colonial nations which today being western countries and some eastern countries. So today in the globalized world, modern financial and economic hubs attract both the skilled and hard labor of the human capital. While the human capital continues to empower the economy by empowering the rich, their human and economic welfare remain rigid resulting in economic inequality around the world. Islamic economic system proposes a welfare system of exhaustive taxation models for both Muslims and non-Muslims. Such a system is designed to minimize the inequality gap by maintaining a quantified wealth flow between the rich and the poor.

In modern capitalist model of economy employment does not measure quality or welfare resulting from such employment. The quality of employment can be measured in terms of job satisfaction, material fulfillment and career growth and welfare in terms of how much is the job promoting the wellbeing of the employee both financially (ability to invest), materially (quality and quantity of possessive power), morally (moral exposure and adherence) and socially (standing and image). Rather today, even if all the human capital of a certain market and demography were to become slaves of Amazon for example, earning the bare minimum and just barely surviving then this would count as full employment and as economy doing well! Islamic economic system is totally against this model of employment and economic measurement. Islamic economic system focuses on the human and environment rather than the profit. It is of utmost importance that in this age and day Islamic economic system proposing such welfare and humanistic

economy also proposes mathematical quantification to measure such. We can grade, classify and quantify these metrics of welfare and economic humanism. Generally, most economic quantifications are econometric in nature and it is the core duty of economists to continuously perform econometric regression analysis by identification of variables as economic, financial and political contexts change. Islamic overall economic, financial, legal and political systems will definitely influence the econometric study of Muslim demography. However, Muslims today, due to suffering from identity crisis are following and copying western secular econometric analysis without an academic, intellectual and political fight.

## **IMMIGRATION**

Immigration employment is one issue that needs attention because immigrant labor force does not contribute to local employment and thus may affect national economic measurement by affecting employment measurement. However, immigrant employment can bring both cheap and skilled labor that may boost productivity at the expense of national employment. Western nations have benefitted from immigrant employment when world war 2 ravaged Europe. It is immigrant that raised Europe from the ashes of world war 2. But since the beginning of digital age and mass communication the immigrant employment has in many cases exported national wealth to their home countries such as their salaries and other opportunistic services that local firms may have given them. As immigrant employment bring skills and also reduces business cost and as this hamper local employment then there must be a remedy and balance for this. An unique solution is creating welfare state that is businesses generating certain levels of incomes will contribute to the welfare of the unemployed and low-income people. This in Islam is provided through the Islamic taxation system as Quran has detailed the recipients of taxes. So as long as firms and businesses pay welfare tax for the unemployed and low-income people immigrant employment will be a blessing. This is against fascist mindset of only employing local even at the expense of skills and fairness.

## **ECONOMIC OUTPUT**

An economy can be managed to overproduce or underproduce depending on nature of its value creation. By an estimated measurement of the input and output, the economy can suppress predatory consumerism thereby preserving wastage of wealth and preventing negative impact on environment. Demographic statistics of consumption can be made to predict future economic activity. It is essential that the economy always maintains a healthy level of essential goods and supplies. An economy can emphasize on labor or machine depending on the needs and objectives. More labor employment and more working time may increase productivity but also machines efficiently and effectively can also increase productivity. If one increases other may decrease so there must be a balance between labor input and machine input. Depending on the needs of the economy and objectives these two inputs of production may be used to control economic outputs. A country just cannot start following the economic output model of another. Modelling economic output needs understanding of demography, consumer behavior and nature of consumption and to change it needs changing the nature of human capital, technology, consumer behavior and over all legal and political regulations and protocols. For Muslim countries these need to be guided by Islamic law, Quranic principles and model of Prophet and His holy progeny. A living example of this change and Islamic change is the Islamic republic of Iran. They have desecularized the economic, political, social, cultural and legal landscapes and this has revolutionized their potential economic output by boosting human capital efficacy, industrial capacity and technological growth. Imagine the economic output of Islamic Republic if no sanctions impeded their actual economic output.

## **THE CONSUMER MIND**

Consumer behavior is either aggressive or passive. Imagine a nation of Sufis where everyone is pious, practice abstinence and self-sacrifice resulting in low consumption and thus low consumer spending. This will result in a weak economy from the perspective of consumer behavior but if such a nation creates needed

and essential values like Germany does with medical equipment or US does with plane engines and software/hardware technologies which can be exported then the economy can grow. An aggressive consumerist mind is a major reason for global climate change and environmental impact. Consumer behavior takes a consistent form on the long term even though short term it may fluctuate.

Economic investments are determined by analyzing inflation trend, consumer purchasing power, aggregate demand, security and law and order. The Muslim countries have sacrificed ethics and morality, welfare and sustainability for the sake of attracting aggressive foreign investments. Many democratic models of Muslim countries even work for imperial powers to get into power in exchange of imperial investments. Such unfair and unjust investments at the end only profit the foreign investors and local partners who are politicians and rich capitalists. Weaker Muslim nations cannot enforce for example tax collection on foreign MNCs let alone distributing the taxes among the needy and the poor.

## **INFLATION AND DEFLATION**

In modern economy inflation has been caused by many reasons but all comes down to one essential reason and that is interest on loans. This is the major if not the only reason of inflation. This is because as banks create more money to generate interest value from loans inflation increases. Islamic system prohibits interest on loans and thus businesses have time and flexibility to repay their loans without increasing prices and thus affecting supplier businesses and consumer demands. Also, an Islamic welfare system and an Islamised consumerist mind also affects reducing inflation as well by being in the context of sustainable and shared growth. Also, another reason can be due to money and goods ratio. If there is more money than goods this may cause inflation. This generally also goes back to the reason of banks creating money out of nothing and businesses unable to create goods due to affordability constraints which may also be due to their burden of interest. Islamic system proposes gold backed system and thus the making of money will always be guided by the speed and context of mining and gold production. This model will also balance inflation. Islamic taxation system proposes a comprehensive model of taxation both on goods and monetary exchanges such as money. Taxation of these will affect how much goods and money exist in the economic system. So, these three Islamic proposals combined will keep economy healthy.

Different countries may have different types of basket of goods on which consumer price index is determined. Muslim countries must ensure that a basket does not contain prohibited items in Islamic law so economic policies regarding these and as a whole need not be focused on to maintain affordable purchase. The composition of basket of good can reflect on the nature and pattern of consumer spending as well price index and economic health.

Islamic governments must always ensure that the most needed elements of the basket of goods are having a healthy affordable price and that consumer spending is not becoming too focused on vanities and luxurious items. Wastage of money among the rich locks the circulation among themselves and impede the welfare health of Islamic taxation model. Even though under normal circumstances an interest free economic system and gold backed system will reduce the inflation the most but external influences which impede trade and growth greatly such as sanctions or wars could increase inflation due to increase in demand for example.

Islamic economists must measure changes in taxation amount in relation to inflation and deflation. That is to say by how much taxable amount is changed by a change in unit of inflation. This will give a measurement of tax generated and distribution capacity of the system.

Deflation is falling prices but if such were to happen without other inflation around the world and without the existence of interest-bearing loan schemes then this would be good. In fact, both inflation or deflation would have been ok if existed universally and without interest bearing scheme.

Total demand of the economy is a measure of private spending, private investment, government spending, government investment and net export (export - import). So, it's about spending and consumption both public and private. Again, I will mention here the role of Islamic taxation system. It is about distribution of wealth and its circulation from rich to poor. Islamic taxation system has been discussed in classical law books and implementing them with modern tools and mathematics will bring a new dawn of

Islamic taxation. This will affect total demand also in an equitable manner because the poor, the low-income people will have a large contribution to the spending and consumption. It will no longer be the domain of the rich. Collecting data to measure demand-components can be done from banking activities of private individuals and business entities, from government submitted reports in public spending and consumption. Islamic governance should also implement a mechanism and system to capture demand into local goods vs foreign goods. The citizens of Islamic jurisdiction's spending and consumption pattern into the nature of goods and services need can be captured to understand and make decisions regarding local firms and businesses and consumer behavior. During hard times such as when facing sanctions, savings and consumptions must be guided and limited. This counts as a state of Jihad that the nation is in. Focusing on the most essentials must be first priority of the Islamic governance. These will include the necessities (*darurriyat*) as ascertained by Islamic juristical principles. In fact, an Islamic state's economic policies must be to first deal with the essentials (*daruriyyat*) and make them self-sufficient in this regard in this era of global Islamophobic crusade.

Economic growth depends on many variables some of which we know and perhaps many we do not. Major indicators today are industrial production, private and public expenditure, unemployment and stock prices. In the capitalist system theoretically everything which eases and contributes profit making is economically acceptable and good. However, this is not realistic because even in the most aggressive capitalist economies such as America, Singapore or Hongkong there are policies in place to check and account the nature of profit making. In Islamic economy this should be even more evident due to Islam's emphasis on human rights, welfare and sustainable growth. The economy of the Ummah should share in these economic indicators and collaborate to empower these indicators positively. Muslim countries must share and exchange technologies, industrial knowledge, labor, market and total expenditure and consumption among themselves before they do it with foreign non-Muslim nations. It may be like the EU market. So economic policy makers must implement laws and regulations to achieve these by guiding business, public and private expenditure behavior whereas universities must create joint research collaborations with each other and share research with the businesses of Muslim confederacy. So yes, free market economy will not be a priority for Muslim countries but a planned one.

## **VALUE BASED ECONOMIC & FINANCIAL ACTIVITIES**

Islamic governments must establish a model of economic activities that obligate economic activities of Islamic state/republic with neutral and Islamic nations. Islamic security block of the nation will thus study all nations of the world politically and ideologically. This security block will study and analyze foreign politicians and ideological foundations of foreign nations. This kind of study will be ongoing and yearly reports published to firms and businesses public or private advising them which nations to avoid investment in or investment from. The point of this kind of study is to preserve Islamic power and impede un-Islamic power in the long run. Capitalist profit seeking economic activities with no principles are for people without values and standards, not for Muslims. This principle based economic modelling does not mean economic slowdown or growth slowdown.

While assessing foreign direct investments Muslim countries and businesses should see how it benefits them whether short term or long term. Will FDI hamper local Islamic market? Will FDI bring in new technology to empower Islamic economy and human capital? Will FDI bring in immoral cultural practices? Will FDI empower Islam's enemies? Will it harm human rights and environment? So, before an FDI proposal is accepted a Shariah filtered feasibility study should be done.

## **WELFARE ECONOMY VS CAPITALIST ECONOMY**

Modern capitalist economy is Darwinian<sup>6</sup> and unsustainable. It makes businesses immoral and amoral. Every business wants to achieve the maximum profit and maximum wealth for its owners and managers. Even small businesses will become obsessed in achieving this. This will, among other things reduce wages and human rights in workplace and employment. Also, as there is no welfare system for the low performing



business owners and employees, everyone will think of their own survival and will be ready to work anything or at any circumstances just to survive. This enforced through deregulation has amplified human suffering in many levels of their existence.

Concern for society, environment and humanity will be at the bottom of concerns. This is exactly what has happened in the world today. To think that in capitalism every business has a chance to succeed is ridiculous. Reality is unjust and cruel. For example, only patenting rejects the notion that every business has a chance to succeed. Perhaps if technologies and inventions were shared globally then capitalism perhaps would be romantic, but this patenting principle is the very idea of capitalistic competition. Welfare economy such as proposed by Islamic system is based on the idea that not everyone will become champions and not everyone will become successful in business and knowledge.

In capitalist interest-based economy the interest-bearing scheme is a catalyst of inequality as only big businesses can sustain increasing interest value while others go bankrupt, defaults or may take years to repay the loan with interest that impedes their social, material and financial growth. This can be seen also in poor countries who take loans from world Bank or developed countries, whose large part of national budget or national resources are just used to repay loans with interest.

Interest bearing scheme also creates inflation as banks create more money to give loans specially to big businesses and government initiatives. Modern capitalist economy is thus the economy of the rich capitalists. The money circulation that is protected by this interest-based profit-making economic system is between the rich stakeholders such as governments, banks and big investors i.e. The GDP Makers. The common people are just there to provide servitude to these stakeholders. Inflation policies, loan policies and taxation policies are not primarily to protect these common people, and the introduction and maturity of a welfare system such as Islamic taxation model is a threat to these stakeholders as it will protect human rights, environment and implement a fair job industry including wages and pension policies. Don't get fooled for a moment by the fancy mathematical terms and theories that modern economic system proposed. These are just to maintain this oppressive exploitative system. For example when someone says that the monetary policies of capitalist banks are to keep low inflation then they are just meaning low inflation for the rich so that their business activities can continue while the vast majority of the commoner sink in inequality, decreasing standard of living, miserable work conditions and a disastrous pension scheme.

Islamic welfare arises from the following facts:

1. Islamic taxation
2. Necessity of man to worship God
3. Obligation of Muslims to be witness over humanity
4. Islamic ruler as the ultimate guardian over its Muslim and non-Muslim subjects

Islamic welfare facilitates achieve these aims. So Islamic governance must ensure for free, the following, for unemployed and low-income people and their dependents:

1. Basic food and drink for every individual per day
2. Essential health care for people who are not repeated offenders against their health such illegal alcoholic, illegal drug addicts etc.
3. Basic shelter with quota-based free gas, water and electricity
4. Basic clothing for prayer, house and social activities
5. Basic income from Islamic taxation

Studying the cost of living of the said jurisdiction will help us ascertain low income people and the quality and extent of the above welfare facilities. Shariah law creates a unique circumstance of security, morality and stability and so this welfare model will be best implemented under shariah jurisdiction, legal system and law.

The aim of the economy is not to pursue relentlessly an increasing standard of living, unsustainable growth and creation of billionaires but to maintain a standard of living which is sustainable, based on welfare and equitably enjoyed. If countries tried to live like Singapore, Dubai or USA for example it would have a huge impact on environment and human morality. Countries would become amoral or immoral because it would be defined by its goal towards an ever-increasing standard of living, growth and creating billionaires.

Therefore, the standard of living must target fulfillment of welfare and necessities of society, individual and environment. Analysis of standard of living should be an ongoing process as there will be somethings which will change its role and importance as time goes by, as human evolves his consumer mindset and behavior. It is thus essential that such changes for Muslims and Islamic jurisdiction be shaped and guided by Shariah law, objectives and purpose of Quran. Countries which guide their standard of living based on their own philosophies and world views are self-preserving nations. Countries which copy other nations to become like them are dependent nations and their human capital, research and policies will always be a reflection of who the others want to become.

## **FISCAL POLICY**

The entire fiscal policy in Islam is mainly based around its concept of multi layered taxation, revenue from public assets, and public expenditure and welfare system based on these two. An Islamic economic system does not allow taxable wealth (tangible or not) to be rotting in bank accounts and safe houses. It either needs to be invested or taxed. This ensures circulation of the wealth which makes the economy run balanced in the long term. Some of the Islamic taxation categories are collected yearly from total yearly income. There is no disproportionate wealth accumulation or expenditure like those of American capitalists whose billions of dollars are rotting in banks while the common people suffer. In order for the Islamic system to design and implement taxes and government expenditures, the Islamic jurists, sociologists, financial analysts and economists must identify what basic needs mean in a dynamic time and dynamic human evolution. Without identifying these Islamic taxes cannot be collected. One principle to apply to ascertain this is to give benefits to the common many and not to the rich few and not to give consideration to a hedonistic and wasteful lifestyle.

Modern capitalist economic fiscal policy is intertwined with interest based financial scheme and other un-Islamic practices. It will be foolish to apply or extend this to Islamic economic system due to the contradictory theories and thus mathematical models applied. Islamic economic system, like capitalist economic system may also go through a trial period, but minus the negative impacts that capitalist economic models have resulted throughout the 20<sup>th</sup> and 21<sup>st</sup> century.

There can be no doubt that capitalist American taxation system is unfair and unjust. It is designed to support social Darwinism and empower corporatism and politicians. Even though US capitalist taxation system called progressive taxation where those who make more money pay a higher tax rate but in reality, there are actually dozens of legal ways to bypass this. Anything which is a "business expense" is not taxed at all. Individual citizens aren't allowed to "write off" their expenses in this fashion, but businesses and big corporations are. And there are thousands of ways businesses can claim that the money they make isn't really profit at all. Every single year there are stories about companies which make tens of billions of dollars but pay zero in taxes. Every single year. There is another form of tax called social security tax. This is a "regressive tax" because the more money you make, the less you pay. Those who make very little money must pay the full percentage. Those who make decent money also pay the full percentage. But when you make enough money, then you get to stop paying the tax after a certain point. This means that someone making a million dollars a year pays a tiny, tiny fraction of the percentage that almost everybody else has to pay. So, it is always the commoners who have to bear the burden of fiscal policies.

National debt calculation and management is dependent on the values of GDP, inflation rate, exchange rate, interest rate and primary balance. With so many variables depending on the interest-bearing scheme, nation states are choked and locked in the debt model because in modern fiscal policy model, the nation states need to prioritize national debt over peoples' growth and public welfare. In the absence of an interest-bearing scheme the nation states would have been able to only prioritize the public welfare.

Governments may take some drastic measures to deal with debt and maintain a balanced debt to GDP ratio such as raising taxes significantly, aggressively promoting trade to foreign nations, spending cuts on welfare services for public, bailout or outright default. Many of the western imperialist nations have pursued one or more of these methods aggressively among which are wars, coup and sanctions to protect their financial interests. These aggressions may not have been done to only reduce nominal debt but also to

increase the earning ability of the imperialist economy (GDP) in long term as temporarily wars will increase debt. An improved economy means more available interest-bearing debts to government which also increases the debts as well. It is like a cycle and devastating cycle it is which can lead to global warfare as debt ridden nations vie each other for control. Long term effects of national debt can be crippling as happened with Greece and other Eurozone countries.

This debt prioritization has enslaved most nations on the planet because most nations are not developed. China's debt slavery is one example of imperial enslavement and choking of the nation and its people. Debt slavery is a major reason for national insecurity and instability breaking families, societies and individual selves as people become more desperate, they fall out from the government's care. A debt enslaved nation is thus impeded to invest in the public and the public is thus impeded to grow and flourish either through personal investments or consumptions.

Global financial model is also unbalanced favoring the developed nations over underdeveloped. One side has power to enforce debt payments and other side only to go bankrupt. Keynesian economics facilitated this corporatocracy by giving western governments and western central banks too much power on wealth management with too little transparency and accountability. Keynesian economics just proves the Marxian theory of class exploitation even more pronounced. Keynesian economics is totally designed to support and address western industrialist capitalist economies and the central governments, and the central banks Keynes talked of are not plans of independent nation states and sovereign national central banks but rather a plan implementing a global hierarchy of banks and governments. Laissez faire have failed too and no economy exists in the world which is independent of government intervention.

Global debt is increasing, and economists are unsure whether it will be sustainable in the long term. We have seen multiple financial disasters in the history of interest bearing economic and financial models. The next one perhaps will bring global economic collapse enhanced by climate change and pandemics.

## CONCLUSION

Muslims must struggle towards economic independence through research-based economy and independently defining, forming and fulfilling their economic needs. They must come up with products and services which complete utility, satisfaction and existential need. They must learn to define their existence within this self-sufficient mindset.

Macroeconomics is a broad and holistic view of wealth related human activities. Western imperial macroeconomic goals have been to sustain and increase their standard of living and corporate wealth. In macroeconomics we measure total investment in relation to human capital employed to calculate total growth of the economy. However, this economic growth, like Islamic economic system, does not consider growth in welfare, preservation of morality and ethics, and protection of human rights and environment. Growth is dependent on quality of value creation, international diplomacy and foreign policies of nation states.

The exchange rate is empowered by trade surplus. A trade deficit is a weakness for nations who are vulnerable to sanctions. Imperial nations have no problem with trade deficit because of their imposing and exploitative nature of diplomacy and interventions. Due to the colonial legacy and ongoing neocolonialism, even the increasing currency value of developed nations do not impede their exports due to international dependency.

Any theory's, policy's or system's realization of maximum potential of its applicability, workability and efficacy depend on the devotion and skill set of the human capital serving it. Islamic golden age, many Islamic localities of the caliphates eras and today Islamic Republic of Iran had and have created an efficient and moral human capital which led to the creation of Islam's golden age, various successful Islamic localities and the recent success of Islamic system in Iran, however a true 21st century success is impeded by sanctions against Iran. In modern capitalist model of economy employment does not measure quality or welfare resulting from such employment.

Immigration brings in skilled and also cheap labor. Islam is inclusive and a talented immigration at the expense of local employment is supported by Islamic welfare model and welfare taxes for low income and

unemployed people. In modern capitalist model of economy employment does not measure quality or welfare resulting from such employment. An aggressive consumerist mind is a major reason for global climate change and environmental impact.

Inflation is minimized and sustainable by Islamic economic system of taxation, gold backed currency and tax distribution. Islamic economy is value-based welfare economy which filters un-Islamic, immoral trade activities. A welfare economy which will provide some free goods and services to low income and unemployed people.

Global debt is increasing, and economists are unsure whether it will be sustainable in the long term. We have seen multiple financial disasters in the history of interest bearing economic and financial models. The next one perhaps will bring global economic collapse enhanced by climate change and pandemics. Islamic interest free scheme is a solution to this mess.

## ENDNOTES

1. Some variables include gharar (fraud), riba (interest), ribh (profit), dareeba (tax), hawl (periodic cycle) and many more. Islamic economy and finance must quantify them with advanced mathematical models.
2. Islamic law books detail these under anwa al-buyu (types of businesses)
3. Islamic law books detail these in kitab al-buyu (book of business), kitab al-tijara (book of trade)
4. Foreigner investors do not fear America's massive trade deficit because they believe it will pay back the loans. After all America does things by force and sanctions when needed. It can loot one place and repay another.
5. American dollar hegemony was a result of both history and human decisions: A devastated Europe but a strong America in WW2 combined with OPEC decision to use dollar to trade oil has made USD the de jure and de facto currency of the world. Later, as US printed more money to fund wars, beyond the backing of gold reserves, this reduced the currency reserves of foreign nations, and this led to the decoupling of gold and dollar. USD finally became the dominant currency. If countries accumulate enough gold, then perhaps they can be free from USD hegemony. In another way, countries just can stop using USD with the risk of war and economic downfall or another cataclysmic scenario like WW2 may bring down USD. Yet in another way if a country or group of countries become economically developed with high skilled human capital and a trade surplus it's currency will improve to the point of becoming a reserve currency possibly beating USD.
6. The powerful businesses get more protection, opportunities and support. An example is of Singapore when some people were fined heavily for offering their properties on Airbnb because this had threatened the well-established hotel industry.
7. In Islam taxation is flow of money from able to the needy: Zakat, Khumus, Ushr, Rkaz, Khraj, Jizya and Sadaqa Fitr. These have been detailed in classical Islamic books and now awaiting further developments and implementation.