Article

Islamic Political Economy as the Missing Link of the Islamic Financial System

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Abstract
Despite half a century of experimentation and attempts to introduce elements of Islamic finance, no country in the Islamic world has yet created a fully featured Islamic economy and financial sector organized in full compliance with Sharia requirements. The key reason for this is lack (weakness) of theoretical foundation of Islamic political economy. As the result, at present Islamic finance is developing as an exotic appendage, as an integral part of the global (traditional) financial system. The situation can be rectified by the author's concept of an Islamic political economy. One of conclusions is that in addressing the dilemma of whether to prioritize economic growth or to reduce income inequality, Islamic authorities must give priority to the reduction of inequality. This study provides governments in Islamic countries with general recommendation on how to bring their country's economy into line with the requirements of Sharia. This article is for the leadership of those countries that want to change their pro-Western economy to an Islamic one.

Keywords: Islam; political economy; money; commodities/goods; market; consumers; riba.

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Исламдық саяси экономия
ислам қаржы жүйесіндегі жетіспейтін буын ретінде

Аңдатпа

Ислам қаржысының элементтерін енгізуге бағытталған жарты ғасырлық тәжірибелер мен әрекеттерге қарамастан, ислам әлеміндегі бірде-бір ел шариғат талаптарына толық сәйкес ұйымдастырылған толыққанды ислам экономикасы мен қаржы секторын құра алмады. Мұның негізгі себебі – ислам саяси экономикасының теориялық негізінің болмауы (әлсіздігі). Нәтижесінде, қазіргі уақытта ислам қаржысы жаһандық (дәстүрлі) қаржы жүйесінің ажырамас бөлігі емес, экзотикалық қосымша ретінде дамып келеді. Бұл жағдайды автор ұсынған ислам саяси экономикасы тұжырымдамасы арқылы түзетуге болады. Қорытындылардың бірі - экономикалық өсуге басымдық беру немесе табыс теңсіздігін азайту дилеммасына тап болған кезде ислам билігі теңсіздікті азайтуға басымдық беруі керек. Бұл зерттеу ислам елдерінің үкіметтеріне экономикаларын шариғат талаптарына сәйкестендіру бойынша жалпы ұсыныстар береді. Бұл мақала батысшыл экономикалық жүйеден ислам экономикасына көшуді жоспарлайтын мемлекеттердің басшылығына арналған нұсқаулық болып табылады.

Түйін сөздер: Ислам; саяси экономика; ақша; тауарлар/өнімдер; нарық; тұтынушылар; риба.

Исламская политическая экономия как недостающее звено
исламской финансовой системы

Аннотация

Несмотря на полвека экспериментов и попыток внедрения элементов исламских финансов, ни одна страна в исламском мире до сих пор не создала полноценную исламскую экономику и финансовый сектор, организованные в полном соответствии с требованиями шариата. Ключевая причина этого – отсутствие (слабость) теоретической основы исламской политической экономики. В результате в настоящее время исламские финансы развиваются как экзотический придаток, как неотъемлемая часть глобальной (традиционной) финансовой системы. Ситуацию можно исправить с помощью предложенной автором концепции исламской политической экономики. Один из выводов заключается в том, что при решении дилеммы о том, чему отдавать приоритет: экономическому росту или сокращению неравенства доходов, исламские власти должны отдавать приоритет сокращению неравенства. Данное исследование предоставляет правительствам исламских стран общие рекомендации о том, как привести экономику своей страны в соответствие с требованиями шариата. Эта статья предназначена для руководства тех стран, которые хотят изменить свою прозападную экономику на исламскую.

Ключевые слова: Ислам; политическая экономия; деньги; товары/блага; рынок; потребители; риба.

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Introduction

The concept of a fully developed Islamic political economy is not currently represented in modern economic science. This is why there is not a single Islamic country in the world with a fully-featured Islamic economy: there is no clear understanding of what such an economy should look like or how it should be organised. Consequently, Islamic countries are forced to adhere to Western-economic rules and standards (Mansoori & Ayub, 2024, pp. 24–34). Neither classical, Keynesian nor any other political economy provides information about the essence and characteristics of the Islamic vision of the economic mechanism. Therefore, it can be assumed that the incompatibility between the Islamic nature of society and the pro-Western economic system is precisely what leads to chronic economic backwardness in the economies of many Islamic countries.

Meanwhile, Sharia or Islamic law, provides sufficient grounds for the formation of a fully-featured Islamic political economy. Such work was actively carried out in the second half of the 20th century, when the Islamic finance industry was just beginning to form, but over time, discussions on this topic began to appear less and less frequently in scientific and academic publications (Khalifah et al., 2024). During the discussions it was recognized that it was the Islamic government (and not the "invisible hand of the market") that should play the main role in creating a system of checks and balances that could eliminate market failures and form correct priorities in the use of limited resources (Akan, 2015).

At the same time, there has been much criticism of Islamic political economy. It has been argued that it emerged simply as a sub-branch of Western economics, rather than as an independent scientific discipline (Choudhury, 1990). It was also noted that there is a simple modification of traditional economic approaches, but, however, taking into account Islamic specifics. As a result, Islamic political economy has not developed into an independent science and has come closer to traditional economics to some extent (Kasri, 2008).

Taking into account these and many other claims, a large group of Muslim scholars carried out a fundamental study, "Economics and Economic Policy. Islamic Perspective", which, in our opinion, makes a huge positive contribution to the formation of Islamic political economy (Ayub, 2022). However, this book has almost 700 pages, which certainly complicates and greatly slows down the reader's understanding. In this regard, the purpose of this article is to present the author's version of the key provisions of Islamic political economy, which can become the foundation for economic, tax, customs and other decisions in countries with Islamic economy and finance system.

Materials and Methods

This study uses a theoretical and methodological approach based on analysis and synthesis. These methods allowed us to identify and summarize key principles underlying the functioning of Islamic political economy. Key attention was paid to systematizing the concepts and structural elements of the economic model. Fundamental principles of the Islamic economic system were identified. A comparative approach was also used to analyze the differences between Islamic and Western economic systems. Modeling was used to construct a conceptual framework for the interactions between the state, the market, and economic agents within the framework of Shariah norms. The empirical part of the study is based on an analysis of scientific literature, Sharia normative sources, and contemporary works on Islamic finance. Data from international studies and statistical surveys reflecting the development of the Muslim population and Islamic financial institutions was used. The interpretation of the obtained results is aimed at developing a holistic concept of Islamic political economy as a theoretical basis for economic policy.

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Results and Discussion

The Foundations of Islamic Political Economy

Islam asserts that the world in which humans live was created by Allah (Qur'an, 6:102; Usmani, 2002). Allah has granted humans freedom of choice and the right to enjoy the blessings of this world. However, at the end of their lives, humans will be held accountable by Allah for their actions, including how they disposed of their property and how they observed Allah's rules and regulations (Qur'an, 4:111; 5:105). Therefore, human freedom comes with the responsibility of being accountable for one's actions. All activities of a Muslim, including economic ones, are carried out every day throughout his life under the fear of punishment on Judgment Day for possible violations of Sharia law and in anticipation of a reward for dignified behaviour and actions.

Examples of societies that have been built on ideological principles, with religion being one such ideology, are found throughout world history, but such endeavours have invariably met with failure. The most notable example of this is the Soviet Union, a state that existed for around 70 years (Nagayev & Stambakiyev, 2022). By the time it ceased to exist, its citizens were no longer motivated to work effectively. Soviet ideology only lasted two generations of citizens. By the third generation, Soviet people, not only ordinary citizens but also representatives of the authorities, had abandoned the official ideology, which ultimately contributed significantly to the dissolution of the Soviet Union.

Islam and the motivation it generates have existed for almost a thousand and a half years and throughout this time, the religion has demonstrated both the stability of its dogmas and a steady increase in the number of its followers. To illustrate this point, it is estimated that the global Muslim population increased from 200 million in 1900 to 1.2 billion in the year 2000. In 2010, this figure had risen to 1.5 billion (Melton & Baumann, 2010; Barrett et al., 2000), and by the beginning of 2025, it had already reached 2.0 billion people (Hackett, 2025). Therefore, there is no reason to doubt the significance of the above motivation for Muslims and their willingness to continue to follow it.

Freedom and Sharia Law

Sharia law regulates all aspects of the lives of believers and includes a number of prohibitions that restrict the freedom of Muslims. For example, these prohibitions restrict the production and/or consumption of certain commodities (alcohol, pork, etc.); the pursuit of certain activities (usury, speculation and prostitution, etc.), and the choice of means of self-expression (in the form of clothing, speech, actions, etc.) (al-Misri, 2022).

It is evident that an economic system which imposes a priori prohibitions will invariably be inferior to the prevailing global economic system (hereinafter referred to as the Western system or Western economy), in which there are significantly fewer prohibitions than in Islam. It is believed that Europe's rapid economic growth began precisely when Europeans recognised the human right to observe only the religious prohibitions, they agreed to. For instance, it has been argued that secularisation preceded economic growth in the twentieth century (Ruck et al., 2018). However, it should also be remembered that a significant reason for the economic backwardness of Islamic countries is the colonial domination of so-called 'civilised' countries. Therefore, the Islamic economy may theoretically develop more slowly than a comparable Western economy.

In addition to prohibitions, Islam also involves mandatory rituals. For example, Muslims pray five times a day, including during working hours. From the perspective of a rational Western employer, this constitutes a waste of working time. Muslims observe a month-long fast once a year, which, from the perspective of a Western employer, increases the risk of a decline in quality and production volumes. It is asserted that Ramadan affects the economy, with the impact being stronger the further an Islamic country is from the equator (Campante & Yanagizawa-Drott, 2015). Muslim employees participate in the celebration of religious holidays, many of which may not be designated as non-working days.

In theory, this suggests that such an employee may demonstrate lower levels of performance than a similar Western employee who is "free" from religious rituals.

Everyone has the freedom to choose how to prioritise their wants and needs, and whether to prioritise fashion or utility. However, Sharia law requires Muslims to first focus on satisfying their own and their families' needs, then those of others in need. Only if resources are available should they be used to satisfy wants, while avoiding ostentatious extravagance (Qur'an, 7:31). Thus, the Muslim consumer is clearly not considered the most desirable customer by Western businesses, which are based on the idea of unlimited consumption.

Finally, we should draw attention to another aspect of the "unfreedom" experienced by Muslims. Shariah and the current legislation of Islamic countries only prohibit criticism of a small number of basic Islamic values and tenets; criticism and debate on all other issues, including economic ones, are an integral part of Islam. Consider, for example, the prohibition of riba, or lending money at interest. This issue has periodically sparked debate throughout the history of Islam for various reasons, but the conclusion has almost always been the same: that the prohibition is justified.

The circumstances outlined above provide the basis for describing the conditions necessary for the functioning of the Islamic economy. This is something that must be accepted for what it is. Nevertheless, these circumstances can in no way prevent the Islamic economy from making significant progress, except that it may take a little longer to do so compared to the Western economy. None of this poses an obstacle to the transformation of modern Islamic countries' pro-Western economies into fully Islamic ones, but it is clear that the process will be lengthy, complex and costly.

In general, the economic behaviour of stakeholders in the Islamic economy is guided by Sharia law, culture and traditions, but not vice versa, as is the case in Western countries where economic behaviour and the pursuit of profit maximisation determine changes in laws, culture and traditions. The culture and traditions of Western countries have changed dramatically over the last two or three centuries, and it's hard to say whether that's for the better.

The Objectives of the Islamic Economy

In addition to prohibitions, Sharia sets out a list of life goals for Muslims, including ordinary citizens and their rulers.

The primary objective that every Muslim should aspire to is the satisfaction of Allah (Qur'an, 3:15). From an economic perspective, this term refers to the growth of personal, family/kin and community welfare neighbours, the poor, orphans, travellers, etc.) in proportions deemed comfortable to the Muslim perception. Therefore, Sharia does not merely entail personal enrichment.

In the context of rulers, the primary objective is the well-being (al-Shatibi, 2022, p. 42) of the people, which is manifested in two principal aspects: the reduction of inequalities in income and wealth, and the assurance of a minimum standard of living for all members of society. For a variety of reasons, many people on Earth are unable to find their place in a market economy. This is why:

The government is responsible for reducing income and wealth inequalities within the population: "What Allah bestowed on His Messenger and took from the inhabitants of the cities belongs to Allah, His Messenger, the relatives, the orphans, the poor and travellers, so that it may circulate among all of you, not just the rich" (Qur'an, 59:7; 51:19; 70:24);

The government is responsible for ensuring that every citizen has access to housing, clothing and food: "The son of Adam has no greater right than to have a house in which to live, clothes with which to cover his nakedness, a piece of bread and some water", the hadith (al-Tirmidhi, Hadith No. 2341) explains, though it is of the weak category.

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It is acknowledged, however, that the quantification of minimum state guarantees, which serves as the foundation for an equitable distribution of wealth, constitutes a variable policy decision is influenced by various factors, including available resources and prevailing social customs.

Consequently, economic growth, a primary objective of Western economies, is not disregarded. Instead, it is repositioned within the sequence of priorities of Islamic government authorities. The authorities must first achieve a fair distribution of existing income and national wealth and only then intensify efforts to increase them. But not the other way round: the Western idea that we should prioritise economic growth and then the poor will get something for sure is not accepted. This does not mean that the idea of maximising national wealth is rejected in Sharia law. On the contrary, this activity is welcomed, but only after achieving fair distribution of wealth among all citizens.

At the micro level, the fundamental Western idea of profit maximisation is not rejected either; however, it should not be placed at the top of the list of human goals. According to the Islamic worldview, economic agents are required to maintain a balance in their activities, not only in the economy, but also in all aspects of their social life (Ayub, 2022, pp. 42, 50). It is vital to strike a balance between the pursuit of individual interests and the interests of society.

The Islamic economic system is driven by Muslims' desire to maximise personal, family/kin and community wealth. In contrast, the driving force behind the capitalist system is the Western individual's aspiration to maximise their personal income and wealth. Consequently, the rationality of an economic agent is defined in Islam not in terms of wealth maximisation (profit, capital, economic growth, as in Western economies), but in terms of optimisation, i.e. finding a balance between personal, family/kin and public interests. This is also an important religious duty of an economic agent.

In the Western understanding of the process of distribution of national wealth, the economic agent first receives income and only then shares it with society. Therefore, in their understanding, profit maximisation is the basic parameter. In the Islamic economic model, government regulation of business activities is designed to ensure that the outcomes of economic activities, in addition to the economic agent itself, are channelled directly towards those in need, thereby minimising the amount that passes through the economic agent's "purse". This means that maximising profits also maximises income for those in need.

The source of wealth is a commodity, that is, a thing specially created (extracted, processed, grown, etc.) for exchange. There are two types of commodities: fully consumed and partially consumed. Accordingly, a commodity can either be exchanged for another or leased.

Due to limited resources and technology, all wealth is fundamentally scarce, at least at this stage of scientific and technological progress. This leads to competition for it. In economics, wealth is created and offered for exchange on a specialised platform – the market.

Market and Competition

The market is one of the most historically contingent and transient forms of commodity exchange and distribution. Two extremes are the commercial market and the centrally controlled market (system).

The market is based on the protection of property rights, freedom of contracts, pricing rules and fair competition. It works best when private property is protected in society and the exchange of property rights is free and guaranteed. The market creates a balance between demand and supply, resulting in a fair price for the commodities.

The most well-known weak points of the market and market relations, which can be attributed to the realities of the Western economy, are as follows:

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- growing social inequality, including in income distribution; In the Western economy, it has long been recognised that the rich become richer more quickly; it should be noted that Western countries, despite all the efforts they make, fail to eliminate this gap;

- giving priority to high-profit but not really useful manufacturers to the disadvantage of low-profit but necessary one for the society, that is, the Western market does not punish a socially irresponsible manufacturer or a morally “irrational” consumer.

- instability (crises, high inflation, cyclic unemployment);

While it is true that the market promotes the transfer of ownership from less productive economic agents to more productive ones, it is not concerned with achieving justice. Its only concern is efficiency. The traditional market aims to maximise national wealth by allocating resources to the most productive areas based on efficiency rather than social factors. Therefore, the conflict between correctness (a value-oriented approach) and efficiency (a value-neutral approach) is an inevitable consequence of profit maximisation. So, it is fair to say that the market as we know it in Western countries is selfish, blind and ruthless. In contrast to the Western market, the Islamic market model is based on a value approach and therefore goes beyond the knowledge of all the most known economic approaches to date – classical, neoclassical, Keynesian and neo-Keynesian.

In terms of the purposes, Sharia distinguishes three separate markets: commercial, charitable and cooperation market, each having its own specific legislative and regulatory features:

The commercial market aims to maximise sales and purchases. There should be no socially irresponsible manufacturers or morally “irrational” consumers in the market. It is also unacceptable for sellers to use/exploit others’ weaknesses.

The charity market aims to donate commodities that will benefit society and the beneficiary the most (the sponsor chooses the beneficiary who needs it the most). Charity can include the free distribution of goods, volunteering, providing interest-free loans (card-Hassan) and organising a waqf institution. While the government can and should certainly provide social support to the population, charity is a decentralised form of social support performed by non-governmental/private entities and individuals.

The cooperation market aims to select the most profitable partner for business operations. In this case, the subject of cooperation is capital, whose owner is looking for a partner. It is worth noting that the prohibition of riba, which deprives the market of credit resources, and causes Islamic investors to take risks. In other words, the West’s natural ‘careless’ approach to financial capital (‘careless’ in the sense that it is based on a guaranteed interest rate) becomes ‘unpredictable and full of all sorts of difficulties’ in the Islamic economy. The share of profits is actually received according to the famous hadith: “risk justifies profit” (Aḥmad ibn Ḥanbal, 2001, Vol. 40, p. 272).

As only the other two markets can serve as a source of funds for the charity market, it is proposed that a sales tax be introduced on the commercial market and a capital tax on the cooperation market. The proceeds would be directed to non-governmental, non-profit organisations for charitable purposes.

Apart from the three aforementioned markets, there is a non-market economy involving self-sufficiency outside the market, such as subsistence farming. This “outside the market” segment is not intended to balance the market situation; it is generally useless for this purpose. However, it is necessary to support those who, for various reasons, have not found their place in the market but are nevertheless able to work. A so-called ‘social contract’ may be established between the government and such individuals, whereby the government provides personal support in exchange for the recipient achieving certain quantitative and/or qualitative results in areas such as agriculture and post-harvest crop activities.

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Markets cannot function without competition. Both freedom and competition have their limits, which should not be exceeded. In everyday life, Sharia calls for moderation in the pursuit of worldly pleasures, i.e. not to be overly diligent in such competition. However, anything that goes beyond the concept of "worldly pleasures" is permitted.

Competition strengthens its participants and improves efficiency, but it is undesirable for competition to end in bankruptcy. There is a story about a trader who once refused to sell his goods to a buyer, instead directing them to another trader (IslamDag.ru, 2013). When asked about the reason for this, the trader said that he had already made enough money that day, whereas his colleague had not sold anything yet, so he wanted to help him out. This is a well-known case in Islamic history. Remarkably, this did not happen at the direction of the ruler or on the advice of a Sharia scholar. It was the sincere impulse of a Muslim trader that expressed a desire for business to be conducted through both competition and cooperation.

In the Western world, competition is the basis of high productivity, because workers are presented with two extreme life options: poverty or wealth. However, in an Islamic society, where maximising wealth is not a person's main goal and where asceticism is a virtue, it is not possible to achieve high productivity by enticing people with wealth or intimidating them with poverty.

However, competition is only permitted between parties that are relatively equal. For example, if someone with a discipline-specific education and someone without such an education applied for the position of teacher, the outcome would be obvious and the case would not involve competition. Competition organisers should only allow equal participants. Unfortunately, competition between unequal parties is quite common. This occurs when developing or underdeveloped countries enter the global investment market and have to compete with developed countries and high-quality borrowers. Another example is a stock exchange traded by both an institutional investor, who naturally has serious financial and analytical capabilities, and a private investor. No matter how smart the latter is, they cannot compete with institutional investors in terms of analytics and finance. Therefore, competition should only be permitted between relatively equal participants. This is well understood in sports, where a heavyweight would never be allowed to fight a lightweight.

It should also be noted that Sharia law strongly condemns corruption. Famous hadith says: "Allah curses those who give and accept bribes!" (Abu Dawud, 2009, Hadith No. 3580). Moreover, corruption harms market competition and contributes to social injustice.

There are different types of market. From a functional point of view, there are factor markets and numerous specialised markets, such as commodity, monetary and financial asset markets, as well as forward markets.

Factors of Production

All the resources that are used in the production process of commodities are considered to be factors of production. From an Islamic point of view, these factors of production are primarily classified according to the method of payment for the resources (Ayub, 2022, pp. 153–158):

- hired factors of production – payment for these is fixed and known in advance because their productivity is known beforehand. For example, the output of products when hiring tools and machinery, the transportation load when hiring cars, and the crop yield when leasing land, etc.;

- entrepreneurship factors of production - they are paid for solely on the basis of business outcomes.

Consideration is also given to the categorisation of production factors by the type of resources, as is customary in the Western political economy:

- land (including: mining plots, agricultural land, other land plots, water, air);

- labour (wage labour and entrepreneurial labour);

- capital (including commodities, means of production, financial assets).

There are also additional resources such as information and capabilities:

- information – media and blogosphere, knowledge, technology and innovation, patents and data, etc., which can be used to increase production efficiency, improve product quality and make sound management decisions; information may be part of the professional qualification of the workforce; but in recent decades, its importance has been growing and information may well become a single contributor of production factors in the foreseeable future;

- capabilities – prevailing views on business and production development, including attitude towards the environment and human rights, as well as the infrastructure health - the presence of peace and social harmony, the level of corruption, the quality of government institutions, the level of education of citizens, etc.

From an Islamic perspective, the key of the above is distinguishing between the hired factors of production and the entrepreneurship factors of production. To this end, further analysis will be undertaken in the context of resource types and in terms of payment methods.

The Factor of Production: Land

As a resource used in the production of commodities, land is fully attributed to hired factors of production. The specifics of land ownership rights are different. There are two aspects to consider. Firstly, natural resources, including water and air, cannot be privately owned as they belong to society as a whole. Secondly, agricultural land ownership is only protected for responsible owners: unused plots of land that remain unused for a specified period of time are seized by law and transferred to a new owner who can ensure their effective use.

As a hired factor of production, land is paid for in advance with a fixed amount of money. With respect to minerals, this means that investors or entrepreneurs who fund their development should not make an excess profit, i.e. income above pre-agreed remuneration. In other words, investors' profits should not depend on the market price of natural resources. Any amount received in excess of the agreed remuneration must be transferred to the state budget.

It is worth noting that the obligation for Muslims to protect the climate and environment under Sharia law has two implications. For individuals, this means entering the charity market with 'land' protection projects, while for authorities, it means adding relevant expenditure items to the state budget.

The factor of production: labour

Labour, as a resource used in the production of commodities, refers to both hired labour and entrepreneurial factors of production. Labour is a human resource that can be categorised in various ways, including:

- individuals employed in wage labour (employed);

- individuals who are not employed but wish to find paid employment, job seekers (unemployed);

- individuals engaged in entrepreneurship (entrepreneurs);

- individuals not engaged in entrepreneurial activity who are seeking the opportunity to start a business (similar to the unemployed, it would also be useful to organize support institutions for this category of people);

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- individuals who are unable to work fully for health reasons (disabled persons).

Traditionally, labour is divided into physical and mental efforts. Labour can encompass the knowledge, skills, experience and motivation of employees. In this context, emphasis is placed on the economically active population (employed, unemployed and entrepreneurs), and maximising their share of the total population is recognised as a way to increase a country's production.

Labour can be divided into two key components: wage labour and entrepreneurial labour/activity.

Wage labour is work undertaken under an employment contract for a company, without being an owner of that company. Wage labour is remunerated with a predetermined amount, irrespective of the outcomes of the business activities in which the individual is engaged. Entrepreneurs have the capacity to influence demand for wage labour and are therefore responsible for ensuring that their staff are treated fairly.

Staff training and qualification is a key part of any business. Within the context of the Islamic economy, which is based on traditional family values, there is a strong belief that child rearing takes precedence over work. In cases where parents have minor children, and even more so when the family has many children, one of the parents must be available to supervise the children on a permanent basis. It is reasonable to assume that this kind of activity should be recognised as important for the country's interests and paid for by the state. In both Islamic and Western economies, increasing the number of people in employment is a key factor in increasing production. Kindergartens in the West are an institution that allows parents to go to work without worrying about their children. In a Western country, it is important for both parents to be in gainful employment in order to maximise their labour performance. An increase in output is also of significance for an Islamic country, but not to the extent of specifically encouraging both parents to enter the workforce.

The most effective method of increasing the cost of wage labour is to raise the level of professional knowledge and competence. In this regard, the authorities should organise and support permanent training and reskilling programmes in modern occupations (Yelubayev & Abylov, 2025). It is also necessary to implement financial literacy programmes.

Entrepreneurial/business activities are the ability to organise, coordinate and manage other factors of production for the creation of commodities and services. The financial remuneration for entrepreneurial activities is dependent on the business results achieved. The demand for entrepreneurs is influenced by two key factors: (a) the number of people is willing to work for themselves and have access to financial capital, and (b) how successful economic policies have been in creating the socio-economic environment necessary to motivate business start-ups. It is evident that the demand for entrepreneurs is generated by the owners of financial capital, and that supply is shaped by families and households. The primary method for increasing the number of entrepreneurs is targeted leadership education for young people.

The factor of production: capital

Capital, as a resource used in the production of commodities, refers to both hired and entrepreneurship factors of production.

Capital can be divided into two categories: physical/real capital and financial capital.

Physical capital comprises human-made tangible assets necessary to run business activities, including buildings, facilities, equipment, machinery, tools, machine tools, raw materials, stocks of finished products – all that is required to produce commodities. Physical capital is a hired factor of production, because the result of its use, including its performance or capacity, is known and outlined in the technical documentation and therefore it is paid for with a predetermined fixed amount.

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Financial capital is money in national and/or foreign currency and permitted financial assets necessary to carry out financial activities in the production of commodities. Financial capital is an entrepreneurship factor of production: since the result of its use is not immediately apparent, the reward for it cannot be determined in advance, before starting a business; the result of using financial capital depends on many unpredictable factors, so the reward is based on business results and paid as a pre-agreed share of profit. As outlined in the Quran, this structure includes a prohibition of riba, meaning that financial capital is exposed to the risk of losses (Sevinç & Bulut, 2023).

The prohibition of riba forbids credit relationships that involve interest-based lending. This prohibition is a fundamental principle that distinguishes Islamic economics from Western economics.

Inflation, an important indicator of any economy, is measured by tracking a representative basket of the most demanded goods. In this regard, it should be noted that the prohibition of riba encompasses the use of money as a commodity. The full implementation of this ban would result in the removal of money from the range of commodities circulating in the market. This ultimately results in different factors influencing inflation in the Islamic economy than in the traditional one. In the absence of the buying and selling of money, the market will resemble a physical capital market, and inflation will be more predictable than in the Western economy.

Consumer Behaviour

The consumer behaviour that Western society encourages through its social institutions, including among Muslims, is an increase in consumption, the fulfilment of desires and the celebration of shopping. This is an inevitable consequence of the Western economy's primary objective of maximising profit. This influence can also spread to Islamic countries. Therefore, it can be assumed that the actual behaviour of Muslims can deviate from the norm, i.e. Sharia-based regulations. It is also known that a person's actions do not always align with their beliefs. For this reason, consumer behaviour should be should be reasonably controlled by non-profit organisations, local religious authorities and families.

Consumer behaviour is most evident in the retail environment and can be characterised by subjectivity and unpredictability. Decisions can be made instantaneously, influenced by emotions as well as direct or indirect pressure from outside. The motivation pursued by an individual acting as a consumer is to satisfy their needs and multiple desires.

Muslim consumers typically divide their time between leisure, work and charity (Qassabekov, 2025). The next choice to be made by the consumer is to distribute their income by allocating it among three areas: satisfaction of current needs, satisfaction of future needs through saving and investment, meeting the requirements of the needy, and charity.

Needs (both current and future) can be differentiated into two categories: requirements and wants. The first category comprises things that are vital for life, while the second category comprises the satisfaction of diverse and endless desires in order to experience various forms of pleasure. Sharia prioritises requirements and recommends minimising the satisfaction of wants. The latter in fact means that advertising of goods that satisfy or provoke desires should be removed from of Islamic economic practice. Conversely, there are no restrictions on the advertising of products intended to meet human requirements.

The consumer behaviour of individuals depends on a variety of factors, particularly:

Religious commitments: Those who formally adopt religious beliefs are assumed to be the primary consumers of goods intended to satisfy their wants. Regions with observant, Sharia-following Muslim majorities are also assumed to have less retail trade than those with less observant majorities.

Children: It is assumed that families with more children are more requirements-oriented than want-oriented.

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Young people: It is assumed that young people, including those of the Muslim faith, are the main buyers of all new products, goods and services due to their naivety. It is recognised that young people want everything at once and find it difficult to think about the future.

Elderly people: It is assumed that people become more ascetic with age.

However, the specific configuration of factors driving the behaviour may differ from one Islamic country to another.

In Islamic economics, a choice mentioned above depends on the environment. In the Western scientific paradigm, individuals are grouped and counted according to the household they live in. In the West, a household is defined as a group of people living in the same dwelling, whether they are relatives or not. Islam does not permit civil marriage, cohabitation or shared living arrangements between unrelated individuals of different genders. Therefore, in this understanding, the term "household" in Islamic economics is not applicable. Instead, we believe it is more appropriate to use the term "family", which refers to a voluntary union (marriage) of a man and a woman created for the purpose of giving birth and raising children. The term 'family' refers to a group consisting of a father, mother and their children. Furthermore, family units may also include mother and daughter, father and son, aunt and nephew, grandmother and grandchildren, or other combinations arising from unforeseen real-life situations. However, once children reach the age of majority, they can leave the family home and live alone until they get married. These people cannot be categorised as a family and require a different term. We propose defining them as a "single-person household".

In Islamic communities, where traditional family values are the foundation for relationships, the family unit is responsible for most consumer decisions, including how to allocate time between work and leisure, and whether a family member should become an employee. In Islamic households, however, it is the individual who makes these decisions.

Conclusion

Muslims' belief in the Day of Judgment and accountability to Allah, including for economic actions is a fundamental motivation that has existed successfully for one and a half thousand years.

In Islam, the rationality of an economic agent is not in the pursuit of wealth maximisation, but rather in the optimisation of wealth. This means finding a balance between personal, family/kin and social interests. Sharia does not deny the motive of maximising personal income, but considers it to be of secondary importance.

In an Islamic economy, the state has a responsibility to reduce income and wealth inequality of the population, and ensure that the basic needs of housing, food, and clothing are met for every citizen. This commitment must be reflected in the national policies and budgetary allocations of Islamic countries.

In addressing the dilemma of whether to prioritise economic growth or to reduce income inequality, Islamic authorities must give priority to the reduction of inequality.

As society progresses, knowledge assumes an increasingly pivotal role. For instance, two or three centuries ago, it was sufficient for a mullah to explore a topic by narrating a simple real-life story, such as an event at the marketplace. However, this is no longer adequate in today's context. The economy has become complex and multidimensional. Muslims should continuously be provided with a variety of knowledge, much of which is difficult to understand and requires effort to assimilate. Furthermore, knowledge is updated on a regular basis. However, this is essential; otherwise, people will not be able to reap the full benefits of the Islamic economy and finance. Therefore, science, education and improving the general literacy of the population must be permanent priorities for the Islamic community.

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Conflict of interests

The author declares that there is no conflict of interest.

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