

CRITIQUE OF CAPITALISM AND SOCIALISM FROM AN ISLAMIC ECONOMIC PERSPECTIVE: SOLUTIONS FOR ECONOMIC JUSTICE

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Abstract

Capitalism and socialism have long been the dominant economic systems, each with its own strengths and weaknesses in addressing global economic and social challenges. Capitalism is often criticized for exacerbating wealth inequality, encouraging exploitative practices, and failing to ensure long-term societal stability. Meanwhile, socialism struggles with inefficiency, corruption, and a lack of innovation due to centralized control of resources. This article explores Islamic economics as an alternative system that balances economic efficiency with social justice, rooted in Sharia principles. By prohibiting interest (riba), speculative practices (gharar), and promoting wealth redistribution through zakat, waqf, and sadaqah, Islamic economics provides a framework for equitable resource distribution and social welfare. The research compares these economic systems and highlights how Islamic economics offers sustainable solutions to achieve global economic justice. Through a qualitative literature review, the study examines the impact of wealth distribution mechanisms and the ethical principles of Islamic economics, demonstrating its potential to reduce inequality and improve societal welfare, providing an alternative to the failures of both capitalism and socialism.

Keyword: Islamic Economics, Wealth Redistribution, Capitalism vs Socialism

A. INTRODUCTION

Capitalism and socialism have long dominated global economic discourse as the primary economic systems. Both systems represent fundamentally different approaches to managing resources and fostering economic growth. Capitalism champions free markets, individual ownership, and competition, whereas socialism prioritizes collective ownership, state intervention, and wealth redistribution. Despite their theoretical strengths, both systems have faced significant criticism due to inherent weaknesses in addressing pressing socio-economic challenges, including wealth inequality, exploitation of human resources, and recurring financial crises [1].

Capitalism is often lauded for its ability to drive innovation and economic growth through market-driven competition. However, this growth frequently comes at the expense of social equity, as the system tends to concentrate wealth among the few, leaving large segments of society in poverty. The Gini index, a measure of income inequality, often highlights these disparities, underscoring capitalism's failure to ensure fair wealth distribution. Additionally, capitalism's profit-driven nature fosters exploitative practices, environmental degradation, and cyclical economic crises that further exacerbate societal instability.

On the other hand, socialism seeks to address inequality through centralized control and redistribution of resources. In theory, this system aims to provide equitable access to resources and opportunities for all citizens. However, in practice, socialism often falls short due to inefficiencies in resource allocation, corruption within centralized systems, and a lack of incentives for innovation and productivity. These shortcomings have led to stagnation and dissatisfaction among the populace in many socialist economies, making it difficult to sustain long-term growth or adapt to evolving economic realities.

As an alternative to these flawed systems, Islamic economics offers a unique model that blends economic efficiency with social justice, guided by ethical and moral principles rooted in Sharia law. Unlike capitalism, which prioritizes material wealth, and socialism, which heavily relies on state control, Islamic economics seeks to harmonize individual and collective welfare. The system prohibits practices such as *riba* (interest), which fosters economic exploitation; *gharar* (excessive uncertainty), which leads to unfair transactions; and *maisir* (gambling), which promotes speculation.

Central to Islamic economics is the principle of wealth redistribution through mechanisms like *zakat* (mandatory almsgiving), *waqf* (charitable endowments), and *sadaqah* (voluntary charity). These instruments aim to reduce income disparities and ensure that wealth circulates within society to meet the needs of all its members. Furthermore, Islamic economics emphasizes shared responsibility and ethical conduct in financial dealings, fostering a sense of accountability and trust among economic actors.

This article delves into the criticisms of capitalism and socialism from an Islamic economic perspective, presenting Islamic economics as a viable framework for addressing global economic challenges. By focusing on justice, ethical resource distribution, and societal welfare, Islamic economics demonstrates its potential to achieve sustainable economic justice on a global scale[2].

B. METHODOLOGY

This article uses a qualitative research methodology, primarily based on a comparative literature review, to analyze and critique the economic systems of capitalism, socialism, and Islamic economics. The study draws from a variety of academic sources, including articles, books, and case studies, to evaluate the impact of these systems on wealth distribution, economic justice, and social welfare. Key concepts such as the Gini index, interest-based transactions (*riba*), speculative practices (*gharar*), and wealth redistribution mechanisms like *zakat* are examined to provide a thorough understanding of each system's strengths and weaknesses.

The analysis is also enriched by the theoretical principles of Islamic economics, which emphasizes justice, equity, and moral values in economic practices. By comparing these systems, the study assesses how capitalism and socialism fail to address inequality and human rights, while Islamic economics offers an alternative framework for achieving sustainable economic justice. The research includes simulations and empirical data to demonstrate the effects of wealth redistribution mechanisms in Islamic economics and how they contribute to reducing wealth concentration and improving societal welfare.

C. RESULT

Criticism of Capitalism

Capitalism, defined by free competition and profit maximization, often results in vast wealth inequalities and social disparity. As wealth exchanges in a capitalist framework, the concentration of wealth

accelerates due to mechanisms like interest (riba) and speculative practices, which disproportionately benefit the wealthy while exacerbating the plight of the poor [3]. The Gini index, a measure of inequality, rises quickly in capitalist systems, demonstrating the inherent disparity in wealth distribution [4]. The profit-driven nature of capitalism incentivizes exploitative practices, undermining social welfare and creating recurrent financial crises, as the focus on material growth often neglects ethical considerations, human rights, and social needs.

Furthermore, capitalism's emphasis on individual profit maximization often fails to address the long-term stability of society. The economic boom-and-bust cycles result from unpredictable market gluts, as industries become oversaturated with capital, only for the investment rush to end in recession. While some theorists, like Keynes, argue for a comprehensive socialization of investment to mitigate stagnation, capitalism struggles with systemic issues of inequality, instability, and unsustainable growth practices, often sidelining social welfare in favor of profit.

Critics argue that capitalism, while dynamic, fosters an economic environment that is prone to volatility, fails to ensure equitable resource distribution, and neglects the ethical dimensions of economic activities. The result is a system that often prioritizes material wealth over human welfare, leaving significant gaps in addressing basic needs and contributing to deep societal rifts [5], [6].

Criticism of Socialism

Socialism, designed to achieve equality through state control of resources and wealth redistribution, often falls short in practice due to inefficiencies and corruption within centralized systems. The ideal of communal ownership and centralized state control of resources can stifle innovation, as individuals have limited incentives to excel or introduce new ideas. The absence of market-driven competition reduces productivity, often leading to stagnation. In socialist economies, the state's role in managing resources and distribution can also become a breeding ground for bureaucratic inefficiencies and corruption, limiting the system's ability to reduce social inequality effectively [4].

Moreover, the rigid control over private property and resources in socialist economies frequently undermines economic growth and personal autonomy. This stifles the dynamic economic activity necessary to improve living standards, leaving people disillusioned with the lack of economic freedom. The inability to adapt to changes and the centralized control mechanisms of socialist states can create dissatisfaction, making it difficult for the system to meet the diverse needs of individuals.

Socialism's attempt to eradicate poverty has also been compromised by its inability to innovate and provide efficient economic solutions. The centralization required for resource distribution often leads to bureaucratic entanglements that inhibit swift decision-making, leading to misallocation of resources and, ultimately, stagnation [7].

Solutions from Islamic Economics

Islamic economics presents a comprehensive and balanced framework that effectively addresses the inherent shortcomings of capitalism and socialism. This system integrates ethical, social, and economic principles rooted in Sharia law, ensuring that economic activities are aligned with justice, equitable distribution of wealth, and social welfare. By grounding its practices in moral and spiritual values, Islamic economics provides a humane and sustainable alternative to existing economic models [5].

One of the most defining aspects of Islamic economics is its strict prohibition of riba (interest) and gharar (excessive uncertainty). These practices, prevalent in conventional capitalist systems, often lead to exploitation and economic instability. Instead, Islamic economics advocates for fair and transparent financial

D. CONCLUSION

This article concludes that while both capitalism and socialism have been central to global economic discourse, they each demonstrate inherent flaws in achieving economic justice. Capitalism, driven by profit maximization and free competition, results in significant wealth inequality and undermines social welfare. It promotes exploitative practices and recurrent financial crises, which fail to address the ethical dimensions of economic activities. On the other hand, socialism's state control over resources and wealth often leads to inefficiency, corruption, and stifled economic growth, making it ineffective in addressing poverty and inequality.

Islamic economics, however, offers a balanced alternative that harmonizes economic efficiency with social justice. Its emphasis on prohibiting *riba*, *gharar*, and *maisir*, alongside mechanisms for wealth redistribution like *zakat*, *waqf*, and *sadaqah*, ensures a more equitable distribution of resources and addresses social disparities. The Islamic economic framework recognizes property as a trust from God, which mandates ethical wealth acquisition and distribution, promoting broader societal welfare.

By integrating ethical principles with economic practices, Islamic economics provides a sustainable solution to the issues of inequality and exploitation that persist in capitalist and socialist systems. The growing global adoption of Islamic finance demonstrates the practicality and appeal of this system, not only in Muslim-majority nations but also in addressing global economic challenges. As such, Islamic economics presents a viable model for achieving economic stability, social justice, and poverty alleviation on a global scale.

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