

Differentiating Different Economic Systems

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Google scholar citation link: <https://scholar.google.com/citations?user=-k9zOxAAAAAJ&hl=ar>

ResearchGate link: <https://www.researchgate.net/profile/Osama-Khayal>

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Abstract

Capitalism affords economic freedom, consumer choice, and economic growth. Socialism, which is an economy controlled by the state and planned by a central planning authority, provides for a greater social welfare and decreases business fluctuations.

Islamic economics aim for moral development, promoting unity, social justice, fair and equitable distribution, circulation of wealth and providing basic human needs. In an interest-based economy, there is no share kept aside for the poor. The rich amass all the wealth while the poor are left with nothing.

In a mixed economic system, free markets co-exist with government intervention, and private enterprises co-exist with public enterprises. The advantages of a mixed economy include efficient production and allocation of resources, as well as improvement of social welfare.

Personal ownership is not recognized in the socialist economy, but state ownership is recognized in this system. On the contrary, Justice and balanced ownership are recognized and regulated in the Islamic economy, but the right of the state and society are in the person's property.

The purpose of an economic system, at its core, is to preserve people's way of life by figuring out the best ways to distribute goods and services based on skills and available resources.

In conclusion, Islamic economics emphasizes a holistic view that considers not only individual interests but also the well-being of society and adherence to divine norms. In contrast, Western economics often prioritizes profit and individual desires, leading to a focus on self-interest and personal gain.

Keywords: Capitalist; Socialist; Islamic; Intention; Method; Legislation; Methods and Means; Ingredients; Market Movement; Ownership.

1. Introduction

The economic system is the set of principles that regulate economic relations between members of society and govern their behavior in practicing economic activity.

The American Buckingham defines the economic system as a set of means used to control economic processes (legislation, traditions, public opinion, persuasion and patronage).

The Agricultural Revolution led to development of the first economies that were based on trading goods. Mechanization of the manufacturing process led to the Industrial Revolution and gave rise to two major competing economic systems: capitalism and socialism. Under capitalism, private owners invest their capital and that of others to produce goods and services they can sell in an open market. Prices and wages are set by supply and demand and competition. Under socialism, the means of production is commonly owned, and part or all of the economy is centrally controlled by government. There is no nation that is completely capitalist or socialist; many countries' economies feature a mix of both systems.

Capitalism or a free-market economy is an economic system in which private owners control the economy and trade rather than the state. It encompasses private enterprises, economic freedom, competition, profit, wealth accumulation, and less intervention of government. It finds its slightest precursor in the feudal era during the 16th century in Europe.

After the industrial revolution in 1764, Scottish economist, Adam Smith, gave the idea of modern capitalism in his book "Wealth of Nations". Soon after Smith's theory, the French revolution

appeared as the demise of feudalism and the whole scenario was changed in the favor of capitalism which dominated as a prominent economic system.

Later on, after the cold war and due to the invasion of western imperialism, it sustained its monopoly as a world economic system. According to the World Economic freedom report 2021, more than 152 states have capitalistic economies. Supporters of capitalism claim that capitalism ensures competition in markets which leads to a wide range of high-quality products with low prices.

It also brings innovations and creativity, making people more hard-working and inclined towards a developed society. It encourages the political freedom of individuals by lessening the government's influence and also guarantees opportunities for people who want to improve their living standards. Despite all these claims, it is fatal for the lower section of society.

The most destructive facet of a capitalist regime is the way it splits society into different classes. The lower class of society which is the majority is ruled by the minority elite class. They manipulate the working class by suppressing trade unions and gaining high profits in return for very low wages, which leads to the accumulation of 99% of the wealth in the hands of just 1% and vice versa.

Capitalist regimes also monopolize power through imperialism and counter-revolutionary wars. The most lucid example of the capitalist war was the cold war. The prevailing communist manifesto forced the US to wage war against the Soviet Union which led to the division of the Soviet Union and the occupation of Afghanistan by superpowers.

Capitalist regimes also invade countries by making military alliances to grab natural resources, trade routes, and big markets. It also discourages equal opportunities, some are inherited with great wealth, while others are born in poverty with insufficient resources of health and education. Capitalists prefer their interests over social good and environmental safety.

Although most western countries claim that they have now become a welfare state, the class system still exists; there is a class that is earning maximum with minimum or almost zero effort and dominating the world through multinational companies. On the other hand, there is a class that is barely meeting the necessities of life or dwelling on the charities of the elite class.

A national survey by the Pew Research Center claimed that one-third of Americans now consider themselves as lower class. In simple words, this system works to serve the master class by exploiting the working class. Edelman Trust Barometer published a census report which included over 34000 people in more than 28 western liberal democracies.

Communism or command market economy is a political and economic philosophy that was given to oppose capitalism by German philosopher Karl Marx and his associate Friedrich Engels. He was the greatest critic of capitalism and has been quoted to have said that "Capital is dead labor, which, vampire-like, lives only by sucking living labor, and lives the more, the more labor it sucks".

It is an economic system in which all the resources are occupied by the government, while the people contribute and receive according to their ability and needs respectively. Although it has changed its form to socialism, Marxism, or Leninism, the core idea of all these movements remains the same.

It gave the idea of a classless society, common ownership, equal distribution of wealth, and opportunities. The biggest advantage of a communist society is that it refutes the class system and believes in equal allotment of resources. It works on the slogan "From each according to his ability, to each according to his needs". It also gives the idea of a welfare state which is more prone to social well-being.

In a communist regime, the people are equal regardless of their financial and educational differences, they can access equal opportunities and resources for health, education, and employment. However, it has many shortcomings and drawbacks which decrease its validation. In a communist regime, there are no extra incentives for hard work and innovation which leads to a lack of competition.

If there is no competition in the market, there will be no technological developments, better quality products, and cost-reducing actions. The second most problem is the proletariat or one-party

dictatorship, there is no freedom of speech and the right to express political ideas. One is also restrained to speak against government policies and agreements.

The current ruling party in China, CPC, is accused of ethnic cleansing of Uyghur Muslims through massive genocide in the northwestern region of Xinjiang. From 1917 to 2017, according to Wall Street Journal, almost 65 million people died in different communist regimes due to famine, starvation, executions, and the deaths that occurred during forced imprisonment and cruel social engineering.

In a totalitarian regime, the ruling class has more opportunities for corruption. In 2012, Bloomberg revealed that the Chinese president's extended family had total assets worth \$376 million, but due to strict control on media, the report was not published. The Russian communist regime, too, has been accused of massive corruption for decades. Due to these loopholes and frailties, pure communism has never been in its practical form. A mixed form of communism is established in China, Cuba, and Vietnam.

The economic system of Islam is derived from the two basic sources of Islamic jurisprudence, the Quran and the guiding principles of the Prophetic Hadiths. This economic system works on the basic principle of collective justice, which aims at the fair distribution of wealth among all human beings living in a society based on their abilities and capabilities .

It is believed that the economic system of Islam is not the creation of any human intellect but the law given by God Almighty, which is compatible with human behaviors and temperament. Therefore, it is a perfect system. The comprehensiveness of this law can be gauged from the fact that when Prophet Muhammad (peace be upon him) established the state of Madinah, there was a time when no one was poor enough to take charity from Baitelmal.

The Islamic economic system endorses private ownership and economic freedom. It allows humans to do private business and leave a legacy but also sets limitations so that the master class cannot establish its dominance over the subjective class. To control blind capitalism, usury has been declared as absolutely impermissible and forbidden because interest makes the rich richer and spoils the poor deeper into poverty.

Therefore, Islam has chained and controlled capitalism to a certain extent so that a person can fulfill his needs by earning legitimate profit from a private business. In Islamic tradition, it is expected that wealth is legitimate and is earned through one's own work be it either physical or intellectual .

To prevent the unjust accumulation of wealth, Islam has given a comprehensive system of Zakat which is 2.5% of the accumulated capital so that wealth can circulate in the whole society instead of being in the few hands. Means of production and personal assets are exempt from Zakat. The proportion of Zakat (Jizya) for non-Muslims is two percent. Taxation is allowed only if the collected Zakat is not enough to tackle emergencies or disasters.

Welfare programs also started under the umbrella of Islamic socialism during the era of the second Caliph Omar Ibn Alkhatib including social security, unemployment insurance, retirement pensions, and economic reforms during famines. Unlike capitalism and communism, which are established on the basic spirit of dialectical materialism, the Islamic system is based on a spiritual concept called faith (Iman) [1] – [10].

2. Capitalist System

Sovereignty of the market economy and control of commodity production (private ownership, market system, profit motive, economic freedom and non-interference of the state in economic activity, decentralization).

The capitalist system is characterized by the characteristic of ownership of the means of production, and depends on material profit. This ownership gives the right to use capital to obtain absolute material profit. Competition plays a major role in it and varies from one capitalist country to another. It is a system of non-interference of the state in economic activity. This is characterized by a decline in the role of the state in formulating and defending economic policy. This varies from

country to country, and this is what we find in the United States, Europe, Japan, and other countries that follow the orbit of capitalism.

In the capitalist system or the free market, the matter of production, buying and selling is left to the consumer and producer, without any government interference in determining the lines of production and sale, nor does it interfere in determining the prices of goods or types of goods. The government's role is limited to oversight to ensure that everyone adheres to the general legal rules, the most important of which is the continuation of competition among producers. The government's role is also limited to producing certain prohibited goods, and mandating specific conditions for the goods produced, such as preventing the production and sale of drugs, safety requirements in cars, and others.

Because it is considered an essential part of the market and the economic process that tries to find the best solutions to the economic problem, the desires and pattern of consumption that the consumer desires are left to him to choose and strive to achieve. Everyone has absolute freedom to choose the type of goods and quantity that he requests, and the period of time in which he wishes to acquire the commodity. That is, there is no coercive influence on consumer behavior in the market.

The capitalist system is characterized by the abundance and multiplicity of producers, with the small size of each product on the production side, meaning that the producer cannot have a dominant role in influencing the production process and controlling the units that are offered in the market and then the price level. However, the producer has the right to produce any commodity he wishes to produce in the quantity he desires, or even to refrain from producing a particular commodity.

In the capitalist system, ownership and the transfer of ownership from one person to another in any form and at any time is a free process in which the government does not interfere. The producer or individual has absolute freedom to monopolize or share with others all the production resources, goods or services he owns, whether they are of capitalist or consumption nature.

In the capitalist economy, the market is considered the forum where the consumer meets the producer, and the price of the commodity plays a role in revealing the importance and desire of the consumer to acquire the commodity, and in doing so it reveals the desires that the producer wants to provide with the commodity. If the matter of determining the price is left to the consumers and producers, then if they will agree, price directs resources to their best use, both from the perspective of consumers who spend their money, and from the perspective of producers who allocate their resources to production [1] – [15].

3. Socialist System

State intervention in economic activity to achieve efficiency and fair distribution (utopia, social justice, collective ownership (cooperative state), central planning, development of the national economy, development plans, rate of increase in production, investment, structural changes (agricultural to industrial), satisfaction of necessary needs (i.e. necessary goods, not luxury goods).

The socialist system is based on the communist economic theory and is characterized by the state's ownership of the factors of production in place of private ownership. Then, private ownership is suspended and does not become a state resource, noting that production is according to the state's study and the choice of individuals and entities for it, and production is in accordance with the desires of society, and in this way the state supervises private ownership of the factors of production. The government determines goods according to supply and demand according to the desires of the people, and thus the price system is disrupted with the desires of the people, which dealt with the openness of socialist systems to the world and made the socialist economic system incapable of meeting the desires of society in terms of quality, type, and desires.

Private property does not exist in this system, but there is public property, meaning that ownership is for all individuals together and is managed by the government so that it can determine the goods that must be produced and distributed among individuals. The individual does not own the means

of production and economic resources that result in production processes, so individual has no right to own his own capital resources, like a factory that produces goods required by society, but ownership here is for the government, which disposes it and creates departments and agencies competent to make production decisions.

Given the government's desire to plan the economy, determine the quality and quantity of goods produced, and work to distribute them among the various sectors of society, the government must own economic resources and operate them according to what the economic planners in the highest authority in the government deem appropriate.

The state's control of the economy has an impact on the level of prices in the central economic system, as the government aims to provide certain goods rather than others in order to achieve desired goals. Such a policy may require the government to set the prices of all goods, and these prices are often relatively low. That is, the quantity offered in the markets and its cost may not be linked to a price level that reflects these costs, and it may be sold at prices lower than its true cost. The goal of this is the state's desire for individuals to obtain it, and the opposite may be true. We find, for example, the state's exaggeration in setting the price of certain goods in order to limit the demand for them and limit their consumption [1] – [15].

4. Islamic System

The Islamic economic system operates according to the principles of Islam and its principles from the Qur'an and Sunnah. The principle of dual ownership, economic freedom within a limited scope (moral and moral values, self-determination, education, objective determination, the power of Sharia: preventing usury and monopoly and protecting public interests), social justice (distribution of wealth, the principle of general integration, the principle of social balance: work is the basis of ownership, prevention of extravagance, zakat and alms).

It is an effective, integrated economic system that preserves mankind's humanity, as it stems from the law of the Creator of this universe to achieve the purposes of this lofty heavenly law of preserving the human soul, preserving money, mind, lineage, and religion, and to achieve a dignified and honorable life for human beings on the face of this earth with justice and equality for the sake of happiness in the worlds of this world and the afterlife.

The Islamic system is a divine global economic situation based on governance and slavery, Glory be to Him, and this includes studying the characteristics on which it is based, which are completely different from other systems. Money is the money of God the Creator, Glory be to Him, and people are left behind in it and over it.

Islam is about acts of worship and transactions, and both of them are organically linked to each other.

The purpose of man's creation is to populate this earth in a way that ensures this creature can live comfortably and happily, and to populate this earth in a way that ensures his happiness through simplicity of living and not exhausting him in the labyrinths that expect him to fall into the snares of evil and corruption, so he lives in the hardship of life, burdening himself with what he cannot bear, floundering randomly like one who has lost his mind [1], [3], [6], [7], [8], [9], and [10].

5. Comparison between Islamic System and other Economic Systems in Different Viewpoints

5.1 In Terms of Intention

The purpose of the Islamic economic system is to satisfy the original needs for credit and provide a decent level of sufficiency so that people can live a good, prosperous life and to help them populate the earth and worship God Almighty. Thus, it aims to achieve material and spiritual satisfaction for mankind, and the basis of that is the saying of God Almighty: "He produced you from the earth and colonized you therein" (Hud "61"), and He also said: "And I did not create the jinn and mankind except to worship Me" (Al-Dhariyat "56").

The goals of other economic systems are to achieve the maximum possible material satisfaction and wealth creation, without any regard to spiritual satisfaction.

5.2 In Terms of Method

The Islamic economic system is based on a moral doctrinal approach that is based on what is permissible, good things, honesty, purity, solidarity, cooperation, love and brotherhood, with the belief that work (including economic transactions) is worship, and the basis of that is the saying of God Almighty: "So eat of what God has provided you that is lawful and good, and give thanks for God's blessings" (An-Nahl 114), and the saying of the Messenger, may God bless him and grant him peace: "Seeking what is permissible is obligatory after obligatory" (Agreed upon).

As for the other economic systems (created by humans), they are based on the approach of separating religion from the arena of life. Doctrine and morals have nothing to do with the economy, and among the concepts to which they bind themselves are: "Religion is for God and the homeland is for all," "Leave to Caesar what is Caesar's and to God what is God's," or as they say, "The aim justifies the means". These and other concepts are completely rejected in Islamic thought. The aim must be of the same type as the means (meaning that the aim must be legitimate, as well as the means used to achieve it).

5.3 In Terms of Legislation

The Islamic economic system regulates a set of rules (principles or foundations) derived from the sources of Islamic law: the Qur'an, the Sunnah, and the jurisprudence of trustworthy jurists. It also does not conflict with the objectives of Islamic law, but rather works to achieve them, which are the preservation of religion, reason, soul, honor, and money. The rules of the Islamic economy are characterized by stability, universality, and realism. Flexibility comes in the details, procedures, methods, tools and means.

While other economic systems are governed by a set of principles and foundations based on human deduction and extrapolation, which are right and wrong, these principles are also affected by the ideology pursued by the government, whether it is free, bourgeois, communist, socialist, or cooperative. Therefore, they are not fixed or stable, but rather constantly changing and altering, and are characterized as such. By contradiction, decrease, and extinction, it is also affected by permanent changes in surrounding circumstances, because its authors lack complete knowledge of humanity's needs, and they do not know the unseen.

5.4 In Terms of Methods and Means

Jurists and implementers of the rules of Islamic economics use a set of methods and means that achieve goals and objectives, provided that they are legitimate. They must adopt the latest methods of modern technology. Wisdom is the lost property of a Muslim. Wherever he finds it, he is the most deserving of it.

According to this concept, we find similarities between some of the economic methods and means that are used in Islamic, capitalist, and socialist economic systems, because these are abstract matters.

The main difference in this matter is that Islam focuses on the legitimacy of the goal and the legitimacy of methods and means, while this is not believed in other economic systems.

5.5 In Terms of Ingredients

The Islamic economic system is based on a set of components, the most prominent of which are the zakat on money and the prohibition of usury and all transactions that lead to the wrongful consumption of people's money. It also applies social solidarity and other legitimate components that bring a person a comfortable life and the satisfaction of God Almighty.

While these components differ in the socialist system from the capitalist system, and both of them differ from place to place. For example, these systems adopt the interest system and the direct and indirect tax system, and these matters cause an imbalance in economic transactions, and lead to the accumulation of money in the hands of a few people who they control the fates of others, and this is what scientists and writers of other economics say now.

5.6 The Difference in Terms of Market Movement

The Islamic economic system operates within the framework of a free, pure and clean market completely free of: deceit, ignorance, fraud, gambling, deception, monopoly, exploitation, rivalry...etc., and all forms of sales that lead to the wrongful devouring of people's money, and the commitment of the dealers to this is governed by religious motives, social control, and censorship. And the government, and the state may intervene in the market if an imbalance occurs that results in harm to individuals and society.

While the socialist economic system operates in the absence of a planned market in terms of supply and prices, there is no individuality for production or pricing and the like, and this kills human incentives for creativity and innovation. The capitalist economic system is also based on the idea of market freedom or what is sometimes called the demand economy emanating from the market which have no controls or limits to prevent monopoly, greed, and everything that affects a person's identity and the preservation of his faith, mind, honor, soul, and money.

While the capitalist economic system operates in the hope of an absolute free market without ideological or moral controls, it most often leads to the formation of blocs, monopolies, and exploitation, and this is the reality in capitalist countries now, which have finally begun with state intervention to limit these blocs and monopolies.

5.7 Differences in Terms of Ownership

The origin of the Islamic economic system is private property, and the state's responsibility is to protect it and create a climate for growth and development. Individuals are obligated to pay the rights they owe on this property, such as zakat, alms, tribute, and tax. The state also has the right to invest the money of the rich in case of necessity if revenues are not sufficient, as there is public ownership that is subject to controls and to achieve certain goals that the private sector cannot fulfill, such as public goods. The state may not take a person's property for public benefit, when necessary, without compensation.

Under the capitalist economic system, the origin is private ownership, and public ownership is within the narrowest limits. The state's rights based on private ownership are represented in various taxes and fees, which are usually high. The prevailing concept is: let him work, let him walk. Under the socialist economic system, the origin is public ownership of the factors of production within a centrally planned framework. Taxes are usually few and low. The abolition or limitation of individual ownership leads to stagnation in work and production and the killing of self-motivation. Therefore, it is clear from the above that ownership in the Islamic economic system is in a middle, moderate and disciplined position between the two other systems.

It is clear from the previous analysis that there are fundamental differences between the Islamic economic system and the other two economic systems, whether capitalist or socialist, and that it is a mistake to say that the economy is the economy, and that there is no difference between the Islamic economy and the other economy, or to describe the Islamic economy as capitalist or socialist. When the foundations of Islamic economics are applied in an Islamic society, a prosperous and dignified life will be achieved for people, and the state's responsibility will be to provide a level of sufficiency for every individual, regardless of his religion and thought.

6. Conclusions

Capitalism works on the fundamental principle of freedom; communism or socialism works on the principle of equality; and Islamic socialism works on the principle of justice so that neither freedom is undermined at the cost of equality nor is equality thwarted at the cost of freedom. Islamic socialism is a moderate theory containing positive aspects of both capitalism and communism.

So, instead of looking towards these traditional systems, we must establish Islamic socialism which is not only compatible with our tradition but also testified 1400 years ago, when there was no capitalism or communism.

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