

Prosperity and Social Justice Consequences of Applying Ethical Norms of Islamic Finance: Literature Review

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Abstract

The paper aims at elaborating the prosperity and social justice of applying the principle of Islamic finance. It also analyzes the implication of social justice in stimulating the positive effects in developing economics of all majority and preventing another half of the economics' faces such as financial crisis, poverty, inequalities, unemployment and wealth distinction between the rich and the poor which occurred in the amid of the global turn oil economic and finance. The paper consists of four sections. First section gives an introduction on Islamic finance, its principles, philosophy and ethical norms; second section explores Islamic finance and the spirit of social justice. The condemnation of interest, *gharar*, *maysir*, and speculation has a profound impacts on low probability of danger of insolvency may occur under applying profit and loss sharing (PLS), increase of participation in the official financial system. The detailed implications of practicing profit and loss sharing in Islamic finance business are need-fulfillment, optimum growth of economy, full employment, equitable distribution, and economic stability.

Key words: Islamic finance, profit and loss-sharing, economic, growth, social justice.

1. Introduction

The main objective of conventional economic system practice is to maximize profit for the stockholders (Chryssides and Kahler, 1995, 249). Profit maximization which benefits the owner of business or corporate is seen by many parties as a form of seducing economics and business from its ethics and moral culture. They argue that economy and financial business are inseparable from ethical norms which derived from religion. Modern economics and financial business gets profoundly critics as the source of modern anathema of global economy and financial crisis. The conventional economic system concerns with the self-interest, the stockholders interest, with less or without concerning to the public interest (external stakeholders). Paying a greater attention towards self-interest played a pivotal role to the emergence of the turn oil and financial global crisis. In the context of Asian countries, economics and financial crisis were caused by their common dependence on a distorted or immature form of the capitalist they adopted to be implemented in their countries. Hence, they pejoratively described as the crony capitalism (Soros, 1998, 137).

Under the global capitalist system the conflict between the self-interest and the interests of the society is very much alive and seems to be heating up day by day (Zikrullah, 2000, 189-190). The philosophical foundation of capitalism, as pointed out by George Soros (1998,111) had been patched firmly and permanently by Adam Smith. Smith had established that a rational individual will not hurt the interests of the society (Smith, 2009, 131). He ignored the possibility of a situation where a rational individual actually would hurt the interests of the society to maximize his own interests. He admits that self-interest, not regard for others was essential engine for prosperity. Also, he asserts that unlike most other animal, man has almost constant occasion for the help of his brethren. He explicitly states that "it is not the benevolence of the butcher the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not their humanity, but to themselves-love, and never talk to them of our own necessities, but of their advantages (Smith, 2010, xx11). In short, Adam Smith explains that the action of an individual is driven by his own self-interest and his sense of benevolence.

The modern crisis is seen as the highest impacts of capitalism contribution. It makes many parties afraid of its long term impact for the future generations. The implemented theory which is based on the capitalism spirit must be deconstructed, such as stockholders theory (Ebrahim, 2008, 111; Stiglitz, 2009, 13), which implies profit maximization without having corporate social responsibility (CSR). There is one and only one social responsibility of business is to use its resources and engage in activities designed to increase its profits so long as it stay within the rules of the game, engage in open and free competition without deception or fraud (Chryssades and Kahler, 1995). The consequences of the mechanic interpretation of the corporation's goal is that the reality within the human life becomes materialistic and no difference with the mechanism of the machine. They are

designed like machine, and their employees are in essence expected to behave as if they were parts of machine (Morgan, 1986, 40).

In addition, economic system which accommodates both material and spiritual welfare has attracted more attentions of many parties in the West countries as well as in East countries (Vicary and Cee, 2010). It is widely known as Islamic finance system (IF). (Saeed, 1996, 11)/ Its popularity in a contemporary phenomenon has attracted the interest of academic researchers and professionals alike in the last two decades. There are now more than 300 Islamic financial institutions operating in more than 75 countries worldwide (Hasan and Saleh, 2011, 79). Many Islamic financial institutions evolve throughout world with total asset nearly \$147 billion to \$200 billion (Taylor, 2003, 386). Surprisingly, by 2008 the total value of Islamic finances arguably \$700 billion (Perry V and Rehman, 2011). A great example would be the emergence of Kuwait Financial House on the world financial map. Today, an Islamic financial system exists to provide a variety of religiously acceptable financial services to Muslim communities and also as an alternative for non-Muslim clients seeking ethical investments and greater risk diversification (Moura, 2013, 12).

IF operates based on the guidance of Shariah (Ahmed, 2007, 270) as one of its principles, believe in divine guidance (Vicary and Chee, 2010) and the concept of participation in the enterprise, utilizing the funds at risk on a profit-and-loss-sharing basis (Cihak and Hessel, 2008). Its main purpose is to help the Muslim community avoiding interest system in conventional banking, to conduct business internationally while simultaneously upholding traditional Islamic values related to trade and finance and currency movement (Ahmed, 2007).

The proponents of IF claim that IF has the power in creating the prosperity, social justice, and enforce ethics and moral rules in business (Moura, 2013) as it is neglected in the capitalism system which not concerning to the ecological truth. It makes GNP as the right metrics to measure the health and wealth of nations (Al Joyousi, 2012).

It is widely believed that the object of an Islamic firm is not solely to maximize profit based on Islamic tradition. Rather, the firm may be satisfied to realize a reasonable or fair level of profit if that enables it to achieve a more important goal of doing good to please God (Metwally, 1997).

Islamic economic and finance, as it is believed by its proponents, has power to reduce the environmental crisis, global financial crisis, poverty alleviation and inequality problem. (Maraj, 2009). Islam suggests a permanent solution to eradicate these economics' evils. It strictly prohibits all form of the exploitations, derives concrete measure to ensure the flow of resources from the rich to the poor members of society with zakat (Allawi, 2009, 318) at the forefront (Yasin and Tahir, 2000). Its principles are regarded as a silver lining that could help alleviate the poverty and stabilize economies at the same time. (Vicary and Cee, 2010). One of the main foundations of IF is the oneness of God (tauhid) (Haron and Azmi, 2009). Thus, economic action, in Islam, is the expression of Islam's spirituality (Faruqi, 1995) that enables the economic actors to manage natural resources with the approach contains sustainable justice to utilize the potency of natural resources (Al Joyousi, 2012).

The paper aims to highlight some aspects of Islamic finance. Section describes definition of Islamic finance, its principles, philosophes, and ethical norms. In section two, the paper intends to explore the capabilities of policies of Islamic finance in eliminating the modern economic evil and turbulence such as global crisis, poverty, inequalities, unemployment and the economic gap between the rich and the poor countries. While in the third section, the paper points out the impacts of Islamic finance policy in condemned *riba* as a means of enforcing the prosperity and social justice. The third section will also present the implication of social justice in stimulating positive growth of economy, poverty alleviation, unemployment and other kinds on economic and finance evil. While, the fourth section will present a brief summary of all sections described in this paper, or concluding remark.

2. Islamic Finance

2.1. Definition of Islamic Finance

The basic underlying Islamic economic and finance is not as well as the conventional economic theory which stand upon the assumption that humans are rational, utility maximizers and self-interest. At the individual level, an individualistic attitude shows a little concern for the betterment of people while at the national plane, it is considered perfectly legitimate both for individualism and nations to adopt policies which serve self-interest. (Al Joyousi, 2012). Then, what is really Islamic finance? To answer this question is to join a contested discourse regarding how to interpret contemporary finance from the perspective of the shari'ah.

Islamic banking and finance (IBF) defined it as a finance that will not at any point of time, purchase equity in or provide credit to product and activities prohibited by religion such as *riba* and *gharar* (Pitluck, 2012). According to Karen Hunt Ahmed, Islamic Finance refers to any financial Institution that performs Islamic transaction derived from either Islamic law or Islamic economic theory. An Islamic bank is an institution that

performs “conventional” banking services such as checking account, savings accounts, loans, etc. An IF may or may not be a “bank” but Islamic bank is always an IF (Ahmed, 2007). Other definition is that IF complies with Islamic religious law (*Shari’ah*). It reconcile a secular financial system with the basic tenets of the Islamic faith, homo economicus and homo Islamicus the *mu’min* (believer) (Moura, 2013, 11).

The definitions above explicitly tell us that Islamic finance has function as well as the conventional, as the mediary institution that bridges the deficit and surplus unit, lender and borrower. However, Islamic finance is based on the shari’ah principles which combine *homo economicus* and *homo Islamicus*, material and spiritual well-being, self-interest and the interest of altruistic. In other words, Islamic finance can be said as more to homo reciprocans whereby humans are driven to co-operate among each other and improve the environment.

2.2. The Philosophy of Islamic Finance

Business, include financial transactions in Islam, is a noble job. It is not an activity that promotes how to gain a maximum profit only, but is also bound by the law, ethics, and religious morality. Business as a noble job can be revealed in the statement of the Prophet Muhammad saw. He stated that a noble job is that one conducts with his own hand and every lawful sale. Allah loves one who has expertise in conducting their work, and struggling to make a better life for his family. He is a Mujahid in the way of Allah. Muhammad, before he was appointed as the prophet, had been well-recognized as businessman. He advocated the implementation of honesty, a business according to the principles stipulated by religion. (QS. Fathir: 29; QS. Nisa:29-30; QS 4:29-30; QS 2: 219; QS. 4:36, 58; QS. 8:27; QS. 5:87)

The spirit we catch in the verses above is that business in terms of charity from the believers does not come from uncertain sources, but from the almighty God. Muslim who involve in business should recognize some two important points. Firstly, he does not have absolute ownership of the property he possesses, and secondly, he cannot use all of his property as would a trader who separates part of his property to reinvest in his business as added capital. This is due to the fact that he has obligation to allocate part of the property to pay zakat and offer charity. (Haron and Azmi, 2009)

Islam emphasizes the social responsibility in business and should be based on the rule of Islamic law which comes from the teaching of the Qur’an and the Sunnah, consensus of the legal scholars (ulama), deduction from analogy, and the use of individual reasoning by those scholars. They apply to the specific question at issues, in the context of the circumstance, include in the field of economy and finance (Ayub, 2010; Barry, 1991, 23).

2.3. Ethical Norms of Islamic Finance

Ethics refers to a set of principles prescribes a behavior code that explains what is good and right or bad and wrong. It may even outline moral duty and obligation generally (Chryssides and Kahler, 1995, 51). Charels Powel and David Vogel assert that ethics is concerned with clarifying what constitutes human welfare and the kind of conduct necessary to promote it. Essentially, there are five basic principles of Islamic ethical norms in finance.

First, any predetermined payment over and above the actual amount of principal is prohibited, that is, no interest or *riba* as it is highly prohibited under the Islamic law (Chapra, 2006). The rationale of prohibiting interest in economics and finance activities are: 1) interest is unjust to one of the parties, sometimes to the lender and sometime to the borrower; 2) interest corrupt society. The argument is that there is an association between charging interest with *fasad*, loosely translated as the corruption of society (QS. 30: 37- 41). Charging interest is one of those facets of wrong behavior that corrupts society; 3) interest implies improper appropriation of other people’s property. Interest is regarded as representing an unjustified creation of instantaneous property rights because interest is a property rights claimed outside the legitimate framework of recognized property rights. It is instantaneous because as soon as the contract for lending upon interest is concluded. A right to the borrower’s property is created for the lender. This is what the provision of collateral is all about; 4) ultimately it results in negative economic growth. It is implied in the declaration that *riba* is subject to destruction (*mahq*) which means decrease after decrease, a continuous process of diminishing. That sounds a little odd as it runs counter to the commonly observed fact people growing rich by applying the power of compound interest; 5) interest demeans and diminishes human personality. The charging of interest is also demeaning, for example, if the loan is for procuring things necessary for survival, charging interest violates the nature of social life which requires cooperation, care, and help for the needy from those who can spare the money.

Second, the lender must share in the profits or losses arising out of the enterprise for which the money was lent, so that the borrower is not unjustly enriched at the expense of the financier. Islam encourages Muslim to invest their money and to become partner in order to share profit and risk in the business, instead of becoming

creditors. The principle, which thereby emerges, is to try and ensure that investments are made into productive enterprises. Islam encourages this type of investment in order that community as a whole may ultimately benefit rather than benefiting only certain parties. (Norma, 1991).

Islamic finance promotes risk sharing between the providers of funds (investor) and the user of funds (entrepreneur). Islamic finance emphasizes on productivity as compared to credit-worthiness. Under Profit and Loss-Sharing finance, the bank will receive a return only if the project succeeds and produces profit. Therefore, it is reasoned, an Islamic bank will be more concerned with the soundness of the project and the business acumen and managerial competence of the entrepreneur (Al-Joyousi, 2012).

Third, making money from money is not acceptable. Money, in Islam, is only a medium of exchange, a way of defining the value of thing. It has no value in itself, and therefore should not be allowed to generate more money, via fixed rate interest payments, simply by being put in a bank or lent to someone else. Stability in the value of money should be indispensable goals in the Islamic framework of reference because of the equivocal stress of Islam on honesty and fairness in all measure of values (Al-Joyousi, 2012).

M. Umar Chapra argues that money being a measure of value, any continuous and significant erosion in its real value may be interpreted to tantamount to corrupt the world because of the adverse effect this erosion has on social justice and general welfare. Inflation implies that money is unable to serve as a just and honest unit of account. It makes money an equitable standard of deferred payments and untrustworthy store of value. It enables some people to be unfair to others by stealthily eroding the purchasing power of monetary assets. Inflation is thus a symptom of disequilibrium and is not compatible with the Islamic emphasize on balance and equilibrium (Chapra, 1985).

Fourth, gharar (uncertainty, risk or speculation) is also prohibited. Contracting under the excessive uncertainty or gharar is akin to gambling (al qimar). And uninformed speculation in its worst form is also akin to gambling. (Obaidullah, 2002, 3). Thus, under the gharar and maysir prohibition, any transaction entered into should be free from uncertainty, risk and speculation. Contracting parties should have perfect knowledge of the counter values (good received and/or prices paid) intended to be exchanged as result of their transactions. Also, parties cannot predetermine a guaranteed profit. This is based on the principle of uncertainty gains which, on a strict interpretation, does not even allow and undertaking from customer to repay the borrowed principal plus an amount designed to take into account inflation. The rationale behind the prohibition is the wish to protect the weak from exploitation as it is meant by *maqasid asy shari'ah* (Chapra, 1985, 33).

Five, investment for which loans are extended should only support practices or products that are not forbidden (alcohol, the production of pork based products, investment in real estate for a casino, and the like), pig product, usury, black marketing, dispute, deceptive purchases and conducting business in manners harmful to cause the people. Also not permitted is any form of hoarding (Metwally, 1997).

All these items are included in the ethical norms of Islamic finance such that they must be operated in the business of Islamic banks. There are potential positive effects as well to apply the ethical norms in economic and financial business practices. *First*, it lowers danger of insolvency that may occur under applying profit and loss sharing (PLS). If it is strictly applied, fluctuations in a bank's income are passed on to depositors in the form of fluctuating payments. This should be reducing the danger of insolvency. PLS may protect a bank against interest risk and credit risk to some extent, but not against operational risk. *Second*, protection against financial crisis. M Umar Chapra argues that PLS might go a long way to prevent from financial crises, as it would substantially reduce moral-hazard problems associated with prudential supervision of banking, in a particular the incentive given by deposit guarantees for high-risk lending and investment. *Third*, increase of participation in the official financial system. In this way, Islamic banks have contributed to higher degree of financial intermediation, which both economic theory and econometric research say generally fosters economic development (Cihak and Hesse, 2008, 48). *Fourth*, less speculation. An advantage made for Islamic finance is that it will substantially reduce speculative activities, as credit expansion decouples the production of and trade in real goods and services are not possible in principle (Roubaie and Shafiq, 2010, 3).

3. Islamic Finance And Social Justice

3.1. The Concept of Social Justice

The concept of justice has been becoming a global concern. It is a universal concept that is needed by global community. Justice is morally proper treatment of people. It is about ensuring that what is done to people is what ought to be done to them and assessing action affecting people in terms of the treatment those affected people are morally required to receive, and dealing with these moral requirements as both constraints on action and also as imperative to action (Charyssides and Kahler, 1995). In everyday language, justice is about giving people what is fair what they have a right to and whatever it is that, to their advantage or disadvantage, they deserve (Rawls, 1995)

However, grand ideologies interpret justice in accordance with their interest. Liberalism ideology strongly believes that basically mankind is not evil (justice). Because of the nature of the life such that the spiritual demand from any religious institution that teaches justice is no need. The free market system denies religious ethics and moral, it only opens the great chance to a little group for those who have a power to accumulate the wealth such as the stockholder and enterprise owners. With the power they freely have freedom to decide, control and to overwhelm the market often referred as market monopolists.

Consequently, the greed, individualism and egoism sharply increase, while the majority of people are unable to compete with those who have the power of accumulation. Individualism, thus, is not accordance with the human nature. Men is neither merely an individual being, but also by nature, a social being (Hassan, 2012, 38). The socialist economy system reacts to capitalism. Socialism initially intends to be the salvation of greediness, egoism and individualism in the form of capital accumulation brought by the capitalism system. It is claimed by its followers as a system which answers people's basic needs and interest. In turn, capitalism has led people to the inevitable conclusion that the continuation entail serious and eve deadly consequences (Zagladin, 1981, 12).

However, the weakness of socialism in its historical development is really manifest. Socialism puts out the individual creativity, human motives and human incentives reduced. The result of the individual creativity is manipulated and controlled by the government to be equally shared to all citizens (Hassan, 2012). Consequently, there is no different between the creative and uncreative individual in the community. The socialism system is based on materialism and collectivism. It is materialistic and similar to capitalism because it believes in the economic factor as the sole one that determines human destiny (Rawls, 2006).

In Islamic tradition, justice does not only relate to the moral values. It is a codification of religious obligation and virtues, socio economic management system and political policy system. The development of justice values within the real life presupposes that the values is inherently becoming motive of action and at once becoming the socio, economic management and political system to sustain a justice community in a wide scale. Islam has provided guidelines for the formulation of man's social order. It considers the life of an individual as an inseparable portion of the life of the society whose individuals require and complement each other in the Islamic scheme of social order (Hassan, 2012).

The main goals of socio-economic justice and income distribution are inseparable to the commitment of Islam on brotherhood. Doing injustice means reducing the engagement with the God (QS. 57:25). Thus, all socio economic activities must be based on justice value. The different between one another is seen as a thing natural and not to be contradicted, but to be cooperation. Hence the different level of economic life is a starting point to take advantages from one to another. (Chapra, 1986).

3.2. *Islamic Finance Policy*

The principle of justice in Islam is derived from the two infallible and inviolable sources, Qur'an and Sunnah. Economic is an important activity to sustain the life of mankind that inseparable from the justice values. Economic in Islam is accorded a specific position, especially in line with the concept of social justice and poverty alleviation (Wilson, 2002, 204) Thus, from Islamic perspective, the main objective of Islamic finance are the abolition of interest from all financial transactions and the reform of all bank activities to accord with Islamic principles, the achievement of an equitable distribution of income and wealth; and the promotion of economic development.(Lewis and Aglound, 2001). Islamic finance is based on cooperative participation in enterprise, and an equitable relationship between the financier and the entrepreneur. Moreover, Islamic finance essentialises embedded economy by unifying the money and the real economy (Mahmoud, 2007). The Sharia prohibits excessive return on finance and acquisition of wealth through speculation and manipulation.

Abolition of interest in Islamic finance practice is meant to raise the dignity of human and give them opportunity to participate in building their economic sector and to escape them from poverty condition. According to Islam, economic justice operates at two levels – the micro and macro levels.

At micro level it concerns with the participation of the private sector, firms and households in the economic activities. The behavior of the firms must be guided by ethical principles in order the actor of economy avoids speculation and manipulation in any form as they are forbidden in Islam. Enforcing ethical norms in finance has some significant reasons. *Fisrt*, finance is not clearly identifiable occupation or profession. Finance involves a highly technical body of knowledge, but people who are trained in finance engage in much wider range of activities. Second, the ethics of finance concerns not solely with ethical problem of individuals in a specific profession, but also with problem in financial markets and financial institution (Barry, 2001). The Islamic approach insists on the synthesisation of ethics and economic pursuits. This approach can ensure the prevalence of economic justice (Hassan, 2012)

The welfare of the worker also be in priority list of the firm. Fair treatment to the worker includes improving their relevant skills, reward system, conducive work environment are all fundamental elements for firm for a firm's success. Household which supply capital, entrepreneur and labor can also plays an important role toward realizing economic justice. As supplier of capital, households have moral and ethical responsibilities to ensure that the wealth should be put into circulation, i.e used to generate more economic activities. In line with this proposition, the financial system in Islamic view must be dynamic enough to be able to channel capital resources for economic activities (Hassan, 2012).

Entrepreneurship is highly demanded in an Islamic society. Islam looks highly on entrepreneurial talents. They play very significant roles in enhancing the economic status of a country. Islamic economic and finance with its profit and loss haring system will be very helpful to increase the entrepreneurship skills and talents for the youth. Accordingly, a Muslim entrepreneur engages in business motivated by the relatively impersonal purposes of filling his/her obligation of trust. The principle of economic trusteeship in an Islamic economy is dramatically opposed to the self-interest principle which is the cornerstone of the free-market economies of non-Islamic society (Metwally, 1997)

At the macro level, the spirit of economic justice can be translated through proper economic management of the country. The appropriate placement of the position and the roles of the government vis-à-vis the private sector is very relevant. It is an overriding concern of Islam that social obligation and individual right be harmonized in an Islamic order. Islam has form the beginning recognized the position of government in economic management. The function of government are basically allocative, distributive and to achieve economic stability. These functions are very much in line with the spirit of justice. The government is required to take other expenditures to carry out these functions. Some of the expenditures are ordained by the shariah on a permanent basis, for example, to maintain administrative machinery, law, and order, defence dissemination of Islam. In order to undertake the expenditures, the government has to formulate a proper revenues system in line with the spirit of justice. Zakat is the minimum revenue that can be raised among the Muslim community on a permanent basis. Such revenue is restricted in its purpose. Basically it can be saved to address the problems of poverty, economic hardship, and the spread and defense of the religion. Tax can also be imposed. A heavy dose of taxation will reduce the disposable income of the private sector (Hassan, 2012).

4. Implication of Justice in the Life of Economy

Justice is a comprehensive term in Islam and cover all aspects of human interaction, irrespective of wether it relates to the family, the society, the economy, or the polity, and irrespective of wether the object is a human being, animal, insect or the environment (Chapra, 1997). In the field of economics, one could assert that justice demands the use of resources in such an equitable manner that the universally cherished humanitarian goals of general need-fulfillment, optimum growth, full employment equitable distribution of income and wealth, and economic stability are realized.

Financial intermediaries based on the profit and loss sharing is an essential part of such organization. It would make the financier share in the risk as well as the rewards of business and thereby introduce a greater discipline in the use of financial resources. Furthermore, the strength of abolishing interest and or applying profit and loss sharing system would have brought more impact in balancing and implementing social prosperity and justice. The detailed discussion on the intended impacts is as following.

4.1. Need-Fulfillment

The financial intermediation on the basis of interest tends to promote living beyond means by both the private and public sectors. Financial assets become available to borrowers on the criteria of their ability to provide acceptable collateral to guarantee the repayment of principal and sufficient cash flow to service the debt. End use of financial resources does not constitute the main criterion. Hence, financial resources go to the rich, who fulfill both the criteria, and also to government, who, it is assumed, will not go bankrupt. The rich do not borrow only for investment but also for conspicuous consumption and speculation, while governments borrow not only for development and public well-being, but also for chauvinistic defense build-up and white-elephant projects. The relatively easy availability of borrowed funds contributes to a rapid expansion in claims on resources and, besides accentuating macroeconomics and external imbalances, squeezes resources available for need-fulfillment and development.

In PLS economic model abolishing interest will result in a condition that constraint on the expansion of investment will be removed. The economy is likely to settle at full employment or near full employment level. PLS seems to prefer a society where the ownership of resources is widely dispersed. Islam would like also to maintain a high level of effective demand so that the resources remain fully employed. (Al-Joyousi, 2012)

4.2. *Optimum growth, full employment and well-being*

Islamic instruments in stimulating optimum growth, full employment and well-being is avoiding the extravagance, saving, investment, hard and conscientious work, technological progress, and creative management, along with helpful social behavior and government policies. Saving has positive effect on economic growth. It helps capital formation, which in turn helps raise output and employment.

Islamic finance principle on abolishing interest will fruitfully helpful to realize the optimum growth, full-employment and well-being. Islam also prohibits extravagance, status symbols, and living beyond means, there should be a positive effect of Islamic values on saving. Moreover, studies conducted on conventional economics have indicated a strong link between the household's access to credit and the saving rate. The implementation of the profit and loss-sharing system would help raise saving by curbing the availability of credit to both the public and private sectors for unproductive purposes, which serve as the major drain on saving (Chapra, 1986).

4.3. *Equitable distribution*

Zakat has a significant role in implementing social equality. Zakat is one of the Islamic finance instruments in creating social justice. Even, if zakat effectively implemented in a productive economic sector it will positively effects to empower the micro entrepreneurs. The replacement of interest –based financial intermediation by the profit and loss-sharing system should also be a greater advantage. It does not only serve the people with its products and services but also the effective manners in collecting zakat.

The established practice of banks in the conventional banking system is to lend mainly to those individuals and firms who have the necessary collateral to offer large internal savings to service the debt. Credit, therefore, tends to go to those who according to Lester Thurow, are lucky rather than smart or meritocratic (Lester, 1980). The banking system thus tends to reinforce the unequal distribution of capital (Ingo, 1982).

Even Morgan Guarantee Trust Company, the six largest bank in the United State, has admitted that the banking system has failed to finance either maturing smaller companies or venture capitalist, and thought awash with funds, is not encouraged to deliver competitively priced founding to any but the largest most cash rich companies. (Chapra, 1986). They may, however, tend to be relatively more successful in an equity-based system where the banks would be motivated to give at least as much attention to the profitability of the project as to the collateral and thereby enable small business also to compare. (Chapra, 1986).

4.4. *Economic stability*

Economic activity has fluctuated through history of a number of reasons. One of these is the excessive build-up of public and private debts as a result of relatively easy access to credit, particularly short-term credit, in an interest-based system of financial intermediation, where the lender tends to rely more on the crutches of collateral than on the strength of the project. This leads to high degree of volatility in interest rates which has in turn injected a great deal of uncertainty into the investment market and driven borrowers and lenders alike form the long-end of debt market to short-end. The result is a steep rise in highly leverage short-term debt. This has had the effect of accentuating economic instability (Chapra, 1986).

5. **Conclusion**

The shifting paradigm in the economics and finance context is not only describes the crisis of current science paradigm that demand the established theory to be deconstruct. The crisis of science paradigm demands to reformulate the theory which covers the need of all human being, material and spiritual, self- interest and the social (altruistic) interest, homo economicus and homo Islamicus.

Islamic economics and finance system which employs the profit and loss sharing system has a high impact on implementing prosperity and social welfare. The prohibition of riba is one of the Islamic finance policies that mean to lift the dignity of human kind through two levels, micro and macro. At micro level, Islamic finance enables the private sectors, firms and households, in conducting economic activities based on ethical in norms in Islam. They are guided by Islamic ethics principles which stressed the importance of the welfare of the worker (good skills, fair reward, conducive work environment), ecological maintenance, all these ingredients are related to the economic justice which will affect the efficiency and productivity in the firm activities and enable them to capture a bigger market share for their products and profitability.

The policy of Islamic finance in abolishing interest would have strong impact in creating the prosperity and social justice. Some implications of social justice which can be gained from the PLS system are need-fulfillment, optimum growth and full employment, equitable distribution, and economic stability.

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