

The Effects of Islamic Economy and Islamic Finance on Social Life

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ABSTRACT Besides the advantages of living together, there may also be disadvantages. When people live together, they benefit from each other in meeting their needs. In other words, people can buy goods and services that they cannot produce themselves from other members of society. At the same time, people living together harm each other by usurping each other's rights. The religion of Islam has emerged with radical changes compared to the past in terms of ensuring justice in social life. In addition to the rules it brought to the social life of the society, Islam also introduced innovations and rules in the field of economy and finance. When these rules brought by the Islamic religion are followed, justice is achieved in social life and social welfare increases. In the study, Islamic economy and Islamic finance will be mentioned first. Subsequently, the effects of Islamic economy and Islamic finance on social life will be examined.

KEYWORDS

Islamic law
Islamic economy
Islamic finance
Participation
finance
Social life

INTRODUCTION

Social life operates within the framework of certain rules. Without the rules of law put forward by people or religions, social life can have a chaotic structure. These legal rules not only bring regulations for living together but also regulate the economic system.

The importance of the economy in social life is unquestionable. Social needs are met by goods and services produced in the economic system. Not producing goods and services or not being able to access produced goods and services greatly affects the living standards of the society. The production of goods and services that will meet social needs is closely related to the functionality of the economic system. The functionality of the economic system depends on the circulation of money in the economic system. To the extent that money circulates in the economic system, it makes the system functional. Leaving money idle by saving it as cash or gold and not including it in the economic system creates problems for the economic system. Idle funds can be included in the economic system through direct investment or through the financial system.

Although the financial system should be an intermediary in the inclusion of idle funds into the economic system, it can sometimes remain in itself due to excessive financialization. The main function of finance should be the inclusion of idle funds into the economic system. If finance fulfills its duty, that is, includes idle funds into the economic system, the economic system will also be functional and the welfare of the society will increase.

Increasing the welfare of society is possible with a fair economic

system. Islamic economy and Islamic finance, which operate according to the rules of Islamic law, aim to increase the welfare of society by ensuring economic justice in society. Conventional economy and conventional finance work with the interest system. Islamic economics and Islamic finance accept the aspects of conventional economics and conventional finance that are compatible with Islamic law. On the other hand, it revises the parts that are not compatible with Islamic law, such as interest, excessive uncertainty, gambling, haram goods and services. In short, Islamic economics and Islamic finance eliminate the shortcomings of conventional economics and finance in order to ensure economic justice in society and increase social welfare.

It is possible to come across many studies on Islamic economics and Islamic finance in the literature. Studies in the literature on Islamic economics and Islamic finance generally focus on measuring the system, comparing it with the conventional system, etc. It is observed that there are areas. Studies addressing the effects of Islamic economy and Islamic finance on social life are limited in the literature. In this context, this study, which examines Islamic economics and Islamic finance theoretically as well as their effects on social life, is expected to contribute to the literature.

ISLAMIC ECONOMY

Economy emerges from the necessity of living together. People meet the parts of their needs that they cannot produce themselves by purchasing them from other individuals in society. With this interaction in society, the economic system develops.

In order for the economic system to be functional, money must circulate in the economic system. The circulation of money in the

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economic system without remaining idle depends on the abundance of commercial activities. If commercial activities increase, money will circulate more in the economic system and benefit the system.

When the definition of economy in traditional economics is examined, it is seen that "Human needs are unlimited, resources are scarce, unlimited human needs are tried to be met with scarce resources" (Özer 2009). In the Holy Quran, it is stated that the resources on earth were created by Allah (swt) who created all beings in an amount sufficient to meet the essential needs of people (Hud: 11/6; Fussilet: 41/10; Ibrahim: 14/34; Ankebut: 29/60; Qasas: 28/57; Isra: 17/70). However, resources are perceived as scarce because they are not shared fairly among people.

In fact, human needs are not unlimited. Because basic needs such as eating and drinking are limited. People can eat and drink up to a certain limit. What is unlimited are people's desires. The fact that human desires are unlimited is also evidence of the afterlife. The creator who created humans has given humans endless desires. It is impossible for this desire to be satisfied in this world. Then people's unlimited desires will be satisfied in the afterlife.

Islamic economy is a system that has been implemented to meet the needs of the society since the prophethood was given to Muhammad (S.A.V.) (Karakoç 2013). Islamic economy is defined as improving the earth in order to realize the welfare of people and providing everything that is halal for everyone depending on the provisions obtained from Islamic law (Karadâği 2018). The main purpose of Islamic economics is to increase social welfare by ensuring fair sharing of resources among people.

Islamic economy adopts the free market economy (Bayındır 2015). The market should not be intervened unless absolutely necessary. The price should be determined freely in the market according to supply and demand, but injustice should be prevented.

In the Islamic economy, it is recommended that money be directed to trade, included in the economic system, and not left idle. Financial systems mediate the inclusion of idle funds into the economic system. Islamic finance, which works on the basis of trade as an alternative to the conventional finance system that works with interest, which is considered forbidden in Islam, emerges as an alternative method for incorporating money into the economic system.

ISLAMIC FINANCE (PARTICIPATION FINANCE)

Finance is money, funds, or capital. Financing is the provision of money or capital (Ayдын et al. 2015). The financial system is the system in which fund transfers are made by bringing together those who supply funds and those who demand funds in order to transfer savings to investors (Okka 2013).

In order for the economic system, which also includes commercial activities that make social life easier, to be functional, it must be supported by the financial system. Finance should benefit society rather than the individual. The main task of the financial system should be to transfer idle savings to the economic system.

In trade, each party takes risks. The profits obtained as a result of the commercial activity are shared between the parties. In case of loss as a result of the activity, the loss is shared as well as the profit. In the interest rate relationship, the lender aims to earn profit without taking any risk, while the borrower aims to earn income by taking risks. In case of loss, the entire loss is borne by the borrower. As can be seen, while there is a fair sharing in commercial relations, there is unfair gain and exploitation in interest relations (Kısacık 2022).

Since interest promises to generate income without taking any risks, savers direct their capital to interest instead of risky commercial investments. The rapidly increasing population needs new employment opportunities. Undoubtedly, it is essential to make new investments to create employment. Investors who want to earn risk-free income through interest turn to interest income instead of investing their capital directly. In fact, it is clear that the strongest obstacle to the employment problem is the desire to obtain risk-free interest income (Khan 2017).

Islamic finance is emerging as an alternative to conventional finance, which operates with interest, which is an unfair sharing. Islamic finance is defined as a financial system that operates according to the principles of Islamic law (Alrifai 2017; Harahap et al. 2023). Islamic finance can also be defined as providing the needed funds or utilizing excess funds using Islamic financial products by avoiding interest, excessive uncertainty, gambling, and haram goods and services within the framework of Islamic law rules (Kısacık 2021).

Islamic finance has shown significant growth in recent years and is strengthening its place in the financial system (Posumah 2024). Islamic finance is preferred not only by Muslims but also by those who do not belong to the Islamic religion.

Although it is called Islamic finance in the international literature, the term "Participation Finance" is preferred in Turkey. As a matter of fact, the banking and insurance sectors, which are participation finance components in Turkey, also operate as participation banks and participation insurance.

THE EFFECTS OF THE ISLAMIC RELIGION ON SOCIAL LIFE IN THE FIELD OF ECONOMY AND FINANCE

Human is a social entity. Living alone is a difficult situation for a person. He depends on others even to meet his basic needs. Community life provides many benefits for humans who are social beings. People survive by purchasing goods and services produced by other individuals in society.

Community life has some disadvantages as well as the advantages of living together. One of the main disadvantages is that resources are not shared fairly. When resources created in sufficient quantities for people's needs are not shared fairly, some people live in luxury while others suffer from poverty.

The welfare of society is measured by the economy. In a fair economic system, the welfare of society also increases. Interest is the biggest obstacle to the fair sharing of resources. Because interest transfers resources from the poor to the rich. The main thing should be the transfer of resources from the rich to the poor. Unlike interest-based systems, Islamic economy and Islamic finance stand out as people-oriented.

Islamic economy and Islamic finance are based on the principle of fair sharing of resources. Sharing resources fairly ensures that social life is orderly. In just societies, theft, extortion, murder, etc. Situations such as these that would disturb public peace do not arise.

CONCLUSION

Economy and finance are indispensable elements of social life. The world has become smaller with technological developments and easier communication and transportation. The importance of economy and finance has increased in the globalizing world.

Economics and finance practices also have an important place in sharing resources in social life. Meeting needs, delivering surplus assets to other people, etc. There is a need for economics and finance in these subjects.

In the conventional economy and financial system, resources are generally seized by the powerful. Resources are transferred from the poor to the rich, especially with interest. This unfair situation arising from interest has a negative impact on social life. Justice cannot be achieved in such societies where business is carried out on interest. In short, interest prevents justice and welfare in society.

Choosing Islamic economy and Islamic finance based on commercial activities instead of interest, which creates a system of exploitation, will have positive effects on social life. If Islamic economy and Islamic finance systems are implemented in accordance with the rules of Islamic law, justice and welfare will increase in society.

Availability of data and material

Not applicable.

Conflicts of interest

The author declare that there is no conflict of interest regarding the publication of this paper.

Ethical standard

The author has no relevant financial or non-financial interests to disclose.

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