



**Dr. Syeda Urooj Babar<sup>1</sup>, Syed Danish Babar<sup>2</sup>, Syed Tabish Babar<sup>3</sup>, Syed Umair Babar<sup>4</sup>, Syed Adil Babar<sup>5</sup>**

1. Lecturer, Department of Management Sciences, University of Swabi, KPK Pakistan.

2. Sales Manager, Memory Technology Middle East FZCO.

3. CEO Jeem & Co FZE-LLC.

4. Financial Management Specialist at World Bank.

5. CEO - New Yorker Pizza SMC Pvt Ltd

**How to Cite This Article:** Babar, D. S. U., Babar, D. S. D., Babar, S. T., Babar, S. U. & Babar, S. A. (2025). Identifying the Most Impactful Economic System, For Overcoming Evils of Inequality and Corruption. *Journal of Social Sciences Research & Policy*. 3 (04), 397-405.  
DOI: <https://doi.org/10.71327/jssrp.34.397.405>

**ISSN:** 3006-6557 (Online)

**ISSN:** 3006-6549 (Print)

**Vol. 3, No. 4** (2025)

**Pages:** 397-405

#### **Key Words:**

Capitalism, Socialism, Mixed Economy,

Islamic Economic System, Poverty,

Inequality, Corruption.

#### **Corresponding Author:**

**Dr. Syeda Urooj Babar**

Email: [urooj@uoswabi.edu.pk](mailto:urooj@uoswabi.edu.pk)

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**Abstract:** *In this paper a view of world's economic problems and currently revolving economic systems have been discussed. A review of all revolving economic systems is given so to find out the most impactful economic system that is free of societal evils. Firstly at a glimpse each economic system has been explained along with their social impacts, so to abstain from ambiguity in concepts. It is observed that economic system is highly sensitive to changes in the distribution of resources. Then basic societal evils including poverty, corruption, inequality, terrorism, unemployment and social injustice, reasons of their emergence, how to overcome them need of an impactful economic system and how to implement it have been discussed.*

## **Introduction**

In a community of values and norms, if individuals are doing dishonesty, bribery, corruption and other illegal means of subsistence, and there is no efficient control mechanism to identify and punish the guilty, then such communities are blocked by long-term journey of path dependency and achievement mechanisms. Anyone can rebuke these practices, but are not able of removing them by making only himself to be honest and fair (Mills and Presley, 1999). The undesirable practices can be overcome by overall reform through economic restructuring from scratch. But this restructuring could not be implemented without the supporting role of state. If the criteria selected by economics are not aligned with the desired concept of well-being, or if the desired restructured change is not, or cannot be, brought about, then the actual definition of well-being cannot be realized.

An economic system is a set of principles on which the economy can run and take decisions on the central problems in the form of limited resources and unlimited wants. The three major economic

systems that revolve in the world are capitalism, socialism and Islamic economic system. Although no significant or dominant worldviews are completely materialistic and hedonistic nor entirely humanitarian and spiritual, the main differences lie between the averages of emphasis on material or spiritual goals. The higher the difference in focus, the higher will be the difference in economies (Brzezinski, G. 1995). An economic system explains how the economy of a country is organized. It examines how social, ethical standards and other social philosophies shape up an economy, (Chapra, 1992), how it uses the historical backgrounds and political impacts to examine the possible effects of changes in society or the economy.

The mainstay of an economic system is based on human welfare. If well-being is explained in a way that raises the materialistic and hedonistic sense and also includes spiritual and humanitarian goals, then the cost will not only include economic prosperity and human, but social and economic justice, fraternity, peace of mind, happiness and social harmony (MU Chapra, 2000). A well-organized economic system explains the peak to which equality in society has been achieved; need fulfillment for all, full employment condition, equal distribution of wealth, and economic stability without high debt service charge, higher inflation rate or destruction of financial system so to endanger humanity.

Gregory and Stuart (1985) argue that "in order to distinguish an economic system with other, we must focus on their fundamental elements and compare their sizes." To one end, through a methodical and systematic way, we provide a number of features that should be seen in system. Even if the world view is similar as in the institutional and conventional financing (Blaug, 1985), that is assured by some economists to be complementary that introducing institutional analysis into static neoclassical theory involves modifying the existing body of theory.

#### **Rationale of Study**

At the turn of 20<sup>th</sup> century world is facing evils like recession, poverty, corruption, inequality, unemployment, terrorism, and social injustice, which are the ultimate results of an unstable economic system. Therefore humanity is in intense need of finding an economic system that can stabilize the declining economies as well as helps in overcoming the social evils. But the development of an economic climate model requires the construction of a theoretical economic context mainly because no such model exists "(North, 2010). Thus economic restructuring from scratch is required for developing distinct theories of macro and micro-economics for the betterment of humanity.

Currently most of the developing countries are facing evils of poverty, corruption and inequality (Necati Aydin, 2013). Therefore an economic system is required on a broader scale that can stabilize the declining economies as well as helps in overcoming these evils. This research is aimed to find the root causes for the spread economic evils, particularly poverty, inequality and corruption by analyzing above mentioned economic systems prevailing in the world; their influences on society and ultimately finding the one that may overcome these evils and also provide some measures of its implication.

#### **Prevailing Economic Systems**

##### **Economic System**

An economic system is an ideology of providing safety, justice and welfare to humanity (Muhammad, 1975). It's a system describes how a country's economy is organized. It examines how social, moral standards and other social philosophies shape up an economy, and uses historical evidences along with other social sciences to examine the impact of changes in economy as well as society. The four main economic systems revolving in world are capitalism, socialism, mixed economy and Islamic economic system.

## Capitalism

According to Necati Aydin. (2013) capitalism is far above than free market ideology; rather it's a system that considers wealth as the basic aim of life for all people, in which individuals rely on self-interest without any government interferences. Capitalism is the leading economic philosophy of the Western world consisting of Western Europe and North America, under the leadership of the United States. Capitalist model is based on scarcity of resources, self-advantages and unlimited wants.

Berger (1973), states capitalism to be a linear, mechanistic and deterministic view of society and processes of change and transformation and it suffers from ethnocentrism as well as unwarranted global extrapolation. Moreover, capitalism has been accused for increasing social differences and making legitimate class conflict and current difference as well as stability of western domination, exploitation and injustice (Mishan, 1967; Stent, 1975). Likewise the Great Depression, existing economic crisis is can be considered as a thought provoking error of capitalism. As no solution till now has emerged to fix this crisis and capitalism is unsuccessful in fulfilling the promise of worldly heavens (Aydin, 2011), it lead to the need of new paradigm that has the ability of overcoming this crises.

## Socialism

Socialism is the leading economic ideology in the USSR, China and some other countries of Eastern Europe. Socialist model includes scarce resources; their labors benefit and limited wants. Choudhury (2004) claimed that the irrelevance of morals in economic theory in broader and macroeconomics in specific is because of the failure of clarifying partialities and perceptions through endogenous models of socialism.

Materialism and consumerism, which unavoidably followed as a result of economic development, have led to the breaking of the family and community. It is responsible for a big portion of depersonalization, immoral values, inequality, loss of personhood and identity particularly in the western world (McMurty, 1999). Socialism that arose as a substitute of capitalism has failed to comprehend humanity needs. By establishing the base on collective ownership it failed to focus on individual benefit (Necati Aydin, 2013). The strict principles of socialism have made religion as poison for its own people and ultimately it failed due to its own contradictory maxims of rigid secular norms.

## Mixed Economy

Mixed economy is a compromise between capitalism and socialism that exists in Canada, Sweden and UK (Salman, 2012). It is based on coexistence of public and private sector where government act as a regulator, i.e., encourage private sector to take on public sector enterprises that are not running efficiently or can be better run by the private sector. But this regulation tilt this system more towards capitalism because most of the government organizations, especially in developing countries are not running efficiently therefore their private sector started overcoming large number of government organizations and thus a greater portion of profit again went to the ownership of capitalists.

One of the key failure reasons of mixed economy is high rate of taxes (Shaikh, 2012). It is based on continuation of economy by taking greater tax charges from both government and private sector organizations. Another flaw of mixed economy is the retention of interest based financial system which results in making poor's more poor and has created many economic crises in a short span of time leading to the Great Recession of 2007-09, resulting in increased poverty .Thus it lacks an ethical foundation to foster social optimization and development of individuals at bigger scale, i.e., to stimulate societal and individuals growth.

## Islamic Economic System

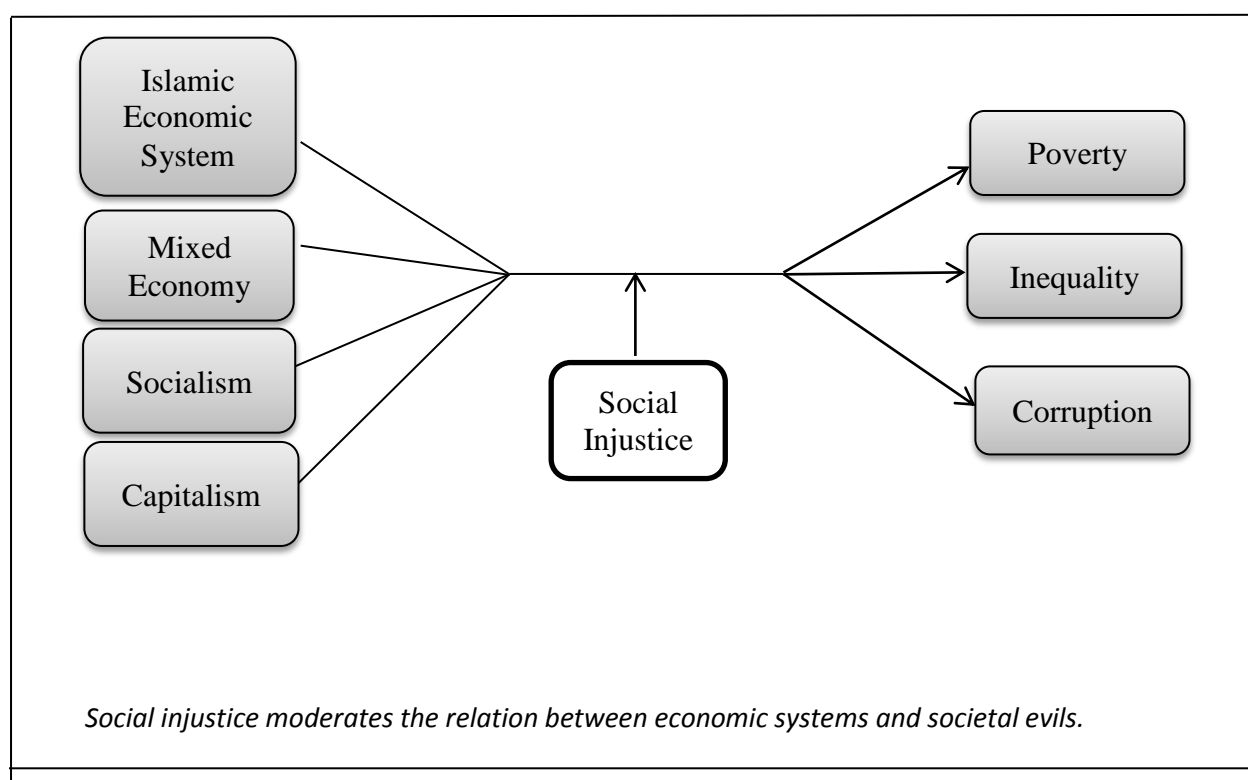
Islamism with influences of mixed economy prevails in Iran, (Chaudhry, 2003). The Islamic model is

based on scarcity of resources, benefit of humanity and wants based on requirements (Saeed, 2009). An Islamic economic system ensures personal freedom, freedom of choice, ownership, the profit motive, but in that case, provides efficient moral filters at various levels of their life and activity (Chapra, 2000). It also has developed its own institutions to fulfill the aims of human welfare, economic rise and social and distributive justice in society.

Islamic economic system is similar to traditional economic system in fulfilling needs of humanity with scarce resources but it is differentiated in answering the basic economic question of materialistic thoughts of traditional economics and humanity benefit in accordance to Divine directions in Islamic economic system (Khan 1994). Moreover he argued it's a system that suggests utilization of scarce resources by collaboration and social assistance.

Although huge consensus exist between researchers regarding the edge of Islamic economic system over its secular substitute systems, the acceptability of considering as an alternative paradigm isn't achieved yet (Iqbal, Syed Ali & Muljawan 2007). Moreover, the early reports of work and productivity according to Islamic social justice each factor of production, including labor, is the contribution of the nominal value of at least pay the average product, not the marginal product (Choudhury, 1987). If payments for agents are in excess of its marginal product, this is due to the fact that the agent group as a whole has a higher average product marginal product.

### Conceptual Framework



### Existing Social Evils

#### Poverty

Poverty is not limited to single element of wealth, but expresses lack of multiple necessities of life, i.e., food, shelter, clothing, education, hygiene and well-being (Deleek et al. 1992). It's the result of unequal distribution of resources among people, the larger the difference in focus for resource distribution, the larger will be the difference between the financial sectors of societies and larger will be

the rate of poverty in the country (Chapra, 2003). The central problem of the economy revolves around one of the most important aspects of human life, limited resources to satisfy unlimited wants. Lack of resources creates a dilemma for managers who have to make a choice between the options to address the problems of what to produce, how to produce, how much to produce, when to produce and for whom to produce. (Shaikh, 2010). Accurate knowledge of these requirements can lead to a stabilized economic system that can overcome the economic crisis, together with the social ills of humanity because of distributive injustice of wealth among people causing poverty.

### **Inequality**

It's the dissimilarity between circulation of desired life elements i.e., healthiness, pleasure, education rights, material rights and chances for success (Prudence L. Carter and Sean F. Reardon, 2014). Different economic systems have different views, but one dimension seems common in all, which is the goal of realization of human welfare and minimization of inequality. However overcoming inequality is urged by some economists (Oswald et al., 1997) as it is itself controversial clause and can be explained in several ways. Firstly in a purely material sense, completely avoiding the spiritual, or secondly in the content that highlights the spiritual aspect. Depending on which definition of well-being is taken, there arises the need for entirely different configuration of goods and services to be produced by the economy with the available scarce resources without unequal distribution among people. This then lead to alternative mechanisms for resource allocation and distribution.

An economy might have reached the apex of glory in physical sense, but might not able of standing for long. If people morality and societal ethics are weakened and people in authority starts snatching inferior people rights, the new generation will not be able to get the kind of attention, education and career they want to achieve, so cultural and social tensions may grow with anarchy (Chapra, 2000). Greater individual harmony by providing equal rights to individual can help increase the best people to work in marketplace and an integrated social harmony can make a favorable environment for efficient governance and rapid development of economy. If it's true, then focus on serving selfishness and maximization of wealth, income and consumption might be weaker in some degree to serve the interests of society and the optimization of human welfare. (Easterlin, 1973, 1995, Oswald, 1997). Therefore, if financial agreements with well-being in the broader sense are made, then economic system may not be confined on prosperity of material only rather it might focus on equal distribution of resources and equal rights of all individuals.

### **Corruption**

There are three main aspects that determine the use of resources in each economy or the financial system free from misuse or corruption. These include filtration, motivation and economic and political restructuring (Chapra, 1992). Just as well-being can be defined in various ways, similarly the filtering mechanisms can be performed differently for motivation and economic restructuring to prevent from misuse.

First, all the different demands on scarce resources must pass through a filter, so that the realization of spiritual and humanitarian objectives may not remain in danger, to create a balance between all claims on resources and their contribution and distribution among people equally, not saving by the people having authority or misuse like bribery or corruption.

Second, if authority is excluded, then the demanded type of filtering can be achieved through incentives to everyone, good enough to give their best performance and to refrain from using resources in a manner that prevents the application of the desired type of well-being, i.e., payments in accordance with performance of people.

Thirdly, all the environments influence human behavior and their use of scarce resources, (Chapra, 1993) including physical, social and political environments, i.e., not snatching anyone's right and providence of jobs on merit.

Therefore, it's necessary to complete the system filter mechanism and incentives to create a favorable environment for the values and the economic, social and political institutions that influences in a way that could help achieve the well-being in the fullest sense. This will bring to the fore the need for an economic reform.

### **Issues in Economic Systems**

The recent increase in the economic system issues are rooted in various factors.

Firstly, there is widespread dissatisfaction with the manner economic problems are analyzed and resolved by most economists. The current area of material well-being could not do much for some persistent problems of the world. Widespread poverty in developing countries, Inflation, unemployment, widespread regional disparities, technological attack on social, economic and moral values, lack of waste self-control consumerism, exploitation through international aid and unfair trade patterns have developed an impetus to the search for an innovative approach to humanity issues (Lexington, Heath, 1989).

Second, the dominant economic theory focuses on the narrow and unrealistic expectations about the nature and human behavior.

Third, the international economic order is the outcome of prevailing economic thought that has institutionalized exploitation of the poor by the rich countries. The global economic mechanism has been developed to keep the leadership of the developed and technologically advanced countries. But it is now broadly realized that such an economic institutionalized arrangement carries its own seeds of destruction (Akram, Futures, 1991). Therefore, there is a perceived requirement for a flash back focus to the economic system.

### **Fundamental Problems**

At present, the fundamental problems of developing countries can be classified by poverty, corruption and inequality. However, these are overshadowed by its consequences in the form of unemployment, terrorism, poor health, social injustice and illiteracy. According to BE2C2 (Business-Economy-Engg-Commerce-Communication) Report, (2016) and The Express Tribune Business, (2016), on multi-dimensional poverty index (MPI), four out of ten Pakistani's are victim of acute poverty; i.e., 40 % of the Pakistani's lies below the poverty line. With maximum rate in FATA & Baluchistan about 85 % and minimum in Punjab about 31 %, while Sindh & Gilgit Baltistan have almost equal rate of 43 % & KPK about 49%.

MPI is not only limited to income and wealth alone, it estimate poverty on the basis of availability of healthcare system, education and standard of living. It is found that poverty ratio is greater in rural areas of Pakistan around 54.6 % while lesser in urban areas, around 9.4 %, thus emphasizing the necessity of making equal distribution of resources economic policy for all areas.

Education, health, hygiene and decent living conditions may be granted if the country have enough income or if such income is distributed fairly equally. By contrast, when a low per capita income and, if unevenly distributed, the basic amenities of life cannot be provided with the masses. (Chapra, 1983). Thus it can be concluded that, appropriate distribution of wealth can overcome evils of inequality and corruption.

### **Solutions with Islamic Economic System**

Islamic economic system is not a marginal system to deal with spirituality in life only but it's a system



that provides direction of welfare not only for this life but for the life hereafter. (Necati Aydin, 2013). This system is based on God-centered spiritual values of giving equal rights to each and every individual, thus minimizing poverty, inequality and corruption altogether.

Islamic economic system facilitates divine, ethical and communal requirements of humanity along with materialistic requirements. It defines human welfare not by hedonic aspect but from divine, ethical and communal aspect. Although this system also favors free market system at large but it provides various directions for avoiding the unfair and injustice acts of the market. Therefore answer of “what to produce” can be given by comprehending nature and requirements of humanity and not by self-interest. As the ultimate requirement of Islamic economic system is not self-pleasure but Allah’s will (Austay, 2007). It’s actually the implementation of Shariah that forbade unfair acquisition of material resources for self-interest of a person or country (Hasan-uz-zaman 1984).

Thus Islamic economic system gives the answers of conventional economic questions as; what to produce? Produce goods and services that assist individuals in growth of their divine, intelligence, ethical values and social relations.

For whom to produce? Produce the basic necessities for all individuals equally and luxuries in limit only for the people who have the buying power.

How to produce? Produce via fair, effective and efficient market mechanism.

### Conclusion

Existing writing on Islamic economic system is to a great extent about Islamic monetary instruments and establishments. It may give an impression as the fundamental distinction amongst conventional and Islamic financial matters is in the instruments, as opposed to foundational viewpoint. Islamic financial system is not about the denial of specific products and ventures. It is an immensely extraordinary financial framework which responses to the major economic inquiries on a broader scale.

Hassan (1998), suggested a stepwise approach for converting existing economic system of world to Islamic economic system, instead of a sudden shift to this paradigm. As it’s the nature of humans not to accept a sudden change but gradually the thinking of individuals can be changed easily. It is essential to begin from the establishment of Islamic financial matters by rethinking suppositions, growing new speculations of microeconomics and macroeconomics, and offering testable models from the Islamic worldview.

In spite of more than a decade studies no consensus has been developed for considering Islamic economic system as the most impactful paradigm. Most of the research work on Islamic economics didn’t present scientific steps for entering into the new paradigm. Hence they are more linguistic than scientific. This can be done by the following steps;

Firstly it’s needed to think out of the existing paradigms and think for innovative notions and prototypes wherever mandatory.

Secondly, it’s required to initiate from microeconomics, as indicated by Yalcintas, (1986), that one of the basic requirement is development of microeconomic theory under Islamic economic system. Similarly Ahmad, (1986) argued that instead of relabeling its required to develop new distinct theories of consumer behavior and firm theory, align with the postulates of Islamic economic system. Likewise Chapra, (1996) indicated the distinct dissimilarities of Islamic economic system postulates with existing economic systems.

Thirdly, it’s needed to inspect current hypothetical and pragmatic studies, for collecting information regarding innovative notions and prototypes.

Fourthly, it’s needed to implement hypothetical and investigational studies for gathering information

regarding their acceptability in Islamic economic system.

Thus Islamic economic system can be the alternative economic paradigm which has the ability to overcome the societal evils like; poverty, corruption and social injustice if implemented in its original form, aligned with Sharia standards of giving equal opportunities and rights to all individuals.

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