

**ABSTRACTS OF RESEARCHES
IN
ISLAMIC ECONOMICS**

**Abstracted and Edited by
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**International Centre for Research in Islamic Economics
King Abdulaziz University
Jeddah - Saudi Arabia**

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GENERAL INTRODUCTION

The Centre's Research Series in Arabic and English are intended to elucidate ideas, clarify issues to broaden our understanding of Islamic economics. They may provoke constructive criticisms too. This is what we would welcome from our readers. This is how Islamic economics will emerge as a distinct discipline of knowledge.

In this connection, it may be mentioned that the Centre has been conducting and supporting theoretical and applied research in various fields of Islamic economics and allied areas since 1979. Under this research programme, one of our activities is to publish research papers, monographs and books on Islamic economics after due evaluation by independent reviewer(s). In order to get good quality research material, our strategy has always been to invite research proposal(s) from interested scholars around the world.

Thus in Shaban 1399/August 1979, we sent our first Announcement on Research Proposals suggesting a large number of research topics in Islamic economics. We invited outlines of proposed papers or monographs alongwith a scheme of honoraria. Since then, we invite research proposals every year.

Every proposal we receive is studied by the Academic Committee of the Centre which comprises professional economists as well as *Shari'ah* scholars. Only such proposals which have clear Islamic dimensions and are expected to add something to the existing professional Islamic economic literature are accepted. When a manuscript is received, it is sent to referees for detailed valuation and comments. Thus every care is taken to raise the professional standard of our research.

It is indeed gratifying to note that the Centre has been able to attract high-class talent towards its research work, majority of whom are university professors.

Any scholar or institution interested in our various research programmes may write to us for details. The Centre desires keenly to establish professional link with all concerned.

May Allah help us in serving His Cause.

Omar Z. Hafiz

Director

PREFACE

This compilation of abstracts by functional category in the book form is expected to give researchers an overview of works carried out by the International Centre for Research in Islamic Economics either independently or in collaboration with different individuals and research institutions and universities around the world and is expected to be helpful to researchers interested in the study of Islamic economics.

In this book, the Centre's research studies are grouped into broad seven functional categories, although they are not mutually exclusive. In fact, some of the studies may belong to more than one category.

- The first category: *Islamic Economics - Its Scope and Methodology* tries to identify some methodological issues involved in the development of the science. These papers also provide some interesting insights as regards limits and scope of Islamic economics.
- The second category: *The Socia-Economic Setting of Islamic Economics* includes studies that examine social, political, economic, institutional framework under which Islamic economics can be studied.
- The third category: *Behaviour of the Consumer and the Firm, Allocation and Welfare* emphasizes on the price theory and allocation of resources. It also includes a number of papers which provide interesting insights as regards various micro economic Issues.
- The fourth category: *Money, Banking and Monetary Policy* is perhaps the most well-developed under the Centre's research programme. It represents a number of papers which examine as to how the Islamic banks can operate without interest. This section also indicates a number of areas of further research in monetary economics. This section also includes some evaluation of performance of Islamic banks at an operational level.
- The fifth category: *The Fiscal Economics of Islam* comprises articles on fiscal policy, taxation policy, with special reference to *Zakah*. It also includes some papers dealing with the empirical analysis of *Zakah*.

- The sixth category: *The Development and Distribution in Islam* is concerned mainly with the concept of economic development, its strategy and distributive justice. It also includes studies that examine the causes of material poverty in Muslim countries and offer number of interesting solutions to the problems of material misery.
- The seventh category: *History and Survey* areas includes some papers which give a fairly good idea of contemporary Muslim Economic Thinking. It also includes paper on the economic thought of non-contemporary writers.

Lastly, it may noted here that this abstract includes the projects which are completed. A number of research projects are in progress, list of which has been added in the Appendix.

All concerned authors were requested to make comments or to suggest necessary modifications on the drafts of the abstracts prepared by me. It is indeed gratifying to note that most of them proposed no changes. But wherever changes have been suggested, we tried to incorporate them.

Lastly, I am thankful to Dr. Omar Z. Hafiz, Director of the International Centre for Research in Islamic Economics for his encouragement in preparing this booklet.

I must express my deep appreciation to Mr. Liaquat Ali and Mr. Azizul Haq for their excellent typing work. I am also thankful to Mr. Jaleel Asghar, Mr. M. Sirajul Haque and Mr. N.M. Turay, Research Assistants of the Centre for their help in proof reading.

M.A. Mannan,
Coordinator,
International Centre for Research
in Islamic Economics.

Functional Category - 1

ISLAMIC ECONOMICS: Its Nature, Scope, Importance and Methodology.

- 1.1 Why is Islamic Economics Important?
- M.A. Mannan.
- 1.2 Islamic Economics as a Social Science:
Some Methodological Issues.
- M.A. Mannan.
- 1.3 Islamic Economics:
An Approach to Human Welfare.
- Anas Zarqa.
- 1.4 Scarcity, Choice and Opportunity Cost:
their dimensions in Islamic economics.
- M.A. Manna

1.1 “WHY IS ISLAMIC ECONOMICS IMPORTANT”?

By: M.A. Mannan, Research Paper No. 12, International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, 1982, 27 p.

Here an attempt is being made to explain the need for a distinct direction of an Islamic economic analysis by putting forward the Muslim viewpoints which are explained in terms of seven ideological, economic, social, ethical, political and international imperatives, thereby showing at least seven frontiers of enquiry. Although each of these imperatives has its own internal logic, the crucial task lies in the solution of many economic problems with the clear recognition of all the imperatives involved. Thus it is argued that apparently Islamic economics like any other secular economics begins as an attempt to explain the magnitudes and movements of certain quantities such as the market, prices, wage, consumption function, output, employment and so on. Very early in their development these quantities are to be studied both at a theoretical and a policy level in an integrated way involving ethical and moral issues in economic problems. Thus some of the significant questions of our time such as limits of state intervention in market mechanism, limits of private property, equitable level of distribution of income, provisioning for basic minimum human needs in a particular social context and the like need to be settled in the light of the ethical imperative as provided by the *Shari'ah*.

Thus the use of ethically-based economic reasoning is to be directed to infer the ideal pattern of behaviour for the purpose of comparing with the actual patterns of conduct. But the determination of the *ratio* of each of the imperatives in the solution of the problems and their implications for resource allocation over time will, however, remain as a key to the understanding of Islamic economics.

1.2 “ISLAMIC ECONOMICS AS A SOCIAL SCIENCE: SOME METHODOLOGICAL ISSUES”

By: M.A. Mannan, appeared in *Journal of Research in Islamic Economics*, Vol. 1, No. I, Summer 1403 A.H. (1983), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah. Saudi Arabia.

In the course of exposing some methodological issues involved in the process of formulation of Islamic economic theory and policy, this paper tries to demonstrate that Islamic economic theory can not be value-free as it is to be consistent or to be evolved or deduced from

the timeless imperatives of the *Qur'an* and the *Sunnah*. The paper rejects the positivists' assertion that the theory must only explain facts as they are, to illuminate reality. The author advocates that the crucial role of Islamic theory lies not only to explain the actual economy but also to identify the gap between the ideal and actual economic society. It is argued that Islamic economic and social theory can then contribute by contradicting the facts of contemporary Muslim societies, thereby opening a new frontier of our economic science. In order to achieve this goal, what is required is to identify variables having roots in the *Shari'ah* right at the level of theoretical foundation so that an "ought" statement can be built into the very heart of the theory and policy.

1.3 "ISLAMIC ECONOMICS: AN APPROACH TO HUMAN WELFARE"

By: M. Anas Zarqa, appeared in *Studies in Islamic Economics*, K. Ahmad (ed.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah. Saudi Arabia and the Islamic Foundation, U.K., 1980, pp. 3-18.

This paper argues that distinct and meaningful Islamic economics is possible, nay, necessary. Briefly, the argument is that economics is not as innocent of value judgement as we are often led to believe, nor can it ever be. Neither is Islam devoid of positive assertions about economic reality. We can then replace non-Islamic value judgements by Islamic ones, and add to the economists' stock of positive assertions Islamic assertions, then work out the consequences.

Even though economics does have truly positive and value-free content. it has also several areas where unavoidable value-judgements play a crucial role. Values are involved in:

- (a) Choice of topic to be pursued.
- (b) Choice of variables and assumptions.
- (c) Choice of method.
- (d) Choice of ends and means.

Thus, at least in these areas, we can make distinct contribution as Muslims.

The paper gives several examples of positive economic statements in the *Qur'an* and the tradition of the Prophet (peace be upon him).

Since a social welfare function provides a link between the positive and normative aspects of economics, the paper resurrects as Islamic social welfare function that was conceived more than eight

centuries ago by Al-Gazali, the famous Muslim scholar. Al-Ghazali and later Al-Shatibi divide social utilities in Islam into a three-level hierarchy: necessities, conveniences and refinements. The Islamic concept of each of the three terms, and some economic examples are also provided.

1.4 “SCARCITY, CHOICE AND OPPORTUNITY COST: THEIR DIMENSIONS IN ISLAMIC ECONOMICS”

By: M.A. Mannan, Research Paper No. 10. International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, 191\2, 35 p.

In this paper all attempts are made to show that at the “intersection” of different sets representing provisioning for economic, social and moral welfare, one gets the key thrust of the study of Islamic economics. This is considered to be significant to understand the very limits of the integrative system of exchange and non exchangeables. This paper has also raised a number of methodological issues of significance. For example, it is argued that the distinction between positive and normative economics is not relevant in Islamic concept of scarcity in terms of economic, human and moral experience, the study of Islamic economics is viewed as an integral part of the totality of human welfare and fulfillment. While this paper stresses on the study of consumption behaviour, rather than a mere study of Islamic injunctions on food, the behaviour of a firm or economic enterprise rather than the mere study of laws governing private property, it also provides clues to the solution of the apparent conflict between equity and efficiency conditions in an Islamic framework of development and social change. These are some of the issues, expected to widen our understanding of Islamic economics which are raised in the paper.

Functional Category – 2

SOCIO-ECONOMIC SETTINGS OF AN ISLAMIC ECONOMY

- 2.1 The Islamic Welfare State and its Role in an Economy.
- M. Umar Chapra.
- 2.2 Institutional Settings of an Islamic Economic Order.
- M.A. Mannan.
- 2.3 An Institutional Framework for Capital Formation
in an Islamic Economy.
- Ageel A. Ansari.
- 2.4 The Political Context of Islamic Economics.
- Ijaz Shafi Gilani.

2.1 “THE ISLAMIC WELFARE STATE AND ITS ROLE IN THE ECONOMY”

By: M. Umar Chapra, appeared in *Studies in Islamic Economics*, K. Ahmad (ed.), International Centre for Research in Islamic Economics, King Abdulaziz Univesity, Jeddah, Saudi Arabia, and the Islamic Foundation, U.K., 1980, pp. 143-170.

This paper seeks’ to examine the interrelationship between the economic and political context of the Islamic way of life and discusses the functions and nature of the Islamic state in the light of its basic imperatives within the framework of financial constraints. It is argued that the Islamic way of life, being goal-oriented, is conceivable without an organised community governed in accordance with the tenets of Islam. Then the paper examines some of the essential economic functions which the Islamic welfare state is expected to perform. They are as follows:

1. to eradicate poverty and create conditions for full employment;
2. to promote stability in the real value of money;
3. to ensure social and economic justice through equitable distribution of income;
4. to maintain law and order; and
5. harmonise international relations and ensure national defence.

However, the paper concludes by saying that although capitalism also recognises freedom of the individual, there are no spiritual constraints on this freedom. The constraints that do exist are determined primarily by the pressures of competition or the coercive power of the state, and secondarily by changing social norms without any spiritual sanctity. In an Islamic system, however, the individual is subject to inviolable spiritual values in all aspects of life, including the acquisition, spending and distribution of wealth.

Islam normally recognises, like capitalism, the freedom of enterprise with the institution of private property, the market system and the profit motive, but it differs from capitalism because property in Islam is a trust from God and man as trustee and vicegerent of God is responsible to Him and subject to His guiding principles.

Although both socialism and capitalism recognises equitable distribution of income, in capitalism this recognition is again an outcome of group pressure while in socialism it is accompanied by negation of individual freedom. Islam achieves this equitable distribution within the framework of individual freedom but with spiritual and legal imperatives to safeguard public interest, moral constraints against

unearned income, and social obligations to ensure a just distribution of income and wealth.

The Islamic welfare state is hence neither capitalistic nor socialistic. It is based on its own values and guided by its own goals. It has its own identity and bears no resemblance to any other form of state.

2.2 “INSTITUTIONAL SETTINGS OF AN ISLAMIC ECONOMIC ORDER: A COMPARATIVE STUDY OF ECONOMIC PROCESS”

By: M.A. Mannan, Rcsearch Paper No.8. International Centre for Rcsearch in Islamic Economics. King Abdulaziz University. Jeddah. Saudi Arabia, 1981, 12 p.

This paper provides a summarised view of critical elements of economies based on tradition, market, command and Islam. It stresses on the preservations of many admirable features of traditional societies, thereby indicating the need for analysing the recent works of economic and social anthropology. This would enable us to identify the values of traditional societies which need to be preserved from an Islamic perspective. Despite the fact that most of our contemporary writings are dominated either by the market or command economy, the psychological and social limits imposed by the family, kinship and clan groups in attaining distributive justice as well as in providing built-in-humanised social security system in many traditional societies are worth exploring in the light of Islamic humanism.

One of the hypotheses of this paper is that in the choice of production techniques as well as in determination of price, non-economic goals and social objectives may be embodied to put the Islamic dimensions of the problems in a sharp focus. It is further argued that in Islam distribution activities production and consumption pattern in Islam and that consumption which is seen as both independent and dependent variable is a function of income and non-income (i.e., obligatory transfer payments). But it is argued that while Veblen's concept of "conspicuous consumption" has no place in Islam, there is no place for under-consumption either. Thus the author advocated that the prevailing notion of moderation in consumption in Islam needs to be reviewed in the light of the poverty of contemporary Muslim societies.

2.3 “AN INSTITUTIONAL FRAMEWORK FOR CAPITAL FORMATION IN AN ISLAMIC ECONOMY”

By: Agee! A. Ansari, Presented at the Second International Conference on *Development, Finance and Distribution in an Islamic Perspective*, held at Islamabad, Pakistan, and also to appear in a book *Economic Development in an Islamic Framework* (forthcoming).

The subject paper seeks to design an integrated implementable institutional framework for capital formation that identifies not only the economic institutions but also establishes their interrelationship with the relevant social, political and religious institutions. The peripheral institutions of family, community, mosque and state are discussed as they reinforce and promote the process of capital formation. The theoretical formulation, an intended contribution of the paper, lays the foundation for the institutional design. As specified by the proposed investment function, the design seeks to mobilize surplus for productive investment, create profitable investment opportunities and achieve steady expansion of output. The Mutual Savings and Investment (MS&I) Association in the communities act as the primary mobilizer of surplus on the *mudaraba* basis. It channels investible funds to non-contractual families, existing as well as potential, through *mudaraba* or *shirkah* arrangements. The Central Monetary policy to stabilize the value of money and allocate equitably MS&I's credits to regions and investment activities based on the community, regional and state plans. Foreign trade and international and regional cooperation are design to supplement domestic surplus and procure relevant technology.

It is however argued that while the institutions of *Zakah* and *Sadaqah* effect periodic transfer payments to provide for the basic needs to the deficit families, they also reinforce the process of capital formation through the consumption-revenue-profit cycle. The institution of inheritance exists to break up concentration of wealth and income that occurs through inter-generational transfers in the secular economies. The form of organization and role of technology are designed to restore productive role of the families. The role of adult education and vocational training is recognized to improve the employability of deprived adults and members of the deficit families. The instrument of taxation is designed to enable the state and its agents to obtain a portion of surplus generally for productive purposes. Above all, the inescapable role of planning is institutionalized to channel resources into planned investment activities.

2.4 “THE POLITICAL CONTEXT OF ISLAMIC ECONOMICS”

By: Ijaz Shafi Gilani, appeared in *Studies in Islamic Economics*, K. Ahmad (ed.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, and the Islamic Foundation. U.K.. 1980. pp. 131-142.

In this paper, the author has argued that an analysis of the objectives of political leadership is crucial to a correct understanding of economic relationships. The paper classified objectives of political leaders into two categories: value-oriented and goal-oriented. Then two classes of strategies: High Road and Low Road strategies have been drawn. Thus the factors, the objectives and the motives involved in each strategy are analysed. All of the above are part of the effort to set up a framework for the formulation of a policy of Islamic economics.

The author has argued that while the objectives of High Road strategies are value-oriented and related to domestic politics of nation states, the objectives of the Low Road strategies are goal-oriented and focused around international cooperation and that while the motivations of High Road strategies operate on the motivations of self-interest.

Furthermore, the paper has indicated that a successful Islamic economic strategy must be based on a correct assessment of the socio-philosophical environment of our age. Finally, the paper stressed the need for interaction among competing strategies through interaction among Muslim economists.

Functional Category – 3

BEHAVIOUR OF THE CONSUMER AND THE FIRM, ALLOCATION AND WELFARE

- 3.1 A Contribution to the Theory of Consumer Behaviour in an Islamic Economy.
- Monzer Kahf.
- 3.2 A Behavioural Model of an Islamic Firm.
- M.M. Metwally.
- 3.3 Islamic Perspectives on Market Prices and Allocation.
- M.A. Mannan.
- 3.4 Allocative Efficiency, Decision and Welfare Criteria in an Interest-Free Islamic Economy - A Comparative Policy Approach.
- M.A. Mannan.
- 3.5 Interest-Free and Intertemporal Allocative Efficiency in an Islamic Economy.
- S.N .H. Naqvi.
- 3.6 Interest Rate and Inter-temporal Efficiency in an Islamic Economy: Issue Revisited.
- M.A. Choudhary.
- 3.7 Saving and Investment Functions in a Two-Sector Islamic Economy.
- Monzer Kahf.
- 3.8 Inflation and the Islamic Economy: A closed economy model.
- M.A. Khan.
- 3.9 Inflation in Muslim Countries: Implications for an Islamic economy.
- J.I. Laliwala.
- 3.10 Assessment of Corporate Securities in Terms of Islamic Investment Requirements.
- M. Mohsin.

- 3.11 Theory of Profit: the Islamic viewpoint.
- Zubair Hasan.
- 3.12 Economics of Profit-Sharing.
- M.N. Siddiqi.
- 3.13 An Islamic Perspective on the Economics of Discounting in Project Evaluation.
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- 3.15 Rate of Capitalization in Valuation Models in an Islamic Economy.
- M.A. Choudhary.
- 3.16 A Macro-theory of Distribution in an Islamic Economy
- Ausaf Ahmad.
- 3.17 Implications of Islamic Consumption Function Patterns for Savings, Growth and Distribution in Macro-Economic Framework.
- M. Fahim Khan.
- 3.18 Labour and Capital Concepts in Islamic Economics.
- Ahmad Tabakoglu.

3.1 “A CONTRIBUTION TO THE THEORY OF CONSUMER BEHAVIOUR IN AN ISLAMIC SOCIETY”

By: Manzer Kahf, appeared in *Studies in Islamic Economics*, K. Ahmad (ed.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, 1980, pp.19-36.

In this paper, the author argues that in contrast to the communitarian-capitalist theory, the Islamic theory considers the consumer as a maximiser of *Falah*, which is the success in this life and in the after-life. The paper advocates the Islamic economic system, by virtue of the very nature of its institutions, maintains a high rate of saving. The reduction of the individual wealth by *Zakat* does not necessitate an increase in the rate of depreciation for the economy as a whole. In fact, the deduction of *Zakat* from the individual wealth leaves intact the volume of capital in the economy, no matter whether *Zakat* is paid in terms of consumer's goods as food and shelter or whether it is paid in durable or perishable commodities.

The inherent forces of the Islamic system make the perspectives of investment an integral part of the saving decision. This has some significant effects on the comparative statistics of the system. The Islamic system secures larger resources for growth and development than can otherwise be done as the system mobilises non-active wealthy by dissolving and reintroducing it into the economic circuit through *Zakat*. Thus the paper has shown the significance of *Zakat* as a tax on the accumulated net worth rather than a tax on income alone. Although it did not discuss the distributive effects of *Zakat* or its role with regard to social welfare, the study has demonstrated that this kind of tax plays an important role in the functioning of the Islamic system, even as an incentive for investment.

3.2 “A BEHAVIOURAL MODEL OF AN ISLAMIC FIRM”

By: M.M. Metwally. Discussion Paper No.5. International Centre for Research in Islamic Economics. King Abdulaziz University. Jeddah. Saudi Arabia. 1981. 13 p.

The study demonstrates that the objective function of a firm which operates in a society that follows Islamic laws as dictated by the teachings of the holy Qur'an, the tradition of Prophet Muhammad (peace be upon him) and the practices of early Muslims, would be substantially different from that of firms operating in non-Islamic

societies. The simple mathematical model developed to investigate the equilibrium of a single-product Islamic firm shows that the equilibrium level of output is one at which marginal cost equals marginal revenue, but that this level would be different from that obtained by a purely profit-maximising firm. It is likely that the Islamic firm achieves equilibrium at a higher level of output and price than would be obtained by a purely profit-maximising firm.

The study also shows that the economic policies and market strategies of the Islamic firm must be carefully chosen so that they will not militate against the principles of Islam. A number of cases were listed to illustrate this important difference between an Islamic firm and non-Islamic firm.

3.3 “ISLAMIC PERSPECTIVES ON MARKET PRICES AND ALLOCATION”

By: M.A. Mannan. Research Paper No. 11. International Centre for Research in Islamic Economics. King Abdulaziz University. Jeddah, Saudi Arabia. 19~2. 31 p.

In this paper the author advocated the concept of “effective need” instead of “effective demand” as a basis for market mechanism in Islam. The former is seen as a broader concept than the later. It is demonstrated that free market mechanism based on effective demand is linked to the affluent, making resources available to those who can buy them and not necessarily to those who need them and that the market is either inefficient or ineffective or indifferent in providing all aspects of basic needs with which Islamic market is concerned. Thus prices offered by the secular market are not seen as a guide to social welfare particularly in the context of Islamic economy where social concern is so great as to treat distribution as a key to productive activities. The competition as implicit in the market mechanism needs to be supplemented by conscious control, supervision and cooperation. Therefore, the paper did not support the view that the poor may be allowed to enter into the market only through direct transfer payments, thereby allowing market to operate freely.

It is further argued that resources allocation can not be left to the discretion of the individual when the question of collective welfare is involved. This paper stressed the need for necessary correction to all price-signals and economic incentive packages coupled with needed institutional reform and delivery system which can allocate resources directly to the poor with a view to increasing their real income through increased productivity on a permanent basis.

Islamic reluctance to accept market price as a true guide a social welfare makes the function of conventional price elasticity of demand and supply limited in scope. The re-action of “need” to changes in “income” is also considered to be far more important than “price” in Islamic economy. The main analytical task of an Islamic economy is then to analyse the factors of underlying forces that influence organs of demand and supply.

However, a pricing options such as non-price rationing cooperative prices as suggested offer a limited scope for market mechanism, although the task of determining pricing policy in Islam will remain much more complicated than market or command economy. The paper is addressed primarily to those having exposure to elementary economics.

3.4 “ALLOCATIVE EFFICIENCY, DECISION AND WELFARE CRITERIA IN AN INTEREST-FREE ISLAMIC ECONOMY: A COMPARATIVE POLICY APPROACH”

By: M.A. Mannan, appeared in *Monetary and Fiscal Economics of Islam*, M. Ariff (ed.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, 1982, pp. 43-74.

The main objective of this paper is to discuss the nature and scope of the allocation of scarce resources among the goods and services produced by an interest-free Islamic economy. An attempt is made to establish certain conditions or criteria which must be fulfilled for an efficient allocation of resources based on Islamic economic values. This allocation issue has been the focus of micro-economics and the related discipline called welfare economics. The present analysis is essentially static, concerned with the uses of resources at a given moment of time, and not dynamic, concerned with the resource growth over time.

The paper is based on the assumption that there is virtually no difference between *Riba* and interest and that Islam prohibits interest but allows wages, rent and profit subject to the injunctions of the Qur’an and the *Sunnah*. The paper then seeks to show that in an interest-free economy of Islam, it is possible to make an efficient allocation of resources through the introduction of an Islamic value-loaded concept of accounting price for capital into decision criteria.

The plan of the paper is as follows:

In the first section of the paper, the underlying assumptions of an Islamic economic paradigm, based on total fulfillment of human life, are dealt with. The proper understanding of the underlying assumptions is crucially important for appreciating the dynamics of the actual process of resources allocation in Islam.

This is followed by a brief review of the actual mechanism of resource allocation in capitalist and socialist economies.

The third section deals with the theory and practice of allocation of resource in an Islamic economic system.

In the last section, an attempt is made to draw policy implications from the analysis conclusions.

The author has made the following basic conclusions:

1. The fact is that the allocation of investment resources under producer's sovereignty turned out to be quite different from the marginal productivity criterion under consumer's sovereignty. It is argued however that allocation of resources in an Islamic economy combines not only the best of the two systems but also incorporates additional criteria based on the social and moral welfare functions of Islam.
2. The actual allocation of resources in Islam, which differs fundamentally from both the neo-classical and Marxian doctrines, depends on both objective and subjective factors, the objective factors are expressed in terms of accounting price for capital which may be determined by "share individual index" or "profit index" of selected industries or it may be expressed in terms of "opportunity cost". This accounting price of capital is Islamic value-loaded; it may be different for different sectors of the economy depending on the need and overall priorities in the national plan. The subjective factors are expressed in terms of welfare criteria with which investment criteria are to be inter-mixed. Then two basic principles and ten criteria or conditions of welfare from the Qur'an and the Traditions of the Prophet (peace be upon him) are deduced.
3. All welfare conditions may not be simultaneously satisfied. The best way to approach this problem is to determine the relative importance of each factor from the most important to the least important, to assign importance of value to each factor and to determine weighted evaluations. The project analyst may weight the cost results by the value of the objective welfare criteria.

While the technical details will be done by the analyst, the weight of importance value is to be assigned by the policy makers thoroughly conversant with the pros and cons of each investment decision from the view-point of the Islamic ideology and values. The stage is thus set for further research.

3.5 “INTEREST RATE AND INTER-TEMPORAL EFFICIENCY IN AN ISLAMIC ECONOMY”

By: Sayed Nawah Haider Naqvi. appeared in *Monetary and Fiscal Economics of Islam*. M. Ariff (ed.), International Centre for Research in Islamic Economics, King Abdulaziz University. Jeddah, Saudi Arabia, pp. 75-100.

The basic theme of this paper is spread over four sections. The first section develops an appropriate analytical framework to decompose interest rate into its component element - i.e., its ‘function’ - in the context of a dynamic ‘real’ economy. This analysis is invariant with respect to the institutional framework postulated. In the second section, the Islamic point of view regarding the legitimacy of these functions is broadly indicated. It is argued that to ensure that these functions are performed in an Islamically legitimate manner, a proper institutional framework may be specified. This is the general theme of the third section, which will be divided into two sub-sections: The first one considers the problem of abolishing the rate of interest in the transition period; the second sub-section analyses the problem of duplicating in a full-fledged Islamic economy - without interest rate, that is - the essential functions which the interest rate performs in a capitalistic society in *order to* generate the investible surplus required *to* provide the minimum wherewithal *for* promoting economic growth consistent with the Islamic principle of *al ‘Adl*. The final section, drawing *together* the threads *of* the main arguments *of* this paper, re-examines their ‘reasonableness’ within a general philosophical perspective.

The paper concludes by saying that a zero rate *of* interest is a property *of* an Islamic economic system and not of capitalism. Thus, if interest rate is abolished by an administrative fiat *while leaving all other capitalistic institutions intact*, the Islamic ‘reform’ may end up by pushing the economy away from the Islamic ideal. This point is crucial specially for those Muslim countries whose economies are at present run on capitalistic principles. For them a transition must elapse on their way to the attainment of an Islamic ideal. It is, there fore, important to analyse: Firstly, how these functions will be performed during the ‘transition period’, until the present economic systems prevalent in the Islamic countries are replaced by a full fledged

Islamic economic system; and secondly, how this job will be done once such a system does get established.

3.6 “INTEREST RATE AND INTER-TEMPORAL EFFICIENCY IN AN ISLAMIC ECONOMY: ISSUE REVISITED*”.

By: M.A. Chowdhury, Discussion Paper No.6, International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah. Saudi Arabia. 1982. 46p.

The main objective of this paper is to critically examine the assumptions, results and arguments forwarded by Naqvi in favour of the need for a positive rate of interest for a capital scarce economy during its transition to a full fledged Islamic state. This critical examination will be done both from a Western economic and Islamic economic viewpoints. It will then set up and analyze an alternative resource allocation model structured on the basis of Islamic economic assumptions and show a discount rate, totally independent of the interest rate, can indeed be constructed in this system for capitalizing the future stream of earnings and returns. The entire trend of argument will be with respect to an economy in the process of transition to a full-fledged Islamic state, which is what Naqvi has tried to look at.

It is argued that “Dr. Naqvi’s paper despite all its niceties of analytical modeling suffers from a lack of recognition of the assumptions and norms that would characterize such a model during a transitional stage towards an Islamic state. Such assumptions and characteristics are namely, the Islamic institutions in control of profit-making, keeping profits at the level of normal profits, the principle of cooperation, *Mudarahah*, price control and subsidy to eliminate unwanted inflation, the attainment of the Islamic objectives of growth for equity and efficiency rather than for capital accumulation per se and the new framework of inter-temporal welfare maximization based on the menu of investment choices rather than choices of consumption menu. Dr. Naqvi’s model also suffers from the logical contradictions of the neo-classical models in regards to the structurally static form of a system repeating itself over time. It was

* This work is a discussion of the paper by Dr. S.N.H. Naqvi, Director of the Institute for Development Studies, Quaid-e-Azam University, Islamabad, Pakistan, titled: “*Interest Rate and Intertemporal Allocation Efficiency in an Islamic Economy*”, which he presented at the Seminar on the *Monetary and Fiscal Economics of Islam* held at Makkah, Saudi Arabia, in October. 1978.

argued in this discussion paper that such an equilibrium system is logically incapable of ever coming out of that state of equilibrium and into a transition state. Thus, Dr. Naqvi's claim that his result holds in a stage of transition only to be replaced by a truly zero rate of interest when the Islamic economy will be finally established in its true form, seems to be conceptually erroneous".

3.7 "SAVING AND INVESTMENT FUNCTIONS IN A TWO-SECTOR ISLAMIC ECONOMY"

By: Monzer Kahf, appeared in *Monetary and Fiscal Economics of Islam*, M. Ariff (ed.), International Centre for Research in Islamic Economics. King Abdulaziz University. Jeddah. Saudi Arabia. 1982, pp. 107-124.

In this paper, an attempt is made to show the determinants of saving and investment in an Islamic economy. The government sector has been excluded from this study for the purpose of pointing out the internal forces in the Islamic economic system and comparing them with other existing theories. It is argued that this will help building an Islamic monetary theory that explains the behaviour of saving and investment in the normal operation of the Islamic system.

What makes the Islamic economic system so unique is its ability to produce consistent and progressive behaviour on the part of the individual economic unit. The consistency of this behaviour has been explained in Section three. This is made possible by the elimination of interest and the imposition of *Zakah*. The progressiveness of the system results from the same two assumptions about *Zakah* and interest. While *Zakah* collection makes it necessary for the wealth owners to increase their saving by at least the amount of *Zakah* paid. The prohibition of interest makes it necessary for them to minimize resources held in liquid form. Thus as savings are increased idleness is reduced.

Besides, the paper argued that the redistribution of income (and wealth) through the means of *Zakah*, which intends to reduce the gap between the rich and the poor is achieved without disturbing the mechanism of the economic system or the incentives to save, invest and produce quite unlike the central planning system. It is also stressed that this model however, may not function properly if there are certain basic loopholes in the economic system of the country such as the co-existence of interest outside the banking system and interest-free (especially in the rural areas) in insurance transactions.

and in government and municipal bonds or the lack of legal enforcement of or the prohibition of interest. Moreover, in this paper *Zaka/z* is defined in its broad sense as a tax on all forms of wealth (above the few known personal exemptions) and not a duty on few forms of wealth only. This is considered essential for the functioning of *Zaka/z* as a leverage in the internal forces inherent in the Islamic economic system.

3.8 “INFLATION AND THE ISLAMIC ECONOMY: A CLOSED ECONOMY MODEL”

By: M.A. Khan, appeared in *Monetary and Fiscal Economics of Islam*, M. Ariff (ed.), International Centre for Research in Islamic Economics. King Abdulaziz University, Jeddah. Saudi Arabia. 1982, pp. 237-268

This paper attempts to answer two basic questions: First, what are the possibilities of inflation being experienced in an Islamic economy? Second, in case inflation is experienced, what are the possible remedies to fight it in an Islamic economy? The basic hypothesis of this paper is that an Islamic economy, under normal circumstances, has a set of built-in stabilizers which provide a cushion against possible fluctuations in the price level? The problem of inflation is discussed in the framework of an ideal Islamic economy as conceived by the author in section one. In section two, the various built-in stabilizers have been discussed. However, discussion of these stabilizers has been restricted to avoid digression. Section three has been devoted exclusively to a discussion of measures in case inflation appears in an Islamic economy. Admittedly, the third section has been conceived on the assumption of closed economy.

The main conclusion of the paper is that “in normal circumstances, an Islamic economy is not prone to a high rate of inflation due to certain built-in stabilizers. But this does not rule out the possibility of inflation due to factors like wars, famines, floods, earthquakes, excess of aggregate demand over potential supply due to technological innovation, unfair wage hikes and market malpractices (such as collusion to raise prices, *Ihtikar*, profiteering, etc.). In these circumstances, the Islamic state has a set of policy tools which can be used to stabilize the price level.” However, the paper stresses the need to instill an Islamic conscience in the people by educating them in the *Shari’ah*, set up appropriate monetary and fiscal institutions and establish information collecting and dissemination systems and develop an honest and sincere bureaucracy. The author advocates for testing his hypotheses against empirical evidence.

3.9 “INFLATION IN MUSLIM COUNTRIES: IMPLICATIONS FOR AN ISLAMIC ECONOMY”

By: J .I. Laliwala, appeared in *Monetary and Fiscal Economics of Islam*, M. Ariff (ed.), International Centre for Research in Islamic Economics. King Abdulaziz University, Jeddah. Saudi Arabia. 1982, pp. 269-287.

In this paper, inflation is seen as a phenomenon caused by excessive growth of money supply. The paper maintains that this is in conformity with the quantity theory of money which explains inflation better than any other theory.

It is therefore argued that “the trade unions, traders, smugglers, corporations, scarcity of agricultural goods, price of oil, etc. are not responsible for inflation. Neither cost-push nor demand pull descriptions of the process of inflation explain the aeteology of inflation. Prices of goods are affected by the demand for goods, and goods cannot be demanded without money, and money is acquired by the people by contributing to output. Thus there is the flow of supply of goods parallel to the flow of demand for goods, so that the general price level can not rise, though prices of some particular goods may rise while the prices of some other goods may fall. It then follows that people cannot produce inflation, because they cannot have money except by producing goods. It is only the government and the Central Bank that have free access to money by simply printing it without having to contribute to total output. Seen in this light, inflation is the result of the government’s attempt to invest more than the available savings warrant”.

To support this hypothesis, the paper made an attempt to enquire into the inflation-phenomena experienced in 10 Muslim countries. Data on high-powered money, money supply, quasi-money, credit creation, deficit finance, foreign exchange reserves, borrowings by the banks from the Central Bank, price index, national income, imports, etc. pertaining to the economies of Saudi Arabia (1966 to 1973). Egypt (1961 to 1974), Syria (1961 to 1974) and Malaysia (1961 to 1974) have been obtained from International Financial Statistics. These data were fed to the computer and various linear regression models were tried to support the hypothesis of the paper.

3.10 “ASSESSMENT OF CORPORATE SECURITIES IN TERMS OF ISLAMIC INVESTMENT REQUIREMENTS”

By: M. Mohsin, Research Paper No, 16, International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, 1983, 52 p.

The paper is divided into three parts. Part one explains the nature of funds flows arising in a secular environment, with particular references to the securities issued by modern corporations. Part two defines the fundamentals of Islamic investment and assesses corporate securities in that context. Part three evaluates the interaction of Islamic investment values in a secular environment.

The study also inquires into the possibility of modification in corporate security forms. An analysis of the factors determining security issues suggests that in developing countries, heavy reliance of corporations on external funds makes them adaptable to institutional investment requirements. But scattered individual savings are unlikely to produce any effect. The process of change in the first instance will need institutionalisation of Islamic savings. The paper therefore suggests that Islamic financial institutions should build up enough strength by mobilising individual savings. It is only then they could exert pressure on corporate management to issue securities meeting their investment requirements. However, the search for new areas of Islamic investment is a continuous function. Researches must be directed to clarify the true concept of ‘equity’ between debtor and creditor in a credit transaction in accordance with the spirit of Al-Our’an.

3.11 “THEORY OF PROFIT: THE ISLAMIC VIEWPOINT”

By: Zubair Hasan, appeared in the *Journal of Research in Islamic Economics*, International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, Vol. 1, Summer 1403H/1983.

This paper attempts to show that positive economics fails to provide satisfactory answers to questions concerning the definition, source and appropriation of profit. Above all, it remains indifferent to issues if the market determined rewards of hired factors, specially wages, are just or if the utilization of profit is always proper.

Islamic injunctions tacitly support the presumption that some sort of labour participation scheme, subject to a minimum wage constraint,

promises a division of value product that is just to both labour and capital.

Finally, a distribution model claimed to be in line with the Islamic norms is then presented.

3.12 “ECONOMICS OF PROFIT-SHARING”

By: M. Nejatullah Siddiqi, appeared in *Fiscal Policy and Resource Allocation in Islam*, Z. Ahmad., M. Iqbal and M. Fahim Khan (eds.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia and Institute of Policy Studies. Islamabad. Pakistan. pp. 163-185.

The main objective of the paper is to demonstrate that replacement of interest by a system of profit-sharing will cause no problems as regards its smooth functioning and stability. It discusses how the ratios of profit-sharing will be determined. It is envisaged that in an Islamic economy. “the rate of interest paid by commercial banks to depositors will be replaced by a percentage share in the profits accruing to the banks”, henceforth called drp. Similarly, Banker’s Rate of Profit-sharing (brp) is defined as “the percentage share of the entrepreneur’s profit accruing to the banks”. It studies the effects of changes in the expected rate of profits on these ratios and the alternative possibilities as regards the responsiveness of supply and demand for deposits to the changes in the expected rates of profits. It examines and refutes the contention that a system based on profit sharing must be unstable and subject to wide fluctuations. The paper demonstrates that the system gains in efficiency by assigning the allocative role to the rate of profit without the disturbing interference from the rate of interest.

The author has based his analysis on certain assumptions. It recognises multiplicity of objectives in an Islamic economy both at the entrepreneurial and financier’s level but assumes that decision making in the private sector is based on the profit motive. It also assumes competitive behaviour, a closed economy and existence of positive profits at all times at the macro-economic level. Profit is defined in the accounting sense of the term.

It is argued that “these ratios may change in response to changes in the rate of profit expected by the entrepreneur but they have a tendency to move back towards their original level. The entrepreneurial rate of profit itself will be less prone to fluctuations because of the changed behaviour of the financial sector which is presently the major source of fluctuations. The Central Bank will be in

a position to mitigate the effects of these fluctuations by regulating the supply of money through a number of policy instruments available to it. The impact of such fluctuations as still remain will be communicated back to the ultimate savers in a much reduced degree”.

3.13 “AN ISLAMIC PERSPECTIVE ON THE ECONOMICS OF DISCOUNTING IN PROJECT EVALUATION”

By: M. Anas Zarqa, appeared in *Fiscal Policy and Resource Allocation in Islam*, Z. Ahmad, M. Iqbal and M. Fahim Khan (eds.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia and Institute of Policy Studies. Islamabad. Pakistan. pp. 203-234

This paper refutes the thesis that interest rate (i) is indispensable for efficient allocation of investible resources. It demonstrates that under the realistic conditions of uncertainty, the rate of return on equity (r) is the proper discount rate, and it is Islamically acceptable, unlike (i).

The concept of time-preference cannot be a basis for discounting because time-preference, the paper argues at length, need not be always positive. The assumption of *positive* time-preference is neither a principle of rationality nor an empirically established predominant tendency among consumers. It is simply one of three patterns of inter-temporal choice (the other two being zero and negative time-preference) each of which is rational and observable under its own conditions.

The paper acknowledges that (r) is usually higher than (i) but argues that using (r) rather than (i) in an interest-free Islamic economy need not lead to bias towards short-lived public projects. This is because efficiency often requires adjustment of the market observed (r) before using it for discounting. Furthermore project choice from an Islamic point of view should be based on several criteria that include, beside (r), an explicit concern for future generations.

3.14 “RISK-BEARING AND PROFIT-SHARING IN AN ISLAMIC FRAMEWORK: SOME ALLOCATIONAL CONSIDERATIONS”

By: By Syed Aftab Ali, appeared in *Fiscal Policy and Resource Allocation in Islam*, Z. Ahmad, M. Iqbal and M. Fahim Khan (eds.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia and Institute of Policy Studies, Islamabad, Pakistan, 1983, pp. 253-270.

The paper demonstrates that the existing institutional framework, based as it is on capitalistic principles, restricts the choice of risk-taking only to the owners of capital. Viewed thus, this framework is quite deficient insofar as efficient allocation of resources is concerned. It is argued that any restructuring of the existing system (based on Islamic principles) must address itself to the provision of universal accessibility to risk income. It is then that an efficient and egalitarian system of risk allocation would emerge. Mobilization of resources of any scarce factor, such as the readiness to undertake risks, obviously is an advantage. This ultimately explains why distributional effects are expected from profit-sharing.

It is discussed that, within the framework of an enterprise, a system of risk-bearing and profit-sharing by workers can be devised. It is argued that the fundamental basis of profit-sharing implies workers' foregoing part of their wages. In this paper the workers are shown to forego part of their wages in the sense that, from relatively secure income, they are acquiring a claim to share in the uncertain future profits of the firm. In so doing, they only undertake an additional risk if the participation is arranged for a future time period. This in this case of ex-ante participation (under uncertainty) can they expect the ex-post income advantages. Should they decide to abstain from such an arrangement no uncertainty with respect to wages arises.

Finally, the paper emphasized the importance of risk allocation and productive efficiency and showed that profit-dependent wages tend to produce a less inefficient risk allocation than fixed wages.

3.15 “THE RATE OF CAPITALISATION IN VALUATION MODELS IN AN ISLAMIC ECONOMY”

By: Masudul Alam Choudhary, appeared in *Fiscal Policy and Resource Allocation in Islam*, Z. Ahmad, M. Iqbal and M. Fahim Khan (eds.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia and Institute of Policy Studies, Islamabad, Pakistan, 1983, pp. 287-301.

The main objective of this paper is to develop a quantitative methodology for determining the capitalization rate and to define its structure in Islamic valuation models. It has been shown that this all important parameter is the sum of two components: (1) the required rate of return, and (2) the risk premium. The required rate of return shown to be essentially the marginal efficiency of real investment, private or social, as the case may be. This rate was determined by the Islamic social choice, model, whereby the investor is faced not with the problem of allocating his income among consumption intertemporally, but rather with the problem of allocating his income into real investment intertemporally.

On the question of risk-premium it was shown that the returns in an Islamic investment are inextricably a putty-clay of the pure economic and pure non-economic returns. In the light of such a return it was shown that an Islamic entrepreneur need not be strictly risk averse with regard to pure economic return. However, with respect to the total Islamic return, the usual analytical assumptions of risk-aversion may be used.

Finally, the paper has been focussed on the real economy. However, the issues and applications of the rate-of-return analysis are to be found in project evaluation problems of both the real and money economies.

According to the author, the main results of this paper will hinge on the following two assumptions:

- i) Intertemporally, savings will be weighted more towards the production of capital goods rather than to consumption goods.
- ii) The total return from an Islamic investment or what we also refer to in this paper as an Islamic return is the sum of a pure economic component and a pure ‘non-economic’ component.

3.16 “A MACRO THEORY OF DISTRIBUTION IN AN ISLAMIC ECONOMY”

By: Ausaf Ahmad, Presented at the Second International Conference on *Development, Finance and Distribution in Islamic Perspectives*, held at Islamabad, Pakistan; appeared in the *Journal of Research in Islamic Economics*, International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, Vol. 2, Summer 1404H/1984, and also to appear in a book *Distribution in an Islamic Framework* (forthcoming).

The paper adopts a theoretical approach to examine the problem of distribution of income in an Islamic economy. The paper has been divided into four sections. The first section briefly gives the distinguishing features of an Islamic economy. The second section examines the objective function of reducing economic inequality in the light of evidences provided by the Qur'an and the *Sunnah*.

The third section which is the main core of the paper, develops a theoretical model of distribution of income in the Kaldor-Pasinetti tradition. A Cambridge type saving function is evolved and used.

The institution of *Zakah* is incorporated in the Kaldor-Pasinetti framework and it has been shown that system of *Zakah* redistributes income so as to reduce inequality in the distribution of Income.

It is also shown that the saving propensities of different groups of people as well as the rate of *Zakah* and asset income ratios of capital owners and non recipient workers would influence the distribution of income in an Islamic economy.

It is argued that the rate of profit and share of profit in aggregate income crucially depend upon the share of wages going to the *Zakah* recipient workers.

3.17 “IMPLICATIONS OF ISLAMIC CONSUMPTION FUNCTION PATTERNS FOR SAVINGS, GROWTH AND DISTRIBUTION IN A MACRO-ECONOMIC FRAMEWORK”

By: M. Fahim Khan. Presented at the Second International Conference on *Development, Finance and Distribution in Islamic Perspectives*, held at Islamabad, Pakistan, and also to appear in a book *Distribution in an Islamic Framework* (forthcoming).

Consumer behaviour is a key topic in the modern economic theory which has implications for economic policies also. Many modern economic theories maintain that savings are essential for the economic growth in the country. As such it may be argued that *Zakah* being a sort of tax on savings tend to reduce the level of savings and increase the consumption level in the economy. But contrary to popular view the paper seeks to demonstrate that level of saving in an Islamic economy may not be low as compared with a secular economy. The paper advanced the following two lines of reasoning in support of this hypothesis:

First argument concerns with the Islamic premises within which a Muslim consumption behaviour will be influenced in such a way that this consumption level will be lower than what he would have consumed in a secular economy. The second argument is built upon the simulation of an Islamic economy projected into future using a simple macro economic model. With the help of the model it is shown that though an immediate effect of Islamizing an economy is likely to increase the aggregate consumption level yet its growth pattern is expected to accelerate the rate of savings in such a way that it would raise the savings over time to a higher level than the economy without the effects of Islamizing.

3.18 “LABOUR AND CAPITAL CONCEPTS IN ISLAMIC ECONOMICS”

By: Ahmad Tabakoglu, Presented at the Second International Conference on *Development, Finance and Distribution in Islamic Perspectives*, held at Islamabad, Pakistan, and also to appear in a book *Distribution in an Islamic Framework* (forthcoming).

In this paper, the Islamic dimensions of labour and capital concepts are examined. It is argued that Islam regards labour not only as a means of production of private property and of living but also as a factor of social and moral development of the society. Anybody who works in a job providing benefit to society performs a *fard* (obligatory

act which should be done in any case). When the task assigned to a worker is neglected, Islam condemns this attitude. As such the concept of worker in Islam is not simply a person whose labour is hired in return for wage. Even the head of state, professional personnel and bureaucrats can be viewed as a worker not to speak of those who enter into partnership contract based on *mudarabah*, *musharakah* type of investment. Thus the entrepreneur is included into the category of worker, resulting in a wider definition of the concept of wage. But wage differential is permissible in Islam.

It is further argued that in Islamic system labourer-employer relations are not absolute but relative. Again capital is regarded as a part of *mal* concept in Islam. *Mal* is a thing which can be owned and carries a value. Thus Islam considers the profit, not the interest, as a reward for capital. Islam prohibits the interest, and recognises profit. This profit motive is considered to be an incentive to an enterprise working in an Islamic framework. Islam encourages circulation of capital and its beneficent use. In this connection, the concept of private property in Islam is also discussed.

Functional Category - 4

MONEY, BANKING AND MONETARY POLICY.

- 4.1 *Studies in Islamic Economics*
 - Khurshid Ahmad (ed.).
 - 4.1.1 Some Conceptual and Practical Aspects of Interest-free Banking
 - M. Uzair.
 - 4.1.2 Money, Interest and *Qirad*
 - Mahmud Abu Saud.
 - 4.1.3 The Relative Efficiency of Interest-free Monetary Economics: The fiat money case
 - Mabid Ali AI-Jarhi.
- 4.2 *Monetary and Fiscal Economics of Islam*
 - Mohammed Ariff (ed.).
 - 4.2.1 Islamic Approaches to Money, Banking and Monetary Policy - A Review
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- 4.4 A Survey of Issues and a Programme for Research in Monetary and Fiscal Economics of Islam
 - M. Iqbal and M. Fahim Khan (eds.).
- 4.5 *Money and Banking in Islam*
 - Ziauddin Ahmad, M. Iqbal and M. Fahim Khan (eds.).
 - 4.5.1 A Monetary and Financial Structure for an Interest-free Economy: Institutions, Mechanism and Policy
 - Mabid Ali AI-Jarhi.
 - 4.5.2 Monetary Policy in an Islamic Economy
 - M. Umar Chapra.
 - 4.5.3 Elimination of Interest from the Economy
 - Report of the Council of Islamic Ideology.

- 4.5.4 Islamic Banking as Practised now in the World
 - M. Fahim Khan.
- 4.6 Islamic Vis-a-Vis Traditional Banking –
A Fuzzy Set Approach
 - Said S. Martan and Others.

4.1 *STUDIES; IN ISLAMIC ECONOMICS*

Khurshid Ahmad (ed.).

This is a book of reading consisting of the following article, abstracted separately and arranged by functional category in this booklet.

1. Islamic Economics: An Approach to Human Welfare.
- Anas Zarqa.
2. A Contribution to the Theory of Consumer Behaviour in an Islamic Society.
- Monzer Kahf.
3. Some Conceptual and Practical Aspects of Interest-Free Banking.
- Muhammad Uzair.
4. Money, Interest and *Qirad*.
- Mahmud Abu Saud.
5. The Relative Efficiency of Interest-Free Monetary Economics: The Fiat Money Case.
- Mabid Ali Mohamad Mahmoud AI-Jarhi.
6. *Zakah* and Fiscal Policy.
- F.R. Faridi.
7. The Political Context of Islamic Economics.
- Ijaz Shafi Gilani.
8. The Islamic Welfare State and its Role in the Economy.
- M. Umar Chapra.
9. Economic Development in an Islamic Framework.
- Khurshid Ahmad.
10. Muslim Economic Thinking: A Survey of Contemporary Literature.
- Muhammad Nejatullah Siddiqi.
11. Contemporary Turkish Literature on Islamic Economics.
- Sabahuddin Zaim.

4.1.1 “SOME CONCEPTUAL AND PRACTICAL ASPECTS OF INTEREST-FREE BANKING”

By: Muhammad Uzair, appeared in *Studies Islamic Economics*, K. Ahmad (ed.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia and the Islamic Foundation, U.K. 1980, pp. 37-58.

In this paper, the author tried to explain that no proper explanation and no satisfactory interpretation is available to explain the rationale of the present-day interest on conceptual point of view it is difficult to establish a justification for separate existence of capital as a factor of production. It seems desirable and pertinent that capital should be treated as a tool or instrument of enterprise, the dichotomy between enterprise and capital is resolved, and they jointly become one factor of production. This will mean that profit will be a reward for enterprise including capital.

The main conclusion of the paper is that in the Islamic framework, interest-free banking can be run on the basis of *Mudarabah* or profit-sharing arrangement, between the suppliers of the capital and the users of the capital. There will be a two tier arrangement of profit-sharing between the entrepreneurs or the ultimate users of the investible fund and the banks and at the same time there will be a profit-sharing arrangement between the banks and the depositors who are the savers or suppliers of the funds. The percentage or ratio of the profit-sharing can be two-thirds for the users and one-third for the suppliers of the funds. The banks will thus get a share of one-third from the profit earned by the actual investors. Similarly, the depositors will get one-third from the share received by the banks. This will apply to the main profit-earning activities of the bank. The arrangement may seem to be complex at first sight, but will become mechanism and routine after a while.

As for the very short-term loans required by the clients of the banks, they can be made available out of the idle funds available in the Current Account category of the commercial banks in an interest-free banking system. No interest will be charged. The banks can recover a service charge. As for the question of consumer credit, the genuine demand for consumer credit can be met by other sources of borrowing such as specialised agencies sponsored by the government or by borrowing from their employers, in the case of employed people. In this way, a conceptual and workable framework can be developed for interest-free banking.

4.1.2 “MONEY, INTEREST AND QIRAD”

By: Mahmud Abu Saud, appeared in *Studies in Islamic Economics*, K. Ahmad (ed.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, and the Islamic Foundation, U.K. 1980. pp. 59-84.

In this paper money is seen as a medium of exchange rather than a commodity. The author argues that money can be a quasi-commodity at best, and even if one considers it a commodity having a demand and a limited supply, there will be some undeniable differences between the usual commodities and money.

- (i) Money as a technical (or artificial) property of yielding its Owner real income simply by holding it, i.e. without exchanging it against other goods.
- (ii) It has no carrying cost, no production cost (almost so) and no substitute having complete liquidity.
- (iii) Demand on money is not genuine as it is derived from demand for goods that money can buy.
- (iv) Money is exempt from the law of depreciation to which all goods are subjected.
- (v) Money is the product of social convention having a purchasing power derived mainly from the sovereignty as against the intrinsic value of other goods.

Once the meaning and nature of money has been clarified, the study of interest will be easier to follow.

Then the paper exposes the inadequacy of the arguments of many economists who tried to justify the payment of interest by treating money capital as equivalent to capital goods and examined some basic values about Islamic social material such as work and reward, hoarding and monopoly, depreciation, social solidarity etc. Then the paper deals with *Mudarabah* or *Qirad* and its meaning and role in Islamic jurisprudence. Finally, the paper comes to the question as to whether such a system of *Qirad* or *Mildirabah* “can substitute the actual functions of modern banking based on interest in a sense that it fits the present banking system and serves the purpose of diverting it from interest”.

4.1.3 “THE RELATIVE EFFICIENCY OF INTEREST-FREE MONETARY ECONOMICS: THE FIAT MONEY CASE”

By: Mabid Ali Mohamad Mahmoud AI-Jarhi, appeared in *Studies in Islamic Economics*, K. Ahmad (ed.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah. Saudi Arabia and the Islamic Foundation, U.K. 1980, pp. 85-118.

The purpose of this paper is to challenge the traditional institutional arrangement of paying interest on money as an exchange. Both cases of government and privately-produced fiat money are considered. Moreover, private borrowing and financial intermediation are given analytical attention.

The paper introduces a set of fiat means of exchange into an economy and a few related questions. First, how much money should an individual use in order to spend his income? Second, how much should the government produce in order to provide for the optimal use of money, and how should it distribute its money? Third, given the size of government money, how much would a private producer supply of his own money under conditions of imperfect information? Fourth, how do private concerns and financial intermediaries behave within our theoretical framework? The fifth and last question is how much should the government produce of its own money, how should it distribute it among different individuals, and what regulations should it impose on the banking system and financial intermediaries, in order to provide for the optimal supply of monetary services?

The conclusions of this paper are that economies with no interest payments on borrowing and no bank multiple creation of money are most optimal between the different institutional arrangements considered. This means that it is most efficient if the government initially provides its own money free, lends it free, and imposes 100% reserve ratio on banks.

4.2 *MONETARY AND FISCAL ECONOMICS OF ISLAM*

Mohammad Ariff (ed.).

This is a book of reading consisting of the following articles abstracted separately and arranged by functional category in this booklet.

1. Islamic Approach to Money, Banking and Monetary Policy - A Review.
- M.N. Siddiqi.
2. Allocative Efficiency, Decision and Welfare Criteria in an Interest-Free Islamic Economy: A Comparative Approach.
- M.A. Mannan.
3. Interest Rate and Intertemporal Allocative Efficiency in an Islamic Economy.
- S.N.H. Naqvi.
4. Saving and Investment Functions in a Two-Sector Islamic Economy.
- M. Kahf.
5. Fiscal and Monetary Policies in an Islamic Economy.
- M. Kahf.
6. Money and Banking in an Islamic Economy.
- M.U. Chapra.
7. A Profile of *Riba-Free* Banking.
- M. Mohsin. K.
8. Central Banking Operations in an Interest-Free Banking System.
- M. Uzair.
9. Inflation and the Islamic Economy: A Closed Economy Model.
- M.A. Khan.
10. Inflation in Muslim Countries: Implications for an Islamic Economy.
- J. I. Laliwala.
11. Monetary Policy in an Interest-Free Islamic Economy Nature and Scope.
- M. Ariff.
12. Distributive Justice and Monetary Economics in Islam.
- M. Ahmad.
13. Fiscal Analysis of *Zakah* with Special Reference to Saudi Arabia's Experience in *Zakah*.
- A.A. Salama.

4.2.1 “ISLAMIC APPROACHES TO MONEY, BANKING AND MONETARY POLICY - A REVIEW”.

By: M.N. Siddiqi, appeared in *Monetary and Fiscal Economics of Islam*, M. Ariff (ed.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, 1982, pp. 25-42.

This paper is in the nature of a review of the literature up to 1977. It sets the perspective in which later contributions can be meaningfully studied. It covers that Islamic economists have written about the nature of money and its functions, and the demand for money in an Islamic economy. The nature of bank money or credit, its desirability or otherwise, and the possible ways of its management also come up for discussion. The idea of hundred percent reserves is also examined in this context as are the suggestions to confine creation of credit to the Central Bank. The essay surveys the major contributions to the subject of interest-free banking reporting the various viewpoints on such issues as supply of short-term interest-free loans, bills of exchange, financing the consumer and financing the government. The paper reviews the various writings on central banking and monetary policy in an Islamic framework, examining the various policy instruments discussed by our writers. This includes the suggestion to use profit-sharing ratios as an instrument of policy, besides the reserve ratio, selective credit control and open market operation through sale and purchase of shares, etc.

The main conclusion is that abolition of interest has become the hallmark of Islamic economics in modern times. Here lies the greatest challenge for Islamic economists: to justify it by a fresh analysis of money and its role in the economy, and present an operational model of interest-free banking which may convince modern man that Islam's economic system based largely on the twin principles of *Zakah* and abolition of *Riba* is more just and more efficient than any other alternative.

4.2.2 “MONEY AND BANKING IN AN ISLAMIC ECONOMY”

By: M. Umar Chapra, appeared in *Monetary and Fiscal Economics of Islam*, M. Ariff (ed.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia. 1982, pp.145-186.

The key thrust of this paper is that the money and banking system as practised in the capitalist's world is not value free. Thus section two provides the philosophical underpinning arguing that the capitalist money and banking system has its own ideological setting and cannot serve the cause of Islamic socio-economic goals if *Riba* is abolished, unless some fundamental changes are introduced to set it in the ideological mould of Islam. In the light of these radical changes section three provides the institutional setting which, though it may appear to be similar to the existing framework, is radically different in its scope and responsibilities. Section four discusses the management of monetary policy in the new setting, while section five tests theoretically the proposed programme against the goals discussed in section two. Finally, section six gives some tentative suggestions for the gradual transition of the money and banking framework in Muslim countries from its present setting to the suggested scheme for realizing the objectives of Islam.

The author takes cognizance of the fact that money is a public good - not a 'pure' public good - and hence its creation and channeling into appropriate directions necessary for the realisation of the socio-economic goals of Islam cannot be left to the whims of the 'invisible' hand. It must be consciously regulated. The implementation of Islamic values and institutions including profit-sharing and equity participation, along with a goal-oriented role to be played by the state, will provide the mechanism for such channeling.

The paper provides some specific suggestions for the realisation of social justice and elimination of concentration of wealth. Some of the main features of the model include reduction in the power of financial institutions, increase in the equity/loan ratio, spreading of the ownership of business in society and reform of the stock market. The author advocates that capital deepening and profit-sharing could give the developing countries a big push in real terms in their early stages of development.

4.2.3 “A PROFILE OF *RIBA-FREE* BANKING”

By: M. Mohsin, appeared in *Monetary and Fiscal Economics of Islam*, M. Ariff (ed.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia. 1982, pp. 187-210.

In this paper an attempt has been made to present a viable model of interest free commercial banking in a mixed capital market. The study assumes that interest is prohibited in Islam. As an alternative to interest the study suggests that banking operation is possible through ‘trading’ and financial transactions can be linked with accepted Islamic practises of *Muzar’ah*, *Musaqah*, *Mugharsah*, and *Qirad/Mudarabah*.

The study recognises that interest is a key element in modern banking and its elimination may even distort the generic notion of a modern bank. But it is also true that modern banks are switching their operation towards ‘non-banking’ activities. Factoring and other similar activities related to ‘trading’ provide a clue to alternative activities.

The very fact that portfolio structure of commercial banks differs and the proportion of interest in *income* and *outgo* varies from bank to bank and also from time to time in the same bank reflects flexibility. It also indicates that bank activities depends upon availability of opportunities as well as upon management discretion. Besides banking legislation in most countries do not insist upon interest transactions. The main purpose of legal stipulations is to ensure the solvency of banks and insist that banks must be able to meet their financial obligations at all times and under all circumstances. This condition, like modern banks, *Riba* Free banks can effectively meet the pursuing a matching policy.

The purpose of matching assets with the nature and terms of liabilities is to: (a) meet the de facto and de jure requirements of cash (b) fulfill the expectations of the depositors and borrowers (c) cover the administrative cost of the banking and non-banking operation (d) yield a surplus to satisfy the depositors and (e) contribute to its reserves for future expansion and growth.

Keeping in view the additional constraints involved in interest free banking, several saving schemes have been proposed in this paper. They include Demand Deposits, Joint Venture Plan, Unit Investment Plan and Housing Deposit Schemes. Each of these saving plans have distinctive character and differs from those offered by modern commercial banks.

The *Riba* Free Banks will stimulate ‘product differentiation’ which is the main character of imperfect competition. *Riba* Free Banks will be offering distinct services especially tailored for those looking for investment without interest and prefer to share profit or losses. Success in imperfect capital market will depend upon the ability of *Riba* Free Banks in creating product differentiation and motivating the people to choose an interest-free financial transaction.

4.2.4 “CENTRAL BANKING OPERATIONS IN AN INTEREST-FREE BANKING SYSTEM”

By: M. Uzair. appeared in *Monetary and Fiscal Economics of Islam*. M. Ariff (ed.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah. Saudi Arabia, 1982, pp. 211-236.

In this paper the author argues that the overall monetary policy objectives of the central bank are universal irrespective of whether it is an interest-free system or not. The major objectives include (a) promotion of sustained and balanced economic growth; (b) maintenance of economic stability in the country; and (c) maintenance of stability in the external value of currency of the country. However, the primary concern of the central bank in an interest-free banking system. The following major conclusion emerge from the paper:

- (a) Instruments of control like bank rate and open market operations will be the ones where most adjustments are required to suit the interest-free banking system. However, instruments like ‘reserve requirements’ to regulate the liquidity position in the economy through banking system, can continue to be applied in an interest-free system as well.
- (b) The main responsibility of the central bank will be to regulate the profit-sharing ratios which govern the financial transactions between the commercial banks and their clients and between the commercial banks and the depositors. A pragmatic approach will be for the central bank to prescribe a narrow range within which the ‘ratio’ may vary from bank and case to case. Moreover, the central bank may vary the prescribed ratios from time to time as the situation may demand.
- (c) Greater reliance may have to be placed on ‘selective’ methods of control rather than ‘general’ methods in an interest-free system.

Finally, while the paper suggests that there will be some need for public debt even in an Islamic economy, the power of the banking

system to create money need not and should not be eliminated. The central bank should have the final and ultimate authority with regard to creation of money supply.

4.2.5 “MONETARY POLICY IN AN INTEREST-FREE ISLAMIC ECONOMY - NATURE AND NEED”

By: M. ArifL appeared in *Monetary and Fiscal Economics of Islam*, M. Ariff (ed.) International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, 1982, pp. 287-310.

This paper is broadly divided into two parts. In the first part of his paper, he seeks to demonstrate that even in the modern “capitalistic” economic system interest does not perform so vital a function that its elimination will blunt the working of monetary policy. The second part of the paper gives an overview of what the author regards the distinguishing characteristics of an Islamic economy which provide “ample scope for monetary policy to play an effective role within an Islamic framework, inspite of the total absence of the interest elements”.

The author’s main contention in the first part of his paper is that “monetary policy based on interest rate manipulations suffers from serious shortcomings which have severe implications for the efficacy of monetary policy”. After a general discussion of some of the Keynesian ideas about money and interest and the main postulates of the new quantity theory of money, he argues that the effectiveness of interest rate policy however depend upon the sensitivity of investment and saving to changes in the rate of interest. He then proceeds to suggest that “if cost-of-credit considerations are totally irrelevant for investment decisions, interest rate variations will have no impact at all upon the economy. If cost-of-credit considerations are irrelevant within a certain range of interest rates, the usefulness of monetary policy is partially impaired. If credit-cost considerations matter in the upward directions only, monetary policy becomes asymmetrical in its impact. Indeed, these possibilities cannot be ruled out”. Subsequently, he states “The Keynesian analysis unambiguously suggests that it is the business expectations and not cost-of-credit considerations which strongly influence investment decisions”. He also cites certain studies which support the view that “investment demand is generally insensitive to changes in the rate of interest. It even appears that the cost of capital hardly enters into investment decisions”.

In the second part of the paper his main thesis is that the probability of cyclical fluctuations is comparatively small in an Islamic economy which, for this reason, tends to be more stable than a capitalistic economy. He therefore, feels that in such an economy the need for an active monetary policy would be felt somewhat less compared to other market economies. As for the effectiveness of monetary policy in the framework of an Islamic economic system, the author is of the view that the absence of the interest element does not constitute much of a handicap “in view of the dubious macro-economic stabilisation role of interest rates and the necessary control can be exercised through variation in the money stock per Se. It is further argued that an Islamic economy is perhaps even better-off in the sense that the need for such a policy is felt somewhat less, as the economy tends to be relatively stable”.

The two basic assumptions underlying the above analysis are (a) the existence of a low consumption profit and (b) the absence of a serious divergence between saving and investment in an Islamic set-up.

4.3 “RATIONALE OF ISLAMIC BANKING”

By: M.N. Siddiqi, Research Paper No.4, International Centre for Research in Islamic Economics. King Abdulaziz University, Jeddah, Saudi Arabia, 1980, 22 p.

This paper answers the question why Islamic economists advocated a change from interest to profit-sharing. It is argued that the interest-based system is inefficient as well as unjust. It has an inherent tendency towards inflation and it fails to provide a just and viable basis for international monetary relations. The change to a system based on profit-sharing will contribute to allocative efficiency, justice and stability. It can also serve as a viable basis for international flow of funds.

The author concludes the paper with a very brief outline of Islamic banking. It is said that under Islamic system there will be a central bank to control the supply of money and regulate and guide the activities of the commercial banks and other financial institutions. Commercial banks will be organised with share capital and will accept demand deposits and investment accounts from the public. They will offer all the conventional banking services like safe keeping, transfers etc. for a fee. Demand deposits may or may not involve any service charges and they will not bring any return to depositors. Deposits in investment accounts may be for specific projects, or left to the

discretion of the bank for suitable investment. Banks may also buy stocks or investment certificates to diversify their portfolios. They may also resort to leasing arrangements covering such items as buildings, ships, planes, and industrial equipments etc.

Thus the dominant form of transaction in the system will be investment and not lending. Additions to the supply of money will be largely contingent upon investments directed at creating additional wealth. Though the system has built-in tendency to prevent concentration of wealth and power, the central bank as well as the state will guard against such a possibility and take suitable steps to maintain a balance.

4.4 A SURVEY OF ISSUES AND A PROGRAMME FOR RESEARCH IN MONETARY AND FISCAL ECONOMICS OF ISLAM

By: Munawar Iqbal and M. Fahim Khan (eds.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, and Institute of Policy Studies, Islamabad, Pakistan, 1981, 120p.

In this monograph an attempt is made to give a glimpse of the important issues in the field of monetary and fiscal policy emerging out of the Islamabad seminar on Fiscal and Monetary Economics of Islam.

The major issues have been picked up from the papers and the discussion thereupon and various opinions on the issues have been assorted and documented. The issues on which some degree of consensus was reached as well as the controversies arising out of the discussions have been identified. An effort has been made to bring into sharp focus, issues which require further research and discussions.

After introduction, the chapter two deals with the monetary structure and policy in an Islamic framework. The functions of money and banking, the institutional structure, the objectives and the instruments of monetary policy are among the issues which form the subject-matter of this chapter. In chapter three the experience of interest-free banking has been reviewed. A strategy for the implementation of the new system has been proposed and the performance of the existing Islamic banks in various countries has been assessed. Chapter four deals with the fiscal policy in an Islamic economy. The scope of fiscal policy in general and of a taxation policy in particular has been investigated. The objectives of Islamic fiscal policy have been highlighted and the mechanism for their

achievement laid out. In chapter five the various aspects of the economics of profit-sharing have been analysed. The questions of the stability of the economy under profit-sharing and of the allocation of resources under the new system have been examined. The rationale and the practical approach to project evaluation in an Islamic economy has been spelled out. Profit-sharing as a tool for income distribution has also been discussed. Chapter six provides a summary while chapter seven highlights the areas in which further research is required.

4.5 MONEY AND BANKING IN ISLAM

Z. Ahmad, M. Iqbal and M. Fahim Khan (eds.)

This is a book of reading consisting of the following of the following articles abstracted separately and arranged by functional category in this booklet:

1. Monetary Policy in an Islamic Economy.
- M. Umar Chapra.
2. A Monetary and Financial Structure for an Interest-Free Economy: Institutions, Mechanism and Policy.
- Ma'bid Ali AI-Jarhi.
3. Elimination *of* Interest from the Economy.
- Report of the Pakistan Council of Islamic Ideology.
4. Islamic Banking as Practised now in the World.
- M. Fahim Khan.

4.5.1 “A MONETARY AND FINANCIAL STRUCTURE FOR AN INTEREST-FREE ECONOMY: INSTITUTIONS, MECHANISM AND POLICY”.

By: Ma’bid Ali Al-Jarhi, appeared in *Money and Banking in Islam*, Z. Ahmad *et al.* (eds.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia and Institute of Policy Studies, Islamabad, Pakistan, 1982, pp. 69-87.

In this paper the author proceeds to identify the main features of the present Western-type financial and monetary structure and compares it with the alternative structure that might exist in an interest-free Islamic economy.

What the author proposes is to replace this system with what he calls as productivity based financial-monetary structure. The organizational structure of his alternative system is essentially the same as the existing systems in the U.S. and other Western developed countries: there exist a central bank, a number of commercial banks and the public sector that uses the facilities of the monetary system. However, what is different is how the central and commercial banks and the treasury operate in an interest-free economy. Central bank creates fiat money but not against government interest-bearing securities. It anchors the growth of money supply to the growth rate of the economy and if full employment prevails the rate of inflation will be zero. In his proposed system there is no fractional reserve and the central bank issues certificates as liabilities and holds loan accounts and deposits in member banks and some of its assets are held in the form of cash. The member banks hold assets in the form of cash, equity shares, profit-sharing and leasing accounts while their liabilities consist of non-interest-bearing demand deposits and certificates issued to their customers. The treasury is assigned the role of collecting and distributing the proceeds from *Zakah* and management of society’s social resources. Finally, in this system there is a multiplicity of financial instruments such as Central Deposits or Lending Certificates, Profit-sharing Certificates, Leasing Certificates, etc.

What is important is that none of the financial instruments commands any interest; instead what propels the system is that member banks are basically investment banks which participate in different investment projects and make their profits or losses by taking equity position in real investment projects. Thus the present indirect link between the financial market and the goods market established by the intermediation of the financial institutions is replaced by direct participation of banks in productive investment projects.

4.5.2 “MONETARY POLICY IN AN ISLAMIC ECONOMY”

By: M. Umar Chapra, appeared in *Money and Banking in Islam*, Z. Ahmad *et al.* (eds.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, and Institute of Policy Studies, Islamabad, Pakistan, 1982, pp 27-46.

This paper represents an attempt to highlight the role that monetary policy should be designed to play in an Islamic economy and to show it can be made to play its role effectively if interest is abolished and two important instruments of monetary policy in the capitalist economy, discount rate and open market operations in interest-bearing government securities, are not available. The paper also discusses the mechanism for equating the supply of money with its demand in the absence of interest as a regulating mechanism and a feasible alternative to interest-bearing government securities for financing government budgetary deficits in a non-inflationary framework. It is argued that, monetary policy has to be as important an instrument of public policy in an Islamic economy as it is in its capitalist counterpart. The objectives and tools must, however, be different because of the differences in the goals and the nature of the two systems and because of the prohibition of interest in Islam while it is a key ingredient in the capitalist system.

4.5.3 “ELIMINATION OF INTEREST FROM THE ECONOMY”

Report of the Pakistan Council of Islamic ideology, appeared in *Money and Banking in Islam*, Z. Ahmad *et al.* (eds.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia and Institute of Policy Studies, Islamabad, Pakistan, 1982, pp 103-200.

This Report, besides ‘Introduction’ consists of five sections with a Summary of Conclusions and Recommendations at end. In the introductory section the Report discusses the nature and the rationale of the prohibition of *riba* in Islam. The Section-I entitled “Issues, Problems and Strategy” deals exhaustively with practical considerations in applying the profit/loss-sharing system, other possible devices for replacing interest and safeguards for the success of the new system. The Section-II discusses in detail the mechanisms for the elimination of interest from the operations of the commercial banks. It provides detailed guidelines for re-orientating the financing operations of the commercial banks in respect of assistance to be provided to industry, agriculture, commerce, construction, transport and other sectors so as to eliminate interest. In respect of bank

deposits, the Council has recommended an alternative system under which, after a transitional period, savings and time deposits will cease to earn a fixed return but would instead get a variable return. The Section-III deals with ways and means of eliminating interest from the operations of specialised financial institutions. The Section-IV deals with Central Banking and Monetary Policy in interest-free economy. For influencing the allocation of productive resources in the interest-free system, the Report recommends that the State Bank be empowered to fix and vary its profit-sharing ratios in respect of its own financial assistance to banks and other financial institutions in respect of its own financial assistance to banks and other financial institutions in respect of finance provided by them. The final Section of the Report deals with the elimination of interest from Government transactions.

4.5.4 “ISLAMIC BANKING AS PRACTISED NOW IN THE WORLD”

By: M. Fahim Khan, appeared in *Money and Banking in Islam*, Z. Ahmad *et al.* (eds.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia and Institute of Policy Studies, Islamabad, Pakistan, 1982, pp. 259-276.

The paper is divided into two parts, Part-A explains the operation of Islamic Banks and Part-B deals with some issues facing Islamic Banks. It is pointed out that the main principles on Islamic Banking are operating as follows:

- (i) Prohibition of interest in all forms of transactions.
- (ii) Undertaking business, and trade activities on the basis of fair and legitimate (*halal*) profit.
- (iii) Giving *Zakah*.
- (iv) Prohibition of Monopoly.
- (v) Cooperation for the benefit of society and development of all *halal* aspects of business, trade and investment that are not prohibited by Islam.

The paper identifies a number of *common* features of these Islamic banks and discusses a number of issues such as problem of the borrowers of pure loan, investment in long gestation projects and so on.

Finally, the paper stressed on the need for further research on some issues such as service charge on pure loan, calculation of rent on physical capital determination of a margin of profit in trading.

Islamic economy has been spelled out. Profit-sharing as a tool for income distribution has also been discussed. Chapter six provides a summary while Chapter seven highlights the areas in which further research is required.

4.6 ‘ISLAMIC VIS-A-VIS TRADITIONAL BANKING A ‘FUZZY-SET’ APPROACH’

By: Said S. Martan *et al.*, appeared in *Journal of Research in Islamic Economics*, Vol. 2, No.1, Summer 1404/1984.

The objectives of this paper is to conduct a comparison between the interest-based commercial banking system and the Islamic banking system. The paper pointed out that, while traditional banks steer their goal towards the maximization of profit subject to a reasonable level of liquidity, safety and soundness of performance, Islamic banks and Institutions seek to maximise an objective function which includes social benefit, welfare of the society subject to profit constraints.

A multi-attribute decision analysis is employed by authors as tool in differentiating between the advantages and the disadvantages associated with the establishment and operation of each system. Profitability, liquidity, protection of accounts, investment services, economic development, income distribution and social solidarity, international dependency, stabilization of prices, adaption to local laws and legislation and finally public acceptance are among the selected criteria on which the study was conducted.

Fuzzy sets and IFDA (International Multiattribute Fuzzy Decision Analysis) computer codes were used to conduct a comparison between the two systems for three different scenarios. It was found that for all scenarios, Islamic Banks are superior to the traditional banks in furthering the welfare of the society.

Functional Category - 5

FISCAL ECONOMICS OF ISLAM

- 5.1 *Zakat* and Fiscal Economics of Islam
- F.R. Faridi.
- 5.2 Fiscal and Monetary Policies in an Islamic Economy
- Monzer Kahf.
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5.1 “ZAKAT AND FISCAL ECONOMICS OF ISLAM”

By: F.R. Faridi, appeared in *Studies in Islamic Economics*, K. Ahmad (ed.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, and the Islamic Foundation, U.K., 1980/1400H, pp. 119-130.

The present paper is an attempt to analyze *Zakat* as the irreducible minimum ingredient of the fiscal policy of an Islamic State. At the very outset it rejects the popular stipulation that fiscal management in an Islamic State is coterminous with *Zakat*. On the contrary, it assumes the permissibility and also occasional desirability of additional mobilization and also occasional desirability of additional mobilization of resources for state production of “social goods” in an Islamic society. It attempts to incorporate *Zakat* in the overall framework of fiscal policy and studies it as the “leading sector” of the broader complex of revenue-expenditure pattern of public authorities. *Zakat* is treated here only as an “economic variable”, though its religious importance cannot be minimised. The general economic significance of *Zakat* happens to be directional and normative. It defines the norms of economic activity, also of fiscal activity as a subsection thereof and determines, through its effects on economic variables, flows and magnitudes, the direction along which the economy is desired to move.

The study assumes a socio-cultural milieu based on Islamic precepts and values. The Islamic fiscal policy can operate only as a complement to other facets of socio-economic policy: its success or failure depends on their availability. It refers to an institutional organisation based on Islamic teachings, some important features of which are as follows:

- (1) Prohibition of interest (*riba*).
- (2) Prohibition of gambling, hoarding and fraudulent trade practices.
- (3) Imposition of *Zakat*.

In addition to the above, the paper analysis assumes minimum mobility of capital and labour as between the interest-free and interest-based societies. It is argued that since the objectives of fiscal policy are derivative from the overall goals and orientations of the socio-economic policy of a society, the paper indicates its two objectives as follows:

- (1) To ensure minimum means of livelihood to each and every individual in the community.
- (2) To ensure productive use of economic resources for the material well-being of the community.

Within this framework the paper also discusses income elasticity of *Zakat*, its stability, contra cyclical use, and multiplier effects. The author advocates the *Zakat* fund be invested to improve the conditions of the eligible recipients.

5.2 “FISCAL AND MONETARY POLICIES IN AN ISLAMIC ECONOMY”

By: M. Kahf, appeared in *Monetary and Fiscal Economics of Islam*, M. Ariff (ed.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, 1982, pp.125-144.

The main purpose of this paper is to point out the two essential characteristics of the Islamic economy. These are (a) the existence of internal economic forces that work inside the system to bring it closer to its broad goals and (b) the flexibility it lends to the economic authority to use a variety of instruments in order to introduce the desired changes in the economy. These two characteristics are structural in the Islamic economic system in the sense that they are the results of its basic assumptions.

The internal forces of the system are put to action, because of *Zakah* and the prohibition of interest, resulting in greater consumption of basic commodities (and less consumption of luxuries), higher investment, smaller divergence between investment and saving and more government involvement in the economy. The approach of the paper is theoretical. It, therefore, does not suggest any specific set of policy objectives but rather attempts to describe the instruments of economic policy as derived from the Islamic framework. It is argued that an Islamic economy offers more, in terms of harmony and coherence of economic activity and in terms of policy instruments that are made available for achieving the various economic goals without reducing the economic incentives of the actors on the economic stage, than what has been repeatedly offered by free-market capitalism and centrally-planned socialism.

In what follows, Section two describes the mechanism concerning the fiscal and monetary policies in the capitalist and socialist systems, and Section three focuses on an Islamic economy, while Section four discusses policy instruments. In this study, a three-sector economy consisting of consumers, producers and government is assumed. The role and realm of reign of each is specified.

5.3 “FISCAL ANALYSIS OF ZAKAH WITH SPECIAL REFERENCE OF SAUDI ARABIA’S EXPERIENCE”

By: A.A. Salama, appeared in *Monetary and Fiscal Economics of Islam*, M. Ariff (ed.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, 1982, pp.341-374.

The aim of this paper is to provide a fiscal analysis of *Zakah* in theory and in practice and to examine the rationale of applying properly designed taxes in an Islamic State.

The theoretical analysis in Section two highlights the major characteristics of *Zakah* such as the nature of *Zakah*, the rationale behind its imposition, the coverage of *Zakah* or the *Zakah* base and the rates of *Zakah*.

The third section of the paper provides a theoretical analysis of the experience of the implementation of *Zakah* legislation in the Kingdom of Saudi Arabia. The paper gave the explanation of the salient features of *Zakah* as applied in the Kingdom, and the major developments of *Zakah* legislation as well as the pattern of *Zakah* revenue during the last sixteen years. A positive analysis of *Zakah* during the period 1382-1395/96 is provided in Section four, using the official rate of budgeted *Zakah* and Gross Domestic Product (GDP) figures. *Zakah* collected is analysed in relation to the *Zakah* base using a limited base, i.e., wholesale and trade contribution to the GDP and then a broader base, i.e., the overall private sector’s contribution to the GDP.

Potential *Zakah* revenue is computed applying a rate of 2.5 per cent, using narrower and *broader* bases of *Zakah*. A potential *Zakah* revenues using a broader is compared to the GDP. A low *Zakah* ratio would not lend support to the argument that *Zakah* is the only levy that a Muslim country should impose, for it would mean that *Zakah* alone will not be a source of sufficient revenues for a modern state. The *Zakah* yield on a broader is also compared to the present expenditures on social security in Saudi Arabia and to an extended social security system that will cover wider services using Islam’s broader concept of poverty. The potential *Zakah* on a broader base is compared to the Saudi government’s expenditure on essential services, and this is used to test the above hypothesis that *Zakah*, even when broadly applied, may not be enough to meet these expenditures. The economic advantages of applying properly designed taxes are investigated. It is emphasized that *Zakah* represents earmarked revenue and as such it is not meant to cover current deficits.

The results found in this paper are presented to the Muslim jurists for decision on the following questions:

1. Should *Zakah* base be broadened in order to cover all modern economic activities that yield revenue?
2. Should taxes other than *Zakah* be imposed in an Islamic State and, if so, what should be the attributes of these taxes?
3. Should Saudi Arabia, as a leading Islamic State in the application of *Zakah*, use a broad-based instead of the limited-based *Zakah* and is it advisable for Saudi Arabia to apply other taxes, to achieve goals other than revenue?

However, the author advocates that an extra source of finance is to be raised to avoid deficit financing and that the *Zakah* base be expanded to include all incomes earned in Saudi Arabia.

5.4 “A THEORY OF FISCAL POLICY IN AN ISLAMIC STATE”

By: F.R. Faridi, appeared in “*Fiscal Policy and Resource Allocation in Islam*”, Z. Ahmad, M. Iqbal, and M. Fahim Khan (eds.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia and Institute of Policy Studies, Islamabad, Pakistan, 1983. pp. 27-54.

The present study attempts a theoretical exposition of the fiscal dynamics of an Islamic economy. The author argues that in view of the absence of any empirical base in the modern world, the exposition relies heavily on the following techniques of analysis:

1. The norms and values that are relevant to and direct the economic aspect of individual and collective behaviour in an Islamic society have been spelt out in terms of their likely impact on the allocation, distribution and stabilization branches of public economics.
2. The behaviour of an Islamic economic system in the past has been taken as the datum for theoretical projection in future. In other words, the total absence of any empirical base in the modern Muslim societies has been partly compensated for by a selective adoption of the past Islamic societies, as the sample.

In the language of the author, the main elements of this theory is summarised as follows:

1. Islamic economy has been characterised as a three-sector economy, namely, the private sector, the voluntary sector, and the public sector. The three sectors working in conjunction, furnish the institutional framework of an Islamic economy.
2. *Zakah* provides the base of the fiscal system and defines its scope of operation within the general institutional framework of the Islamic economy.
3. The allocation, distribution and stabilization functions of an Islamic economy are processed and implemented through all these sectors jointly.
4. Public sector's role is minimal but crucial in so far as it operates continuously to ensure an optimal allocation of community's resources, rectifies sub-optimal distribution of income, and introduces an element of stability.

Thus the objectives of fiscal policy in an Islamic state may be summarised to be; achieving material development that is consistent with *Shari'ah* economic stability; efficient allocation of resources and an equitable distribution of income by reducing signs of mal-distribution and reducing lavish consumption.

5.5 "FISCAL POLICY IN AN ISLAMIC STATE"

By: M.M. Metwally, appeared in *Fiscal Policy and Resource Allocation in Islam*, Z. Ahmad, M. Iqbal, and M. Fahim Khan (eds.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, and Institute of Policy Studies, Islamabad, Pakistan, 1983, pp. 59-81.

The paper investigates the basic differences between fiscal policy in an Islamic economy and in non-Islamic economies. It shows that there are substantial differences in the role of fiscal policy, its objectives, its measures and its mechanism in the two types of economies.

It determines the effects of *Zakah* on the consumption function and on the demand for investment in Islamic economies. The paper also explains how fiscal policy can be used to achieve equilibrium in the money market in Islamic economies where interest does not exist.

Moreover, in this paper the author tries to demonstrate how to tackle problems of inflation and unemployment in Islamic economies by the manipulation of the "dues" on incomes and idle assets.

Finally, the paper suggests a methodology for budgeting in Islamic economies to achieve economic stability. It is argued that the findings of this paper have policy implications for Islamic economies.

5.6 “TAXATION POLICY IN AN ISLAMIC ECONOMY”

By: Monzer Kahf, appeared in *Fiscal Policy and Resource Allocation in Islam*, Z. Ahmad, M. Iqbal and M. Fahim Khan (eds.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia and Institute of Policy Studies, Islamabad, Pakistan, 1983, pp. 131-153.

This paper consists of three parts. In part one, the theoretical foundation and the rationale of taxation policy as provided by the Muslim writers is discussed. Part two is devoted to the priorities of the Islamic state and its economic role. And part three explicates the principle of taxation policy in Islam.

The author argued that the following three economic roles of Islamic state are the most important:

1. The Islamic state is a welfare state. The prosperity of the economically lower sections of society is its major consideration.
2. The Islamic state is in a developing stage for which economic growth is extremely important; it plays the predominant role in shaping the state's policy.
3. The main objective of the economic policy of an Islamic state IS to maintain economic balance and equilibrium.

The general principles of taxation policy is an Islamic state will be derived on the basis of the roles of an Islamic state. Then the author discussed two other areas of taxation policy: (1) the conditions for imposing new taxes, and (2) the determination of the taxpayers and the tax procedures.

5.7 “SOME ADMINISTRATIVE ASPECTS OF THE COLLECTION AND DISTRIBUTION OF *ZAKAH* AND THE DISTRIBUTIVE EFFECTS OF THE INTRODUCTION OF *ZAKAH* INTO MODERN ECONOMICS”

By: M. Raquibuz Zaman, Research Paper No. 22, International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, 1985.

This paper presents an administrative set-up for the collection and the distribution of *Zakah* by an Islamic state. The author's contention is that the collection and the distribution of *Zakah* should be supervised by the Islamic state in order to ensure that *Zakah* is appropriately assessed and distributed to the specified categories of recipients. In this, the author urges that the precedent established by the Prophet (peace be upon him) and the first two Caliphs be followed, rather than depending on individual citizens to carry out their obligations.

A brief discussion is made on the importance of assessing *Zakah* on wages. The author then lays down the features of an administrative set-up for the collection and distribution of *Zakah*. This set-up, the author believes is functional, simple and can be set up with relative ease. It will minimize bureaucratic red tape and will be relatively cheap to run, while allowing the local communities the control over the distribution of *Zakah*.

Finally, the author presents simulated results of the distributive effects of *Zakah* for two economies - one very poor, the other relatively rich. The purpose of the simulation was to show how to extract data on income distribution from published macro-data on GDP and occupational distribution, and then how to analyse the data to show the redistributive effects of *Zakah* on particular economies. The paper concludes that a simulation model can be applied by the responsible planners and policy makers who are entrusted with the task of assessing the distributive effects of *Zakah* on their countries.

5.8 “FISCAL POLICY IN AN ISLAMIC STATE”

By: A.A. Salama, appeared in *Fiscal Policy and Resource Allocation in Islam*, Z. Ahmad, M. Iqbal and M. Fahim Khan (eds.), Inter national Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, 1983, pp. 79-118.

The paper is divided into four parts. Part one deals with allocation, stabilization and distribution function of the fiscal policy. Part two and three deal with past and present sources of revenue of Muslim states respectively. Part four is devoted to discuss government expenditure in an Islamic state. The major conclusion of the paper is as follows:

- (a) The objectives of fiscal policy in an Islamic state may be summarised to be: achieving material development that is consistent with *Shari'ah* economic stability; efficient allocation of resources and equitable distribution of income by reducing signs of maldistribution and reducing lavish consumption.
- (b) Fiscal policy will be an important economic device in an Islamic state. Past fiscal tools during the peak of Islamic civilization were taxes on land Kheraj, *Zakah* as well as other sources of revenue, social welfare payments and government expenditure policies. Such tools must be used and they may be enhanced with taxes optimally designed to achieve the objectives outline.
- (c) Sources of finance in an Islamic state must be designed in a way so that they will not impede economic growth.
- (d) Public money must be spent where it is most needed without extravagance. Governments should not be destabilizers to the economy by spending beyond financial resources or by constantly relying on deficit financing or taxation beyond what is optimally desired.
- (e) In this sense fiscal policy of an Islamic state aims at providing minimum necessities to all members of the state. It also aims at preventing huge accumulations of incomes and wealth in few hands.

5.9 SOCIAL SECURITY SYSTEM OF ISLAM WITH SPECIAL REFERENCE TO ZAKAH

By: Najmul Hasan, Research Paper No. 19, International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, 1984, 57p.

The paper highlights the need for social security in an Islamic setting so that the social cost of industrialisation is minimized and the Muslim community is enabled to adjust easily and quickly to the demands of the new socio-economic realities. The author tries to define social security and explains why it is necessary. Social security is viewed as a scheme to provide relief to the victims of social contingencies. It is argued that the social security schemes which can operate under the auspices of the state may assume any of the three patterns: it may pass required legislation and supervise the implementation of the scheme; it may pass legislation, finance and administer the scheme; and it may pass legislation, subsidies and monitor the implementation of the scheme. However, the paper argued that social security may be provided through social insurance or social assistance. Social insurance is a plan of giving benefits in return for contributions up to the subsistence level, as of right, so that individuals may build freely upon it. Social assistance is a scheme that provides benefits, for persons of small means granted as of right, in amounts sufficient to meet minimum standard of need and financed from taxation.

The author then tries to explain the different types of social security systems that exist in different parts of the world. He reaches the conclusion that there are three main models namely: the ILO model, the communist model and others. In an Islamic system the main reliance for providing contingency protection is placed on *Zakah*. It is not a tax that can be levied or withdrawn by the state. It is an obligation on the part of the rich towards the poor. The author therefore argues that *Zakah* provides the basis for social security in an Islamic set-up. In certain respects it resembles social assistance. But the beneficiary of social assistance carries legal title to benefits while *Zakah* beneficiary has only moral but no legal title to it. Social assistance is financed from general revenues but *Zakah* is a special levy and can be used for specified purposes only. The author has also pointed out the limitations of social insurance.

The author summarises up his discussion by making a comparison between Islamic social security and the secular social security bringing out the merits and the demerits of secular social security scheme and suggesting ways in which an Islamic state can implement or operate its social scheme.

Functional Category: 6

DEVELOPMENT AND DISTRIBUTION IN ISLAM

- 6.1 Economic Development in an Islamic Framework
- Khurshid Ahmad.
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- F.R. Faridi.
- 6.10 Distributional Equity in Islam
- Zubair Hasan.
- 6.11 The Strategy of Economic Development in Islamic Economy
- M.A. Mannan.

6.1 “ECONOMIC DEVELOPMENT IN AN ISLAMIC FRAMEWORK”

By: Khursid Ahmad, appeared in *Studies in Islamic Economics*, K. Ahmad (ed.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, and the Islamic Foundation, U.K., 1980, pp. 171-190.

In this paper an attempt is made to show that Islam is deeply concerned with the problem of economic development, but treats this as an important part of a wider problem - human development with the result that economic development remains an integrated and indivisible element of the moral and socio-economic development of human society. The paper lays down the following four principles of the philosophic foundations of the Islamic approach to development:

1. *Tawhid* (God’s unity and sovereignty).
2. *Rabubiyyah* (Divine arrangements for nourishment, sustenance and directing things towards their perfection).
3. *Khilafah* (man’s role as God’s vicegerent on earth).
4. *Tazkiyah* (purification plus growth). The result of *Tazkiyah* is *falah-prosperity* in this world and the hereafter.

In the light of these foundational principles, the following five elements of the concept of development have been identified:

- (a) The concept of development has a comprehensive character and includes moral, spiritual and material aspects. Development becomes a goal and value-oriented activity.
- (b) The focus for development effort and the heart of the development process is man, and his physical and socio-cultural environment.
- (c) Economic development is a multi-dimensional activity.
- (d) Economic development involves a number of changes, quantitative as well as qualitative.
- (e) Islamic development efforts call for optimum utilisation and equitable distribution of resources.

This is followed by formulation of the goals of development policy as derived from the above concept of development in an Islamic framework. The paper stressed the need for the following:

1. Human resource development.
2. Expansion of useful production, ensuring availability of food and basic items of necessity at reasonably cheap prices, of defense requirements of the society and production pattern ensuring self-sufficiency in basic capital goods.

3. Improvement of quality of life ensuring employment creation, broad-based system of social security based on *Zakah*, equitable distribution of income and wealth.
4. Balanced and harmonious development between sectors and regions of society, emphasizing de-centralisation of enterprises and decision-making in the economy.
5. Evolution of new indigenous technology in keeping with Islamic values.
6. Reduction of national dependence on the outside world and greater integration within the Muslim world in order to fulfill the demands of *Ummah's* position as *Khalifa* vis-a-vis rest of the world.

Lastly, the author has tried to specify some of the new changes that would be needed in contemporary approaches and methodologies of development planning.

6.2 “THE CONCEPT OF ECONOMIC DEVELOPMENT IN ISLAM1”

By: M. Raihan Sharif, presented at the Second International Conference on *Development, Finance and Distribution in Islamic Perspective*, held at Islamabad, Pakistan, and also to appear in a book: “*Economic Development in an Islamic Framework*” (forthcoming).

The purpose of this paper is to indicate how the foundations of conceptualism on economic development can be improved by adding the dimensions of the rationale of the Islamic socio-economic framework. Modern economic theory which is admittedly suffering from “narrowness” and “shallowness” of factual foundation has lost much of its relevance to the realities of socio-economic conditions of today, both in developed and third world developing countries.

In this background, an analysis of the foundations of Islamic conceptualism points to a meaningful ‘relevance’ to the problems of socio-economic growth which require solution in a multi-dimensional approach, centrally depending on the role of man as the mover of mechanism and institutions. Thus the ‘relevance’ of Islamic conceptualism, because of its intrinsic validity over time till to-day, can be very productively used for evolving the new necessary model for meeting the challenges of human poverty and inequitable distribution of income and economic crises.

In this model, control and guidance of behaviour, personal and institutional, takes place at the source of the human soul, as required by the universal concept of *'adl* and *ahsan*. This concept, provides guidance on the maintenance of 'just' relationships in terms of human justice, social justice, economic justice and self-justice. The operation of the four-dimensional principle of justice can, in fact, prevent the emergence of unsocial problems of gross inequality of income, excessive unemployment and poverty and unreasonable reliance on foreign goods, weapons, knowledge and culture.

Muslims are unambiguously required to conform to the economic norms through the *Shari'ah* based obligations such as: (a) obligation to work for a living, (b) obligation to organise economic activity, (c) obligation to distribute justly after organising activities by 'mutual goodwill', and (d) obligation to deal with poverty and other social problems.

Thus what is needed on the part of the Muslim countries is to strengthen greatly the forces of the functioning of obligations for "just behaviour" and improve the institutional framework for this functioning. Problems of cultural conglomeration (through export/import of labour) have to be grappled with courage and vision. The true identity of the Islamic Ummah is now in the process of a vital transition in which many sided efforts, national and international (in the current sense of political nationalism) have to be consciously planned. In this process the Islamic concept of economic development is to be evolved involving the resolution of conflicts in development objectives.

6.3 "DISTRIBUTIVE JUSTICE AND FISCAL AND MONETARY ECONOMICS IN ISLAM"

By: Mahfooz Ahmad, appeared in *Monetary and Fiscal Economics of Islam*, M. Ariff (ed.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, 1982, (1403 H), pp. 311-340.

In this paper attempt is made to highlight the problems of income and wealth distribution and their policy implications in the Muslim countries. The paper is divided into four sections including the introduction. In Section two, the present state of income distribution in Muslim countries is analysed and the dimensions of the problems are highlighted. Section three, presents the concept and the importance of distributive justice in Islam, and reviews the Islamic fiscal and monetary structures. In the last section, an attempt is made to derive

certain implications with reference to the analyses in the preceding sections.

It is argued that income inequalities happen to be very acute in a majority of Muslim countries. Data on the distribution of wealth is not available but it is generally agreed that wealth tends to be more unevenly distributed than income everywhere.

The existence of acute income and wealth disparities particularly in Muslim countries is somewhat inconsistent with Islam's emphasis on social and economic justice. In a sense, Islam treats all as being equal before God without distinction of rank, class or race. The entire institutional and policy framework in Islam is geared to the achievement of the fundamental objective of distributive justice although a certain degree of flexibility is permitted in regard to the scope, coverage and other operational details of the policies.

It is pointed out that the review of the Islamic concept of distributive justice and the fiscal and monetary structures during the classical era enables us to derive certain policy implications for tackling the problems of the prevailing disparities in income and wealth distribution among the Muslim countries today. Thus the author advocated that the major thrust of the strategy would be a massive redistribution of income and wealth at the instance of the State to be dealt with at both national and regional levels.

6.4 “THE ECONOMICS OF POVERTY IN ISLAM WITH SPECIAL REFERENCE TO MUSLIM COUNTRIES”

By: M.A. Mannan, presented at the Second International Conference on *Development, Finance and Distribution in Islamic Perspective*, held at Islamabad, Pakistan and also to appear in a book “*Distribution in an Islamic Framework*” (forthcoming).

The three main objectives of the paper are:

- (a) to examine the Islamic view on human poverty with special reference to Muslim societies;
- (b) to examine the main causes of poverty in an Islamic perspective; and
- (c) to discuss the various approaches for the reduction of poverty in the light of Islamic values.

Contrary to popular notion, human poverty in Islam is indeed concerned with both material as well as cultural and moral poverty,

although this paper is mainly confined to the discussion of material poverty and Islamic responses to it.

While it is difficult to quantify the level and extent of material poverty, attempts have been made to integrate “minimum subsistence”, “minimum adequacy” and “minimum comfort” into definitions of poverty. It is argued, however, that when people are living at a subsistence or starvation level, it is desirable to attach absolute poverty rather than relative poverty as a matter of priority. Further more, it is pointed out that in most cases poverty in Muslim countries arises due to various factors such as colonial exploitation and its legacy, implementation of inappropriate development policies resulting in economic and financial dualism, neglect of human resources, low labour productivity and so on.

Lastly, it is maintained that Islamic solutions to the problems of poverty may include among other things, three basic lines of actions:

- (I) Initiating institutional and non-institutional reforms through legal and non-legal measures such as (a) re-structuring the development policies geared to the needs of the rural population, (b) introducing necessary reforms in the land tenure system, (c) progressive taxation to transfer funds for providing public goods such as education and training, health care and so on.
- (II) Providing Guaranteed Minimum Provision (GMP) to all concerned, determined by the level and stage of social and economic development to meet the basic minimum needs.
- (III) Re-constructing and re-activating the conventional tools of redistribution such as (a) collection and disbursement of *Zakah* and *Ushr* to achieve pre planned objectives, (b) fuller implementation of Islamic laws of inheritance and so on.

Each of the above-mentioned lines of approach is rooted in the *Shari'ah* in one way or other.

6.5 “GUARANTEE OF A MINIMUM LEVEL OF LIVING IN AN ISLAMIC STATE - BASIS IN *SHARJ’AH*, RATIONALE AND CONTEMPORARY IMPLICATIONS”

By: M.N. Siddiqi, presented at the Second International Conference on *Development, Finance and Distribution in Islamic Perspective*, held at Islamabad, Pakistan, and also to appear in a book “*Distribution in an Islamic Framework*” (forthcoming).

Fulfillment of the basic human needs forms an essential part of the Islamic vision of a society. The principle is based on the texts of the *Quran* and the *Sunnah*, *Caliphal* precedents and juristic consensus. Food, clothing, shelter, medical care and education are some of the needs that must be fulfilled. However, the level and the standard of need fulfillment is always subject to resource constraints and average level of living in a society. The responsibility to fulfill needs rests with the individual himself, his near relatives, the neighbourhood and the society in general. Since it is a *fard kifayah*, the ultimate responsibility of fulfilling needs devolves on the state. The author advocates that the constitution of an Islamic state must guarantee need fulfillment.

Need fulfillment calls for a comprehensive programme in the contemporary situation. Direct transfer of income to the poor, public provision of consumer goods and services and intervention in the commodity and factors market may be necessary for this purpose. Manpower planning and development coupled with a more equitable distribution of income and wealth may be necessary in the long run. In this regard the private sector has an important role to play too. Resource for funding need fulfillment programmes may come *out of Zakah* revenue, other state revenue and taxes levied specially⁶⁹ for this purpose. Less developed countries will need grants and interest-free credit from rich countries to implement these programmes. Inter-Islamic and international cooperation is needed to help poor countries in ensuring need fulfillment. The crucial first step is a general awareness of the spiritual and moral significance of the principle of guaranteed need fulfillment.

6.6 “POVERTY, INEQUALITY AND THE ROLE OF SOME ISLAMIC ECONOMIC INSTITUTIONS”

By: Ataul Hug, presented at the Second International Conference on *Development, Finance and Distribution in Islamic Perspective*, held at Islamabad, Pakistan and also to appear in a book “*Distribution in an Islamic Framework*” (forthcoming).

In this paper an attempt has been made to highlight the most significant and debatable issue of this decade-poverty and inequality with a view to finding solutions to them by the various economic institutions as envisaged by the *Shari’ah*.

After clarifying the concept of poverty in the light of the *Quran*, the two alternative hypotheses: growth with redistribution and growth without it are discussed. It is suggested that growth with redistribution is the only alternative to combat poverty and inequality and to ensure social justice in an Islamic framework at the same time.

In this connection the role of various Islamic institutions has been critically analysed. Of the various institutions, *Zakat* (including all other voluntary contributions like *Sadaqat* etc., and all other forms of proportional taxes in Islam) has been found to be effective in reducing poverty and inequality on the one hand, and ensuring social justice, on the other.

It is demonstrated that the institution of *Zakat* has a favourable effect on macro-variable more than any single institution devised by the proponents of modern economic systems - capitalistic or socialistic.

Furthermore, appropriate pricing policies in the product as well as in the factor markets are also analysed and related them with the institutions, injunctions and instances as have been set during the early days of Islam. Besides, the Islamic law of inheritance is also seen as a novel mechanism for ensuring redistribution of wealth and income, if it is properly implemented. The paper concludes at the distributional implications of *Zakat* on public expenditure and tools of existing revenues.

6.7 “A METHODOLOGY FOR THE FORMULATION OF URBAN DEVELOPMENT PLANS IN THE ISLAMIC CONTEXT WITH AN APPLICATION TO AL-MADINA AL-MUNAWARA”

By: Anis-ur-Rahman, presented at the Second International Conference on *Development, Finance and Distribution in Islamic Perspective*, held at Islamabad, Pakistan, and also to appear in a book “*Distribution in an Islamic Framework*” (forthcoming).

This paper is basically of interdisciplinary nature and deals with the spatial organization of socio-economic development in urban areas in an Islamic context. Although, in the final analysis all the developmental activities in space boil down to financial and fiscal inputs, yet the necessity of properly locating and prioritizing the development of socio-economic activities, in the context of commonly shared value system of the people, remains supreme. Al Madina Al-Munawara has been taken as a case example.

After discussing the salient attributes of Islam in the context of urban planning, and the rationale of an objective approach for urban planning in the context of Islamic ideology, the paper discusses the approaches and models currently in vogue in the western industrial and post industrial societies. These models are based on distinctly different value systems with different sets of socio economic objectives, most of which are not accepted by Islam. Western societies are pluralistic societies with a permissive attitude and have adopted curative rather than preventive approach. Pluralistic systems with many contradictory social demands, such as mothers’ right to abort and recognition of the institutions of ‘gay people’ and unwed mothers, have far reaching socio-economic implications with physical repercussions.

Subscribing to single rather than pluralistic value system, Islam advocates socially integrated residential neighbourhoods, rather than segregated suburbs for the affluent whites and ghettos for the poor blacks. It appreciates restrained rather than indiscriminate intermixing of sexes, pleads for conservation rather than wasteful consumption of resources, adopts preventive rather than curative approach and designates man as God’s vicegerent on earth with every thing including technology as subservient to the needs of the “mankind”. The models which have been devised in the Western context, therefore, do not suit the Islamic system.

The paper lays down a conceptual framework and a methodology for formulating Urban Development Plan alternatives and assigning the desired socio-economic emphasis to various functional areas in the

Islamic context. The methodology, having been worked out in a systemic context, is capable of being generalized: (a) ideologically, to other social systems which are deeply committed to retain the basic ingredients of their value system, as well as (b) spatially, for the formulation of regional development plans.

6.8 “EFFECTS OF THE ELIMINATION OF *RIBA* ON THE DISTRIBUTION OF INCOME”

By: Ali Ahmad Rushdi, presented at the Second International Conference on *Development, Finance and Distribution in Islamic Perspective*, held at Islamabad, Pakistan, and also to appear in a book “*Distribution in an Islamic Framework*” (forthcoming).

In this paper, an attempt is made to demonstrate that optimum resource mobilisation and resource allocation can better be achieved by eliminating *riba* from the society.

After discussing the problem of money supply and credit creation in an interest-free economy it has been concluded that the present system of money supply composed of base money and credit money may continue in an interest-free economy but the benefit accruing to the commercial banks out of their credit creation should be devoted to promotion of social welfare.

The Islamic values in the fields of saving, investment, employment, transactions in the goods and money markets have been delineated and integrated with the neo-classical and neo-Keynesian analyses of general equilibrium. It has been shown that the elimination of *riba* would be instrumental in rapid expansion of employment avenues and in removing the dampening effects of wages, prices and speculation on the rate of investment.

The problem of capital formulation in the absence of a positive rate of interest and monopolistic profit making has been discussed.

Finally, after discussing the problem of share of a factor of production in the produced goods the paper concludes that in an Islamic economy market distortion will be insignificant and in the ultimate analysis factors may be paid according to their marginal productivity.

6.9 “PUBLIC BUDGETING, CAPITAL ACCUMULATION AND ECONOMIC GROWTH IN AN ISLAMIC FRAMEWORK”

By: F.R. Faridi, presented at the Second International Conference on *Development, Finance and Distribution in Islamic Perspective*, held at Islamabad, Pakistan, and also to appear in a book “*Economic Development in an Islamic Framework*” (forthcoming).

This paper attempts to outline an Islamic strategy of economic development to be implemented by the Muslim countries in the special context of their economic and social conditions.

The chief thrust of the study is towards the integration of redistribution with economic development in the light of Islamic teachings and value orientations. It seeks to argue that this integration is possible by pursuing a strategy of development which deliberately aims at improving the economic conditions of the Muslim masses. It involves a carefully devised scheme of investment in human capital, consumption standards, and aid to the earning capacity of the poor and small artisans, farmers, and businessmen combined with effective means to redistribute existing wealth and newly generated assets.

The paper is divided into three sections. The first section is devoted to a brief analysis of the concepts of capital and economic growth as explained in modern economic literature and attempts to point out the inadequacy of these concepts as a guide to Islamic policy formulations.

The second section deals with setting out the socio-economic priorities of current Muslim societies for the attainment of socio-economic progress. An attempt has been made to delineate an Islamic strategy of policy intervention in the current economic situation of Muslim countries.

The last section discusses the impact of the above stated strategy on the pattern of government development expenditure. An analysis of the ways in which public expenditures will be attuned to the elimination of poverty and redistributive growth has been made.

6.10 “DISTRIBUTIONAL EQUITY IN ISLAM”

By: Zubair Hasan, presented at the International Conference on *Development, Finance and Distribution in Islamic Perspective*, held at Islamabad, Pakistan, and also to appear in a book” *Distribution in an Islamic Framework*” (forthcoming).

The present paper attempts to take an overview of the Islamic approach to the problem of distribution. It highlights those in-built safeguards of the system that would seldom permit the distribution to become unjust, and shows that in case the inequalities do tend to arise, adequate powers are available to the state to initiate measures for remedying the situation. The scheme of the paper is divided into four parts.

Part One briefly argues that money income is preferable to individual utilities as the object of redistribution.

Part Two elaborates in some detail the doctrine of *Amanah* which encompasses Islam’s entire action programme right from the individual to the state. It’s ramifications give an entirely new orientation to one’s attitude concerning material pursuits.

Part Three provides a model of income distribution at a macro level.

Part Four therefore, shows that Islam empowers the state to introduce a whole range of regulatory measures including the takeover of property if the larger social interest so demands.

6.11 “THE STRATEGY OF ECONOMIC DEVELOPMENT IN AN ISLAMIC ECONOMY”

By: M.A. Mannan. Working paper for Development group of the *Second International Conference on Development, Finance and Distribution in Islamic Perspective*, held at Islamabad, Pakistan, in “*Economic Development in an Islamic Framework*”.

In this paper, the author has attempted to focus on Islamically desirable development strategies by identifying some of the key areas of the past distortion, current concern and future need for presentation and conservation.

He stressed on the need for an alternative strategy of development in Muslim countries in general and least developed countries in particular by presenting a grim picture of poverty engulfing them

because of their frustrating development experiences in the past three decades.

Here the author tries to emphasize the need to have a pro-people development strategy where benefits of growth trickles down to the poor. It is argued that Muslim countries should not try to “catch up” with the advanced countries of the world. Instead they need to place emphasis on people at the grass-root level and their Islamic values so that an appropriate model of development can be evolved from within. It is also stressed that Islamic development thrust must reverse the current trend of disruption in the physical, biological, natural and ecological environment.

Specifically speaking, he suggests the following alternative strategies for development in an Islamic framework:

1. Emphasizing the people at a grass-root level and their Islamic values in a particular development context.
2. Emphasizing “effective need” rather than “effective demand” in development planning. He defines effective need as a want for some goods and services that must be provided to all members of the community and that may not be backed by consumer’s ability to pay-an essential element in the estimating effective demand.
3. Emphasizing integrated rural development as Islamic philosophy of growth dictates distribution of benefits of development. Rural development is emphasized because bulk of the people live there.
4. Emphasizing social appropriateness in technology; Integration of modern technology in Muslim countries must take into account the socio-economic values of Islam.
5. Emphasizing education and schooling aiming at total human development. Towards this aim he suggest: (a) a greater allocation of resources to literacy, primary and adult education programmes, (b) non-formal education, (c) reorganisation of curriculum course context after reviewing the aims and objectives of education, (d) a larger allocation of resources to women education and so on.
6. Emphasize mobilizing resources through defining the scope for social help, individual freedom and group behaviour.
7. Emphasize complementarities and substitutabilities in development for fostering cooperation among the Muslim countries.
8. Emphasize the conservation of humanity through fulfilling inter generational obligations.

9. Emphasize preservation of biological diversity and conservation of natural resources.

In conclusion, the author said that the alternative strategies as suggested are by no means exhaustive and must not be seen in isolation from one another. He argued that it was only through total relationship, the full manifestation of Islamic concept of development should be possible.

Functional Category: 7

HISTORICAL AND SURVEY AREAS.

- 7.1 Muslim Economic Thinking: A Survey of Contemporary Literature.
- M.N. Siddiqi.
- 7.2 Contemporary Turkish Literature on Islamic Economics.
-Sabahuddin Zaim.
- 7.3 Recent Works on History of Economic Thought in Islam-A Survey.
- M.N. Siddiqi.
- 7.4 Economic Thought on Ibn Al-Qayyim (1292-1350 C.E.).
- Abdul Azim Islahi.

7.1 “MUSLIM ECONOMIC THINKING: A SURVEY OF CONTEMPORARY LITERATURE”

By: M.N. Siddiqi, appeared in *Studies in Islamic Economics*, K. Ahmad (ed.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, and the Islamic Foundation, U.K., 1980, pp. 191-316.

This survey covers the principal languages in which the bulk of the literature on the subject has appeared in the last half century—Arabic, Urdu and English. A glance at the table of contents would reveal that the survey begins with a brief consideration of the economic philosophy of Islam, followed by the general outline of the economic system of Islam. Specific aspects of the economic system such as public finance, *Zakah*, interest-free banking, labour, development have been treated separately at some length in the third section. Then it tries to focus attention on analytical discussion by dealing with them in two separate sections: Islamic critique of contemporary economic theories and systems (i. e., capitalism, interest, speculation, socialism, etc.) and development of economic analysis in an Islamic framework. Here the survey covers the topics such as factors of production, exchange, consumption, determination of prices and profits. The last section notes contributions to the history of economic thought in Islam with special reference to Ibn Khaldun, Ibn Taimiya and Abu Yusuf. A considerable attention is paid to views relating to ownership, ends of economic enterprise and the code of conduct for various economic agents, despite the fact that these subjects *do not* figure very prominently in modern economics, because of their importance in Islamic framework.

This survey covers books as well as the periodical literature. This survey has generally avoided mention of particular authors when recording a view that is held unanimously. Specific contributions are noted when a subject is controversial or because of their originality. A bibliography listing 700 books and articles is appended to this survey for ready reference.

7.2 “CONTEMPORARY TURKISH LITERATURE ON ISLAMIC ECONOMICS”

By: Sabahuddin Zaim, appeared in *Studies in Islamic Economics*, K. Ahmad (ed.), International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, and the Islamic Foundation, U.K., 1980, pp. 317-352.

This research report is concerned with the mass of material on Islamic economics, written in Turkish language during the last fifty years of Republican period. Therefore, the very rich materials, written during the Ottoman Period, are not covered.

More than four thousand books were published during the last fifty years related to the topics of Islam. Out of them, about seven per cent are devoted to the specific subject of Islamic economics which are composed or translated by Turkish authors. The articles published in periodicals are excluded from these figures. Actually they are incomplete, for systematic classification of articles in National Library started only after 1950.

Totally, four per cent of publications related to Islamic economics were printed before 1950, 22 per cent were published during the period of 1950 to 1960 and 74 per cent, that is, three-quarters are outcome of the period after 1960.

In the original text, these publications were classified according to the periods, topics, writer, publisher, etc., and the contents of the composed books summarized and annotated. In other words, this research report was originally arranged as an Annotated Bibliography, and on a subject-classification system. In this book, it is rearranged on a subject classification system without annotation.

7.3 “RECENT WORKS ON HISTORY OF ECONOMIC THOUGHT IN ISLAM: A SURVEY”

By: M.N. Siddiqi, Research Paper No. 12, International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, 1982, 60 p.

This paper surveys the recent writings in Arabic, English and Urdu on the economic thinking of twenty-seven eminent Islamic thinkers of the past from Abu Hanifa to Iqbal. The author argues that these writings remain largely unnoticed by economists as they have appeared mostly in non-professional journals. A report such as the present one might be expected to arouse curiosity and provoke serious discussion.

It is also pointed out that it has been possible for recent writers to find in the writings of these Islamic thinkers valuable insights into such phenomena as prices, money, development and growth, taxation and international trade, etc.

The author concludes the discussion by noting some features of recent writings on economic thinking of these scholars. It is indicated that these writings do reveal that there has been a continuity in economic thinking in Islam with some distinctive characteristics. They are generally speaking, very much concerned with poverty and social justice. They always invoke the Social Authority to redress the wrong but they never envisage an irredeemable conflicts of interest between the haves and have nots in the framework of Islamic social order.

7.4 “ECONOMIC THOUGHT OF IBN AL QA YYIM (1292-1350 C.E.)”

By: Abdul Azim Islahi, Research Paper No. 20, International Research Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia, 1984, 35 p.

This paper seeks to report and analyse the economic thoughts of Ibn AI-Qayyim. He discussed mainly the problems of price control, market mechanism, supervision of economic activities under *al-Hisbah*, riches and poverty and interest and *Zakah*, at different places of his numerous works. The author argues that the main considerations before Ibn AI-Qayyim were realization of welfare, social interest, establishment of justice and elimination of exploitation and hardship from economic life.

In the first instance, the author has tried to discuss his economic views in detail. Afterwards, an attempt is made to make a comparison of these views with those of his contemporaries. Lastly, the author attempts to show the main thrust of his ideas.

Thus the paper provides a critique of the three principles ‘*adl*, *maslahah* and *sadd shari’ah*, as developed by Ibn al-Qayyim in order to solve the economic problems of his time. It is argued that his analysis is in conformity with the spirit of *Shari’ah* and has a validity even today. These principles provide a vast scope of *Ijtihad* for economists engaged in solving the economic problems of today in the light of the *Shari’ah*. They may also provide some guidance to Muslim economists for various policy issues relating to intervention by the state in regulating the rights to private property, *Zakah* assessment, the prohibition of *interest-ribal fadl* and *ribal nasi’ah* and price control.

APPENDIXES

- I. List of Publications - Arabic Series.
- II. List of Publications - English Series.
- III. List of Completed Researches being Edited for Press - Arabic Series.
- IV. List of Completed Researches being Edited for Press - English Series.
- V. List of Manuscripts Received and Under Review - Arabic Series.
- VI. List of Manuscripts Received and Under Review - English Series.
- VII. Author's Index.

Appendix - I

LIST OF PUBLICANONS (Arabic Series)

1. M. Saqr (ed.): Islamic Economics, 505 p.
2. M.N. Siddiqi: Translation of Bibliography (Contemporary Literature on Islamic Economics) 213 p. Translated by Amin Shaltooni.
3. Rafiq AI-Masri: Islam and Money, 97 p.
4. M.S. Abou Ali: Contemporary Economic Problems and their Islamic Solutions, 24 p. Discussion paper.
5. M.A. AI-Jarhi: Towards an Islamic System of Money and Finance-Structure and Application, 66 p.
6. M.M. Metwally: General Equilibrium and Macroeconomic Policies in an Islamic Economy, 44 p.
7. Kauthar A. al-Abji: Islamic Principles Relating to *Kharaj*, 60 p.
8. M.N. Siddiqi: Why Islamic Banks? 39 p. (Translated by Rafiq aI-Masri).
9. M. Ariff: Monetary Policy in an Interest Free Islamic Economy, 37 p. (Translated by Nabil AI-Rouby).
10. Islamic Ideology Council, Pakistan, Report on the Elimination of Interest from the Economy, 193 p. translated by A.A. Mansi.
11. Abd al- Rahman Y usri: Basic Priorities in the Islamic Approach to Economic Development and Social Progress, 84 p.
12. M.M. Metwally: A Behavioural Model of an Islamic Firm, 25 p. (Translated by A. AI-Qassam).
13. Professionalism in Islamic Theory and its Effects.
14. Central Administration for *Zakah*: *Zakah* Finance Ministry, Pakistan, 526 p. (Translated by Rafic aI-Masri).
15. Shaikh Mustafa AI-Zarqa: Banks, its Deposits and Interest, 24 p.
16. _____ Announcement on Research Proposals, 47 p.

Appendix – II

LIST OF PUBLICATIONS (English Series)

1. M.N. Siddiqi: Contemporary Literature on Islamic Economics, 69p.
2. K. Ahmad (ed.), Monetary and Fiscal Economics of Islam - An Outline of Some Major Subjects of Research, 32 p.
3. K. Ahmad (ed.): Studies in Islamic Economics, 390 p.
4. M.N. Siddiqi: Rationale of Islamic Banking, 22 p.
5. M.M. Metwally: A Behavioural Model of an Islamic Firm: Discussion Paper, 13 p.
6. M.A. Chowdhury: Interest Rate and Intertemporal Efficiency in an Islamic Economy: Issue Revisited, 46 p.
7. M. Iqbal & Fahim Khan: A Survey of Issues and a Programme for Research in Monetary and Fiscal Economics of Islam, 116 p.
8. M.A. Mannan: Institutional Settings of Islamic Economic Order. Discussion Paper, 12 p.
9. M.N. Siddiqi: Muslim Economic Thinking, 130 p.
10. M.A. Mannan: Scarcity, Choice and Opportunity Cost: Their Dimensions in Islamic Perspectives, 35 p.
11. M.A. Mannan: Islamic Perspectives on Market Prices and Allocation, 31 p.
12. M.A. Mannan: Why is Islamic Economics Important?, 27 p.
13. M.N. Siddiqi: Recent Works on History of Economic Thought in Islam-A Survey, 60 p.
14. M. Ariff (ed.): Monetary and Fiscal Economics of Islam: Selected Papers, 412 p.
15. M. Mohsin: Assessment of Corporate Securities in Terms of Islamic Investment Requirements, 52 p.

16. Ziauddin Ahmad and et al. (ed.): Money and Banking in Islam, 299p.
17. Ziauddin Ahmad et al. (ed.): Fiscal Policy and Resource Allocation in Islam, 385 p.
18. Najmul Hasan: Social Security System of Islam with Special Reference to *Zakah* 57 p.
19. Abdul Azim Islahi: Economics Thoughts of Ibn Qayyim, 35 p.
20. Guidelines for Key Issues in Islamic Economics, 24 p.
21. M. Raquibuz Zaman: Some Administrative Aspects of Collection and Distribution of *Zakah* and the Distributive Effects of the Introduction of *Zakah* into Modern Economics.
22. Badal Mukherji: Theory of Growth of a Firm in a Zero Intrest Rate Economy.
23. M.A. Mannan: Islamic Economics: Theory and Practice. (Bengali Translation by A.A. Rushdi)
24. _____ Announcement on Research Proposals, 39 p.

Appendix-III

LIST OF COMPLETED RESEARCHES BEING EDITED FOR THE PRESS (Arabic Series)

1. A.M. Sanad: Detailed Outline for a Course in Business Administration.
2. M.A. Zarqa: Islamic Values and Criteria in Project Evaluation.
3. M.N. Siddiqi: A Survey of Contemporary Literature on Islamic Economics. Translated by S. Abou Ali and H. Al-Qaranshavi.
4. M.N. Siddiqi: An Islamic Approach to Economic Development.
5. M.N. Siddiqi: Insurance in Islam.

Translation Appendix-IV

LIST OF COMPLETED RESEARCHES BEING EDITED FOR THE PRESS. (English Series)

1. M.A. Mannan (ed.): Economic Development in an Islamic Framework, Vol. I. Proceedings of the Second International Conference on Development, Finance and Distribution, 1983.
2. M. Iqbal et al. (eds.): Distribution in Islamic Framework, Vol. II. Proceedings of the Second International Conference on Development, Finance and Distribution, 1983.

Appendix - V

LIST OF MANUSCRIPT RECEIVED AND UNDER REVIEW (Arabic Series)

1. A Comprehensive Statement of the Principles of *Riba*.
2. Deferred Sales and Prevention of *Riba*.
3. Proceedings of a Seminar on Investment Policy in Islamic Banking.
4. Text from Quran and Hadith Relating to Economics and Wealth.

Appendix-VI

LIST OF MANUSCRIPT RECEIVED AND UNDER REVIEW (English Series)

1. Theory of Income Determination in an Islamic Framework.
2. Theory of Economic Policy.
3. Islamic Economic System: Policy Implications of its Introduction in Pakistan.
4. Economics of Discounting in Project Evaluation in an Islamic Framework.
5. Economic Teachings of the Quran.
(Suran Maidah and al-Nahl).

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