



Islamic Economics: A Survey of the Literature: II

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Source: *Islamic Studies*, Vol. 48, No. 4 (Winter 2009), pp. 525-566

Published by: [Islamic Research Institute, International Islamic University, Islamabad](#)

Stable URL: <http://www.jstor.org/stable/20839183>

Accessed: 22/10/2013 14:37

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Islamic Economics: A Survey of the Literature

II

ASAD ZAMAN

PART THREE

Fundamentals of an Islamic Economic System

But seek, with the (wealth) which Allah has bestowed on thee, the Home of the Hereafter, nor forget thy portion in this world: but do thou good, as Allah has been good to thee, and seek not (occasions for) mischief in the land: for Allah loves not those who do mischief. (Qur'ān 28: 77)

As the earlier quote in 2.1 of this article from Muftī Muḥammad Shafī' indicates, an Islamic economic system is a means to an end, rather than an end in itself.¹ A defining characteristic of capitalism is the pursuit of wealth, and the use of wealth as a yardstick to define development and progress.² This limited focus has been criticized by Islamic economists. Mawdūdī, for example, writes that difficulties and complexities in understanding economics arise because

...economic problems, which form a part of the larger problems of human existence, have been separated out of the collectivity and considered in isolation. This tendency eventually grew to the extent that economic problem became the central problem of human existence. This second mistake was even larger than the first.³

¹ See, Asad Zaman, "Islamic Economics: A Survey of the Literature: I," *Islamic Studies*, 48: 3 (Autumn 2009), 395–424; see also, Mufti Muhammad Shafi, *Distribution of Wealth in Islam*, trans. M. Hasan Askari and Karrar Husain (Karachi: Aisha Bawani Waqf and Ashraf Publications, 1978), 2.

² See, for example, Max Weber, *The Protestant Ethic and the Spirit of Capitalism*; Giovanni Arrighi, "Globalization, State Sovereignty, and the 'Endless' Accumulation of Capital," revised version of a paper presented at the Conference on "States and Sovereignty in the World Economy," University of California, Irvine (February 21–23, 1977), available at: <<http://www.binghamton.edu/fbc/gairvn97.htm>>.

³ Sayyid Abū 'l-A'la Mawdūdī, *Ma'āshiyāt-i Islām*, 2nd edn. (Lahore: Islamic Publications

Many other authors criticize the simplifying assumptions of some conventional economists, especially the pre-eminence given to economic growth as both a goal and a means of achieving welfare for all. Chapra, for example, writes: “mere maximization of total output cannot be the goal of a Muslim society. ... [It] ... must be accompanied by ensuring efforts directed to ... spiritual health ... justice and fair play.”⁴

Specific goals and Islamic institutions, injunctions and concrete measures designed for their realisation are detailed later. In this section, the religious starting points for Muslims’ attempts to design an economic system that is compatible with Islam are outlined. These constitute a number of general principles based on Islamic teachings and have methodological implications that will also be briefly discussed. The detailed interpretation of Islamic teachings is not, however, the main focus of this paper, and so the discussion will be limited to what I consider vital for the reader to understand the subsequent sections.

3.1 The Islamic View of Human Beings

The Islamic view of humans is dynamic and complex. It is acknowledged that greed and other base motivations exist in humans, but the essence of humanity is the possibility of not acting on these and choosing instead a higher and more spiritual mode of existence. The Qur’ān states:

Fair in the eyes of men is the love of things they covet: women and sons; heaped-up hoards of gold and silver; horses branded (for blood and excellence); and (wealth of) cattle and well-tilled land. Such are the possessions of this world’s life; but in nearness to Allah is the best of the goals (Qur’ān 3: 14).

Islam is concerned with the transformation of human beings from the slaves of base desires to persons concerned with achieving higher goals. It was this transformation of human beings brought about by the training of the Prophet Muḥammad (peace be on him) that revolutionized the world and changed the course of history.⁵ The Qur’ān asserts that there exists tremendous potential for both good and evil within people:

Surely We created man in the best of forms. Then We reduced him to the lowest of the low (Qur’ān 95: 4, 5).

Limited, 1970), 36.

⁴ M. Umer Chapra, *Islam and Economic Development* (Islamabad: IIIT, 1993), 6.

⁵ The Arabs rose from a near savage state wherein they buried their infant daughters alive and killed each other for trivialities, to become models of civilized behaviour. Michael Hart, *The 100: A Ranking of the Most Influential Persons in History* (New York: Citadel, 2000) ranks the Prophet as the single most influential man in all of human history.

The purpose of life is to struggle for the inner spiritual transformation required to achieve the potential to be the best of the creation, presumably superior even to the angels. This potential exists within every human being; in this respect, all are equal before God. These views are in stark contrast with the conception of humans that is at the heart of modern neoclassical economic theory. According to this conception, humans are solely motivated by selfishness and greed, and are completely indifferent to others. We have already discussed the historical origin of these views in the West, which arose from an attempt to mimic the successful methodology in physics. Humans imbued with Islamic values have been labelled *homo islamicus* and contrasted with the *homo economicus* of neoclassical economic theory by several authors.⁶

We have suggested above that neo-classical economic theory is based on the assumption of competition between self-interested individuals, while Islamic economics is based on advocacy of cooperation within a community with shared goals. An empirical approach requires us to ask which of the two theories is more accurate empirically. "Are people selfish or cooperative?" is the title of a section in a literature survey of experiments on behaviour with respect to public goods by John O. Ledyard.⁷ He concludes that the experiments show that people are neither.⁸ Instead, a small minority of people are unfailingly cooperative, a greater number are invariably selfish, while a majority exhibit different behaviour in different circumstances, throwing doubt on one of the key assumptions of neoclassical economics.

Islam takes a clear and definite stand on this issue, and suggests that the question itself is not well-posed. Every human being has the capability of being a saint, but even saints have base impulses and the possibility of succumbing to temptation. Furthermore, human beings are essentially free, so their past does not determine the future: the greatest of sinners can choose to

⁶ See, for example, Hamid Hosseini, "From *Homo Economicus* to *Homo Islamicus*: The Universality of Economic Science Reconsidered" in Cyrus Bina and Hamid Zanganeh, eds. *Modern Capitalism and Islamic Ideology in Iran* (New York: St. Martin's Press, 1992); Monzer Kahf, "The Demand Side or Consumer Behaviour;" Saeed Mortazavi, "Islamic Economics: A Solution for Environmental Protection," paper presented at the Conference on "Trade, Growth and the Environment," Oxford University, Oxford (August 8–August 13 2004), available at: <<http://hdl.handle.net/2148/220>>.

⁷ See, John O. Ledyard, "Public Goods: A Survey of Experimental Research" in John H. Kagel and Alvin E. Roth, eds. *The Handbook of Experimental Economics* (Princeton: Princeton University Press, 1995).

⁸ Contrary to Adam Smith, Alfred Marshall thought that businessmen were not primarily motivated by the 'sordid and ignoble' love of money. Cited in Ali Khan, "Self-interest, Self-deception and the Ethics of Commerce," paper presented at the Islamic Development Bank Roundtable on "Islamic Economics: Current State of Knowledge and Development of the Discipline," Jeddah (May 26–27, 2004).

become a saint, and vice versa. Due to this plasticity and the essential freedom of human behaviour, the scientific method of observation and theory construction is not well suited to the study of society. Instead, since human behaviour responds to expectations and social norms, we are free to choose the type of society in which we wish to live. If we promote the idea that human beings are naturally selfish, and that such selfish behaviour leads to the best social outcomes, human beings will learn to behave selfishly.⁹ In fact, Islam teaches us that all children are born on the true nature (Islam), but if they deviate from the 'natural path' it is because their childhood training prompts them to do so.¹⁰ This does not mean that children are naturally cooperative and generous; rather, that the recognition and appreciation of virtuous behaviour is built into their hearts. This makes it easy to train them to be good.

Use of the terms 'human capital,' human resource development and development of job skills and productivity as a means to progress highlights the currently dominant view of humans as an input to the production process. This contrasts with the Islamic view that the development of human beings is the goal whereas the production of resources, etc. is only useful to the extent that it is a means to this goal.¹¹

3.2 Wealth and Freedom

This concern with higher goals determines how the ends to be achieved by the use of economic means are defined. A clear and comprehensive statement is provided by the Qur'ān in verse 28: 77 cited above: Wealth is to be used to pursue the home of the hereafter (by conducting one's affairs in accordance with the instructions of Allah that will please Allah). Since wealth has been given to us as a gift from Allah, we should also be generous in sharing it with others. These principles resemble those promoted by other religions, although

⁹ A number of articles showing greater selfishness on the part of economists, who are trained to think of selfishness as socially beneficial, have been published; see, for a survey, Gebhard Kirchgässner, "(Why) are Economists Different?," *European Journal of Political Economy*, vol. 21, no. 3 (2005), 543–562. Perhaps the strongest evidence of the impact of economic training is furnished by responses to behaviours observed in Experimental Economics. Since the most fundamental axiom of economic thought, 'people prefer more money to less,' is routinely violated in many situations, economists cannot help but be puzzled by observed behaviour. See, Colin F. Camerer, *Behavioral Game Theory: Experiments in Strategic Interaction* (Princeton: Princeton University Press, 2003), 60. No one else finds it surprising.

¹⁰ See, for the text of the saying of the Prophet Muḥammad (peace be on him) in this regard, Muḥammad b. Ismā'īl al-Bukhārī, *Ṣaḥīḥ al-Bukhārī*, Kitāb al-Qadar, Bāb Allāh A'lam bimā kānū 'Āmilīn.

¹¹ See, for example, Abdel Hamid El-Ghazali, *Man is the Basis of the Islamic Strategy for Economic Development* (Jeddah: Islamic Research and Training Institute, 1994).

they stand in stark contrast to conventional economics. Since property is a trust from Allah, we cannot do with it as we please. Those who do not subscribe to this, in contrast, are quoted as asserting that they have earned their wealth through their own efforts and therefore have a right to do with it as they please:

They said: "O Shu'ayb! Does thy prayer command thee that ... we leave off doing what we like with our property?" (Qur'an 11: 87)

In particular, pursuit of luxurious lifestyles and the pleasures of this world is not the true object of wealth: the Qur'an condemns both the pursuit of idle desires (Qur'an 45: 23) and emulation of luxurious lifestyles (Qur'an 3: 196). The modes of behaviour encouraged by the Qur'anic injunctions are not primarily for the economic welfare of society; that is only a fringe benefit. Rather, behaving in these ways bring people closer to God, lead to spiritual growth, and develop the potential within them to achieve the "best of forms" (Qur'an 95: 4).

Dissatisfaction with the results of the unconstrained pursuit of material wealth has led to substantial reconsideration of the idea of development in the recent past. While many different approaches have emerged, all emphasize the role and importance of human beings (relative to material wealth or capital) in the development process. Putting an abstraction over material goals, *Development as Freedom* by the Nobel Laureate Amartya Sen¹² is perhaps the most radical departure from the conventional views amongst economists. Sen advocates evaluating development in terms of human capacities and freedoms, which has some resemblance to Muslim views. However, a major difference is pointed out by Mawlānā Muḥammad Ashraf 'Alī Thānvī in *Ṭarīq al-Qalandar*; unlike Sen, he holds that real freedom is only given to people who have freed themselves from base selfish desires—others are just slaves to their egos/desires and are not really free at all.¹³

¹² See, Amartya Sen, *Development as Freedom* (Oxford: Oxford University Press, 1999).

¹³ See, Mawlānā Muḥammad Ashraf 'Alī Thānvī, *Ṭarīq al-Qalandar kā Ḥarīq al-Samandar* in idem, *Mawā'iz Ḥakīm al-Ummat*, ed. (Karachi: Kutub Khānah'i Mazharī, 1931), vol. 6. See also, Abdal Hakim Murad, "Faith in the Future: Islam after the Enlightenment," First Annual Altaf Gauhar Memorial Lecture, delivered on December 23, 2002, Islamabad, available at: <<http://www.Masud.co.UK/ISLAM/ahm/postEnlight.htm>>. Similar ideas also occur in other religious traditions; see Andrew Wilson, ed. *World Scripture: A Comparative Anthology of Sacred Texts* (New York: International Religious Foundation, 1991), available at: <<http://www.unification.net/ws/>> (accessed August 22, 2007). For example, the Bhagavad Gita compares a man controlled by his desires to a carriage controlled by the horses instead of the driver.

3.3 Contrasting Principles of Islamic and Neoclassical Economics

While other Western disciplines and heterodox economists have broader views, neoclassical economists base their analysis of markets on the assumption of cut-throat competition between selfish individuals. At the heart of Islam is the promotion of cooperation between individuals who can be motivated to be generous. This contrast can be displayed along three dimensions as principles which differentiate Islamic and neoclassical economics:

1. In general, Islam stresses co-operation and harmony, and the spending of wealth and materials to achieve this goal. This contrasts with the neoliberal economic vision of the free market as a jungle where enterprises and people compete to achieve maximum wealth. Nevertheless, although the dominant views have favoured individualism, competition and selfishness, many well-known economists have wrestled with the conflict between these views and the value of social interests, community and cooperation.¹⁴
2. Social interests take precedence over personal ones. The commons dispute in England was resolved by enclosures, favouring private interests over public, and the rich over the poor. The same dispute was resolved in the opposite way in the early Islamic era, by banning rich people with large herds from use of the commons for grazing.¹⁵
3. Intentions for actions in all domains, including the economic, are crucial. In contrast, Western economists distrust internal states and strongly prefer to base their theories on observable behaviour. Positivism, as interpreted by economists, suggests that only observable actions matter; the internal states of satisfaction and motivations do not. For example, economists rely on observed choices, rather than unobserved preferences, as a guide to consumer behaviour.

I will show how these contrasts differentiate between Islamic and neoclassical analyses of economic behaviour in the many different domains to be discussed later.

¹⁴ See, for reference and discussion, Ali Khan, "Self-interest, Self deception, and the Ethics of Commerce."

¹⁵ Anas Zarqa, "Islamic Distributive Schemes" in M.A. Gulaid, and M.A. Abdullah, eds. *Readings in Public Finance in Islam* (Jeddah: Islamic Research and Training Institute, 1995). This is a translation of an article in Arabic in *Journal of Research in Islamic Economics*, vol. 2, no. 1. See also, S.M. Hasanuzzaman, *The Economic Functions of the Early Islamic State* (Karachi: International Islamic Publishers, 1981), and Mortazavi, "Islamic Economics: A Solution For Environmental Protection."

3.4 Detached Observation vs. Passionate Engagement

Reuben has described how conflicts between religion and science as well as changing ideas about the nature of science, led to the abandonment of the moral mission of building character in American universities in the early twentieth century. In the process, social scientists abandoned the role of activists and reformers working to bring about a better world in favour of the detached observer role of the Baconian scientist.¹⁶ Unfortunately, as Nelson and many other authors have remarked, social science is relevant only to the extent that it is concerned with human goals and values. The effort to make social science value-free merely leads to the masking of political and ethical commitments under various guises.¹⁷

Because they have been hidden beneath the apparently sterile mathematics, the values on which neoclassical economics is based have not been subjected to examination. To evaluate the effects of economic actions, neoclassical economists refer to a fairytale world populated entirely by cold, calculating and callous people with no social feelings. In this world, everyone is perfectly informed about all possibilities; there are no transaction, communication or transportation costs; and everyone calculates, to the last penny, the actions which will be most beneficial to their selfish interests. Economic policies are evaluated solely in terms of their effects on the wealth of these imaginary individuals living in this never-never land. In social and political arenas, the wonders of this imaginary world are idealized and promoted, and aggressive actions to change the world to bring it closer to this ideal have been advocated and undertaken. The realization that it will never actually be achieved does not discourage followers of this economic ideology from attempting to bring the world closer to their dreams.

Because of the claims to the positive status of western economics, the issue of whether Islamic economics is positive or normative is often debated in the relevant literature. In light of the earlier discussion, I would assert that the answer is neither—Islamic economics is transformative. It seeks to change society, and all individuals within that society, towards an ideal. The previous paragraph responds to the charge that Islamic economics is ‘utopian’ by showing that neoclassical economics is dystopian. In addition, history shows us that utopians and dreamers have often had a tremendous impact on human lives.¹⁸ Since Islamic ideals have been realised in the past, Islamic views about

¹⁶ See, Reuben, *The Making of the Modern University: Intellectual Transformation and the Marginalization of Morality*.

¹⁷ See, Robert H. Nelson, *Economics as Religion: From Samuelson to Chicago and Beyond* (Philadelphia, PA: Pennsylvania University Press, 2001).

¹⁸ An important utopian was Karl Marx (d. 1883), whose vision of a classless society where

society are not 'utopian' in the sense of being unrealistic. For example, Robert S. Lopez documents the existence of a vast and prosperous global network of commerce guided by Islamic law in the heyday of the Islamic empire.¹⁹

Compassion and concern for all human beings and passionate engagement in improving their lot is a central teaching of Islam. The struggle to improve ourselves and our societies, and to overcome our base desires, is the greater *jihād* (while engaging in armed strife is the lesser).²⁰ Furthermore, it is part of Islamic teaching that it is this struggle to change the world in ways pleasing to God that will generate knowledge: "As for those who strive in Us, We surely guide them to Our paths, and lo! Allah is with the good" (Qur'ān 29: 69).

The idea that Islamic economics is transformative resembles the Marxist concept of *praxis*—Marxists do not seek so much to study the world as to change it. There is a key difference, however. Muslims struggle for justice, equitable economic outcomes, etc. because such struggles will bring about an inner spiritual transformation. Thus the goal of the struggle is primarily spiritual rather than material. Marxists emphasize material outcomes to the extent that they suggest that ideals, philosophies, and visions are conditioned by the material prospects of humanity. Islam denies this emphatically, and tells us of the primacy and dominance of the spiritual over the material world.²¹ Human history bears witness to this primacy, as demonstrated by numerous instances of men with vision who have changed the world without any apparent material means of doing so. A prime example is that of the Prophet Muḥammad (peace be on him), who changed the course of human history solely by inspiring the people of the Arabian peninsula with a grand

everybody would receive what he or she needed from a benevolent state, and labourers would receive dignity and respect, motivated and changed the lives of millions in the last century. Ironically, this provides a powerful illustration of the power of ideas, visions, and philosophies to dramatically change the material world, contrary to one of his own central theses.

¹⁹ See, Robert S. Lopez, *The Commercial Revolution of the Middle Ages, 950–1350* (Cambridge: Cambridge University Press, 1976).

²⁰ See, for the full text of this *ḥadīth*, Abū Bakr Ahmad b. al-Ḥusayn al-Bayhaqī, *al-Zuhd al-Kabīr*, ed. 'Āmir Aḥmad Ḥayder, 3rd edn. (Beirut: Mu'assasat al-Kutub al-Thaqāfiyyah, 1996), 2: 165. [This popular tradition is considered by *Ḥadīth* scholars to be devoid of authenticity. There is, however, an authentic (*ṣaḥīḥ*) *ḥadīth*, which does not declare engaging in armed strife to be lesser *jihād*, but stresses the value of struggle against one's own self. The [true] *mujāhid* is he who wages a struggle against his own self (*nafs*).] See, Abū 'Īsā al-Tirmidhī, *Sunan al-Tirmidhī*, Kitāb Faḍā'il al-Jihād, Bāb Mā jā' fi Faḍl man Māt Murābiṭan. Ed.]

²¹ See, for instance, "And nothing is the life of this world but a play and a passing delight; and the life in the hereafter is by far the better for all who are conscious of God." (Qur'ān 6: 32), and "This because they love the life of this world better than the Hereafter: and Allah will not guide those who reject Faith." (Qur'ān 16: 107 and other similar verses).

vision, without bringing about any significant change in the material means at their disposal.

For Muslims, Islamic law, known as the *Sharī'ah*, and *fiqh/uṣūl al-fiqh*—the accompanying apparatus for deriving laws from source materials—is the source of guidance for translating principles into practice and provides a framework within which all activity, economic and other, should take place. The overall framework for Islamic economics that is provided by Islamic law is discussed in Section 4 below.



PART FOUR

The Framework: *Sharī'ah* (Islamic Law)

[The Prophet] who will enjoin upon them the doing of what is right and forbid them the doing of what is wrong, and make lawful to them the good things of life and forbid them the bad things, and lift from them their burdens and the shackles that were upon them. (Qur'ān 7: 157)

Although the nearest translation of the *Sharī'ah* is 'Islamic law,' this is also somewhat inadequate in so far as the *Sharī'ah* covers all aspects of life from the details of personal hygiene to social organisation, permissible and impermissible commercial transactions, rules for spiritual and emotional conduct, etc. An accessible introduction can be found in *Theories of Islamic Law: The Methodology of Ijtihad* by Imrah Ahsan Khan Nyazee.²² Among the rules of the *Sharī'ah*, many relate to economic life. Economic teachings from the Qur'ān have been collected by Sayyid Abū 'l-A'lā Mawdūdī,²³ and more recently by S. M. Hasanuzzaman.²⁴

The second source of Islamic law is the *Sunnah*, that is, the reported sayings and actions of the Prophet (peace be on him) or his Companions.²⁵ These have been brought together in *Economic Teachings of Prophet*

²² Imran Ahsan Khan Nyazee, *Theories of Islamic Law: The Methodology of Ijtihad*, vol. 3, Perspectives on Islamic Thought (Islamabad: International Islamic University of Islamabad, Islamic Research Institute and IIIT, 1994).

²³ Sayyid Abū 'l-A'lā Mawdūdī, *Qur'ān kī Ma'āshī Ta'līmāt* (Lahore: Islamic Publications, 1969); idem, "Economic and Political Teachings of the Qur'an" in M.M. Sharif, ed. *A History of Muslim Philosophy* (Wiesbaden: Low Price Publications, 1963), 1: 178–198.

²⁴ S. M. Hasanuzzaman, *Economic Guidelines in the Quran* (Islamabad: IIIT and IRI, 1999).

²⁵ Abū 'l-Baqā', *Kulliyāt* (Bulaq: 1253 AH), 203; see also Muḥammad ibn A'lā al-Tahānawī, *Kashshāf Iṣṭilāḥāt al-Funūn* (Calcutta: 1862), 703 ff.

Muhammad by Muhammad Akram Khan.²⁶ *Fiqh* represents the process of deriving rulings on practical matters of life from the basic sources of Islamic law. M. Fahim Khan²⁷ discusses the *fiqh* foundations of the theory of Islamic economics. In this section, we will discuss only those aspects of Islamic law that relate to collective economic activity, at the state or social level. Teachings related to individual behaviour will be discussed separately, in Section 7 below.

4.1 Objectives of the *Shari'ah*

The primary sources of the *Shari'ah* are the Qur'ān and *Sunnah*. These contain rules and recommendations on all aspects of individual and social life, dividing actions into three broad categories: *wājib* (obligatory), *mubāh* (permissible), and *ḥarām* (prohibited). (It will be seen that the first category is positive, the second is neutral, and the third category is negative). Within each category there are refinements, subtleties and complexities; for example, within the positive category there are gradations from obligatory to recommended. Likewise, in the negative category we find a wide range from prohibited to disapproved.²⁸

The Qur'ān states that Islam is a complete religion: "This day have I perfected your religion for you, completed My favour upon you, and have chosen for you Islam as your religion" (Qur'ān 5: 3). Hence, it is axiomatic that all human actions fall within the scope of Islam. Extending the application of Islamic law to a new situation is called *ijtihād*. Derivation of legal injunctions from the recognized legal sources is termed *fiqh*. Over the centuries, a large body of rulings covering the application of Islamic law to different situations encountered in the historical experience of Muslims has emerged. I will refer to the collectivity of these rulings as the Islamic tradition. This covers a broad range of issues, with sharp conflicts over some, and a wide range of positions adopted by different groups over others. Despite diversity and disagreements, the tradition as a whole forms a harmonious collection of rules broadly consonant with the spirit of Islam for a wide range of situations faced by humans both individually and collectively. Islam also has a tradition of tolerance for dissent, so that conflicting opinions may simultaneously be

²⁶ Muhammad Akram Khan, *Economic Teachings of Prophet Muhammad* (Islamabad: International Institute of Islamic Economics and Institute of Policy Studies, 1989).

²⁷ M. Fahim Khan, "Fiqh Foundations of the Theory of Islamic Economics: A Survey of Selected Contemporary Writings on Economics — Relevant Subjects of Fiqh" in H. Ahmed, ed. *Theoretical Foundations of Islamic Economics*, Book of Readings no. 3 (Jeddah: Islamic Research and Training Institute, 2002).

²⁸ See, for more details, Imran Ahsan Khan Nyazee, *Islamic Jurisprudence*, 4th reprint (Islamabad: IIIT & IRI, 2009), 50 ff.

held to be acceptable Islamic solutions to a given problem. John Walbridge discusses this tradition of tolerance and its significance in Islamic history.²⁹ Deeper and more extensive discussions based on source materials are conducted by Muḥammad Zakariyyā Kāndhalvī (d. 1402/1982)³⁰ and Shāh Walī Allāh (d. 1176/1762).³¹

Engaging in the struggle (*jihād*) to bring justice and good to the world, as prescribed by the *Sharī‘ah*, will bring us closer to God, and lead to spiritual development, realization of the human potential within us, and an increase in knowledge. Islamic law covers both external and internal actions. For example, to be acceptable, the external act of giving money in charity must be accompanied by the intention of pleasing God by so doing. The intention to be praised for generosity, or to make one feel superior to or contempt towards the poor, deprive one of the reward for one’s good acts. This tension between the visible action and the invisible intent has played an important role in many aspects of Islamic history. The ‘*ulamā*’, or religious scholars, have traditionally been concerned with external aspects, or the form of acts, and have been content to leave the invisible intentions to God. In contrast the Ṣūfis have focused on the desired conditions of the heart or the spirit, sometimes to the neglect of form. These two groups have at times been at odds with each other,³² although there have also been many individuals who have combined the best of both traditions. Islamic history shows that exclusive focus on one or the other leads to an imbalance and harmful results.

The complexity of modern economies, and of modern life in general, has led to many situations not covered by the tradition. Thus *ijtihād* to cover these new complexities of economic life is a central issue in Islamic economics (and also in devising a suitable Muslim response to modernity in general). Appropriate methods for *ijtihād* continue to be a source of substantial discussion and controversy among Muslims. Modernist Muslims feel that the traditional rules of *fiqh* are not adequate to cope with the current complexities, and ask for freedom to reinterpret source materials so as to creatively adapt

²⁹ See, John Walbridge, “Islamic Concept of Asking Questions: ‘*Ilm al-Ikhtilāf*, the Institutionalization of Disagreement,” *Islamic Studies*, vol. 41, no. 1 (2002), 69–86.

³⁰ Mawlānā Muḥammad Zakariyyā Kāndhalvī, *al-‘Iṭidāl fī Marātib al-Rijāl* (Lahore: Maktabah Zakariyyā, 1938).

³¹ Shāh Walī Allāh, *Hujjat Allāh al-Bālighah*, written in 1750, translated as *The Conclusive Argument from God*, tr. Marcia K. Hermansen (Leiden: Brill Academic Publishers, 1995), conclusion of Part I.

³² Muhammad Khalid Masud has described, *inter alia*, the conflict between the Ṣūfis and the ‘*ulamā*’ in Islamic Spain. See, Muhammad Khalid Masud, *Shāṭibī’s Philosophy of Islamic Law* (Islamabad: IRI, 1995), 240–246.

them to modern conditions (instead of being bound by traditional rulings).³³ On the other hand, the traditionalists feel that the existing *fiqh* is adequate to cope with new situations, and feel that excessive freedom would amount to throwing out Islamic law altogether and caving in to modernity.³⁴ Others advocate a careful middle ground.³⁵

In a seminal work, *Shatibi's Philosophy of Islamic Law*, Muhammad Khalid Masud has proposed a middle way that remains within the Islamic tradition while allowing for the greater flexibility demanded by modernists.³⁶ Abū Ishāq Ibrāhīm b. Musā al-Shāṭibī (d. 790/1388) was an Islamic scholar in Muslim Spain who lived in a period of rapidly changing economic and political conditions (8th/14th century). Finding traditional formulations of *fiqh* inadequate, he analysed Islamic law to distil the underlying philosophy of the law. Al-Shāṭibī notes that it is universally agreed that the *Sharī'ah* is not an arbitrary collection of rules, but is rather designed to promote both the material and spiritual welfare of human beings in the best possible way. Using the existing tradition to analyse this broad goal, one can distil several specific objectives aimed at by the *Sharī'ah* via a logical process. These objectives include the preservation of life and property, and the welfare of descendants. In effect, al-Shāṭibī adds to traditional *fiqh* an additional method that may be used to extend Islamic law to new situations.

By utilising the objectives of Islamic law in conjunction with more specific and precise rulings of the *Sharī'ah*, one can derive many principles for Islamic economics. For example, we would not be able to find analogues for fiscal and monetary policy in Islamic source materials, putting these issues outside the scope of Islamic law—at least according to the traditional rules of *fiqh*. However, we may argue on the basis of the source materials that the Prophet (peace be on him) facilitated trade and business in many ways, and took active steps to provide means of earning a living to the unemployed. If we conclude that reducing unemployment is an objective of the *Sharī'ah*, then we may deduce that fiscal and monetary policy to achieve this goal is

³³ See, for example, Mohammad Nejatullah Siddiqi, "Keynote Address" at "Roundtable on Islamic Economics: Current State of Knowledge and Development of the Discipline," Jeddah, Islamic Development Bank, May 26–27, 2004.

³⁴ See, for example, Iftikhar Zaman, "Towards Islamic Ways of Islamization: Problems in the Modernization of the Ahkaam of Shari'ah and Da'wah," *Pakistan Administration*, vol. XXII no. 2. (1985).

³⁵ See, for example, Abdurrahman Yousri Ahmad, "Islamic Economics: Its Development as a Scientific Discipline," paper presented at "Roundtable on Islamic Economics: Current State of Knowledge and Development of the Discipline," Jeddah: Islamic Development Bank, May 26–27 2004.

³⁶ See, Masud, *Shatibi's Philosophy of Islamic Law*.

commendable according to Islamic law. In a similar way, one can argue that price stabilization via monetary policy falls within the ambit of Islamic law. This methodology has been advocated by numerous scholars in Islamic economics and elsewhere.³⁷ In the remainder of this section, the Islamic law with respect to property, business and labour is discussed.

4.2 Property Rights

One of the major disputes between capitalism and communism was over the issue of whether the means of production should be privately or publicly owned. Accordingly, early writers on Islamic economics spent much time delineating an Islamic theory of property rights and differentiating it from capitalist and communist theories. Siddiqi gives a succinct summary and essential references.³⁸ Mawdūdī³⁹ argues that capitalism leads to increasing concentration of wealth in the hands of the owners of the means of production, which is harmful to society and against Islamic principles. Communism, however, does not provide a solution, since government ownership in practice also turns out to be ownership by a small or limited group of people—and in practice these are often more tyrannical than private capitalists, who do not necessarily control the government. Islam provides a solution by allowing private property but ensuring socially responsible behaviour on the part of owners of excess of wealth, by means of a number of mechanisms. Similar arguments have been formulated by a large number of writers: Akram Khan, in his extensive bibliographies, cites many sources that systematically compare different economic systems to Islam.⁴⁰

Since the end of the Cold War, Islamic economists have discussed many other dimensions with respect to which Islamic concepts of property differ from typical Western ones, and the difference this makes for many socio-economic problems. Kahf⁴¹ and Mahmoud A. Gulaid⁴² give detailed treatment⁴³ and further references. In a work commissioned by UN-Habitat,

³⁷ See, for example, M. Umer Chapra, *Towards a Just Monetary System* (Leicester: The Islamic Foundation, 1985); Siddiqi, "Keynote Address" at Islamic Development Bank" at "Roundtable in Islamic Economics: Current State of Knowledge of the Discipline," Jeddah, IRTI, 2004.

³⁸ See, Siddiqi, "Muslim Economic Thinking: A Survey of Contemporary Literature."

³⁹ See, Mawdūdī, "Insān kā Ma'āshī Mas'alah aur us kā Islāmī Hāl" in Mawdūdī, *Ma'āshiyāt-i Islām*, 46–53.

⁴⁰ Khan, *Islamic Economics: Annotated Sources in English and Urdu* (3 vols).

⁴¹ Kahf, "Concept of Ownership in Islam."

⁴² Mahmoud A. Gulaid, *Land Ownership in Islam* (Jeddah: Islamic Research and Training Institute, 1991).

⁴³ Property rights do not receive much attention in conventional economic literature, since the idea of private property is accepted by all. See, however, Ronald Coase, "The Problem of Social

Siraj Sait and Hilary Lim explore Islamic concepts of rights to land, as a means of providing secure access to land for the poor.⁴⁴ They find that Islamic property concepts form a sophisticated alternative to prevalent international norms:

Islam conceives of all property as a sacred trust but promotes private ownership with a re-distributive ethos. Engagement with Islamic dimensions of land may potentially support land rights initiatives in Muslim societies and has implications for programmes relating to land administration, land registration, urban planning and environmental sustainability.⁴⁵

We will now elaborate on this brief but accurate sketch. While all of creation is originally and forever the property of God, He created it for the benefit of human beings. People who utilize property to create benefits become entitled to ownership, creating a type of private property. This private property is both a 'trust' from God, and a test, a conception that leads to a philosophy of property substantially different from the current Western notions.⁴⁶ Since property is a trust, the owner must utilize the property in ways conducive to the common interest. For example, the property should not be destroyed or used in ways that cause harm to the public. The idea that legitimate ownership gives a person the absolute right to do as he or she pleases with property is specifically and explicitly condemned in the Qur'ān.⁴⁷ Similarly, property in excess of needs is regarded as a test, to see if human beings will use it for the welfare of others or for selfish/harmful purposes.⁴⁸ There is a strong encouragement to spend excess money on social welfare and

Cost," *The Journal of Law and Economics*, vol. 3 (1960), 1–44 and the related literature. See, also, Hemandez de Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (London: Black Swan, 2000), who argues that property rights are the key to the success of capitalism.

⁴⁴ See, Siraj Sait and Hilary Lim, *Land, Law and Islam: Property and Human Rights in the Muslim World* (London: Zed Books, 2006).

⁴⁵ Siraj Sait and Hilary Lim, *Islamic Land and Property Research Series*, Series of Eight Position Papers. 1: "Islamic Land theories and Applications" (Nairobi: UN-Habitat, 2005), 8.

⁴⁶ The theory of property rights in Islamic law is substantially different from Western theories. The European history of conquests, revolutions, and appropriations and seizures of property and subsequent reversions, led to the development of philosophies that sought to rationalize, justify or modify the existing structures of property rights; see, for example, the article on property in Wikipedia for a brief summary of this history, different schools of thought and further references.

⁴⁷ See, for example, Qur'ān 11: 87.

⁴⁸ For example, the Qur'ān describes people whose garden was destroyed because they wanted to avoid giving from it to the poor. See, Qur'ān 68: 17–27.

equally strong discouragement of accumulation and hoarding⁴⁹ (which contrasts with the 'endless accumulation' encouraged in capitalistic societies). These basics of the Islamic theory of property are available in substantially greater detail from numerous sources.⁵⁰

The fundamental Islamic concepts of property rights outlined above have far-ranging ethical and moral consequences. Since the world has been created for the benefit of people, certain types of natural resources cannot be owned privately, because private ownership would deprive the public of the intended benefit. Most Islamic scholars hold that common lands, forests, lakes, rivers and minerals (including oil) fall into this category. The government must hold such public property in trust and devise mechanisms to allow the entire public to benefit from it. As an example, water is a public resource which is frequently and increasingly a subject of international disputes. *Water Management in Islam* by Naser I. Faruqui et al⁵¹ provides a comparison of Islamic law with international laws and current approaches.⁵² These issues relate closely to ideas of sustainable development,⁵³ which are discussed in Section 6.5 below.

A major source of injustice and oppression is concentration of wealth, often in the form of land. There are large landholdings in many Muslim states, sometimes resulting from (possibly unjust) land grants from colonizers, resulting in an extensive debate about property rights and limitations in Islamic law. Hamid Hosseini⁵⁴ has provided a literature review in the context of contemporary Iran. Mufti Muḥammad Shafi⁵⁵ discusses both the theory and the legitimacy of property ownership in India and Pakistan in the light of historical circumstances. The majority opinion in these discussions is that there are no limits on private property ownership, but that the state can repossess lands when required in the interests of social justice—for example, if

⁴⁹ See, for example, Qur'an 9: 34–35.

⁵⁰ See, Kahf, "Concept of Ownership in Islam;" M. Tāsīn, *Qur'an aur Ḥadīth kī Rōshnī mēn Islāmī Ma'āshiyāt kā 'Ādilānah Nizām* (Karachi: Majlis-i 'Ilmī Foundation, 1998); see also, Siraj Sait and Hilary Lim, *Land, Law and Islam: Property and Human Rights in the Muslim World*.

⁵¹ Naser I. Faruqui, Asit K. Biswas and Murad J. Bino, eds. *Water Management in Islam* (Tokyo: UNU Press, 2001).

⁵² The website of the International Development Research Center also provides a large bibliography on the topic, see, <http://www.idrc.ca/en/ev-9425-201-1-DO_TOPIC.html>.

⁵³ Zamir Iqbal and Abbas Mirakhor "The Stakeholders' Model of Governance in An Islamic Economic System" in Munawar Iqbal, ed. *Islamic Perspectives on Sustainable Development* (Basingstoke: Palgrave Macmillan, 2005) have argued that the Islamic idea that the right to property derives from making it useful leads naturally to a stakeholder model of the firm.

⁵⁴ Hamid Hosseini, "Notions of Private Property in Islamic Economics in Contemporary Iran: A Review of Literature," *International Journal of Social Economics*, vol. 15, no. 9 (1988), 51–61.

⁵⁵ Mufti Muḥammad Shafi', *Islām kā Nizām-i Arāzi* (Karachi: Idarat al-Ma'ārif, 1979).

they were acquired unjustly, or are needed for urgent and pressing social needs of a deserving population. Siddiqi⁵⁶ outlines the major positions taken in this debate.⁵⁷ In the context of providing for the basic human right of secure access to property and housing, Sait and Lim⁵⁸ study the role of Islamic law in Muslim areas. They find that it has the potential for empowering the needy, and for providing culturally sensitive solutions to many problems of access, security and tenure of landholdings. They also find that Muslims are constructively engaged in the process of creatively adapting Islamic law to deal with modern problems.

The confidence that Western models provide ideal solutions to social, political, and economic problems has often led to a disregard of traditional patterns. A foreign expert did not need to know anything about local conditions and traditions, since these were merely obstacles to progress, defined as the adoption of Western models.⁵⁹ Repeated failures of this approach, strong local resistance to imposed and arbitrary interference by outsiders, and other aspects of changing socio-political conditions have led to revisions and rethinking. It has come to be appreciated that traditions emerge from complex interactions of religious ideals, cultural norms, historical and political circumstances, and often embody solutions to a host of local problems based on historical experience. Thus in the contemporary context, Sait and Lim write that

...land tenure concepts, categorisations and arrangements within the Islamic world are multi-faceted, generally distinctive and certainly varied. This paper explores the socio-historical context and development of Islamic land tenure regimes leading to the 'web of tenure' in contemporary Muslim societies. An appreciation of the historical context of land tenure in Muslim societies and the range of land tenure forms contributes towards development of authentic and innovative strategies for enhancing access to land and land rights.⁶⁰

4.3 Islamic Rules of Business

Islamic laws about permissible transactions for trade, transfer of property and the ethical conduct of business are quite detailed and form one of the strengths of Islamic economics. Explicit orders to fulfil contractual obligations,

⁵⁶ Siddiqi, "Muslim Economic Thinking: A Survey of Contemporary Literature."

⁵⁷ He also lists 18 references, see, *ibid.*, reference nos. 224 to 242.

⁵⁸ Siraj Sait and Hilary Lim, *Land, Law and Islam: Property and Human Rights in the Muslim World*.

⁵⁹ See, Timothy Mitchell, *Rule of Experts: Egypt, Techno-Politics, and Modernity*.

⁶⁰ Siraj Sait and Hilary Lim, *Islamic Land and Property Research Series, Series of Eight Position Papers. 2: "Islamic Land Tenure and Reforms"* (Nairobi: UN-Habitat, 2005), 8.

recommendations to write down contracts, and exhortations to witnesses to testify faithfully provide the basis on which the Islamic rules are built. *Business Ethics in Islam* by Mushtaq Ahmad⁶¹ provides a comprehensive discussion relating the practical aspects of business ethics to the spiritual goals of Islam, while Felix Pomeranz⁶² contains a brief discussion. The spiritual aspects of business are covered very well in Muḥammad Zakariyyā Khāndhalvī.⁶³ The Qur'ānic verse below clearly specifies a concern for fairness and justice over and above the idea that mutual consent of both parties is sufficient to legitimise a trade:

○ you who believe! Do not devour one another's possessions wrongfully—except that it be by way of trade based on mutual agreement (Qur'ān 4: 29)

Javed Akbar Ansari and S. Zeeshan Arshad⁶⁴ provide a comparative study, with a detailed account of conventional capitalist business ethics and how they relate to the emergence of capitalism and associated philosophies in European history.

A key difference between Islamic and Western business ethics, which lies at the heart of the matter, may be summarized as follows. In some European conceptions, morality is viewed as instrumental to the procurement of 'freedom' for individuals; freedom is also represented by wealth (which gives the individual the freedom to pursue his or her desires). More crudely, "good ethics is good business." In contrast, moral behaviour or the pursuit of virtue is the goal of an Islamic society, and the conduct of business is also subordinated to this goal. In Islam, the value of any action is judged by its intention.⁶⁵ The dramatic contrast between the Islamic view and a western secular view may be illustrated by the following *ḥadīth*:

A wealthy man will be called to account for his deeds on the Day of Judgement. He will say that I spent (wealth given by You) in all the ways that are pleasing to You. Allah will say to him; 'You lie. You spent the wealth so that you may be

⁶¹ Mushtaq Ahmad, *Business Ethics in Islam* (Islamabad: IIT and IRI, 1995).

⁶² Felix Pomeranz, "Business Ethics: The Perspective of Islam," *The American Journal of Islamic Social Sciences*, vol. 12, no. 3 (1995), 400–404.

⁶³ See, Maulana Mohammad Zakariya Kandhalvi, *Virtues of Halāl Earning and Trade* (Transvaal: Ilmi Publications, 1993).

⁶⁴ Javed Akbar Ansari and S. Zeeshan Arshad, *Business Ethics in Pakistan* (Karachi: Royal Book Company, 2006).

⁶⁵ See, for the saying of the Prophet (peace be on him) in this regard, Muḥammad b. Ismā'il al-Bukhārī, *Ṣaḥīḥ al-Bukhārī*, Kitāb Bad'u 'l-Wahyy, Bāb Kayf Kān Bad'u 'l-Wahyy ilā Rasūl Allāh Ṣallā Allāh 'alayh wa Sallam.

called 'Generous' (or 'Virtuous' or 'Charitable'). You were so called (and there is no reward for you here).' Then the man will be sent to the Hellfire.⁶⁶

Adopting integrity, supporting charitable causes and engaging in social welfare as a means of enhancing company reputation and hence favourably impacting on that business's bottom line is explicitly condemned in Islamic teachings. Virtue must not be subordinated to making a profit. This is also logical, since if morality is seen as a means of making money, then immoral behaviour will be preferred if it leads to more money. This tendency can be illustrated by the actual ethical practices of some Western businesses. For example, after learning that design defects in the Ford Pinto would lead to deaths by burning in rear-end collisions, the Ford company calculated that the costs of a safety recall would be more than the projected monetary value of death and dismemberment.

Islamic law as it relates to business is summarized in Muḥammad Ṭāhir Maṣūri⁶⁷ and Imran Ahsan Khan Nyazee.⁶⁸ Mohammad Akram Khan⁶⁹ gives an annotated bibliography of about twenty articles related to business organization and specific types of contracts within the framework of Islamic law (*ijārah*, hire-purchase, instalment sales, *murābahah*, *mudārabah*, etc.). One of the key principles is that transactions must be just, fair and equitable to both parties. One consequence is that transactions with *gharar* (a large amount of uncertainty or ambiguity) are prohibited. Ṣiddīq al-Darīr⁷⁰ gives an extensive discussion of this concept and its applications. For example, the sale of drilling rights for oil in locations where there is large amount of uncertainty about the quantity of oil available is not permissible in Islamic law.⁷¹

⁶⁶ See, for the original text of this *ḥadīth*, Muslim b. al-Ḥajjāj, *Ṣaḥīḥ Muslim*, Kitāb al-Imārah, Bāb Man Qātala li 'l-Riyā' wa 'l-Sum'ah.

⁶⁷ Muḥammad Ṭāhir Maṣūri, *Aḥkām-i Bay'* (Islamabad: Islamic Research Institute, 2005).

⁶⁸ Imran Ahsan Khan Nyazee, *Islamic Law of Business Organizations: Partnerships*, vol. 1, Islamic Law and Jurisprudence Series (Islamabad: International Islamic University of Islamabad, Islamic Research Institute and IIT, 1997); Imran Ahsan Khan Nyazee, *Islamic Law of Business Organizations: Corporations*, vol. 2 (Islamabad: International Institute of Islamic Thought and Islamic Research Institute, 1998).

⁶⁹ Mohammad Akram Khan, *Islamic Economics: An Annotated Bibliography* (Islamabad International Institute of Islamic Economics, International Islamic University, Islamabad: 1998), section 51: 20.

⁷⁰ Siddiq al-Darīr, *al-Gharar in Contracts and Its Effect on Contemporary Transactions*, Eminent Scholar's Lecture Series (Jeddah: IRTI/IDB, 1997).

⁷¹ Such sales led to the coining of the term 'winner's curse,' see, E.C. Capen, *et al.*, "Competitive Bidding in High Risk Situations," *Journal of Petroleum Technology* (June 1971), 641–653. Also see, John H. Kagel and Alvin E Roth, eds. *The Handbook of Experimental Economics* (Princeton: Princeton University Press.1995), chapter 7, for a survey and update.

Speculation, gambling and lotteries are not permissible for the same reason.⁷² The majority opinion is that insurance falls into the same category.⁷³ However, in view of the economic utility of insurance, according to a minority view, such a contract is acceptable within Islamic law. Others have tried to devise alternatives to insurance that would comply with Islamic law. This has been given the name of *takāful*, and will be discussed in Section 6.2 below.

A major area of difference between Islamic and conventional economics is the prohibition of interest. Payment of extra money to owners of funds is unjust, since it does not reward any productive activity. There is an enormous amount of literature on this issue. Siddiqi gives a recent survey and lists references.⁷⁴ The debate on the exact scope of the Islamic injunction and whether or not it applies to modern commercial interest has been resolved decisively in favour of the orthodox view that it does apply; this contrasts with Europe, where the same debate occurred and was resolved in the opposite manner.⁷⁵ The text of a judgement banning commercial interest written by the Shariat Appellate Bench of the Supreme Court of Pakistan reviews and rebuts all the major arguments in favour of interest.⁷⁶

Another important set of writings addresses the issue of how to create Islamic banks that function without interest. Ayub⁷⁷ and Tarek S. Zaher and M. Kabir Hassan⁷⁸ provide extensive surveys. The key concept is that lenders must participate in the risks of business, in order to earn a reward. Thus collateral for business loans cannot be seized in the event of business failure—that is, Shylock cannot get his pound of flesh if the ships of Antonio sink. In the relevant literature, the technical aspects of Islamic law, conventional banking functions, creation of suitable financial instruments, etc. tend to overwhelm the main point, which is that Islamic laws and institutions are

⁷² See, for a brief discussion and references to Islamic law sources, Siddiqi, "Muslim Economic Thinking: A Survey of Contemporary Literature," 241.

⁷³ See, 'Atīq al-Zafar Khān, "Inshurance aur Ijtimā'ī Fiqhī Idārōn kī Ārā'" in Muḥammad Ṭāhir Mansūri, ed. *Ijtimā'ī Ijtihād: Taṣawwūr, Irtiqā' aur 'Amālī Ṣūratayn* (Islamabad: Islamic Research Institute, 2007), 694.

⁷⁴ Muhammad Nejatullah Siddiqi, *Riba, Bank Interest and the Rationale of its Prohibition* (Jeddah: Islamic Research and Training Institute, 2004).

⁷⁵ See, Norman Jones, *God and the Moneylenders: Usury and Law in Early Modern England* (Oxford: Blackwell, 1989).

⁷⁶ Maulana Taqī Usmani, *Text of the Historic Judgement Against Riba (23 December 1999) given by the Supreme Court of Pakistan*, (1999), available at: <www.failaka.com/Library/Articles/Prohibition%20of%20Interest%20in%20Pakistan.pdf>.

⁷⁷ Ayub, *Islamic Banking and Finance: Theory and Practice*.

⁷⁸ Tarek S. Zaher, and M. Kabir Hassan, "A Comparative Literature Survey of Islamic Finance and Banking," *Financial Markets, Institutions and Instruments*, vol. 10, no. 4 (2001), 155–199.

designed not to make profits but to promote moral and spiritual growth. This aspect is discussed by Sait and Lim,⁷⁹ F. R. Faridi,⁸⁰ R. T. Naylor,⁸¹ Abdulaziz Sachedina⁸² and others. Because of the conflict between Islamic spiritual teachings and the risk-free profit-making attitudes of modern banks, some Muslims hold that the two cannot be reconciled (for example, Vadillo,⁸³ Ṭāsīn,⁸⁴ Ansari).⁸⁵

While commercial loans can be handled relatively easily, avoiding interest in microfinance, consumer loans, mortgages, government projects and foreign debt require different methods. Each must be dealt with separately. Beginnings have been made in all. The potential for further work is reflected in the following comment about Islamic microfinance, from Sait and Lim:

Islamic jurisprudence (*fiqh*), with its emphasis upon partnership and a concern for community welfare, together with the expansion in Islamic banking and microfinance, has the ability to respond creatively to the needs of the urban poor.⁸⁶

The term ‘financial engineering’ has been coined to deal with the issue of devising suitable financial instruments that cater to a specific need while conforming to Islamic law—see Tariqullah Khan and Munawar Iqbal,⁸⁷ and also Saiful Azhar Rosly,⁸⁸ for illustrations of the process for a wide range of financial transactions.

Islamic law encourages spending on the poor and disadvantaged, based on the principle that money that is not required to satisfy immediate needs should

⁷⁹ See, Sait and Lim, *Land, Law and Islam: Property and Human Rights in the Muslim World*.

⁸⁰ F. R. Faridi, “A Case for Islamic Economics: An Indian Perspective,” *Journal of Objective Studies*, vol. 6, no. 1 (1414/1994), 157–168.

⁸¹ R. T. Naylor, *Satanic Pursues: Money, Myth, and Misinformation in the War on Terror* (Montreal: McGill-Queen's University Press, 2007).

⁸² Abdulaziz Sachedina, “The Issue of Riba in Islamic Faith and Law,” available at University of Virginia website, (n.d.): <<http://people.virginia.edu/~aas/article/article7.htm>>, accessed 9 July, 2007.

⁸³ Vadillo, “The Fallacy of The ‘Islamic Bank.’”

⁸⁴ See, Ṭāsīn, *Mutabādīl Sūdī Nizām kē Da'wē* (Karachi: Goshah-'i 'Ilm we Tahqīq, 2001).

⁸⁵ Ansari, “Islamising Capitalist Finance.”

⁸⁶ Siraj Sait and Hilary Lim, *Islamic Land and Property Research Series*, Series of Eight Position Papers. 7: “Islamic Endowments (Waqf) and Indigenous Philanthropy” (Nairobi: UN-Habitat, 2005).

⁸⁷ Munawar Iqbal, ed. *Islamic Perspectives on Sustainable Development* (Basingstoke: Palgrave Macmillan, 2005).

⁸⁸ Saiful Azhar Rosly, *Critical Issues on Islamic Banking and Financial Markets: Islamic Economics, Banking and Finance, Investments, Takaful and Financial Planning* (Bloomington: Author House, 2005).

be spent on socially useful purposes (and not saved or used to make more money). This is urged in numerous verses of the Qur'an and traditions from the Prophet (peace be on him).⁸⁹ This has implications for lending practices. Thus the *Shari'ah* encourages giving loans to the needy, not pressing for repayment, giving extra time or waiving the loan when needed.⁹⁰ All these measures are designed to develop sympathy for those in need and a spirit of cooperation in society.⁹¹ In contrast, interest-based loans based on collateral insulate the lender from the borrower, allowing the impersonal, self-interest based transactions which are the basis of the capitalist system.⁹² One can use financial engineering to replace interest with *Shari'ah* compliant service charges, achieving conformity in form, but not in spirit, to Islamic law. The quest to find suitable compromises which preserve the spirit of Islamic law while being practicable in a society of ordinary human beings (not saints) is currently being carried out on many different fronts in all Islamic societies.

4.4 Labour

Toseef Azid⁹³ surveys Islamic views of labour, while T. Egami⁹⁴ and A. R. A. Rahman⁹⁵ discuss labour as worship, and suggest how such a view of labour can create meaning and motivation for work, in contrast with the alienation and anomie in the capitalist system. Karen Pfeifer⁹⁶ also provides a comprehensive survey of Islamic labour laws and how they have impacted on recent developments in the Muslim world. She finds that Islamic rules about labour and how they have played out in Egypt, Pakistan and Saudi Arabia have been influenced by the Islamic vision of society as a cooperative enterprise. This contrasts with the competitive conception at the heart of the

⁸⁹ The Qur'an, for example, states, "...They ask thee how much they are to spend; Say: "What is beyond your needs." (Qur'an 2: 219)

⁹⁰ See, Qur'an 2: 280.

⁹¹ See, Mufti Muhammad Shafi, *Distribution of Wealth in Islam*, part 2, sections 10, 18, 19.

⁹² For this same discussion in the historical context of the widespread adoption of interest in Christian societies, see, Benjamin Nelson, *The Idea of Usury: From Universal Brotherhood to Universal Otherhood* (Chicago: University of Chicago Press, 1969).

⁹³ Toseef Azid, "The Concept and Nature of Labor in Islam: A Survey," *Review of Islamic Economics*, vol. 9, no. 2 (2005), 1-27

⁹⁴ T. Egami, "Labor and Action in Islam: Searching for an Outlook on Lost Labor," International University of Japan, Institute of Middle Eastern Studies, Unpublished Master's dissertation, 1990.

⁹⁵ A. R. A. Rahman, "An Islamic Perspective on Organizational Motivation," *American Journal of Islamic Social Sciences*, vol. 12, no. 2 (1995), 115-124.

⁹⁶ Karen Pfeifer, "Islam and Labor Law: Some Precepts and Examples" in Sohrab Behdad and Farhad Nomani, eds. *Islam and Every Day Life: Public Policy Dilemma* (London: Routledge Curzon Press, 2006), 113-140.

modern Western economics. Manicas⁹⁷ has argued that the transition in the West from a cooperative ideology (which he terms *polis*) to a competitive one (termed *societas*) is one of the key transitions of modernity.

As in all spheres of human relations, Islamic laws about labour are structured as interlocking sets of complementary rights and responsibilities. The right of an individual to receive aid from society in times of need derives from the person's responsibility to do the best to provide for himself or herself.⁹⁸ The Islamic work ethic is based on the idea that taking the property of the other unjustly is not permissible. A worker who shirks on the job earns a wage that is not justified, and this is *ḥarām*. This motivation for work is different from Max Weber's Protestant work ethic.⁹⁹ Workers should be treated with dignity and respect, and equality maintained between employers and employees in terms of their social status (in particular, clothing, housing and food). In contrast, in capitalist societies, an employer generally has a higher status than workers, while in critiques of capitalism, the capitalist is regarded as an exploiter who receives a financial reward for no work. Islamic theory sees employer and employee as engaged in a cooperative enterprise, doing different types of work but being accorded equal respect—that is, entrepreneurial skills receive due recognition in Islam, but are not given primacy. There is great emphasis on just treatment of workers, paying them on time, not overworking or exploiting them, and not mistreating them in any way. Working conditions should be safe from accidents and not damaging to the health of workers. There is general agreement on these minimal rights of labourers, while some modern authors have found in Islamic teachings a more extensive set of labourers' rights, including vocational training and many other benefits. However, these are disputed. Abdel Aziz¹⁰⁰ has argued that social justice requires hiring the most competent worker, even more so if that person is from a minority or disadvantaged group.

There is also a clear basis in Islam for profit-sharing schemes, although there is some dispute as to the extent of sharing required. Some have argued¹⁰¹ that labour-owned firms would express the spirit of Islam, while others suggest

⁹⁷ Manicas, *A History and Philosophy of the Social Sciences*.

⁹⁸ Said, *Orientalism*; M. Ṭāsīn, *Qur'ān aur Ḥadīth kī Rōshnī mēñ ...*

⁹⁹ See, Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, trans. Talcott Parsons (London: Allen and Unwin, 1930).

¹⁰⁰ Abdel Aziz, "Firm Level Decisions and Human Resource Development in an Islamic Economy" in Ehsan Ahmed, ed. *Economic Growth and Human Development in an Islamic Perspective: Proceedings of the Fourth International Islamic Economics Seminar* (Herndon, VA: International Institute of Islamic Thought, 1992), 45–59.

¹⁰¹ See, for example, Zamir Iqbal and Abbas Mirakhor, "The Stakeholders' Model of Governance in an Islamic Economic System," *Islamic Economic Studies*, vol. 2, 43–63.

that more flexibility in terms of the preferred model for business organization is permissible. While there is dispute on details, there is no dispute on the principle that Islamic ideals of justice and cooperation require a firm to share its good times with its workers, just as it calls upon workers to make sacrifices during bad times.

The first wife of the Prophet (peace be on him) was a businesswoman. Throughout Islamic history, many Muslim women have owned property and have had the right to earn money. Islamic law also gives them the right to inherit. These rights became available to European women only relatively recently. Iran has recently passed a law entitling women to compensation for work done at home (childcare, cooking, etc.)—the husband is required to make such a payment in the case of divorce.¹⁰² This is based on the example of the Prophet (peace be on him), who used to do housework, and Islamic law, which places responsibility for childcare and housework on the husband,¹⁰³ though some religious scholars have disputed the Iranian interpretation.

Pfeifer¹⁰⁴ reviews the material discussed in this section, and provides a detailed study of how theories in the realm of labour laws and the treatment of labour have played out in practice in Egypt, Saudi Arabia and Pakistan. As usual in such studies, she finds that practices are conditioned by the historical and cultural context and political considerations, as well as Islamic legal theory (which is flexible and can be adapted to different purposes). Because pragmatic considerations substantially constrain idealistic visions, both Muslim and non-Muslim cynics have argued that practice is determined by the material realities, while visions, ideals and philosophies merely serve as window dressing. However, Karen Pfeifer's earlier paper¹⁰⁵ shows that Islamic firms in Egypt offer significantly higher wages (and have lower profits) than comparable non-Islamic firms, which have higher profits and lower wage shares. This and

¹⁰² See, M. Poya, *Women, Work and Islamism: Ideology and Resistance in Iran* (London and New York: Zed Books, 1999), 98–103. See also, Valentine M. Moghadam, "Women in the Islamic Republic of Iran: Legal Status, Social Positions, and Collective Action," a paper presented at the conference, "Iran After 25 years of Revolution: A Retrospective and a Look Ahead," held at Woodrow Wilson International Center for Scholars, November 16–17, 2004.

¹⁰³ See, Abū 'l-Walid Muḥammad b. Ahmad Ibn Rushd al-Qurṭubī, *Bidāyat al-Mujtahid wa Nihāyat 'l-Muqṭasid* (Cairo: Muṣṭafā al-Bābī al-Ḥalabī, 1395/1975), 2: 54; Abū 'Abd Allāh Muḥammad b. Ahmad al-Qurṭubī, *al-Jāmi' li Ahkām al-Qur'an*, ed. Hishām Samīr al-Bukhārī (Riyadh: Dār 'Ālam al-Kutub, 1423/2003), 3: 154. See, for a variant view, Muḥammad b. Abī Bakr Ibn Qayyim al-Jawziyyah, *Zād al-Ma'ād fi Hady Khayr al-Tbād*, 5 vols., 27th edn. (Beirut: Mu'assasat al-Risālah, 1415/1994), 5: 186–189.

¹⁰⁴ Pfeifer, "Islam and Labor Law: Some Precepts and Examples."

¹⁰⁵ Karen Pfeifer, "Islamic Business and Business as Usual: A Study of Firms in Egypt," *Development in Practice*, vol. 11, no. 1 (2001), 20–33.

numerous other instances show that ideals influence practices, even though pragmatic considerations and human failings may prevent those ideals from being realized *en toto*.



PART FIVE

Islamic State

(Allah will help) those who, if We give them power in the land, establish regular prayer and give regular charity, enjoin the right and forbid wrong. (Qur'an 22: 41)

The defining characteristic of an Islamic government is its subordination to the *Shari'ah* or Islamic law. All principles of government to be discussed below derive from these laws, as well as historical examples of their implementation by Islamic states. A government cannot legislate in areas where the *Shari'ah* has provided laws.¹⁰⁶ These areas include inheritance, property rights (which also bear on taxation), certain types of criminal law, etc. In other areas where the *Shari'ah* is silent, or else has laid down only general guidelines, the state may legislate and operate within prescribed guidelines. Citizens can (and are required by Islamic law to) refuse to obey the government in matters which are against Islamic law—obedience to God supersedes obedience to kings.¹⁰⁷ The judiciary, which (in ambiguous cases) decides what is and is not against the Islamic law, is independent of the executive body, and plays an extremely important role because of this status.¹⁰⁸ An essential feature to keep in mind,

¹⁰⁶ This contrasts with modern European conceptions, according to which a government is responsible for creating and enforcing a 'social contract,' which may consist of any set of mutually agreed upon rules. Georg Wilhelm Friedrich Hegel (1770–1831), building on political theories initiated by Niccolò Machiavelli (1469–1527), argued that since a government is responsible for creating and maintaining the law, it is outside the law and not subject to it. Such a rationale for political authority was responsible for the extraordinary cruelty of the fascist states. See, Peter T. Manicas, *A History and Philosophy of the Social Sciences* (Oxford: Blackwell Publishers, 1989), and Michael Harrington, *Politics at God's Funeral* (Harmondsworth: Penguin, 1985).

¹⁰⁷ See, for a clear directive the Prophet (peace be on him) in this regard, Abū 'Īsā Muḥammad b. 'Īsā al-Tirmidhī, *Sunan al-Tirmidhī*, Kitāb al-Jihād, Bāb Mā jā' lā ṭā'ah li makhlūq fi ma'ṣiyat 'l-Khāliq. Note the implication that in an Islamic state, no one is justified in implementing a cruel and unjust policy (such as burning of the Jews) on the grounds that 'I was just carrying out orders'. For the full import of this, see, Hannah Arendt, *Eichmann in Jerusalem: A Report on the Banality of Evil* (Harmondsworth: Penguin, 2006).

¹⁰⁸ Rulings by Islamic scholars on the legitimacy of governments have played an important role in Islamic history. For example, rulings in favour of British rule in India helped legitimize it,

stressed by many authors, is that an Islamic state is an effort to realise the spiritual by material means through human organisation. For example, an early Islamic ‘mirror for princes’—*The Wisdom that Conduces to Royal Glory* by Yūsuf Khāṣṣ Ḥājib (d. 410/1085)¹⁰⁹—features a dialogue between a worldly-wise man and an ascetic, and shows how to harmonize worldly wisdom with spiritual goals. Below we discuss some of the economic functions of the Islamic state, as mandated by Islamic law, including its political organization, public finance, the judicial system, and economic security and welfare.

5.1 Political Structure

Since an Islamic state came into existence during the lifetime of the Prophet (peace be on him), the Islamic theory of the state is very well developed. *The History of Islamic Political Thought: From the Prophet to the Present* by Antony Black¹¹⁰ provides a comprehensive survey.

5.1.1 Principles

Sayyid Mawdūdī¹¹¹ discusses the basic principles of an Islamic state with a very concrete and practical focus on creating a political framework for use in Pakistan and other Islamic countries. Summarizing the views of one of the leading scholars of Islam, Maulānā Taqī ‘Uthmānī¹¹² highlights three important issues:

- The demands of struggles for liberation, and Islam’s emphasis on the rejection of secular thought, has led some Muslims to over-emphasize the role of politics in Islam. Just as economics is a means to achieve spirituality, Qur’ān 22: 41 states that political control is a means to establish worship and encourage good deeds.

and rulings against the British supported the War of Independence in 1857. Many British policies in the Middle East were formulated in response to their fear that a ruling by the Ottoman Empire saying that Islamic law requires Muslims to act against the British could lead to widespread revolt in their Muslim colonies; see, David Fromkin, *A Peace to End All Peace* (Harmondsworth: Penguin, 1991).

¹⁰⁹ Yūsuf Khāṣṣ Ḥājib, *Wisdom of Royal Glory (Kutadgu Bilig): A Turko-Islamic Mirror for Princes*, tr. with an introduction and notes, Robert Dankoff (Chicago: University of Chicago Press, 1983). It was written in ca 1070 CE and translated in 1983.

¹¹⁰ Antony Black, *The History of Islamic Political Thought: From the Prophet to the Present* (Edinburgh: Edinburgh University Press, 2001).

¹¹¹ Sayyid Abul A’la Maududi, *Islamic Law and Constitution*, tr. and ed. Khurshid Ahmad (Lahore: Islamic Publications, 1960).

¹¹² Maulānā Taqī ‘Uthmānī, *Hakīm al-Ummat kē Siyāsī Afkār* (Karachi: Jāmi‘at Dār al-‘Ulūm, 1970).

- Democracy emerged in Europe in response to the historical experience of the evils of autocracy—personal rule with unconstrained and arbitrary power. Europeans, and some Muslim followers, have generalized from the European experience to assume that the forms of government that have evolved in contemporary Europe (and even more recently in North America) are the best models for all countries. Islamic governments have personal rule, but with many checks and balances against the abuse of power. In particular, a ruler is equal to his subjects before Islamic law. Rule (or leadership) is regarded as a responsibility not a privilege. A ruler must be chosen on the basis of merit, be of exceptional character, and may be removed for incompetence.
- Since political control is a means to an end, only Islamically permissible means may be used to achieve it. Currently, many of the methods being used by Muslims for political struggle are not permissible in Islam. Some Muslims have argued, incorrectly, that such methods are permissible because they are required for success. Several historical examples of how Muslims have sacrificed political success in the interest of religious goals can be identified. For example, Mu'āwiyah ibn Abī Sufyān (d. 60/680), the fifth Caliph of Islam, recalled his armies from a surprise attack (which had a very high likelihood of success) upon learning that such a tactic was not permissible Islamically in the particular situation he faced immediately after the expiry of a peace treaty.¹¹³

5.1.2 The *Ummah*

Generally, government has come to be associated with the nation state. However, of relevance to the theme of this paper is the idea, stressed in Islam, that Muslims form one community or the *ummah*. This conflicts with the modern concepts of the nation-state, which formulate governing arrangements on the basis of territorial divisions. The as yet unresolved tension between the concept of the *ummah* and the concept of nation has played out in many different ways in Muslim political arenas.¹¹⁴ One example is Mustafa Kemal Atatürk's explicit choice of the modern identity of a Turkish nation and his aggressive promotion of it in preference to the more general Islamic identity of the Ottoman Empire. Although there have been attempts amongst Muslim countries to promote closer political, social and economic ties with each other in line with the concept of the *ummah*, events such as the separation of East

¹¹³ See, Abū Dāwūd Sulaymān b. Ash'ath al-Sijistānī, *Sunan Abī Dāwūd*, Kitāb al-Jihād, Bāb Fī 'l-Imām Yakūn baynahu wa bayn al-'Aduww 'Ahd fa Yasīr ilayh; Abū 'Īsā Muḥammad b. 'Īsā al-Tirmidhī, *Sunan al-Tirmidhī*, Kitāb al-Siyar 'an Rasūl Allāh Ṣallā Allāh 'alayh wa Sallam, Bāb Mā jā' fi al-Ghadr.

¹¹⁴ See, for example, James Piscatori, *Islam in a World of Nation States* (Cambridge: Cambridge University Press, 1986).

and West Pakistan and the modest success of other initiatives is an indication of the current weakness of such international religio-political ties. Abdurrahman Yousri Ahmad¹¹⁵ discusses attempts at economic integration among Muslim countries and their relation to Islamic law and the *ummah*.

5.1.3 Decision-Making Processes

Arguably, the fundamental political problem is group decision-making in the absence of consensus and in the presence of conflicting interests. The main process of decision-making in an Islamic society is *shūrā* or consultation. This was the practice of the Prophet Muḥammad (peace be on him) and is explicitly mandated in the Qur'ān, which describes the believers as being:

Those who hearken to their Lord, and establish regular Prayer; who (conduct) their affairs by mutual consultation; who spend out of what We bestow on them for sustenance. (Qur'ān 42: 38)

The writings of Ḥabīb al-Raḥmān 'Uthmānī and Muftī Muḥammad Shafī¹¹⁶ and Riyāsat 'Alī Bijnōrī¹¹⁷ contain detailed discussions of *shūrā*, derived from the original sources and corroborated by Islamic historical references. In *shūrā* all members are encouraged to think about what is best for the group as a whole, in preference to the interests of individuals or subgroups. This creates a participatory form of government that differs in important ways from democracy, which often caters to the interests of the largest subgroup and tends to generate conflicts. *Shūrā*, like other Islamic institutions and practices, is intended to create consensus and harmony within an Islamic community.¹¹⁸

¹¹⁵ Abdurrahman Yousri Ahmad, "Islamic Economics: Its Development As A Scientific Discipline," paper presented at the Islamic Development Bank Roundtable on "Islamic Economics: Current State of Knowledge and Development of Discipline," Jeddah, 2004.

¹¹⁶ Ḥabīb al-Raḥmān 'Uthmānī and Muftī Muḥammad Shafī, *Islām mēñ Mashwarē kī Ahmiyyat* (Lahore: Alameen Publications, 1976).

¹¹⁷ Maulānā Riyāsat 'Alī Bijnōrī, *Shūrā kī Shar'ī Haythiyyat* [The Legal Status of Consultation], (Sadiqabad, Pakistan: Aḥsan al-Maṭābī, 1997)

¹¹⁸ The traditional conceptions of the state, according to some, are based on a natural community with a common ethos and shared goals. Modern conceptions of the state, in contrast, are based on a 'social contract,' agreement to a set of rules for resolving conflicting interests. Peter T. Manicas, in his *A History and Philosophy of Social Sciences*, writes in this context that "the only thing which people have in common is 'the government' and, paradoxically, their *private* interests!" and describes the history of the transition from the traditional *polis* to the modern *societas* form of political organisation in Europe. Islamic principles of government are based on the traditional form, but make explicit allowance for minorities which

5.1.4 Citizens' Rights and Responsibilities

An Islamic government must provide to its citizens justice, security, freedom, and equity in all spheres of life:

Allah commands justice, the doing of good, and generosity to fellow men, and He forbids all shameful deeds, and injustice and rebellion (Qur'ān 16: 90).

In return, the citizens are expected to obey the state authorities, except in cases where its orders are contrary to Islamic law.

O ye who believe! Obey Allah, and obey the Messenger, and those charged with authority among you. If ye differ in anything among yourselves, refer it to Allah and His Messenger, if ye do believe in Allah and the Last Day: That is best, and most suitable for final determination (Qur'ān 4: 59).

The preferred mechanism for the selection of a ruler is more like an electoral college (termed *ahl al-hall wa 'l-'aql*) than direct election. Members of the electoral college must satisfy certain conditions, but need not be bound to vote in any particular way. This same body may also be given the power to remove a ruler for incompetence or other serious reasons. Detailed discussion with reference to source materials is given by Bijñōrī.¹¹⁹ Conditions in which revolt or rebellion is considered justifiable such as under oppressive rulers have received extensive discussion by Islamic jurists as well as more practically oriented politicians of the twentieth century. The principles of Islamic government require guarantees of freedom of religion and belief, freedom of worship, freedom of movement, freedom of expression, equality of opportunity, and the right to benefit from public services. Sayyid Mawdūdī's *The Islamic Law and Constitution* contains an extensive discussion on this point.¹²⁰

Historically, Islamic civilizations have displayed much greater tolerance and provided much greater freedom to minorities than has ever been achieved in the West. In particular, the concept of allowing minorities to maintain personal law as distinct from the overall law of the state arguably achieves a level of freedom for subcultures that is greater than in many other countries. Maria Rosa Menocal¹²¹ and Chris Lowney¹²² describe Medieval Muslim Spain,

may not share the same goals as the main community, permitting them far more liberty to self-regulate (through personal law) than is allowed in many modern states.

¹¹⁹ See, Bijñōrī, *Shūrā kī Shar'ī Haythiyyat*.

¹²⁰ See, Maududi, *Islamic Law and Constitution*.

¹²¹ Maria Rosa Menocal, *The Ornament of the World: How Muslims, Jews and Christians Created a Culture of Tolerance in Medieval Spain* (New York: Little, Brown and Co., 2002).

and Mustafa Akyol,¹²³ the Ottoman Empire, while Arnold Toynbee¹²⁴ wrote: “The extinction of race consciousness as between Muslims is one of the outstanding moral achievements of Islam. In the contemporary world there is, as it happens, a crying need for the propagation of this Islamic virtue ... of tolerance and peace.” In the *Human Development Report: Cultural Liberty in Today's Diverse World* by Sakiko Fukuda-Parr,¹²⁵ the provision of cultural liberties (of the type provided historically in Islamic civilizations) is presented as one of the pressing needs of the world.

5.2 Public Finance

Since an Islamic state came into existence in the lifetime of the Prophet (peace be on him), objectives of public expenditure that are legitimate according to Islamic law and also the lawful means of raising revenue have been the subject of discussion among Muslim scholars from the earliest times. Indeed, this is what is traditionally meant by Islamic economics. This discussion, which delineates legitimate activities for a Muslim state and also imposes some constraints on the generation of revenues and use of financial resources, is at the heart of any conceptualisation of a modern Muslim state. Nicolas P. Aghnides¹²⁶ and Siddiqi¹²⁷ provide a comprehensive discussion of the theories and some history of early administrative structures. A brief survey of modern authors is given by Ziauddin Ahmad.¹²⁸ Several articles in *Readings in Public Finance in Islam* edited by M.A. Gulaid and M.A. Abdullah¹²⁹ provide more complete discussions of the issues discussed briefly below. *Financing Public Expenditure: An Islamic Perspective* by Munawar Iqbal and Tariqullah Khan¹³⁰

¹²² Chris Lowney, *A Vanished World: Medieval Spain's Golden Age of Enlightenment* (New York: Free Press, 2005).

¹²³ Mustafa Akyol, “What’s Right With Turkey,” *Front Page Magazine* (December: 2004), available at: <www.thewhitepath.com/archives/2004>; Mustafa Akyol, “Symposium On Islam And Religious Freedom,” *Front Page Magazine* (2006), available at: <<http://www.frontpagemag.com/Articles/ReadArticle.asp?ID=24999>>.

¹²⁴ Arnold Toynbee, *Civilization on Trial* (Oxford: Oxford University Press, 1951).

¹²⁵ Sakiko Fukuda-Parr, *Human Development Report: Cultural Liberty in Today's Diverse World*, (New York: Oxford University Press, 2004).

¹²⁶ Nicolas P. Aghnides, *Mohammedan Theories Of Finance — With An Introduction To Mohammedan Law And A Bibliography* (Lahore: The Premier Book House, 1961).

¹²⁷ Siddiqi, *Public Finance in Islam*.

¹²⁸ Ziauddin Ahmad, “Public Finance and Fiscal Policy in an Islamic Perspective,” in Ausaf Ahmad and Kazim Raza Awan, eds. *Lectures on Islamic Economics* (Jeddah: Islamic Research and Training Institute, 1992).

¹²⁹ M.A. Gulaid and M.A. Abdullah, eds. *Readings in Public Finance in Islam* (Jeddah: Islamic Research and Training Institute, 1995).

¹³⁰ Munawar Iqbal and Tariqullah Khan, *Financing Public Expenditure: An Islamic Perspective* :

provides another survey of the area, with a very practical focus on the problems currently facing Islamic countries.

5.2.1 Revenues

Justification for any method of raising revenue for the state must be found in Islamic source materials, which include the methods used in the period of the Khilāfat-i Rāshidah. Of these traditional methods, four retain the greatest contemporary relevance. The first is *zakāh* and *'ushr*, which are dues on the wealthy meant primarily for the alleviation of poverty, and ranging between 2.5 per cent and 20 per cent for different categories of property. The rates and the potential uses of this revenue are directly specified in Islamic law, so that a state may not appropriate this money for other uses. Because of its potential importance in poverty reduction, it is discussed in more detail below. The second method is a land tax (*kharāj*), which is quite flexible and may be used by a state for many possible purposes. The third method is revenue from taxing or renting natural resources, or from management of other forms of public trust properties. The fourth is customs duties imposed on imports, in reciprocation for similar charges imposed on Muslim traders. Most traditional Islamic scholars hold that the government may impose no taxes other than those that are sanctioned by the tradition.¹³¹

“Taxation Policy in an Islamic Economy” by Kahf¹³² provides an able exposition of the traditional view with reference to source materials. Since ownership of private property is a right of the individual granted by Islamic law, forcibly alienating this property by taxation is not permissible except where explicitly sanctioned by Islamic law. Thus arbitrary taxes for arbitrary purposes cannot be imposed by a government. Many modern scholars are in favour of giving governments a large number of duties in order to achieve development objectives, stabilize business cycles, provide social services, redistribute income, etc. In conformity with this broad conception of government responsibilities, they also favour giving broader powers of taxation to governments to allow for the financing of these larger projects. *The*

(Jeddah: Islamic Research and Training Institute, 2004).

¹³¹ The resemblance between these traditional methods for generation of revenue in an Islamic state, and the tax proposals of Henry George (1879) in his classic, controversial, and now almost forgotten, *Progress and Poverty, An Inquiry into the Cause of Industrial Depressions and of Increase of Want with Increase of Wealth: The Remedy*, first published in 1879, republished (New York: Cosimo Classics, 2005), is quite striking.

¹³² Monzer Kahf, “Taxation Policy in an Islamic Economy” in M.A. Abdullah, ed. *Readings in Public Finance* (Jeddah: Islamic Research and Training Institute, 1995).

Islamic Welfare State and its Role in the Economy by Chapra¹³³ provides a clear exposition of this view. Traditional scholars object to giving such a wide range of responsibilities to governments, not finding any sanction for them in the traditions of Islam. A *via media* is proposed by Ziauddin Ahmad¹³⁴ who suggests that if a society chooses (by consultation) to allocate a particular responsibility to the government, then it would acquire the required religious sanction to legitimise taxation for this specific purpose. Munawar Iqbal,¹³⁵ Sait and Lim,¹³⁶ Kahf¹³⁷ and others have noted that traditionally, welfare activities by the public have adequately provided for food, health, education and other needs, so that in the past Islamic states did not have to provide for these needs. As discussed elsewhere, this reliance on individual responsibility for welfare and social service provision seems most in conformity with the Islamic tradition, in which the object of government is not the provision of social services as such, but the creation of a cooperative spirit, compassion and harmony. These can only be achieved by encouraging the public to take responsibility for provision of services in their communities.

Zakāh is one of the five pillars of Islam, as well as a pillar of public finance for an Islamic state. It is an annual payment ranging from 2.5 per cent to 20 per cent of the value of specified types of property owned by the wealthy, with the primary object of alleviating poverty. It is a clear illustration of the use of wealth to pursue spiritual goals, since it is explicitly intended to create sympathy with and compassion for the poor amongst the wealthy. Despite its resemblance in form, some Islamic scholars object to the word 'tax' for the payment of *zakāh*, since its payment is an act of worship. Historically, Islamic governments have collected *zakāh* from the rich and distributed it to the needy.¹³⁸ Because of its religious nature, it is easy to collect, except when the public does not trust the government to deliver it to the designated recipients. When governments do not collect and distribute it, Muslims are individually responsible for finding the needy and distributing the *zakāh* to them. They are encouraged to prioritize first their next-of-kin, then the local community, and then the population more generally. Where institutions are weak and levels of

¹³³ M. Umer Chapra, "The Islamic Welfare State and Its Role in the Economy" in M. A. Gulaid and M.A. Abdullah, eds. *Readings in Public Finance in Islam* (Jeddah: Islamic Research and Training Institute, 1995).

¹³⁴ Ziauddin Ahmad, "Public Finance and Fiscal Policy in an Islamic Perspective."

¹³⁵ Munawar Iqbal, *Distributive Justice and Need Fulfilment in an Islamic Economy* (Islamabad: International Institute of Islamic Economics, 1995).

¹³⁶ Sait and Lim, *Land, Law and Islam: Property and Human Rights in the Muslim World*.

¹³⁷ Kahf, "Waqf and its Sociopolitical Aspects."

¹³⁸ This is the purpose for which *zakāh* has been mandated. See, Muḥammad b. Ismā'īl al-Bukhārī, *Ṣaḥīḥ al-Bukhārī*, Kitāb al-Zakāh, Bāb Wujūb al-Zakāh.

trust low, most *zakāh* funds are distributed individually by Muslims, based on personal searches for where the funds are most needed.

Because of its fundamental importance in Islam, *zakāh* has been the subject of extensive research. ‘Abd al-‘Azīm Iṣlāhī¹³⁹ has prepared a bibliography listing over 250 references on all aspects of *zakāh*, from administrative to spiritual, including case studies of Islamic countries. Patterns of giving by the Pakistani community in the USA are documented in Adil Najam,¹⁴⁰ and substantial additional research along these lines is under way. Literature reviews and assessment of the potential of *zakāh* for poverty relief are given by Habib Ahmed¹⁴¹ and Naseem Shah Shirazi.¹⁴² Disregard of attention to local detail and the one size fits all approach to poverty reduction of the IMF and World Bank, which has been critiqued by Stiglitz in numerous articles and books,¹⁴³ is well illustrated by the case of *zakāh*. Despite its centrality in Islam, its specific designation as a poverty alleviation measure and its appeal to Muslims, *zakāh* is not, to my knowledge, mentioned in poverty reduction programmes designed by the World Bank for Muslim countries. A large amount of work on how to revitalise this key Islamic institution, adapt it to modern conditions, and make it more effective as a means of poverty elimination, is referenced in Iṣlāhī.¹⁴⁴

5.2.2 Responsibilities and Expenditure

The responsibilities and functions of the Islamic state define categories of state expenditure that are legitimate according to Islamic law. In addition to public administration, the state is expected to provide justice to all—citizens and others worldwide—ensure security (including law enforcement and defence), look after citizens’ physical welfare by taking care of their needs, and provide for an equitable distribution of wealth and economic opportunities. The state is also required to look after the spiritual welfare of its citizens by playing an

¹³⁹ Abdul Azim Islahi, *Zakāh: A Bibliography* (Jeddah: King Abdul-Aziz University, Scientific Publishing Center, 2004), available at: <<http://islamiccenter.kaau.edu.sa/english/Publications/Islahi/Zakah%20A%20Bibliography.pdf>>.

¹⁴⁰ Adil Najam, *Portrait of A Giving Community: Philanthropy by the Pakistani-American Diaspora* (Cambridge, MA: Harvard University Press, 2007).

¹⁴¹ Habib Ahmed, *Role of Zakah and Awqaf in Poverty Alleviation* (Jeddah: Islamic Research and Training Institute, 2004). Downloadable from IRTI/IDB website.

¹⁴² Naseem Shah Shirazi, *Reducing Poverty Through the Institution of Zakat* (Islamabad: International Institute of Islamic Economics and Birmingham: Religions and Development Research Programme (mimeo), 2006).

¹⁴³ See, <<http://www.globalpolicy.org/soecon/bwi-wto/critics/stiglitzindex.htm>>.

¹⁴⁴ Iṣlāhī, *Zakāh: A Bibliography*.

active role in promoting the good and prohibiting the evil, as mandated in the Qur'ān.¹⁴⁵

In the *Economic Role of the State in Islam*, Kahf¹⁴⁶ describes these functions and their implications for the economic role of the state. One subtle and important issue that he brings up is the following: while asceticism, simplicity and other-worldliness are considered desirable personal goals, they are not to be imposed on others—the state and individuals are not permitted to duck their economic responsibilities towards others in the name of promoting simple lifestyles or asceticism. The debate over the functions and responsibilities of the state, summarized in Ziauddin Ahmad,¹⁴⁷ has some parallels to, but also some striking differences from the analogous debate between conservatives and liberals in the west. First, it is a collective responsibility (*fard al-kifāyah*) of a Muslim society to take care of the basic needs of all its members (including health, education, and provision of opportunities for employment). *Fard al-kifāyah* is a special type of religious duty or obligation which does not, to the best of my knowledge, have an equivalent or analogue in Christianity or in secular law. If the duty is being fulfilled (in this case, the basic needs of all the members of the group are being met), then all are absolved of this responsibility. If the duty is not being fulfilled, then all members of the society are considered to be guilty of not rendering their responsibility. Responsibility is proportional to capability—those more capable of fulfilling the duty are more accountable. Since typically the state has a lot more capability than individuals, any gaps in the fulfilment of basic needs are the responsibility of the state. To the extent that private initiatives fail to meet this responsibility, the state is required to step in to fill the gap. At the same time, when a state fails to fulfil this obligation, the responsibility falls to individual citizens. The government can also be sued in an Islamic court to provide the required services. Each of the major responsibilities of the state and its implications for economic affairs is discussed separately below.

5.3 Justice

Islamic scholars agree that the provision of justice on all fronts is one of the main functions of an Islamic state. Economic affairs are to be managed so as to provide social and economic justice to citizens. There is a large literature on how the broad concept of justice translates into specific socioeconomic and political goals; see, for example, *Islam and Justice*, edited by Aidit Bin

¹⁴⁵ See, Qur'ān 22: 41.

¹⁴⁶ Kahf, "The Economic Role of the State in Islam."

¹⁴⁷ Ziauddin Ahmad, "Public Finance and Fiscal Policy in an Islamic Perspective."

Ghazali.¹⁴⁸ H.R. Kusha¹⁴⁹ considers the political dimensions in *Social Justice: From the Islamic World-System to the European World-Economy: A Study of Power Legitimation*. In the economic realm, it is quite clear from Islamic source materials that economic justice does not mean equality of wealth and/or income. Rather, it implies the provision of education, training, employment and equal access to economic opportunities, as well as justice. This is discussed in greater detail in section 5.4 below.

The standards of justice required by Islam are extremely high. Muslims are required to bear witness, even if it is against their own self-interest:

○ ye who believe! Stand out firmly for justice, as witnesses to Allah, even as against yourselves, or your parents, or your kin, and whether it be (against) rich or poor: for Allah can best protect both. Follow not the lusts (of your hearts), lest ye swerve, and if ye distort (justice) or decline to do justice, verily Allah is well-acquainted with all that ye do (Qur'an 4: 135).

It is worth noting that such a requirement was considered too much to ask by the framers of the USA constitution, and the Fifth Amendment allows people to abstain from bearing witness against themselves. Similarly, Muslims are required to be just, even against an enemy:

○ ye who believe! stand out firmly for Allah, as witnesses to fair dealing, and let not the hatred of others to you make you swerve to wrong and depart from justice. Be just: that is next to piety: and fear Allah. For Allah is well-acquainted with all that ye do (Qur'an 5: 8).

The Nuremberg trials show how difficult it is to match this standard: while German war crimes were punished, similar acts by the Allies were ignored.¹⁵⁰ Justice is regarded as a minimal requirement—Muslims are encouraged to forgive and be generous. Thus when the Prophet (peace be on him) marched victoriously into Makkah, he did not take revenge on the enemies who had persecuted him and his Companions with much brutality and over a long period of time. He set standards of behaviour for Muslim armies, many of which subsequently replicated this behaviour. For example,

¹⁴⁸ Aidit Bin Hj Ghazali, ed. *Islam and Justice* (Kuala Lumpur: IKIM, 1993).

¹⁴⁹ H.R. Kusha, "Social Justice: From the Islamic World-System to the European World-Economy, a Study of Power Legitimation," PhD thesis, University of Kentucky, Kentucky, VA, USA, 1989.

¹⁵⁰ For example, the fire-bombing of Dresden and the British blockade of food to Germany, which led to the death by starvation of an estimated 800,000 civilians, were ignored, while much lesser crimes by Germans were prosecuted; see Jonathan Glover, *Humanity: A Moral History of the Twentieth Century* (New Haven, CT: Yale University Press, 2001), 66.

when Salāh al-Dīn Yūsuf b. Ayyūb al-Ayyūbī (533–589/1138–1193) re-conquered Jerusalem in 583/1187, he took no revenge on the Crusaders for their earlier massacres of the populace; instead, he housed and fed them, and provided them with ships to take them back to their countries of origin. See also Noah Feldman¹⁵¹ for testimony on the generally superior behaviour of Muslim conquering armies.

We note that the idea of ‘competition’ versus ‘cooperation,’ one of the core differences between the capitalist and Islamic economic systems, is reflected even in the domain of justice. The explicit command that Muslims must, if necessary, testify even against their own best interests, and be just even to enemies, shows that they are all supposed to cooperate to arrive at a just outcome, disregarding their personal interests. In contrast, in the US legal system, justice is an incidental by-product of a mediated struggle between opposing interests. An excellent discussion of the ethical issues is given by a panel of lawyers in “A case of competing loyalties.”¹⁵² All on the panel agreed that a lawyer defending a male client known to him or her to be guilty of rape nonetheless is obliged to destroy the reputation of the female victim if this is the best possible defence. All agreed that the American criminal defence system is an adversarial process with artificial boundaries, rather than a pure search for truth.¹⁵³

Historically, the Islamic state was equipped with a range of institutions that could be coordinated and harmonized to deliver justice in a way that is, even now, unparalleled. M.S. Naz has discussed these institutions and their sphere of operations, providing some history and additional references.¹⁵⁴ Islamic scholars are agreed on the idea that ‘justice delayed is justice denied,’ and there is great emphasis on speedy resolution of cases. The list of institutions given below should give the reader an idea of the framework for provision of justice in an Islamic state:

- The *khalīfah*, or Governor, was often a last court of appeal. Through much Islamic history, people were given easy access and special times to take their cases to the *khalīfah*, in accordance with early Islamic traditions.
- The *muftī* or interpreter of Islamic law. While this was a purely scholarly position, with no immediate executive powers, Masud has shown how the

¹⁵¹ Noah Feldman, *After Jihad: America and the Struggle for Islamic Democracy* (New York: Farrar Straus and Giroux, 2003).

¹⁵² See, *Stanford Magazine* (Fall 1983), 38–43.

¹⁵³ See, *ibid.*

¹⁵⁴ See, M.S. Nāz, *Islāmī Riyāsat mēñ Muhtasib kā Kirdār* (Islamabad: Islamic Research Institute, 1991).

faqīhs, or scholars of Islamic law, wielded great power and enjoyed tremendous respect in early Islamic societies.¹⁵⁵

- The *qāḍī* or judge. The *qāḍī* or judge decided cases. The Islamic system is not adversarial in nature, and several examples show that there is an emphasis on achieving a solution that is viewed as just by all parties. The Islamic judicial system had no professional lawyers, although the judge could consult specialists in Islamic law and call witnesses or other interested parties as necessary to arrive at a just outcome. There was an emphasis on speedy resolution of trials.
- The Institution of *Ḥisbah*. The institution of *ḥisbah* dealt with violations of justice in situations where there was no particular aggrieved party or conflict of interests which would lead to a court case. In general, *ḥisbah* protected social interests. For example, pollution or other cases which are dealt with under class action law in some countries would, in Islamic states, have been handled by *ḥisbah*. Since *ḥisbah* also dealt with regulation of markets and consumer protection, it is closely related to the economic realm and is therefore treated separately in Section 6.4 below.
- *Diwān al-Mazālim*. *Diwān al-Mazālim* or the Court of Abuse, dealt with cases of the abuse of power. Here complaints against powerful officials could be brought by ordinary citizens. Because of difficulties in prosecuting such cases under normal procedures, this court was often given powers outside the normal juridical ones, and could proceed in the absence of standard types of required evidence.

This recapitulation of traditional Islamic institutions does not stem from a desire to glorify or romanticize the past. It is clear that solutions to modern problems will require creative thinking and adaptation. Western political, social and economic institutions represent a solution to these problems which is strongly conditioned by a worldview and a history substantially different from that of the Muslim countries. Contrary to what is widely believed, Western institutions are not universally applicable, and in particular, are not in Sync with the Islamic ethos. This makes it necessary to study history to find patterns of solutions consonant with Islamic traditions that can serve as a basis for new types of Islamic institutions.

5.4 Economic Security and Welfare

As discussed earlier, a Muslim society must collectively take care of the basic needs of all its members, including health, education, food, housing and provision of opportunities for employment. In *The Guarantee of a Minimum*

¹⁵⁵ See, Masud, *Shāṭibi's Philosophy of Islamic Law*.

Standard of Living in an Islamic State, Siddiqi¹⁵⁶ gives a comprehensive survey and further references relevant to most of the matters discussed in this section. It is important to note that the first responsibility of an individual is to fulfil his or her own basic needs; only those who are handicapped or temporarily unable to tend to their own needs are entitled to be assisted by others. There are a large number of Islamic laws which relate to provision of economic security for the disadvantaged. A comprehensive account is given in *Economic Security in Islam* by Yūsuf al-Qaradāwī.¹⁵⁷

As discussed by Anas Zarqa and Siddiqi, recognition of this responsibility goes back to the earliest times of Islam. The second Khalifah of Islam, ‘Umar b. al-Khaṭṭāb (r. 13–23/634–644) said regarding a non-Muslim citizen that he had paid taxes when young and was entitled to be provided for in old age.¹⁵⁸ The first state-run hospitals and orphanages, as well as pensions for widows, the handicapped and older people, were established in his time.¹⁵⁹ Khalifah ‘Umar b. ‘Abd al-‘Azīz is reported to have wept with the worry that he was responsible for and would have to answer to God about the hungry, the poor, the unattended sick, the prisoner in alien lands, the very old, those with many dependents but little money, and similar people.¹⁶⁰ Sayyid Abū ‘l-Ḥasan ‘Alī Nadwī writes that the idea of collective responsibility for the needs of the entire world is one of the gifts of Islam to the civilizations of the world.¹⁶¹

Mawdūdī reports that a group of eminent Islamic scholars agreed to the following item as essential for the constitution of an Islamic state: “It shall be the responsibility of the government to guarantee the basic necessities of life, i.e., food clothing, housing, medical relief and education to all citizens without distinction of race or religion, who might be temporarily or permanently incapable of earning their livelihood due to unemployment, sickness or other reasons.”¹⁶² Provision of economic security will protect life, create goodwill and harmony in society, provide equality of opportunity, and rectify many

¹⁵⁶ Siddiqi, “The Guarantee of a Minimal Standard of Living in an Islamic State” in Munawar Iqbal, ed. *Islamic Perspectives on Sustainable Development*.

¹⁵⁷ Yusuf al-Qaradawī, *Economic Security in Islam*, tr. Muhammad Iqbal Siddiqi (Lahore: Kazi Publications, 1981).

¹⁵⁸ Abū Yūsuf, *Kitāb al-Kharāj* (Beirut: Dār al-Ma‘rifah, 1989), 126. See also, Anas Zarqa, “Financing and Investment in Awqaf Projects: A Non-Technical Introduction,” *Islamic Economic Studies*, vol. 1, no. 2 (1994) 55–62, Section 4.3 (e); Siddiqi, “The Guarantee of a Minimal Standard of Living in an Islamic State,” Section 2.

¹⁵⁹ Shibli Nu‘mānī, *al-Farūq* (Lahore: Maktabah-‘i Raḥmāniyyah, n.d.), 315–316.

¹⁶⁰ See, Zarqa, “Financing and Investments in |Awqaf Projects: A Non Technical Introduction,” 55–62; Siddiqi, “The Guarantee of a minimal Standard of Living in an Islamic State,” Section 2.

¹⁶¹ Mawlānā Sayyid Abū ‘l-Ḥasan ‘Alī Nadwī, *Tahdhīb aur Tamaddun par Islām kē Iḥsānāt aur Atharāt* (Karachi: Majlis-i Nashriyāt-i Islām, 1986).

¹⁶² Maududi, *Islamic Law and Constitution*, 331.

injustices. Economic security will also enable individuals to turn to higher spiritual and social pursuits. Hasanuzzaman,¹⁶³ Chapra¹⁶⁴ and M. Ṭāsīn¹⁶⁵ discuss these goals. Note that these motives for the provision of economic security are radically different from standard secular ones, which are based on utilitarian or Rawlsian principles. In “The Islamic State and the Welfare State: Similarities and Differences,” Kahf discusses the concept of the welfare state as it arose in the West and distinguishes it from the superficially similar Islamic conception.¹⁶⁶

Siddiqi¹⁶⁷ gives a careful discussion of basic needs, citing sources and precedents, and also indicating how these needs may be related to social norms, climate and other factors. The mechanism by which Islamic societies are to look after these needs has also been spelled out. In the first instance, as noted above, every individual is responsible for looking after himself and his family. If a person is unable to do so, then it is expected that his or her kinfolk will take up this responsibility. If this does not suffice, then neighbours and people in the near community have the responsibility. All members of a society who have more than enough for their needs are exhorted to look after the less fortunate fellow-beings. Muslims throughout the ages have responded to this call by setting aside large amounts of property and wealth in trusts for social welfare projects (*waqf*; plural *awqāf*, see Section 6.3 below). If an individual slips through these social security nets, it is then, as discussed above, the responsibility of government to provide for the unmet needs. Interestingly, this includes paying off the debts of the indigent, which is a religious obligation. Thus the government is the insurer of debts for all citizens.¹⁶⁸

The issue of sufficiency has also been discussed by Siddiqi.¹⁶⁹ If resources are inadequate to meet all the needs, then the community must prioritize according to the guidelines prescribed by the *Sharī‘ah*. As a last resort, a community may pool its resources and share them equally. It is narrated that ‘Umar b. al-Khaṭṭāb said if he had no money left to feed the people, and the only way left was to make all households share their provisions with an equal

¹⁶³ Hasanuzzaman, “The Objectives of Economic Policy in the Early Islamic Period.”

¹⁶⁴ Chapra, *Islam and Economic Development*.

¹⁶⁵ M. Ṭāsīn, “Islām kā Ma‘āshī Nizām,” *Fikr-o Nazār*, vol. 30, no. 3 (1993), 79–112.

¹⁶⁶ See, Kahf, “The Islamic State and the Welfare State: Similarities and Differences” in M.A. Gulaid and M.A. Abdullah eds. *Readings in Public Finance in Islam* (Jeddah: Islamic Research and Training Institute, 1995a).

¹⁶⁷ Siddiqi, “The Guarantee of a Minimal Standard of Living in an Islamic State.”

¹⁶⁸ See, *ibid.*

¹⁶⁹ *Ibid.*

number, with everyone being only half fed till Allah gave us rain, he would have done so. For men could still survive on only half the food they need.¹⁷⁰

In Islamic history, there are a number of reported cases of this last resort solution, which shows how community needs are prioritised over individual needs. While a detailed discussion of this issue is deferred to Section 7 below, we parenthetically note that it is an explicit Islamic injunction to provide for the poor in an honourable way. In contrast, early poorhouses in England were designed to be shameful and degrading, so as to give people little incentive to stay; such an approach is discordant with the spirit of Islam.

Among the basic needs, education deserves special attention. It is the route to equal opportunity. It also plays a special role because it is an excellent channel through which the collective responsibility of the state and citizens to provide for people's moral development can be fulfilled. Islamic teachings place extremely high importance on education. The first verse of the Qur'an revealed to the Prophet (peace be on him) states "Read, in the name of thy Lord" (Qur'an 96: 1). "Learn from the cradle to the grave," said the Prophet (peace be on him).¹⁷¹ The angels were told to prostrate themselves before Adam (peace be on him) after he displayed knowledge that they did not possess.¹⁷² Writing about the culture of learning which arose in early Islam, as evidenced by libraries, a variety of educational institutions, and many schools of thought of Islamic law, etc., Yadullah Kazmi states that, for an early Muslim "to be a Muslim and not be interested in learning would [have been] a contradiction in terms."¹⁷³ Because education was considered a religious duty, and Muslims are not permitted to charge money for performance of religious duties, in Islamic civilization, education was generally available to the rich and poor, as well as the women and minorities. This provided for equal opportunities for all in a way that has rarely been matched. Ahmad Shalaby gives a history of educational methods, syllabi, institutions, libraries, the inclusion of women, and other evidence of the prevalence of education in the first 600 years of Islamic civilization.¹⁷⁴ George Makdisi details the rise of

¹⁷⁰ See, *ibid*; see also, Zarqa, "Financing and Investments in Awqaf Projects: A Non Technical Introduction," 55–62.

¹⁷¹ This saying is commonly attributed to the Prophet (peace be on him). There, however, seems no sound basis for that. This does not detract from the fact that the directive is concordant with the spirit of Islam. Ed.

¹⁷² See, Qur'an 2: 34;

¹⁷³ Yedullah Kazmi, "The Rise and Fall of Culture of Learning in Early Islam," *Islamic Studies*, vol. 44, no. 1 (2005), 15–52.

¹⁷⁴ Ahmed Shalaby, "History of Muslim Education," Ph D Thesis, Cambridge University, 1954, Republished: Beirut, Dār al-Kashshāf, Urdu trans. M. Husain Zubairi, *Tārikh-i Ta'lim wa Tarbiyat-i Islāmiyyah* (Lahore: Idārah-i Thaqāfat-i Islāmiyyah, 1989).

institutions of higher education in Islamic civilization,¹⁷⁵ and Jack Goody documents both their imitation in Europe, and the suppression of this information in historical accounts.¹⁷⁶ William Dalrymple writes about the early period of British India that “He [the Muslim man] who holds an office worth twenty rupees a month commonly gives his sons an education equal to that of a prime minister. ... After seven years of study, the young Muhammadan ... [is nearly the equal of] ... a young man raw from Oxford.”¹⁷⁷ In *Education in Pakistan*, Ishtiaq Hussain Qureshi (d. 1401/1981) details how British colonial educational reforms and restrictions on access to jobs led to a public education system based on low-standard rote learning, which continues to impact adversely on educational standards in Pakistan.¹⁷⁸

5.5 Other Functions of an Islamic State

In this sub-section, some of the functions that have been proposed for the Islamic state, but about which there is some controversy, are discussed. The first area of controversy, related to the welfare standards discussed above, is the issue of the level of support for which the state is responsible. Kahf argues that the state is responsible only for the bare minimum necessary: adequate and comfortable levels of support may only be provided if sufficient public funds are available. Since provision of support above the bare minimum is not considered a responsibility of the state, it may not levy taxes to provide such support.¹⁷⁹ Other authors have argued for a broader concept of state responsibility, and therefore also favour a more extensive tax policy. Ziauddin Ahmad summarizes the different points of view and discusses the related issue of exactly how to differentiate between basic/essential needs and less essential ones.¹⁸⁰ Some authors have argued that this is not an important debate, since historically the state has not needed to provide for meeting basic needs. Instead, the historical pattern in Islamic societies was the free provision of education and health by private sector organisations (*awqāf*).¹⁸¹

¹⁷⁵ George Makdisi, *The Rise of Humanism in Classical Islam and the Christian West: With Special Reference to Scholasticism* (Edinburgh: Edinburgh University Press, 1990).

¹⁷⁶ See, Jack Goody, *The Theft of History* (Cambridge: Cambridge University Press, 2007).

¹⁷⁷ William Dalrymple, *The Last Mughal: The Fall of a Dynasty, Delhi, 1857* (London: Bloomsbury Publishing, 2006).

¹⁷⁸ See, Ishtiaq Hussain Qureshi, *Education in Pakistan* (Karachi: Ma' ref Printers, 1975), 13–20.

¹⁷⁹ See, Kahf, “The Islamic State and the Welfare State: Similarities and Differences.”

¹⁸⁰ Ziauddin, “Public Finance and Fiscal Policy in an Islamic Perspective.”

¹⁸¹ See, M. Iqbal Anjum, “An Islamic Scheme of Equitable Distribution of Income and Wealth,” *American Journal of Islamic Social Sciences*, vol. 12, no. 2 (1995), 224–39; Sait and Lim, *Land, Law and Islam: Property and Human Rights in the Muslim World*.

While it is clear that Islam places a collective responsibility on a society for the fulfilment of the basic needs of all its members, it is equally clear that it does not ask for equalization of incomes or wealth. The Qur'ān states that:

Is it they who would portion out the Mercy of thy Lord? It is We Who portion out between them their livelihood in the life of this world: and We raise some of them above others in ranks, so that some may command work from others. But the Mercy of thy Lord is better than the (wealth) which they amass (Qur'ān 43: 32).

Thus God Himself has created inequality of incomes for a purpose. Measures of income inequality such as the Gini coefficient are, therefore, not of interest as measures of conformity between income distribution and Islamic ideals. However, a different matter, the circulation of wealth, is directly commanded by God:

What Allah has bestowed on His Messenger (and taken away) from the people of the townships,- belongs to Allah,- to His Messenger and to kindred and orphans, the needy and the wayfarer; In order that it may not (merely) make a circuit between the wealthy among you. So take what the Messenger assigns to you, and deny yourselves that which he withholds from you. And fear Allah, for Allah is strict in punishment (Qur'ān 59: 7).

What emerges from this is that the wealthy are encouraged to spend, so that their wealth may circulate freely in a society. Note how this is exactly the opposite of primogeniture, with its concern for keeping wealth and lands concentrated. A number of moral concerns are addressed by this approach: the rich are encouraged to be generous, to be grateful to God for His favours (rather than proud of their acquisitive skills), and to promote the welfare of the society by actively seeking out socially useful causes. Measures to promote circulation of wealth within a society include *zakāh*, *ṣadaqāt* and inheritance laws.¹⁸²

I conclude this section by noting an important tension created by the responsibility of a state to translate spiritual ideals into practical facts of life, as made explicit in verse 22: 41 of the Qur'ān. "Enjoining the right" means motivating people to do good deeds. A state which efficiently takes care of all the needs of the public can be counterproductive in that it may relieve people of their responsibility and promote indifference to others. Thus the primary

¹⁸² See, for example, Mufti Shafi, *Distribution of Wealth in Islam*; Ṭāsīn, *Islām kā Ma'āshī Nizām*; Siddiqi, "Muslim Economic Thinking: A Survey of Contemporary Literature;" Zarqa, "Islamic Distributive Schemes;" Anjum, "An Islamic Scheme of Equitable Distribution of Income and Wealth."

objective of public policy is the creation of cooperation, sympathy and generosity. To this end, the best course of action is to encourage the citizens to take on those responsibilities that they can shoulder, and for governments to step into the gaps as the last resort. However, states also have direct responsibilities towards their citizens. There is a fine line to be drawn between the two sets of responsibilities, and Muslim authors can be found on both sides.

