

## **Chapter One**

### **THE MEANING OF ECONOMIC DEVELOPMENT**

Every nation irrespective of its ideological leanings strives for development and, in particular, economic development. Muslim countries need to do so with a sense of urgency and conviction. After having been systematically eclipsed from the forefront of politico-economic power and glory for centuries, they now find themselves riding the tide of Islamic resurgence in thought, word and action. This would involve achievements in both material and non-material dimensions, economic development being an essential part of the entire system.

But what is the meaning of economic development? And what is the role and status of economic development in the Islamic code of life? This chapter attempts to address these issues and thus deals with the role, place and meaning of economic development in Islam. It presents a theoretical construct showing how economic development is related to the achievement of welfare in the two stages of life: the fleeting worldly life and the eternal life of the hereafter, and then the index of economic development.

#### **1.1 ECONOMIC DEVELOPMENT: A HEURISTIC EXPOSITION**

Let me first begin by emphasizing that Islam's basic concern is human welfare. The Qur'an and the Sunnah reveal an overriding interest in the overall welfare of mankind<sup>1</sup>, while a unanimous view of the Fuqaha (Muslim jurists) is that the welfare of the people and their relief from hardships is the basic objective of the Shari'ah<sup>2</sup>.

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Development or Economic Development should be consistent with this central objective of Shari'ah. Economic development in Islam may be defined as a balanced and sustained improvement in the material and non-material well-being of man, and development as a multidimensional process which involves improvement of welfare through advancement, reorganisation and reorientation of entire economic and social systems, and through spiritual upliftment, in accordance with Islamic teachings.

In this context, I would like to emphasise the concept of a two-stage permanent life of human beings. The life of mankind consists of two sequential stages: the worldly life (from birth until death) which is temporary, and the life of the hereafter (that begins after death) which is eternal and permanent.<sup>3</sup> Thus, the composite life of human beings is a complete whole which is eternal, although divided into two stages. Islam desires welfare<sup>4</sup> of this composite life. This welfare,  $W$ , is thus a function of welfare in both the temporary stage,  $W_t$ , and that in the permanent stage,  $W_p$ , of life. In a functional form,

$$W = f(W_t, W_p) \dots (1)$$

Here,  $W_t$  and  $W_p$ , are again functions of separate sets of variables which determine welfare in the temporary and permanent stages of life respectively. The functions are as follows.

$$W_t = f(X_t, D) \dots (2)$$

$$W_p = f(X_p, D) \dots (3)$$

with  $f'_t, f'_p, f'_D > 0$

Where  $D$  stands for economic development,  $X_t$  and  $X_p$  are variables unrelated to economic development but responsible for welfare in the temporary and permanent stages respectively. Some of the important determinants of  $X$ , are the sense of satisfaction derived from human accomplishment in this world (philanthropic contributions etc.), compassion in human relationship, environmental peace and harmony, and the like;<sup>5</sup>  $X_p$ , on the other hand, depends on formal Ibadah, services to humanity, and so on. We shall concentrate our attention, however, on the determinants of  $D$  exclusively, and on an attempt to relate them to the welfare functions spelt out above.

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These formulations show that economic development is a common argument in both the welfare functions,  $W$ , and  $W_p$ , which implies that economic development is an explanatory variable in the overall welfare function,  $W$ . In other words, economic development has an important role to play in the achievement of welfare in both the stages of life, a feature unique to Islamic system.<sup>6</sup> The welfare of these two stages is so importantly related that their individual optimization is a necessary condition for the maximization of the composite  $W$ . That is, without this joint optimization  $W$  would not be maximized.<sup>7</sup>

A conscientious person with knowledge and practice of Islam may make his whole life as Ibadah by adhering strictly to the teachings of Islam in all activities of life.<sup>8</sup> So,  $W$ , and  $W_p$ , reinforce each other instead of creating a trade-off problem. The strength of such reinforcement depends, however, on the degree of such conscientiousness exhibited by different persons. If the degree of such a conscientiousness is weak, there may arise a trade-off problem: an increase in  $W$ , may involve a decrease in  $W_p$ , and vice versa. In such a situation the individual concerned may choose an appropriate combination of  $W$ , and  $W_p$ , on the basis of the weights of arguments in the objective function. An individual with preference for  $W$ , is expected to maximize  $W$  subject to the constraint of some minimum value of  $W_p$ . An individual at the other extreme may prefer to maximize  $W_p$  subject to the constraint of a minimum scale of  $W$ .

Since  $W$ , and  $W_p$ , are arguments of a constrained maximization function both of which have economic development as an explanatory variable, it follows logically that merely the welfare of the worldly life cannot be the sole objective of economic development in an Islamic economy.<sup>9</sup> It thus becomes apparent that economic development also contributes to welfare in the hereafter.

### 1.2 INDEX OF ECONOMIC DEVELOPMENT

Economic development in Islam would be that which contributes to welfare in the both stages of life<sup>10</sup>. The relevant question to ask now is: what is the index of such economic development? Broadly

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speaking, the index is based on (1) economic growth, (2) equity in the distribution of income and wealth, and (3) a healthy and congenial social environment of Islamic norms and values.

A high economic growth and a reasonably high income level are important for the provision of food, shelter, clothing, education, medicare and necessities and comforts of human life.<sup>11</sup> A high income growth or a high income level is not, however, sufficient for providing the basic necessities and comforts to all the population. This is because if income is very unevenly distributed among the population, only a few will enjoy the fruits of growth and development while the others will suffer. This is not desirable as far as Islam is concerned. It requires that income and wealth should be distributed equitably.<sup>12</sup>

A healthy social environment enriched by Islamic norms and values is important for peaceful and disciplined living. If the people have all the material items, but the moral standard of the people is low, it will disturb the achievement of a good standard of living. Indeed, Islamic values help maintain a disciplined, harmonious and cordial life in the society. In their absence, an undisciplined life may create intolerable social problems and evils in this world, and unavoidable miseries in the hereafter due to the displeasure of Allah (swt.)<sup>13</sup> Islamic values contribute to the creation of an environment of better living and hence for welfare in both stages of life.

Economic development is related to Islamic values in two ways. First, economic development has been defined as a balanced and sustained improvement in material and non-material well-being of man which is not complete without a high moral standard resulting from Islamic values. Second, the establishment of Islamic values requires spending on Islamic education, propagation of Islam and so on.<sup>14</sup> This spending is expected to be positively related to income level and the d to income level and the strength of one's Dhalic (belief).

Therefore, the index of economic development in Islam consists of economic growth, distributive equity and Islamic values (henceforth called growth, equity and values or Islamic values).

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That is, economic development (D) is a positive function of growth (G), equity (E) and Islamic values (V). Functionally,

$$D = f(G, E, V) \dots (4)$$

with  $f_G, f_E, f_V > 0$

Each of these three components of economic development is now elaborated upon separately in what follows.

### 1.3 ECONOMIC GROWTH

In this context, it is relevant to investigate whether Islam provides any incentive for economic growth, and if yes, what are the factors which facilitate growth, and what is the product-mix to achieve human welfare. This is done below.

#### Growth Incentive

Economic growth is not only allowed in an Islamic economy, there exists a strong incentive for making efforts to exploit resources in order to eradicate poverty and achieve growth of income and wealth.<sup>15</sup> A fundamental economic principle of Islam is to prohibit monasticism and encourage economic activities not for the sake of accumulating wealth, but for the welfare of mankind.<sup>16</sup>

Poverty makes people unable to perform individual, social and moral obligations and, therefore, man is asked to seek Allah's (swt) protection from poverty, scarcity and ignominy.<sup>17</sup> Poverty is declared undesirable as much as Kufr (apostasy) is abhorred.<sup>18</sup>

The search for material gain is considered so important that one is commanded to seek it on the earth when formal Ibadah (worship) is over;<sup>19</sup> and earnings through right means have been declared Fardh (obligatory) after Fardh Ibadah (obligatory worship).<sup>20</sup> These are clear incentives for economic activities of man which would contribute to economic growth.

Development of agriculture, industry, trade and commerce is highly encouraged in an Islamic economy.<sup>21</sup> No piece of cultivable land is allowed to be left unused. Development of manufacturing industries that cater for the needs of the people is treated as a religious obligation.<sup>22</sup> In addition, trading and business activities are given such a prestigious religious status that faithful and trustworthy businessmen are said to be with prophets on the day of judgement.<sup>23</sup>

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It is thus clear that enough growth incentive tempered with religious sanctions are provided in an Islamic economy.

### Growth Factors

Growth incentive would be fruitless if the philosophical framework of Islam did not facilitate the mobilization of the factors necessary for economic growth. In fact, the framework of the Islamic economic system does this.<sup>24</sup>

The Qur'an states that all the natural resources are meant for the benefits of mankind.<sup>25</sup> Man should explore them, use them for production, enjoy the fruits of producing goods and services, and use them for meeting moral and social obligations.<sup>26</sup>

Optimal and efficient use of human resources is important for accelerating production as well as attaining other aspirations of life. This needs development of human resources and their proper and efficient use which are highly emphasised in an Islamic economy.<sup>27</sup> Among other matters, two things are necessary for the efficient performance of responsibilities assigned to a person: skill and sincerity. Neither of the two alone is sufficient for efficient economic activities. For, if a skilled person is not sincere in work efforts, or if a sincere person lacks skill, his performance is expected to be poor. The former requires education and knowledge which are strongly ordained by Islam, and the latter needs a high moral standard which is a basic objective of the Islamic code of life and of its moral teachings and formal Ibadah.<sup>28</sup>

The contribution of capital in the process of production is duly recognised by Islam. Instead of undermining the contribution of capital (like socialism) or paying capital a nominal interest out of large net revenues (like capitalism), Islam makes provisions for a due share for it as a predecided percentage of profits (or losses).<sup>29</sup> This recognition of the contribution of capital acts as a financial incentive for investment. In addition, saving and capital formation are highly emphasised in Islam.<sup>30</sup>

The development of entrepreneurship is encouraged in several ways.<sup>31</sup> First, man is commanded to work hard, and to have high achievement motivation. Second, the Islamic state is required to

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create, maintain and foster the growth of entrepreneurship and business. Third, entrepreneurs get incentives to undertake risky ventures under an Islamic economy since the risks are borne entirely by the contributors of capital, and not by the entrepreneurs.<sup>32</sup>

The system of sharing profits (or losses) has the potential to increase investment up to the level at which marginal profit is zero. In Figure 1.1, AB depicts marginal profits (gross sales revenues of successive investments minus all costs other than payments to capital) which fall at the margin as investment increases, and BC is

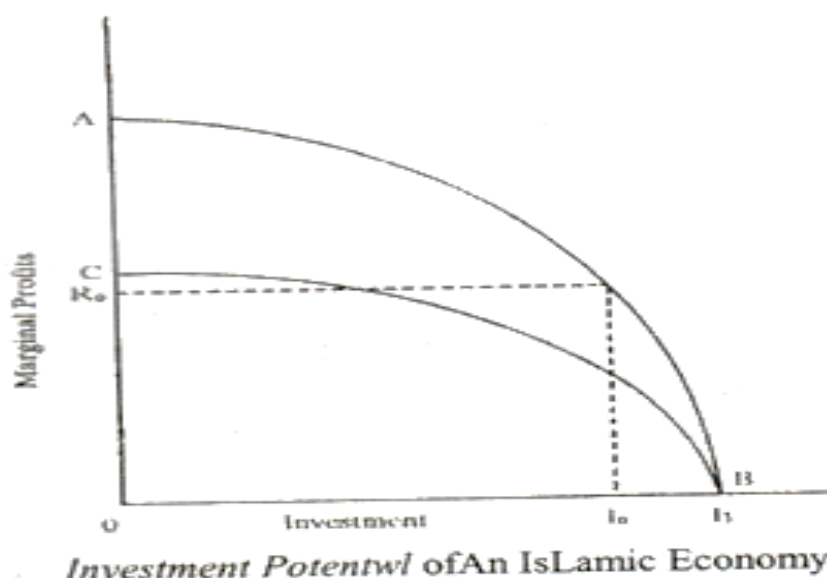


Figure 1.1

derived by subtracting vertically from AB a fixed percentage share of marginal profits payable to the contributor of capital, because profits are distributed on the basis of a ratio such that at each investment level the vertical distance between OB and BC is retained by the entrepreneur and that between AB and BC is received by the contributor of capital.

In a capitalist economy, investment will be carried out only to  $OI_0$  when interest rate is  $OR_0$ ; beyond this losses will be incurred because an additional unit of investment adds more to cost than to profit. In an Islamic economy, investment can be carried out to  $OI_1$ , since each additional investment up to  $OI_1$ , adds to profits both for entrepreneurs and contributors of capital.

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An upward shift in production possibilities and profit function can be brought about by technological change. This involves research and development (R & D) activities. The high Islamic incentive for economic growth and for devising ways and means towards that end implies encouragement for technological change in an Islamic economy. In-addition, the direct commandment in the Qur'an to search for the bounty of Allah (swt) after prayer clearly implies a high incentive for search and research which includes R & D activities.<sup>33</sup>

### **Product-Mix**

Since human welfare is the basic objective of the Shari'ah, it cannot logically encourage economic growth irrespective of welfare implications. It has, therefore, clear instructions with respect to the choice of product-mix to be developed in an Islamic economy.<sup>34</sup> Such goods and services are prohibited which adversely affect physical and moral well-being of the people. Less harmful items are discouraged. All the rest are allowed, and the good things are recommended.

There is also a selection problem among the permitted goods and services. This selection would depend on the level of economic development attained by a country. A developed country which has attained a high standard of living and an equitable distribution of income may leave the production priorities to market forces<sup>5</sup>. But if this is not attained, production priorities should be planned in such a way that the availability of basic needs is guaranteed; because a complete reliance on demand and supply forces may lead to socially undesirable product-mix in the economy.

It is thus important in an Islamic economy for an appropriate product-mix to be chosen, a mix which would depend on the level of economic development and the nature of existing income distribution and the corresponding phenomenon of meeting human wants in descending order of the hierarchy of needs, namely, survival necessities, basic needs and items of comforts.

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Survival necessities are those without which human survival is impossible; basic needs are those without which life becomes difficult but not impossible; and items of comforts are those which make life comfortable.

### **1.4 EQUITY IN THE DISTRIBUTION OF INCOME**

A high economic growth can add very little to welfare if the generated income and output is concentrated among a small section of the population. In fact, such growth may adversely affect welfare if it intensifies inequality in the distribution of income and thus creates imbalance in the socio-political and economic power structure and distorts the product-mix. Therefore, such growth cannot be regarded as true economic development. The economic system of Islam rejects such a growth game which may reduce, rather than increasing, welfare.

A fundamental principle of the Shari'ah is equity in the distribution of income. ".....so that it (wealth and income) cannot circulate among a few rich of you".<sup>35</sup> Equity is built in the Islamic economic system. Growth and equity are non-separable and compatible phenomena in this system. Based on this equity principle, the size distribution of income and wealth is effected through two channels: functional distribution and transfer payments.

#### **Functional Distribution Of Income**

Functional distribution of income explains how national income is distributed among the factors of production. From the equity point of view, it is a basic objective of an Islamic economy that the goods and services produced in a particular year should be equitably distributed among the contributing factors right in the process of production.<sup>36</sup> Each factor is to be paid its due share in the produced goods and services according to its contribution and based on the principles of justice and equity.

One need not be doubtful about the compatibility of growth and equity in the Islamic economic system even if this compatibility or the degree of compatibility is not apparent in the contemporary

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economic systems. The system we are concerned with is efficiently designed (but yet to be fully demonstrated in modern terms) to make it logically consistent and compatible with seemingly two conflicting goals. For instance, in Figure 1.1, if the share of the contributor of capital is increased under a contemporary system by increasing the rate of interest, investment falls below Olo, whereas if capital's share is raised by increasing its percentage share in profits, the curve BC shifts downwards, but investment can still be carried out to the highest potential. This is because the successive units of investment continue to add to profits upto Olo despite movements in BC. (BC and AB still meet at B).

Thus the growth and equity goals are compatible in an ideal Islamic economic system. As a consequence, one may expect the production possibility curve of an economy to shift to the right and the Lorenz curves to the left while the Gini coefficient to fall with economic development.

### **Transfer Payments**

The uniqueness of the Islamic economic system is that it incorporates in it unalterable provisions for compulsory transfer payments as well as optional charities, from the relatively better-off people in the economy to the relatively worse-off population?<sup>37</sup>

This is done through the institutions of Zakah, Fitrah etc. In addition, optional payments are so encouraged and emphasised that even if these are optional from legal point of view, they appear to a good Muslim to be morally binding on him.

Islam's concern for equity in the distribution of income is very profound, and constant efforts are made and all opportunities are used to promote that equity consideration.<sup>38</sup> For example, even the opportunity of the simple breaking of a vow after its confirmation is used for the purpose, and an immediate atonement is ordered in the form of paying a sizable amount to the less fortunate people of the society.<sup>39</sup> Such provisions are made used of to effect transfers to those societal groups.

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## 1.5 ESTABLISHMENT OF ISLAMIC VALUES

Human welfare cannot be improved in societies that thrive on lawlessness, fetishism and hedonistic pursuits, despite the relative affluence that such societies may attain. In the context we are analysing, economic achievement is therefore not a sufficient condition for ensuring welfare even in the temporary stage of life.

The establishment of Islamic values provides this missing link in the sufficiency conditions, and introduces a humane element in societal aspirations.

Since welfare in the permanent stage of human life is an argument in the human welfare function, the maximization of this objective function is constrained by the particular values taken by the variable  $V$  in Function (4) above. A high  $V$  value contributes to well-being in this world, and connotes Allah's (swt) mercy and pleasure which is a necessary condition for, and positively related to, welfare in the permanent stage of life.

This brief exposition, which will be further elaborated in the following chapters, indicates the crucial interplay of factors particularly of the elements of economic development that go into the making of an Islamic human welfare function whose maximization is sought in a sequential two-stage framework of life. Welfare of human being is as much desired in the life hereafter as in this worldly life. The two complement each other. Both economic and non-economic factors have their due share in the attainment of welfare in both stages. We have however, focused our attention mainly on economic development as an explanatory variable, and have shown how such this variable helps in the attainment of welfare.

Welfare of this worldly life cannot be the sole objective of economic development in an Islamic economy; economic variables also facilitate attainment of welfare in the life hereafter. The index of economic development in an Islamic perspective is thus seen to work through three principal determinants: growth, distributive equity, and Islamic values.

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### NOTES

1 For example, see Al-Qur'an 2:201.

2 See M. Umer Chapra, Towards a Just Monetary System (Leicester: The Islamic Foundation) 1985, p. 35.

3 Al-Qur'an 87:16; 17; 9:38.

4 Al-Qur'an 2:201; 28:77

5 It ought to be appreciated that in Islam the ultimate objective of life goes beyond self satisfaction but more so achievement of the pleasure of Allah which is not unrelated to W. In effect, it is possible to consider X, as an argument of Wp

6 Al-Qur'an 7:31; 28:77; 62:10; 3:92.

7 Al-Qur'an 9:38; 2:201; 2: 77; 7:31; 20:54; 2:254; 42:20; 16:107.

8 Man is created only for Allah's Ibadah (Al-Qur'an 51:56); and when economic activity is also ordained (Al-Qur'an 62:10), then it would also be an Ibadah.

9 Al-Qur'an 87:16-17; 9:38; 42:20.

10 Al-Qur'an 28:77; 7:31; 9:41; 3:92; 20:54.

11 Al-Qur'an 62:10; 7:31; 28:77

12 Al-Qur'an 59:7.

13 Al-Qur'an 9:41; 28:77; 42:20; 61:11; 3:92.

14 Al-Qur'an.9:41; 61:11.

15 Al-Qur'an 62:10; 28:77; 2:22;16:5-8,10-16,68-69,81;15:20, 22:20:54; 36:72-73:

57:27.

16 Al-Qur'an 57:27.

17 Hadith reported in Nasai, Sunan, Kitab al-Istia'za.

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18 The Prophet (saw) once prayed, "O Allah (swt), I ask your refuge from Kufr (apostasy) o and poverty", thereupon a person asked: "Are The two similar?" The Prophet (saw)said:"Yes,": Nasai, Sunan, Kitab al-Istia'za.

19 Al-Qur'an 62:10.

20 The Prophet (saw) said, "Searching for a halal livelihood is obligatory after obligatory ibadat". (Baihaqi, Tabarani).

21 Abu Ubaid, *kitabul Amwal* (Egypt: Darul Fikr) 1975, pp. 367-368.

22 "Necessary industries are among the fard al-ffifaya" -Ibn Abidin Shami, *Radd al-Muhtar Ala al-Durr al-Mukhtar*. Egypt: Matba Maimana, 1318 AH, Vol.1, p. 32. 23 Hadith of the Prophet (saw) in Tirmizi, *Al-Sunan*, Bab Ma Ja'a Fi. al-Tijara. 24 See A. H. M. Sadeq, "Economic Development and Islam," *The Dhaka University Studies*, Part C, June 1985, pp.59-64; also see by the same author "Socio-Culcral Environment for Entrepreneurship Development in Bangladesh" (mimeo). Dhaka: World Bank and University Grants Commission of Bangladesh, 1986.airb

25 Al-Qur'an 2:22; 15:19; 57:25; 79:32-33; 16:5-8,10-16, 68-69; 36:71-73; 57:25. 26 Al-Qur'an 63:10; 28:77; 7:31; 3:92; 61:11.

27 Al-Qur'an 53:39; 39:9; also see Khurshid Ahmed, "Economic Development in an Islamic Framework", in Khurshid Ahmed et al (eds.), *Islamic Perspectives*. Leicester: The Islamic Foundation, 1979, pp. 223-240; also sec chapter six of this book.

28 *Al-Qur'an* 39:9; 83:1-3; 103:1-3.

29 For a detailed discussion, see A.H.M. Sadeq, "Distribution of Wealth in Islam" in K.T. Hussain et al (eds.) *Thoughts on Islamic Economics*. Dhaka: Islamic Economic Research Bureau, 1980, pp. 44-93; also see chapter three of this book.

30 See M.Umer Chapra, op. cit., pp. 44, 85, 111-117; also see chapter six of this book.

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31 See A.H.M. Sadeq, "Achievement Motivation, Entrepreneurship Growth and Economic Development in Islam", *Thoughts on Economics*, Vol. 6, No. 1, Summer 1985. pp. 1-7.

32 *This refers in particular to the Mudharabah and Musharakah forms of business.* 33 *Al-Qur'an 62:10.*

34 See chapter two of this book.

35 *Al-Qur'an 59:7.*

36 *See chapter three of this book; also the present author's "Distribution of Wealth in Islam", op. cit., pp. 54-64.*

37 *Ibid., pp. 65-80; also see chapter four of this book.*

38 *See chapter four of this book.*

39 *Al-Qur'an 5:92.*

## **Chapter Two**

# **ECONOMIC GROWTH**

As analysed in the previous chapter, economic growth is an essential component of economic development. The present chapter discusses the issues of economic growth including growth potentialities and priorities of an Islamic economy. A basic assumption here is that in an Islamic economy the economic agents adhere to the norms and values of Islam in all activities of their life.<sup>1</sup>

Economic growth usually refers to the growth of real national product. According to some economists, per capita real income is a better measure of economic growth. In an alternative view, growth implies an increase in real GNP per unit of labour input. This refers to changes in labour productivity over time.

In Islamic Economics the concept of growth is value-loaded. Growth of output per se cannot be termed as economic growth if it involves production of such goods which affect human welfare adversely. Therefore, growth incorporates the issues of product mix. Thus, economic growth in Islam may be defined as a sustained growth of a right kind of output which can contribute to human welfare. The production of harmful items would not imply economic growth in an Islamic economy.

This involves two considerations. First, to examine whether the consumption of the product under consideration adds to utility or disutility, or it is neutral in effect. Second, to choose a right basket of goods and services among the beneficial and neutral items which may depend on the level of economic development attained by the economy in question.

Economic growth is important in an Islamic economy. As against monasticism, Islam emphasises involvement in economic activities for human welfare<sup>2</sup> and to utilise the bounties of Allah

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(swt) which are meant for them.<sup>3</sup> Besides, "Muslim jurists have unanimously held the view that the welfare of the people and relief of their hardships is the basic objective of the Shari'ah".<sup>4</sup> In the economic field, this implies achievement of economic well-being by removing all sufferings of starvation, poverty and other hardships through the satisfaction of all basic needs and provision of the items of permitted material comforts to lead a life of honour suitable for the vicegerent of Allah (swt). The urgency of economic growth can be perceived from the present conditions of starvation, poverty, illiteracy and malnutrition in many Muslim countries.

### **2.1 GROWTH POTENTIALS OF AN ISLAMIC ECONOMY**

Let me begin with the major factors or components of economic growth. The presence or adequacy of these factors contributes to growth and their absence or inadequacy limits it. The major determinants of growth are:

- a) investible resources,
- b) human resources,
- c) entrepreneurship, and
- d) technology.

Their importance for growth and their role in an Islamic economy are discussed in the following sections.

#### **Investible Resources For Growth**

Growth requires investible resources for use in the production of physical assets which yield a flow of future income. Physical assets include industrial plant and machinery which help real output grow.

The role of capital formation for economic growth has been emphasised significantly in economic literature.<sup>5</sup> Those recent writers who have successfully drawn attention to human resource development do not really deny the importance of capital, but rather emphasise the former for growth and development.

The process of economic growth thus involves mobilisation of adequate investible resources, their conversion into productive physical assets and other factors, and their efficient and optimum

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utilization. There are two sources of capital: domestic source and external source. In the context of external finance, it is important to develop the spirit of economic co-operation among Muslim countries and to refrain as far as possible from other external sources in order to minimise the riba-based debt burden of external financing on the present and future generations of their population and free them from the resulting socio-cultural and politico-economic slavery of the West. This would involve emphasis on raising investible resources from domestic means which include voluntary savings, forced savings through taxation, and transfer of resources from those who consume more to those who save more by following a Keynesian and/or Quantity Theory approach of distributing internal resources from the poor to the rich<sup>6</sup>. Such a transfer of resources is not, however, acceptable in Islamic norms and values. Besides, the possibility of raising resources through taxation is limited because of the lower tax base in most of the Muslim countries. Thus we are left with voluntary savings as a major domestic source of investible resources and, accordingly, the present paper concentrates on the same.

Now the question to be asked is: what is the potential of an Islamic economy to mobilize domestic resources for economic growth? There are three aspects of the question:

- a) saving potential of an Islamic economy,
- b) mobilisation of savings, and
- c) allocation and utilisation of savings for growth.

#### **Saving Potential of an Islamic Economy**

Islam recommends modest living which is expected to result in a higher propensity to save. The ideal expenditure pattern of an Islamic person is modesty which is not influenced by consumerism of consumer societies. The consumption behaviour in Islam is guided by Islamic norms and values which, in spending behaviour, is manifested in moderation, that is, to be in between two extremes, miserliness and extravagance<sup>7</sup>. Consumption for a comfortable living is encouraged, but all expenditures on snobbish, conspicuous and harmful items are considered as wastage of the bounties of Allah (swt) which has been declared

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as prohibited.<sup>8</sup> This is true for both private life and social occasions and celebrations. The same principle of spending is applicable at the state level. Money in the public exchequer is the trust (amanah) of the people for their welfare and hence it should duly be dealt with.<sup>9</sup> The present practice of spending huge amounts in national celebrations and different occasions, and the misappropriation of public money are totally against Islamic code of behaviour. In addition, the Islamic government should discourage production, import and marketing of snobbish and conspicuous items by applying all means available at the disposal of the state.

As a consequence, claims on resources for production, importation and consumption of snobbish and conspicuous items will fall which will increase both private and public savings. The corporate savings are expected as well to increase because of the same norm of spending behaviour. Thus the modesty effect of Islamic living is higher national savings.

In addition, there are clear religious incentives to save. Allah (swt) has indeed recommended mankind to save a part of income so that they do not become destitutes by spending everything.<sup>10</sup> In the same vein, the Allah's Messenger (saw) advised people not to spend everything even in the way of Allah. When Ka'b, a great companion of the Apostle (saw), sought his permission to spend whatever he had in the way of Allah, he said, "Keep some of your property for yourself because it is better for you."<sup>11</sup> These incentives for savings should help generate higher savings.

There may, however, be two probable sources of skepticism about the saving potentiality of an Islamic economy.<sup>12</sup> First, the elimination of interest, which is assumed to be a reward for saving, may reduce private savings because of a positive social rate of time preference. Second, equity in the distribution of income resulting from the institution of Zakah and other distributive measures will redistribute income from those who have high marginal propensity to save (MPS) to those whose marginal propensity to consume (MPC > is high (or MPS is low).

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The first source of skepticism is based on the mainstream analysis of classical economists which has already been rejected by later economists. For example, Keynes demonstrates that saving is a function of income level, and not of interest rate.<sup>13</sup> Besides, empirical evidence does not provide any statistically significant direct relationship between interest and savings even in the industrially developed countries where money market is well-developed,<sup>14</sup> not speaking of developing countries where the money market is under-developed.<sup>15</sup> In an Islamic economy, on the other hand, sharing in profits under the Islamic financial transaction/contracts (Mudharabah, Musharakah and so on) works as an incentive to save, if monetary reward is at all favourable for generating savings.

The second apprehension when analysed in the context of an Islamic economy, is also not so disappointing. The perception of an Islamic economy should not be influenced heavily by the present reality of the poor countries where exist two classes: the rich and the poor with extreme values of their respective MPCs. Savings potential of an Islamic economy should be analysed in the context of (i) the level of economic development already attained and (ii) the degree of equity in the distribution of income that exists in the economy. If the level of economic development and the degree of equity are such that everybody has a break-even income to meet the basic needs, the redistributive mechanism of Islam should not reduce savings, because the MPS of these people are expected to be high. Furthermore, the MPS should even increase because of the modesty effect of Islamic living. 19in

On the other hand, if such a level of economic development and equity are not attained, then two opposite forces would be working. First, a fall in savings because of the redistribution of income from those who have higher MPS to those who have higher MPC. Second, an increase in private, public and corporate savings because of the modesty effect of Islamic living on the better off people of the economy. In addition, there will be two more growth effects: (i) labour productivity would increase because of better living resulting from redistribution of income

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from the rich to the poor working population, and (ii) effective demand will rise because of higher consumption of the previously deprived group of people.

Thus, there will be more savings in an Islamic economy if a break-even level of economic growth and distribution are achieved. In a transitional period, where the break-even level is not reached, it is difficult to make an a priori judgement as to the net savings effect of the phenomenon. However, the growth effect is still expected to be positive because of higher labour productivity and effective demand.

### **Mobilization and Use of Investible Resources**

Savings cannot help the economy grow unless mobilised and used efficiently in the production process. The potential for mobilising resources in an Islamic economy seems to be high because of twofold incentives: moral incentive and economic incentive. Moral incentive for productive resources mobilisation comes from encouragement of resource use, discouragement of hoarding and keeping the resources idle. This provides a built-in preference for resource mobilization at the very microfoundation of the system.. Islam encourages use of resources,<sup>16</sup> and declares punishment for those who hoard them.<sup>17</sup> Those who have savings are required to distribute to those who need them or channelise them to the production process.

An indirect economic incentive to mobilize resources for the purpose of investment is the institution of Zakah. Zakah imposes a penalty on keeping savings idle. Because, those who have 'Zakatable' amount will have to pay 2.5% at the end of every year, and thus gradually the entire amount will be eaten up if it is not invested to grow. This is an economic disincentive to keep investible resources unused.

There is a strong positive incentive as well to invest resources for productive purposes. There are institutional arrangements in an Islamic economy for earning economic reward by investing money without even directly undertaking any economic activity. One may use money in Mudharabah business, Mudharabah deposits with

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banks, shares of joint stock companies and so on. In doing so, a person can earn permitted profits even by being a sleeping partner in business, can pay Zakah of the 'Zakatable' resources out of the profit income and may still have something left over for his own consumption. Money is not thus eaten up by Zakah, but it can grow because of directing it to productive channels.<sup>18</sup> The existing riba-based banking system would be replaced by the Islamic banking network to facilitate mobilization of resources whose viability has already been demonstrated by the performance of the existing Islamic banks of the World even in the prevailing polluted financial environment.<sup>19</sup> The efficiency of the Islamic institutional setting of finance is no more a theoretical assertion, it is now a reality.<sup>20</sup>

### **Allocative Efficiency and Use of Full Potential**

Allocative efficiency has two dimensions. First, the allocative efficiency that is built in the system. Second, the allocative efficiency as influenced by the public policy. Public policy may affect and control the flow of investible resources among different sectors of the economy through different direct and/or persuasive measures. Since the norms of decision making in an Islamic economy safeguard and promote welfare of the population, both economic and non-economic, it is expected that it would add to efficiency in the allocation of resources. This depends, however, on the perception of priorities of the policy makers.

Efficiency in resource allocation is built in the Islamic financial system based on profit/loss sharing principles. A contributor of capital does not receive a fixed return, but rather jointly shares the profits/ losses of the venture. Accordingly, the contributor's share varies with the size of profits in an ex-post sense, although the ratio of profit-distribution is determined ex-ante. Therefore, capital- contributors, whether individuals or banks, would naturally assign higher priorities to the expected rates of return in their project appraisal subject to a minimally acceptable credit-worthiness of entrepreneurs. On the other hand, a conventional bank or financier prefers the latter and is less concerned about profitability of the projects in question since a higher profitability does not add

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to the bank's gains. Thus the investible resources will be directed to more growth oriented (with higher expected rates of returns) projects in an Islamic economy which is not guaranteed by a riba-based financial system.<sup>21</sup>

Therefore, resource allocation in an Islamic economy is expected to be more efficient than any other contemporary system.

Besides, from the entrepreneur's side, investment can be carried out to the fullest potential in an Islamic economy because of the same profit/loss sharing principles of investment whereas it is not so in a riba-based financial system.

This can be demonstrated by a hypothetical example. In order to do this, let us make some assumptions. First, the pre-decided profit ratio between a Mudharabah entrepreneur and the contributor of capital is 60:40; and that if the money is borrowed from a conventional bank, the interest rate is \$10 for \$1,000 per project period. Second, the project life is three months (meant for trading). The example is presented in Table 2.1. In this example, an entrepreneur can invest up to \$9000, since marginal efficiency of capital equals interest payment at this level of investment. That is, when the entrepreneur adds \$1000 to previous investment of \$8000 he earns \$10 as profits which he has to pay entirely to the financier leaving nothing for himself. His total profit after interest payment is \$505 (= \$595-\$90) when \$9000 is invested. If he invests \$8000 instead, he still earns \$505 (= \$585-\$80). Therefore, it will be less risky for the entrepreneur to invest \$8000 instead of \$9000.

An entrepreneur under an Islamic financial system can continue investment profitably beyond \$9000, since he keeps on receiving positive profits up to the investment of \$13,000. He may even increase investment up to \$ 14,000 without risk, since risk is borne by contributors of capital, although net gain from the additional investment will be zero.

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**TABLE 2.1**  
**EFFICIENCY OF RESOURCE ALLOCATION**  
**IN AN ISLAMIC ECONOMY**

Total Investment	Total Profits	Marginal Efficiency of Capital	Dist. Of profits under Islamic Financial system ( <i>Mudharabah</i> )	
			Share of the entrepreneur	Share of the contributor of Capital
5,000	520		312.0	208.0
6,000	550	30	330.0	220.0
7,000	570	20	342.0	228.0
8,000	585	15	351.0	234.0
9,000	595	10	357.0	238.0
10,000	603	8	361.8	241.2
11,00	608	5	364.8	243.2
12,000	611	3	366.6	244.4
13,000	613	2	367.8	245.2
14,000	613	0	367.8	245.2

It is obvious from the above example that investment and, accordingly, employment and output is expected to be higher in an Islamic financial system, and that there is, at least theoretically, a potential of full utilisation of investible resources with an obvious positive effect on economic growth.

### Human Resources

Human resource is an important determinant of economic growth. Human beings are active agents of growth who exploit natural resources, accumulate capital, build social, economic and political institutions and activate the growth process. They provide two important factors in the growth game: labour and entrepreneurship. We shall concentrate on labour in this section, followed by entrepreneurship.

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An efficient labour force is necessary for economic growth to take place. Efficiency in work performance requires dual quality: professional quality and moral quality. Professional quality refers to the skill and efficiency of doing a work. A machine-man cannot work efficiently if he does not know how to operate the machine.. He needs to master the art of machine operation. On the other hand, the moral quality is a quality which provides moral incentive to do work with efficiency, sincerity and honesty without work evasion.

Both the qualities, professional and moral, are necessary, and neither of them is sufficient, to get maximum possible contribution from the labour force. Because, if a worker has the highest possible professional skill, but he does not work sincerely rather cheats the employer instead, his skill cannot help the firm grow. On the other hand, a highly honest and sincere worker cannot contribute much if he does not know the art of work. Therefore, a reasonable combination of both the qualities is necessary for economic growth.

Traditional mainstream Economics emphasises education to develop the professional quality and ignores the importance of moral quality.<sup>22</sup> Islam provides the missing link between professional quality and productivity growth; this missing link is the moral quality. One important implication of the Islamic code of behaviour is to increase the moral incentive to carry out one's job with the highest possible efficiency, honesty and sincerity. In the context of appointed work, an Islamic person is guided by the following considerations. First, a work contract is treated as a promise and trust which cannot be broken even to a little extent.<sup>23</sup> This provides a moral guarantee of discharging duties as specified in the work contract or service specification. Second, it is strongly ordained in the Qur'an to give the full work when one receives the full salary. He is condemned like anything who takes the full measure, but gives less.<sup>24</sup> Third, an Islamic person treats his work as Ibadah which is an incentive to do it properly.<sup>25</sup>

Besides, education is made obligatory for every male and female of the Islamic Ummah.<sup>26</sup> This has obvious implications for both professional and moral qualities and finally for economic growth.

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### **Entrepreneurship**

Entrepreneurship has been emphasised by some economists as the key figure in the process of economic growth. For example, according to Schumpeter, economic growth is determined by the dynamic function of entrepreneurship, and this dynamic function is innovation.<sup>27</sup> Although, according to some, the innovative function of entrepreneurship is not visible in multinational corporations and large enterprises,<sup>28</sup> the basic contribution of entrepreneurship in moving the engine of growth cannot be denied. An entrepreneur runs the show of any economic enterprise right from venture idea through the combining of other factors of production at the right time and the right place to produce a right quantity of goods and services by using a right technology to the final function of marketing. Scarcity of entrepreneurship may limit economic growth even if all other determinants of growth are available in abundance.

Islam encourages entrepreneurship development for economic growth. Some of the incentives are analysed below.

### **Motivation for Entrepreneurship**

Islam provides positive motivation for economic activity in order to earn a halal living.<sup>29</sup> From the viewpoint of entrepreneurial and non-entrepreneurial sources of earnings, there are broadly two means of earning income: (i) working for others on the basis of fixed salaries/wages, and (ii) undertaking entrepreneurial ventures. While there is a provision in Islam for working for others in exchange of fixed salaries, the real incentive is for the development of entrepreneurship. Allah (swt) asks people to search for His bounties when the prayer is over.<sup>30</sup> The word 'search' is clearly something more than just working for others; 'search' and 'research' do imply entrepreneurial activity to utilize whatever is available in the world for the benefit of the people, since Allah (swt) has created everything for their benefit and commanded to engage oneself to acquire this benefit by proper use of all existing opportunities and by creating new opportunities for the purpose.<sup>31</sup>

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In addition to such general instructions, entrepreneurship in specific matters are clearly mentioned and encouraged. Entrepreneurship in business is specifically encouraged so much so that a religious status is given to sincere and honest businessman, such that a business entrepreneur of a desired quality will obtain a very high status on the Day of Judgement.<sup>32</sup>

In Economics, two motives have been suggested for entrepreneurial activity: profit motive and achievement motivation. Economists have long been saying that the driving force and motive behind risky entrepreneurship is the desire for profit. Entrepreneurs take risk of business and industrial activities, and hence it is reasonable for an entrepreneur to receive all the profits: The entrepreneur is said to be activated by profit expectations. In other words, the incentive or motivation for entrepreneurship basically originates from profit motive.

If this is so, what is Islam's standpoint in this context? The answer is revealed in the Qur'anic verse where Allah (swt) declares bay'i to be halal.<sup>33</sup> Bay'i is a broad word in the Arabic language whose meaning includes any kind of transaction, business, industrial activity - all of which are to make profits. Needless to mention, such Bay'i implies entrepreneurship for making profits rather than salaried work. This involves two things: (i) entrepreneurship and (ii) profit motive.

Besides, the Prophet (saw) has also encouraged business entrepreneurship for earning profits.<sup>34</sup> If profit motive is believed to activate entrepreneurship, Islam has appropriate provisions for it.

McClelland<sup>35</sup> and some other writers hold a different view who posit that it is achievement motive, rather than profit motive, which inspires entrepreneurial activity.<sup>36</sup> Sutcliffe argues that Islam lacks achievement motivation which resulted from his misunderstanding of a Qur'anic verse.<sup>37</sup> In fact, Islam provides ample incentives for achievement motivation. Allah (swt) commands mankind and encourages them to possess achievement motivation. "Compete to achieve what is good."<sup>38</sup> This 'good' thing does not pertain only to the hereafter, it pertains both to here and hereafter.<sup>39</sup> Here Allah (swt) is motivating

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people to have the desire for worldly achievements which include material gain, power, position, prestige and anything else that is not discouraged by Islam.

In the same vein, the Apostle (saw) extends two kinds of incentives for entrepreneurial activity. First, a religious incentive by saying that entrepreneurs (in particular, the business entrepreneurs) will get a very high position and status on the "Day of Judgement" provided they abide by the norms laid down by Islam for the overall welfare of the humanity.<sup>40</sup> Second, an economic incentive that the major share of economic prosperity lies in entrepreneurial activity (in particular, business and industrial venture) which is meant for activating entrepreneurship.<sup>41</sup>

Therefore, if achievement motivation is believed to activate entrepreneurship, Islam strongly recommends to have a high degree of it which should contribute to entrepreneurship development.<sup>42</sup>

### **Protection against Risk and Uncertainties and Entrepreneurship Development**

The world is full of risks and uncertainties and this phenomenon is a limiting factor in entrepreneurship development. Entry into any economic activity involves physical and psychological labour as well as financial costs. The return, however, is uncertain; nobody can guarantee a good profit from a business, nor can prevent capital from being lost. This uncertainty is a negative force working against or discouraging those ventures which involve a high degree of risk but are highly profitable. There is a direct relationship between the degree of risk and profitability, but an inverse relationship between motivation for venture creation and the degree of risks and uncertainty.

Islam tends to provide a good amount of protection to entrepreneurs against risk and uncertainty. Modern entrepreneurial activities are mostly financed by banking system. Under traditional banking, banks advance loans to entrepreneurs with the terms and conditions that the principal and interest must be repaid as per schedule irrespective of the fate of the ventures. In this situation,

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entrepreneurs feel discouraged to undertake ventures involving high risk and uncertainty because they think time and again about the expected return from the venture as the bank does not share any part of the loss or failure.

The Islamic Banking system, on the other hand, has a unique built-in mechanism that protects entrepreneurs from the adverse effects of failure. For example, under Mudharabah arrangements, the risk of all losses is borne by the contributors of capital, while the entrepreneurs go unrewarded.

The entrepreneurship is thus protected against risk and uncertainty. This arrangement provides tremendous incentive and courage to entrepreneurs to undertake risky ventures or risky innovative activities and thus helps entrepreneurship grow and develop by facilitating new entry as well as expansion of existing industries.

### **Technological Change**

According to many economists, technological progress is the most important source of economic growth.<sup>43</sup> For example, according to Schumpeter, economic growth does not follow a gradual, historical and continuous process; it occurs by discontinuous spurts in a dynamic world. This dynamism and discontinuous process is facilitated by innovation brought about by entrepreneurship, which leads to technological change.<sup>44</sup> Technological progress involves two kinds of innovations: product innovation and process innovation. Product innovation refers to the introduction of new products which did not exist before, or of better products which are an improvement in the quality of existing products. Process innovations is to devise new techniques of producing the existing products at a lower unit cost. Some technological change may involve both kinds of innovations. For example, IRRI rice is different from the existing varieties of rice and its production cost is also lower than the others.

Islam does not contradict this concept of technological change; as a matter of fact, it provides incentive for technological progress. The Qur'anic verse commanding people to search for the bounty of

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Allah (swt) may indeed be considered to imply search and research which, in economic terms, corresponds to "Research and Development" (R&D) activities that result in technological change.<sup>45</sup> Secondly, there is a divine instruction for the explorations of whatever is available in the world for the benefit of the people.<sup>46</sup> Such exploration would require research to devise methods of making natural resources usable and beneficial for mankind.

Thirdly, like entrepreneurship itself, innovative activities are also risky and uncertain; nobody can guarantee success or productivity of an innovative activity; and it is not uncommon that even if success is achieved, there is usually a long gestation period. This is a discouraging element for the entrepreneur in the pursuit of innovation. As indicated earlier, Islam provides protection to the entrepreneurs against failures of innovative activities.

Therefore, there is a strong likelihood of experiencing more R&D expenditure in an Islamic entrepreneurial arrangements. This will lead to technological improvements in an Islamic economy which may include both invention of new ideas and adoption of technology invented elsewhere.

In this context, it is important for a developing Muslim country to invent or adopt an appropriate technology suitable for its needs given its constraints. A labour abundant economy should go for capital-saving and a labour-scarce economy should opt for capital intensive technologies. Otherwise, technological change may retard instead of accelerating its economic growth.

### **2.2 GROWTH PRIORITIES**

There are two major issues to be addressed in the determination of priorities in economic growth. First, the problem of possible trade-off between economic growth and equity in the distribution of income. It has long been argued in conventional economics that growth and equity are not compatible. So, what is the priority: growth or equity? Second, there are so many items in the production agenda which raise the problem of project selection and priorities. These issues will be addressed below.

### **Growth Versus Equity**

A large body of economic theory asserts that inequality in the distribution of income is a necessary condition to accelerate economic growth. The basic economic argument is that large personal and corporate income shares are necessary for higher savings which is a must for economic growth. Therefore, it is favourable for growth to transfer resources from the poor whose marginal propensity to save (MPS) is low to the rich whose MPS is high.<sup>47</sup> Once growth is achieved, poverty would be eliminated automatically. According to this position, although equity is good, growth is better, because growth will also bring equity in the long run. Therefore, given the growth-vs-equity trade-off issue, growth wins priority over equity in the conventional wisdom of capitalist thinking.

This kind of argument dominated the minds of the economists in the sixties and early seventies. This was also reflected in national development plans.

Some other economists provided counter arguments and reversed the priority.<sup>48</sup> They argued that income inequality would not necessarily lead to economic growth. First, some empirical studies suggested that the rich did not save and invest significantly larger proportion of their income than the poor did. They spend their money on imported luxury goods, foreign travel and so on. Thus, their spending also does not provide stimulus to local production by increasing effective demand for locally produced goods and services. Second, poverty of the poor is manifested in poor health, malnutrition and illiteracy which adversely affect productivity. In addition, humanity should receive priority over growth and hence equity, and not the growth, has the first priority.

Such a debate has recently emerged in conventional economics because of the perceived incompatibility between growth and equity. Opinions differ and so do the priorities. In Islamic Economics, there is no either/or solution to this problem of choosing either growth or equity. Instead, Islam requires both simultaneously. We have tried so far to demonstrate that Islam

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stands for growth which cannot be sacrificed. Nor can we sacrifice equity, because a high economic growth can add very little to the true welfare if the generated income and output is concentrated among a small section of the population. In fact, such growth may adversely affect welfare if it intensifies inequality in the distribution of income and thus creates imbalance in the socio-political and economic power structure and distort the product-mix. Therefore, such growth cannot be viewed to contribute to economic growth in an Islamic sense. The economic system of Islam rejects such a growth pattern which reduces, rather than increases, welfare of the masses.

An important economic principle of the Shari'ah is equity in the distribution of income which is effected through two channels: functional distribution and transfer payments.<sup>49</sup> In addition, growth is compatible with equity in an Islamic economy although it is not so in a riba-based economy. For example, in Table 2.1, if the capital's profit share is increased from 40% to 50% for more equitable distribution of profits, the entrepreneurs can still continue investment gainfully until the profit is zero at which investment is \$13000, or even up to \$14000 since the marginal investment does not add to losses. On the other hand, if the interest is increased from 10% to 15% in a riba-based economy, investment will fall from \$9000 to \$8000. This shows that a higher level of equity is compatible with growth since changes in profit ratios do not reduce investment under an Islamic financial system.

Thus the growth and equity goals are compatible in an ideal Islamic economic system. In case, there is a need for such a national growth policy which is expected to accelerate growth significantly so that the level of absolute income of the people will increase even if relative income may be affected a bit, the priority may be given to higher growth, subject to the condition of a reasonably acceptable degree of equity.

### **Production Priorities**

Production priorities would depend on social priorities which, in turn, depends on welfare implications of the goods and

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services. The direction and extent of welfare effect depends on the nature and degree of utility derived from a good or service. In Islam, the concept of utility or disutility is not left merely to human psychology and social customs since these are influenced by time and space, and hence a commodity is considered to have utility in one society whereas it is viewed otherwise elsewhere. The alcoholic beverages and drugs are clear examples of this. Thus a good thing here becomes a bad thing there, or an undersirable thing of yesterday becomes socially acceptable or desirable today.

An unbiased reasoning and rationality cannot accept this phenomenon. A good thing is good and a bad thing is bad, irrespective of time and space. But human rationality gets influenced by social customs and values and, therefore, is unable to determine the true utility or disutility and hence the true social desirability or undesirability of goods and services.

In Islam, the goods and services which affect mental and/or physical well-being of people have clearly been classified by Allah (swt) Himself, who is beyond the influence of time and space, in the Qur'an or through the Apostle (saw) in the prophetic traditions. The harmful items have been declared prohibited. The consumption of good things have been encouraged, less harmful items are discouraged, and all the rest are allowed.

This classification of goods and services reflects their true utility and disutility, and thus their welfare implications. This will define the permitted basket of goods and services in an Islamic economy. An individual country may not, however, be able or interested to produce all the items from the permitted basket, which would depend on the economic conditions of the people, their tastes, and so on.

If the economic conditions of the people in general are good which enable them to buy whatever they wish, the production priorities may be left to the market forces once the permitted basket has been determined and defined. But if this income level is not achieved, the production priorities should be planned in such a way that guarantees basic needs of everybody in the society. A complete

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reliance on market forces in this case may produce wrong price signals which may lead to the production of socially undesirable basket of goods and services.

It is therefore important for an Islamic economy, which has not yet reached the level of affluence with equitable income distribution, to determine production priorities in the descending order of the hierarchy of needs; the most needed item would top the priority list and vice versa. This should determine the direction and size of public enterprises, and guide the incentive system for the private sector.

This calls for the identification of basic needs in terms of the hierarchy of needs which has been classified differently by different Islamic scholars. To the present author, the goods and services may usefully be classified as follows.

- (i) survival necessities,
- (ii) basic needs,
- (iii) comforts, (iv) luxuries, and
- (v) harmful items.

Survival necessity, which corresponds to Dharuriyah in the terminology of jurisprudence, refers to the items without which a person will die. For instance, food for a starving person such that he may die without it. Basic needs refer to those goods and services without which life becomes difficult, but its shortage does not cause immediate death. For example, basic clothing, accommodation, medicare and so on. Items of comfort are those which make life comfortable, but without which life does not get so difficult. For instance, good dress, airconditioning of one's house and so on. Luxury goods are those which are not needed for a comfortable life, but are used for prestige and conspicuous consumption. For instance, a highly expensive model of a car. And harmful items refer to those which are harmful for mankind. For example, pork, alcoholic beverages and so on.

Need status of these categories of goods and services is different. Survival necessities stand highest in the hierarchy of needs such that, during such needs, prohibited items become halal to the extent that is necessary for survival. Basic needs should be

guaranteed for everybody in an Islamic economy. This may be used as a criterion for poverty line. That is, those who are deprived of basic needs would be said to live below poverty line. The highest production priority in an Islamic economy is to produce basic needs of the people. If this is achieved, growth priority would be to produce items of comforts because they contribute to the quality of human life. This will also increase productivity of the work force. Luxury items, as defined, are highly discouraged, but not prohibited. Therefore, growth priorities of an Islamic economy would not include production or importation of luxury items. And the question of producing or importing harmful items does not arise at all, because need for these items is negative.

Thus, the production priorities of an Islamic economy will depend on the level of economic development attained. An Islamic state should formulate effective policies to accelerate growth to ensure the fulfillment of the basic needs for all, and then the provision of comforts. It does not imply, however, that growth policy should be abandoned once this is attained. Islamic Ummah should lead the world in all positive aspects including economic achievements for the benefit of humanity. It must, however, be borne in mind that economic growth is a means to certain ends and not an end objective of life. Growth would be desirable as long as it increases human welfare in this world and in the hereafter.

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### NOTES

1 This is a realistic assumption for a true Islamic economy. The change in the conclusions will be only in degrees, rather than in directions, if the assumption is relaxed to refer to a situation of less-than-full-adherence to Islam.

2. Al-Qur'an 28:77; 62:10; 53:39; Also see A.H.M. Sadeq, "Economic Development and Islam", The Dhaka University Studies, June 1985, pp. 59-64.

3 Al-Qur'an 45:12-13; 15:19-20; 6:141.

4 M.Umer Chapra, Towards a Just Monetary System. Leicester: The Islamic Foundation, 1985, p. 35.

5 For example, a UN expert group maintain, "The final goal of development programming is, therefore, to find the best way of breaking the vicious circle between capital shortage and under-development and to design the most efficient and optimum rate of capital accumulation". United Nations, ECAFE, Programming Techniques for Economic Development, Report of the First Group of Experts on Programming Techniques, Bangkok, 1960, p. 8. Although this may sound an overemphasis on capital, but its importance for growth cannot be denied.

6 For a detailed analysis of these approaches, see A.P. Thirlwall, Financing Economic Development MacMillan, 1976

7 Al-Qur'an 17:29; 25:67.

8 Al-Qur'an 6:141; 7:31; 17:26-27.

9 Al-Qur'an 4:58. Iqmi Jon asob 11  
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10. "Do not make your hand tied to your neck, nor stretch it forth to its utmost reach, so that you become blameworthy and destitute."-Al-Qur'an 17:29.

11 Bukhari Sahih, Kitab a-Zakah,

12 M.Umer Chapra, op. cit., p. 111.

13 John Mynard Keynes, *The General Theory of Employment Interest and Money*, London: MacMillan, 1936.

14 "There is evidence that some people save less rather than more at higher interest rates; and that many people save about the same amount regardless of the level of interest rate and that some people are induced to consume less by the promise of higher interest return... economic principles alone cannot give us

a decisive prediction. The bulk of the evidence suggests that the level of interest tends to cancel out

consumption and saving decisions." P.A. Samuelson, *Economics*. New York: McGraw Hill, 1970, p. 576. (Quoted by M. Umer Chapra, *op. cit.*, pp. 140-141)

15 See, for example, M. Umer Chapra, *op. cit.*, p. 111; D.R. Khatkhate, "Analytic Basis of the working of Monetary Policy in Less Developed Countries," IMF, Staff Papers, November 1972.

16 Caliph Umar (ra) is reported to have said that if one has money should develop it and if one has land should cultivate it. No piece of cultivable land resource can be kept idle, otherwise it will be given to those who can cultivate it. See Abu Ubaid, *kitabul Amwal*. Egypt: Darul Fikr 1975, p. 367-368.

17 *Al-Qur'an* 3:180; 9:34-35; 104:1-4.

18 For further details, see M. Umer Chapra, *op. cit.*, p. 112-124; and A.H.M. Sadeq, "Distribution of Wealth in Islam" in K-T. Hussain et al (eds.) *Thoughts on Economics*. Dhaka: Islamic Economics Research Bureau, 1980, p. 62-64.

19 *The problems faced presently by Islamic banks in applying Mudharabah and Musharakah modes of investment are due to the fact that they are operating in a*

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totally alien environment. These problems should not exist in an ideal Islamic economy, or at least would be minimized.

20 For further details in institutional setting of Islamic finance, see M.Umer Chapra, op. cit., p. 147-185.

21 This is further elaborated in the present author's "Banking Revolution and the Problem of Personnel Development", *Thoughts on Economics*, vol. 7, No. 1, winter 1986, pp. 39-57.

22 For example, the report of an Inter-university study of Human Resources in National Development reads as follows. "Education plays many roles in industrializing countries. It is a generator of skills and knowledge for the labor force. It is a selection device, or giant sorting machine, which affects access to positions of wealth, status, and power... There is a high correlation, in general, however, between levels of schooling and industrialization... Education has been generally associated with higher levels of production per capita." See John T. Dunlop, F.H. Harbison, C. Kerr and C.A. Myers, *Industrialism and Industrial Man Reconsidered*. New Jersey: The Inter-University Study of Human Resources in National Development, 1975, p. 22-23.

23 *Al-Qur'an* 17:34; 61:2.

24 *Al-Qur'an* 83:1-3.

25 Man is created for Allah's Ibadah only (*Al-Quran* 51:56); and when economic activity is ordained (*Al-Qur'an* 62:10), it must be an Ibadah.

26 *Ibn Maja, Sunan*. For further details on human resource development, see *Khurshid Ahmad, "Economic Development in an Islamic Framework"*, in *Khurshid Ahmad (ed.) Islamic Perspectives*. Leicester: The Islamic Foundation, 1979, pp. 223-240; also see chapter six of

this book.

27 *Joseph Schumpeter, Theory of Economic Development*, Cambridge: Harvard University Press, 1934.

28 For example, C. Solo, "Innovation in the Capitalist Process: A Critique of the Schumpeterian Theory". *Quarterly Journal of Economics*, No. 3, 1951, pp. 417-428. 29 Earning for a halal living is obligatory after obligatory rituals (Ibadah), (Baihaqi, Tabarani). For an analysis of entrepreneurship development from an Islamic perspective, see A.H.M. Sadeq "Achievement Motivation, Entrepreneurship Growth and Economic Development in Islam", *Thoughts on Economics*, Summer 1985, p. 1-7; also by the same author, "Socio-cultural Environment for Entrepreneurship Development in Bangladesh". (Mimeo) Dhaka: World Bank and University Grants Commission of Bangladesh 1986.

30 *Al-Qur'an 62:10.*

31 *Al-Qur'an 45:12-13; 15:19-22; 6:141.*

32 "A faithful and trustworthy trader or businessman will be with the prophets, siddiqueen and martyrs" on the Day of Judgement." See Tirmizi, Sunan, Bab Ma Ja'a Fittijara. 33 *Al-Qur'an 2:275.*

34 See note No. 32 above.

35 *David C. McClelland, "The Achievement Motive in Economic Growth," in Peter Kilby (ed.) Entrepreneurship and Economic Development. New York: The Free Press, 1971, p. 109-122.*

36 McClelland's argument is an indirect one which is as follows: If entrepreneurs are interested primarily in profits or money, they should quit entrepreneurial activity as soon as they make all the profits or money that are seemingly possible and stop risking further entrepreneurial ventures. Instead, they are observed to be greatly concerned for expanding their business and industrial venture. Therefore, they should 4-

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better be assumed to be motivated by a desire for achievement rather than by money or profits. This assumption includes the possibility that the entrepreneurs are interested in money or profits because it provides a ready and quantitative index of their achievements. Profitability is a criterion of measuring achievement, rather than a motivation for entrepreneurial activity.

37 The meaning of the Qur'anic verse: "it is not for a believing man or for a believing woman, when Allah and His Apostle have decided an affair, to have the choice in that affair" (At-Qur'an 33:36). From this Sutcliffe argues, "since free will would seem to be a crucial prerequisite of both mastery orientation stressed by Weber and the related achievement motivation stressed by McClelland, its apparent absence in Islam would seem to be sufficient to establish Islam as an obstacle to development." (See Sutcliffe, op. cit., p. 78). This is a misunderstanding of the Qur'anic verse. The Qur'anic verse refers to the obligatory Shar'ah matters, while other verses provide incentive to have achievement motivation and mastery orientation. For a response to Sutcliffe's assertion, see the present author's "Economic Development and Islam", The Dhaka University Studies, Part C, June 1985, pp.

59-64.

38 *Al-Qur'an 2:148*.

39 In fact the Qur'an encourages man to achieve worldly things. See, for example, Al-Qur'an 28:77; 53:39.

40 "The best of the earnings is of those businessmen who do not lie when they speak, do not break the trust when trusted..." Hadith quoted by Mowlana Zakaria in *Fadail-i-Tijarah*. Dhaka: Tabligi Kutub Khana 1982, p. 72; also see Note 32.

41 "Nine-tenth of the livelihood lies in business activities and one-tenth in cattle-raising (agriculture)." Hadith quoted by Mowlana Zakaria, op. cit., p. 74.

42 For a response to Sutcliffe's position, see the present author's "Achievement Motivation, Entrepreneurship Growth and Economic Development In Islam", *Thought On Economics*, Summer 1985, pp. 1-7.

43 *Michael P. Todaro, Economic Development in the Third World. New York: Longman, 1981, p. 90.*

44 Joseph Schumpeter, op. cit.

45 Al-Qur'an 62:10.

46 See Al-Qur'an. 2:36; 15:19-20; 57:25; 16:14; 62:10.

47 For a fairly detailed survey of such theories, see A.P. Thirlwall, op.cit.

48 See, for example, Mahbul ul Haq, "Employment and Income Distribution in the 1970s

: a New Perspective", Development digest, October 1971, P. 7.

49 "So that it (wealth) cannot circulate among the rich of you only". (Al-Qur'an 59:7): also see chapters three and four of this book.

## **Chapter Three**

### **FUNCTIONAL DISTRIBUTION OF INCOME**

Equity in the distribution of income is another component of economic development. Economic growth can hardly alleviate the curse of poverty and increase human welfare if growth leads to concentration of its fruits among a few of the population. It is therefore important to see how the income generated per period of time is distributed among the factors of production involved in the production process through the mechanism of factor pricing and, among others, by means of transfer payments in the form of Zakah, charities, government dues and so on. Thus, there are two channels of the distribution of income and wealth: functional distribution of income and the distribution of wealth through transfer payments. This chapter deals with the former, which is followed by the latter.

#### **3.1 FACTORS OF PRODUCTION. AND THEIR DEFINITIONS**

##### **Number of Factors of Production**

Four factors of production are recognised in the main stream of traditional economic analysis: land, labour, capital and entrepreneurship. Each of them gets its factor share from the produced goods and services. Under an ideal system of socialism, land and capital are considered as state properties, and the business and industries are organised by the state. Therefore, the only factor that gets remuneration is labour and the entire residual income is retained by the state. The productive factor relevant for pricing analysis is thus only labour.

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There is no agreement on the number and definitions of the factors of production among the writers on Islamic economics. According to some, the factors are four, but the definitions are different; while some others exclude one and come up with only three factors of production.<sup>1</sup>

The Qur'an and the Sunnah do not explicitly mention factors of production, but there is an implicit indication about them. The disagreement referred to above is due to the divergence in perceiving this implicit phenomenon. Although the number of factors is not explicitly mentioned in the Islamic Shari'ah, the principles of factor shares have been discussed. The number may be perceived by implication from the analysis of functional rewards and factor-shares.

An example may clarify the matter. If one says that there are two factors, L and K, and these will get X and Y amounts respectively, then the number of factors is explicit, that is two: L and K. If, however, one says that L will get X-amount and K Y-amount, then the number of factors is not explicit, but it is implied, that is again two: L and K.

Shari'ah provides that labour (L) can be hired on a fixed wage and the reusable physical assets (buildings, machines, land and so on) on a fixed rent. Capital (K) and entrepreneurship (E) will receive predecided percentages of profits. Capital and entrepreneurship cannot, however, be added together for at least two reasons. First, their profit shares are not the same which have to be negotiated and decided upon. Second, there is a gulf of difference between K and E; for example, K bears the risk of losses in capital while E does not.

Thus, implicit in the Shari'ah, there are four factors in the production process. These are labour (L), physical assets (A), capital (K) and entrepreneurship (E).

### **Definitions of Factors of Production**

Like the numbers, there is no explicit mention of the definition of the factors of production in the Islamic source materials. One can, however, perceive their definitions by implication from the analysis of their functional rewards and from other relevant

## FUNCTIONAL DISTRIBUTION OF INCOME 53

discussions. For instance, a fixed return on capital is not allowed in Islam, but a fixed return on a building (rent) is allowed and, therefore, building cannot be termed as capital. Thus, the definition of factors of production in Islamic economics are different from those of conventional ones. Again there is no agreement on their definitions in Islamic economics.<sup>2</sup> I submit below my perceptions of their definitions, some of which may appear to be similar to others, while some others may be distinctively different.<sup>3</sup>

Labour is simply defined as human services, physical or mental. Those who are involved in management and supervision are also broadly included in labour. That is, a human service, whether it is a manual work or managerial service, is considered as labour provided it is based on a contract of a fixed wage or salary. The organisational service, which is provided for a share of profit instead of fixed return, is not included in labour. This human service also assumes risk of getting zero return in case of losses. This is entrepreneurship to which we will move on later.

The second factor of production is physical assets. All those reusable material means that can be leased and rented out to be used in the process of production may be termed as physical assets. These assets may be characterized by one or more of the three intrinsic features. The features are as follows. First, it can be a natural resource (termed as land in traditional economics) or a produced means of production (termed as capital in traditional economics). The example of the former is a piece of land, and that of the latter is a machine. Second, it can be used on rental basis; for example, a building. Third, it may depreciate for using in production.

Capital is the financial means of production. It constitutes of liquid money, near money or monetary assets. According to this definition, produced means of production (e.g. building or machine) are not included in the definition of capital.<sup>4</sup> The simple reason is that a building (or any other physical asset) may earn a fixed return (rent) while the capital is not allowed to do so. The two are thus not the same factor of production.

In traditional economics capital is defined as the produced means of production such as machineries, building etc. This

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seems to be only the theoretical definition of capital in economic literature. For all practical purposes the financial resources, and not the physical materials, are considered as capital. It is well-known that the price of capital in traditional economics is interest. Neither an entrepreneur nor an economist calculates interest on a building. What is the interest rate of a building? Or of a machine? And how does one calculate the interest rate of a building? Is it calculated per square feet, or how? The real practice is different, anyway. An entrepreneur takes money from the bank and spends it in renting/constructing a building, buying machines, paying the workers and so on. The bank charges interest on money lent and not on the assets bought by the money. Interest is also charged on money used to make payments to workers, supervisors and managers, who are not considered as capital. Therefore, in practical uses, money and financial resources are considered as capital.

Money has a potential productive power because of its command over real assets, and its potential contribution in the production process by transforming itself into any physical assets, goods and/or services. Therefore, it is legitimate to earn a return from the productive use of money. But the way a return is associated with money in traditional economics, i.e. interest, is not allowed in Islam. This is because the distribution of return through the mechanism of interest is based on injustice, and it causes a number of other evils.<sup>5</sup>

Entrepreneurship is defined as the organisation of business or industrial activity by collecting and combining all other factors of production, conducting the whole process of production, and running the whole show right from the level of venture idea to the marketing, calculation and distribution of profits without assuming the risk of losses in capital.<sup>6</sup> An important distinction between this definition and that in traditional economics is that, in the latter, it bears the entire risk of the activity and gets entire profits, while in the former entrepreneurship per se does not take the risk of losses (which is really borne by capital), rather it merely loses the fruits of its efforts, and, therefore, it is not eligible also to receive the

## FUNCTIONAL DISTRIBUTION OF INCOME 55

entire profits. It gets a share of profit whose rate is predecided, while the absolute size is determined ex-post.

### 3.2 FACTOR PRICING AND INCOME DISTRIBUTION IN TRADITIONAL ECONOMICS

Before we deal with factor pricing and income distribution in Islam, it is useful to see the traditional theory of factor pricing and income distribution. The most celebrated one is the marginal productivity theory (MPT) of distribution.<sup>7</sup> According to this theory, a factor will be paid a price equal to its marginal product. That is, the produced goods and services will be distributed among the factors of production in accordance with their marginal products. Let us consider the price of labour in terms of this theory.

In Figure 3.1,  $OL$ , of labour will be employed and a wage equal to  $OW$ , will be paid per unit of labour, since at this wage the labour supply curve intersects the demand curve for labour which is derived from the value of marginal products (VMPL).

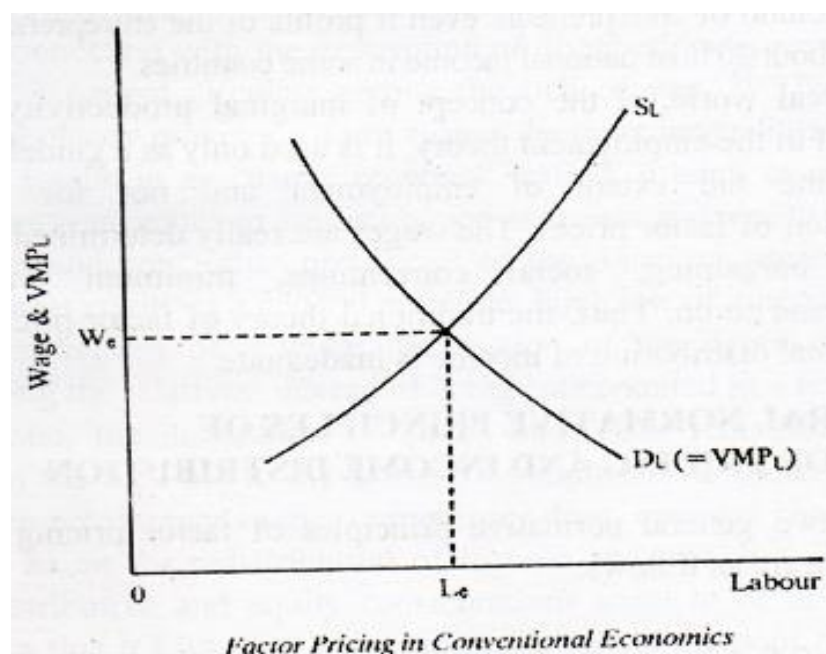


Figure 3.1

This theory has very limited application in the real world. The MPT has been heavily criticized in economic literature; but at the

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same time widely celebrated. Some of its limitations are as follows.<sup>8</sup> First, it is applicable only in the production function of homogeneous of degree one which is rare in practice. Adding up problems arise in the two other more realistic production functions.

Second, the MPT assumes perfect competition in the factor market where all economic powers are fragmented. But it cannot explain discrimination between men and women, between races and social classes; nor can it incorporate the real world phenomenon of collective bargaining by trade unions. (Wages can be pushed up without relation to MPL).

Third, the MPT also requires that the entrepreneurs must be profit-maximizers by equating  $MPL = W$ . In practice, most entrepreneurs rarely do so. The entrepreneurs may have several other objectives which may include: (a) maximization of sale, that is, acquiring the largest market share, (b) earning some average profit on the capital invested, and (c) maximizing some other social goals subject to some profit constraints. Finally, the MPT does not deal with the remuneration of entrepreneurs even if profits of the entrepreneurs constitute about 20% of national income in some countries.<sup>9</sup>

In the real world, if the concept of marginal productivity is useful at all in the employment theory, it is used only as a guideline to determine the extent of employment and not for the determination of factor prices. The wages are really determined by collective bargaining, social conventions, minimum wage legislation and so on. Thus, the traditional theory of factor pricing and functional distribution of income is inadequate.

### **3.3 GENERAL NORMATIVE PRINCIPLES OF FACTOR PRICING AND INCOME DISTRIBUTION**

There are two general normative principles of factor pricing in Islam. These are as follows:

#### **(1) Justice**

Pricing of factors of production should be based on justice. Islam requires one to be just in all his/her dealings.<sup>10</sup> Besides, it is ordained clearly that a person will receive what he works for and, therefore, justice in factor pricing is to fix a price which

## FUNCTIONAL DISTRIBUTION OF INCOME 57

corresponds to the factor's contribution.<sup>11</sup> The word 'corresponds' has been used instead of 'equals' to imply that factor pricing does not have to be 'exactly equal' to its contribution, but it should correspond to it. The closer, however, the price is to contribution, the closer it is to justice.

### (2) Scarcity

This refers to supply relative to demand conditions, that is, to market forces. If gold is very scarce compared to its demand, its higher price is not unethical. If land is abundant, it may be cheap. This pertains to the interplay of demand and supply forces in the determination of factor prices. This interplay, however, should be within the reasonably acceptable range of justice.

There is an additional principle of humanity pertaining to the pricing of human service and labour. This will be discussed later in the context of pricing labour service.

Now we move on to the principle of income distribution. Allah (swt) provides a general normative principle of income distribution in connection with the description of distributing fai revenues. "So that it cannot circulate among the rich of you".<sup>12</sup> This Qur'anic verse clearly provides a norm against the gross inequalities of income and wealth in an Islamic economy. Instead, it tends to support and recommend equity in the distribution of income and wealth.

In addition, other provisions of the Shari'ah presents a bias towards equity as a general principle. First, law of inheritance gives a mechanism of a wider distribution of the deceased's wealth among the relatives, instead of being concentrated in a few hands.<sup>13</sup> Second, the institutions of Zakah and 'Ushr redistribute wealth from the well-off to the worse-off people in the society.<sup>14</sup> Third, Islam recommends other compulsory dues, optional charities gifts and so on for redistribution of income and wealth.<sup>15</sup> Fourth, the redistributive and equity considerations seem to be so strong in Islam that it asks even some sinners to pay to the poor as Kaffara (expiation).<sup>16</sup> Fifth, Islam prohibits all practices which may lead to illegal transfer of resources for income concentration such as gambling, cheating, stealing and so on.<sup>17</sup> These Islamic provisions are not the subject of this chapter. But they clearly indicate a

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normative principle of redistribution for equity in the distribution of income and wealth.

It does not, however, imply that the distribution of income and wealth should be 'equal'. A proposition of equality in income is quite unnatural, because people are not equal in skill, efforts, health and intellectual capabilities. Justice requires that these differences be recognised. If income distribution in Islam has to be absolutely equal, then the question of Zakah and other payments does not arise at all which have been ordained in Islam.

In short, Islam recognises differences in earnings in the ways allowed by Islam, but also provides some checks so that income distribution may not be very highly skewed, and presents normative principles of income distribution which tend to make it equitable rather than absolutely equal. This normative principle of equity does also operate in factor pricing.

### **3.4 FACTOR PRICING AND INCOME DISTRIBUTION: A THEORETICAL FRAMEWORK**

It is not a function of normative economics to provide some positive theory of determining factor prices and of functional distribution of income. Islam does not as well do so. Like any other normative economics, it provides some value-loaded guidelines for determination of factor prices on the basis of its principles of justice, scarcity and equity which have implications for functional distribution of income. However, this normative value system regarding factor pricing and income distribution can be analysed in theoretical framework.

#### **Pricing of Labour Service**

In pricing the human factor of production, labour, one must follow the general normative principles of factor pricing (justice and scarcity) and that of distribution (equity). In addition, as indicated earlier, there is a humanity element in pricing labour. It needs some elaboration. Labour (human) service is not treated as a saleable material commodity in the Islamic code of life and hence in Islamic economics.<sup>18</sup>

## FUNCTIONAL DISTRIBUTION OF INCOME 59

Labour is an inseparable attribute of mankind. And man is the vicegerent and the best creation of Allah (swt) raised for some noble objectives.<sup>19</sup> A free man cannot be sold like a commodity and so is an attribute which is inseparable from him. The owner of a land can separate it from him to sell its service (ie. to rent it out), but a man has to take his whole existence to the place of work to render human service. But Allah (swt) provides for mutual co-operation among people by rendering service to each other in order to keep the world going in accordance with the law of nature given by Him.<sup>20</sup> Furthermore, man is made responsible for his dependants and for other financial obligations related to Islamic values.

The role of justice, humanity and altruism will be primary and that of market forces secondary in determining the price of labour. This adds some extra considerations to the problem in question. The important ones are as follows: First, there should be a man-to-man brotherly employer-employee relationship in overall behaviour, and not-like a man-to-material relationship.<sup>21</sup> Second, the work load and working condition should be humanly acceptable;<sup>22</sup> there is a humane limit to work load of a man, which may not be true for material things.<sup>23</sup> Third, an employer should guarantee basic needs (food, clothing, medicare etc.) of the brother employee.<sup>24</sup>

All these considerations tend to amount to ensure a reasonable real wage or a humane minimum wage to meet basic needs. This should not, however, lead to a confusion that Islam requires one to pay his employee a salary to meet the entire basic needs of his family even if it is higher than his contribution in the production process. What it means is that if the justice and scarcity principles pull the wage rate into two opposite directions, the humanity principle will come in and strengthen the contribution aspect of the matter.

With this in mind, we proceed to a tentative theory of wage determination which may fit into Islamic framework. In this I context, let us assume that an employer wants to earn an average rate of profit from invested capital<sup>25</sup> and, accordingly, an average return from labour employment (constant returns to scale are assumed).

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Since wage depends on both subjective (humanity) and objective (contribution and market forces) factors, it will be more appropriate to define first a possible range of wages rather than a fixed one. The principle of humanity will play an important role in determining a particular wage within this range.

The wage range has a lower limit and an upper limit. The upper limit is given by the value of average contribution of labour, hereafter called VACL, which is defined as the total contribution of labour divided by the number of labour. It should be noted here that the VACL is different from what is generally known as value of average product of labour, defined as the value of total product divided by the number of labour. In measuring VACL, only the contribution of labour is considered which is net of the contributions of all other factors of production. The implicit assumption here is that the VACL can be measured which may not as usual be free from measurement problem.

The lower limit of the wage range is given by what may be called the value of marginal contribution of labour, VMCL, which is again net of values of the marginal contributions of other factors of production. The VMCL may be treated as an acceptable wage only when it represents a humane and reasonable wage. This is possible in a labour scarce phenomenon, when the role of subjective factors in the wage determination is expected to be negligible.

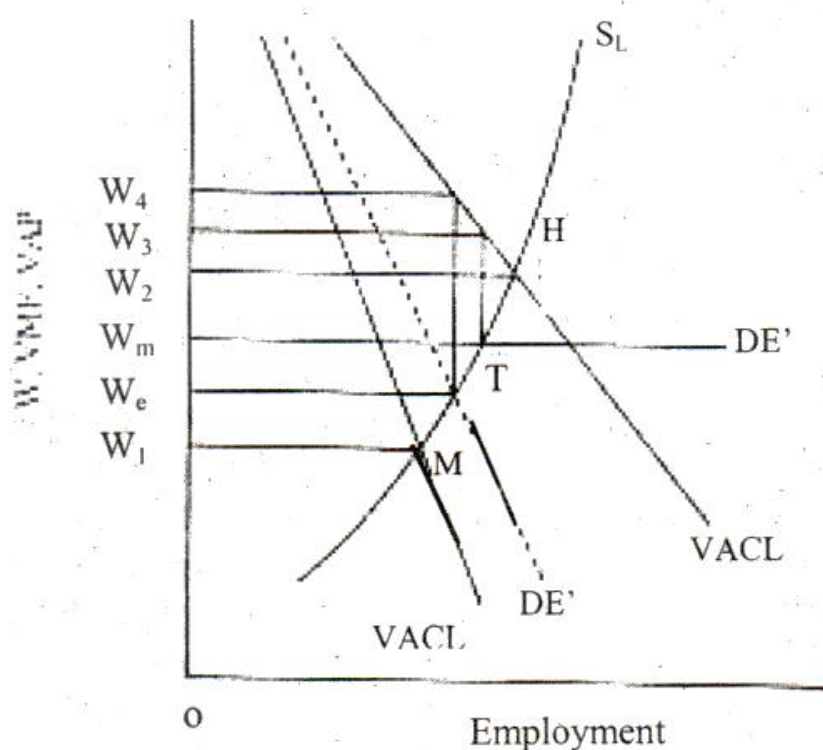
Thus the wage range is  $VMCL < W < VACL$ ; that is, the wage rate may vary from VMCL to VACL. If the wage rate is based on VMCL, the VMCL curve works as the labour demand curve. On the other hand, the VACL curve would be the labour demand curve if the wage rate is based on VACL. And when the wage rate is in between VMCL and VACL, the effective demand curve DE will lie between VMCL and VACL, whose shape and position will depend on the humanity principle and the average desired rate of profit.

The application of the humanity principle will depend on the altruistic behavior of the employer or the hisbah role of the Government, or both. If the role of humanity principle is significant

## FUNCTIONAL DISTRIBUTION OF INCOME 61

in the wage determination and/or a reasonable average rate of profit is desired, the employer will tend to pay a wage higher than the VMCL at each level of employment. Accordingly, the effective labour demand curve, say DE, will lie between VMCL and VACL. The intersection of DE and the labour supply curve, SL, will give the wage rate which may be considered to be in consistence with Islamic norms and values.

This can be illustrated geometrically. In Figure 3.2, the VMCL and VACL are values of marginal and average contributions of labour respectively which are net of VMCL and VACL of physical assets used in the process of production. S<sub>L</sub> is the labour supply curve. As analysed earlier, the minimum wage in the wage range will be  $W_1 = \text{VMCL}$  which is given by the intersection of VMCL and SL and the maximum wage



### *Determination of Wage in An Islamic Economy., General Case*

$W_2 = \text{VACL}$  is given by the intersection of VACL and S. So the relevant range Of SL is MH, indicating the minimum wage by M and the highest wage by H. Therefore, an employer may neither pay a wage higher than OW<sub>2</sub>, nor a wage lower than OW<sub>1</sub>. Now the range of wage is WW<sub>2</sub>. It is clear from the diagram that the

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condition  $VMCL < W < VACL$  is satisfied in this range. If the wage,  $W$ , is fixed at the extreme points of  $OW$ , or  $OW2$  we have  $W1 = VMCL$  or  $W2 = VACL$  respectively. Any wage in-between the extremes will have  $VMCL \leq W < VACL$ .

We now introduce the effective demand curve combining both subjective and objective factors. Let us assume that the effective demand curve is  $DE$ . The equilibrium wage is  $OW$ , which is within the wage range determined earlier. Here equilibrium wage is higher than the  $VMCL$  but lower than the  $VACL$ ,  $OW1 < W < OW2$ . Therefore, the employer is making a profit of  $We$ ,  $W4$  out of per unit contribution of labour.

The role of collective bargaining has so far been ignored. If an appropriate weight is given to subjective factors in determining the effective demand curve, the role of collective bargaining by trade unions is expected to be minimal. If, however, the phenomenon is the other way round, the role of collective bargaining and the legislative authority will be to shift the effective demand curve upwards to result in a higher equilibrium wage.

The question of basic needs may now be addressed. A prophetic tradition may be interpreted to imply a wage that satisfies the basic needs of the employee.<sup>26</sup> The employee has to support his dependants, if any, from his earnings. It is, therefore, a moral duty on the part of the employer to pay enough to meet the employee's basic needs subject to the maximum of  $W2 = VACL$ , otherwise his work efforts may also be affected. But it is not wise to push the wage rate up to  $W2 = VACL$  because, in doing so, the entrepreneurial incentive may be affected adversely. Therefore, a minimum wage legislation may be adopted in an Islamic economy to correspond to the satisfaction of basic needs of employees subject to the condition that a minimally acceptable per unit profit will be left for entrepreneurship and capital. If this is not enough to satisfy basic needs, the amount of deficit will be paid from the social security funds & developed by Zakah and other revenues meant for the relatively worse-off population.

The amount required to meet basic needs will be determined by the average cost of a modest living of the average sized family in

## FUNCTIONAL DISTRIBUTION OF INCOME 63

the country. If this amounts to  $OW_m$  in Figure 3.2, the Islamic state may fix this floor wage which implies a shift in the effective demand curve from  $DE$  to  $DE'$  which intersects  $SL$  at  $T$  determining the equilibrium wage  $OW_m$ . The employer will still be earning per unit profit  $OW_3$  out of labour's contribution.

The employment effect of this is favourable. Since the effective demand curve lies to the right of  $VMCL$ , the point of intersection between  $DE$  and  $SL$  will also lie to its right, that is, between  $VMCL$  and  $SL$ . This clearly implies a higher employment of labour which is obvious from the above diagram.

The labour supply curve,  $SL$ , in Figure 3.2 is typical of an economy where the bargaining strength of labour is reasonably satisfactory. The phenomenon of labour-abundant less developed countries (LALDC) seems, however, to be quite different.

In these countries labour is terribly exploited by paying a wage rate way below  $VMCL$ , not to mention the  $VACL$ . This is possible because of the nature of labour supply in LALDCs. In particular, the unskilled labour is paid wages which are below the survival minimum. In this condition, workers work more to earn enough to satisfy survival minimum. But they cannot do so infinitely because of their physical limitations. Minimum wage legislation is at safeguard in this situation.

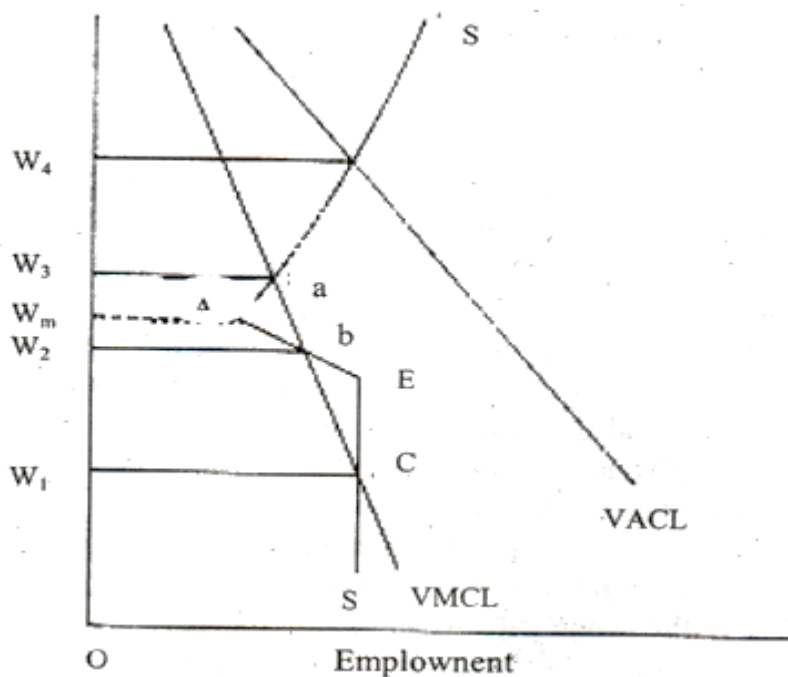
This can be illustrated diagrammatically. In Figure 3.3,  $SEAS$  is the labour supply curve of which  $AS$  is the normal supply curve.  $OW_m$  is the wage rate required for the survival minimum of an average family. At this wage, labour supply is  $WmA$ . If the wage rate falls down, the workers increase hours of work to maintain their earnings to the survival minimum which implies a higher supply of labour at wages below  $OW_m$ . They can, however, do so up to  $E$  along the  $SEAS$  beyond which any further increase in working hour is physically impossible and thus the labour supply curve becomes a vertical line  $ES$ .<sup>27</sup>

In this Figure, the  $VMCL$  cuts the labour supply curve at three points  $a$ ,  $b$  and  $c$ . If the employer wants to pay a wage which is equal to  $VMCL$ , he can pay as low as  $OW_1$ , as high as  $OW_3$ , or a wage equal to  $OW_2$ . Obviously a profit maximizing firm will pay the lowest

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possible wage that maximizes his profits, which may even be  $W1$ . This kind of labour exploitation seems to be widespread in many LALDCs.

In an Islamic economy, the employing firm can be made to pay a wage in the range  $W_3$   $W_4$  because of the reasons explained earlier. The exact wage will again depend on the level of moral standard of the employer, collective bargaining and/or the minimum wage legislation of the Islamic state which determines the shape and position of the effective demand curve. The employment effect will again be favourable as mentioned earlier.



## Determination of Wage in an Islamic Economy

### The Case of LALDCS Figure 3.3

This pricing of labour in an Islamic economy has favourable distributional implications. In both cam, general and LALDC, labour may get a higher real wage without adverse effects on employment. The share of labour in the functional distribution of income pertaining to labour's contribution is thus more equitable. This satisfies both the general normative principles of factor. pricing and income distribution.

## **FUNCTIONAL DISTRIBUTION OF INCOME 65**

### **Pricing of Physical Assets**

To recall, all reusable and rentable productive assets, whether produced or unproduced, are included in physical assets. The general principles of factor pricing and distribution will apply in determining the prices of these physical assets. This is different from the pricing of labour to the extent that human element is missing in this case, which plays an important role in determining the exact price of labour.

The absence of the humanity principle allows one to resort to the market forces to determine the prices of physical assets. This may refer to two kinds of pricing. First, pricing of the physical asset itself which obviously depends on the demand and supply conditions, that is, the market forces. Second, pricing of the service of the physical assets which is more relevant in the present context.

According to the Islamic Shari'ah, a fixed price for the services of the physical asset is allowed, and it is called rent. For example, a machine or a building can be rented out at a fixed rate for use in the production process. This fixed return is legitimate even if any losses are incurred from the activity because the contracted service has been used and the physical asset is likely to depreciate for using its service.<sup>28</sup> The entrepreneur receives the transacted service which causes depreciation of the asset, and hence its price must be paid, no matter what happens to the outcome of the project. This analogy cannot be used for financial assets because money does not depreciate because of its use. The face value of a unit of old Pakistani money is not different from that of a new one.<sup>29</sup>

In addition, since there is no human element in pricing physical assets, the need for legislative floor pricing may not arise at all. Thus, their prices may well be determined by market forces. The productivity aspect will be reflected in the strength of its demand which may be expected to satisfy a reasonable degree of justice.

### **Capital and Entrepreneurship**

In traditional economics the price of capital is interest; and the entire profit is retained by the entrepreneur. In Islamic economics, on the other hand, these two factors of production share in profits

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which are defined as Net revenues minus all costs and payments to all factors excluding entrepreneurship and capital. Therefore, both capital and entrepreneurship are analysed here together.

Islam rejects interest as a price of capital.<sup>30</sup> This is because it is the root of many socio-economic evils. Some of them are as follows. First, it is an injustice for capital to receive the benefit only and not to share in any losses. In an interest-based system, the entrepreneur is discriminated against when he has to pay the fixed interest even in case of losses; and on the other hand, the contributor of capital is discriminated against when the entrepreneur makes a large profit, but only a nominal interest is paid for the capital. Such discrimination is a clear injustice.

Second, it is a big source of gross inequalities of income.<sup>31</sup> In the modern world, the industrialists borrow capital from banks and make large profits but pay only a small part to the depositors through the banking system. This is an indirect transfer of income from the masses of depositors to a few industrialists. This leads to concentration of income and wealth in the society. Third, interest limits investment, while profit sharing increases it.<sup>32</sup> Finally, interest is considered as a cost of production and hence the price of the product is adjusted to it so that the consumers are affected because of the higher prices of goods and services.<sup>33</sup>

Interest is, therefore, prohibited in Islam. In Islamic economics, the prices of capital and entrepreneurship are simultaneously determined. The sizes of these prices are post determined, but the shares are pre-determined. Nobody can pre-determine in an ex-ante sense the exact sizes of returns to be received by capital and entrepreneurship, it is rather an ex-post phenomenon. The share of each of them must, however, be determined ex-ante. The principles of sharing profits or losses will depend on the form of business. There are two major forms of business: Mudharabah and musharakah. In the case of Mudharabah, entrepreneurship does the business with other's capital, whereas the partners share in capital in the case of Musharakah.

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one person contribute capital. The factor pricing is again based on profit sharing. Opinions, however, differ as to the basis of profit sharing. In one opinion, it is more justified to share profits on the quantifiable basis of their contribution which is capital. That is, each partner will share in profits on the basis of his percentage contribution in capital.<sup>35</sup> In the other opinion, it is more justified to share profits among the partners on the basis of their organisational and entrepreneurial services.<sup>36</sup> According to them, the partners may negotiate and decide about profit sharing in percentage terms irrespective of their shares in capital. This can be illustrated with the help of a diagram. For simplicity, let us assume that there are only two partners, A and B, in the business.

In Figure 3.5, OA and OB are origins of A and B respectively. The lower and upper horizontal axes represent capital contributed by A and B respectively. The left and right vertical axes depict shares of profits going to A and B respectively. The vertical and horizontal distances of the axes are the same. wol Joe According to the first opinion the distribution line is given by OAROB which represents equality in the percentages of profits and capital. For instance, let us assume that A contributes 25% of capital (along A's capital axis).

o This corresponds to R on the distribution line which implies 25% share of profit for A along A's profit axis. This simultaneously indicates that B contributes 75% of capital (along B's capital axis) and hence receives 75% of the profits (along B's profit axis). This simultaneous solution can be derived by assuming any other share of capital contribution by the partners.

The distribution line may be different when the second opinion is applied. The shape may vary from a straight line like OAROB to

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goes to entrepreneurship. This analysis will be applicable when any positive profit is made. If no profit is earned, or if any losses are incurred, the risk of zero profit or losses will be borne by capital, and the entrepreneurship's service will go unrewarded. Thus there is no problem of distributing the losses in case of Mudharabah and, therefore, is not dealt with in the diagram.

In case of Musharakah, more than one person contribute capital. The factor pricing is again based on profit sharing. Opinions, however, differ as to the basis of profit sharing. In one opinion, it is more justified to share profits on the quantifiable basis of their contribution which is capital. That is, each partner will share in profits on the basis of his percentage contribution in capital.<sup>35</sup> In the other opinion, it is more justified to share profits among the partners on the basis of their organisational and entrepreneurial services.<sup>36</sup> According to them, the partners may negotiate and decide about profit sharing in percentage terms irrespective of their shares in capital. This can be illustrated with the help of a diagram. For simplicity, let us assume that there are only two partners, A and B, in the business.

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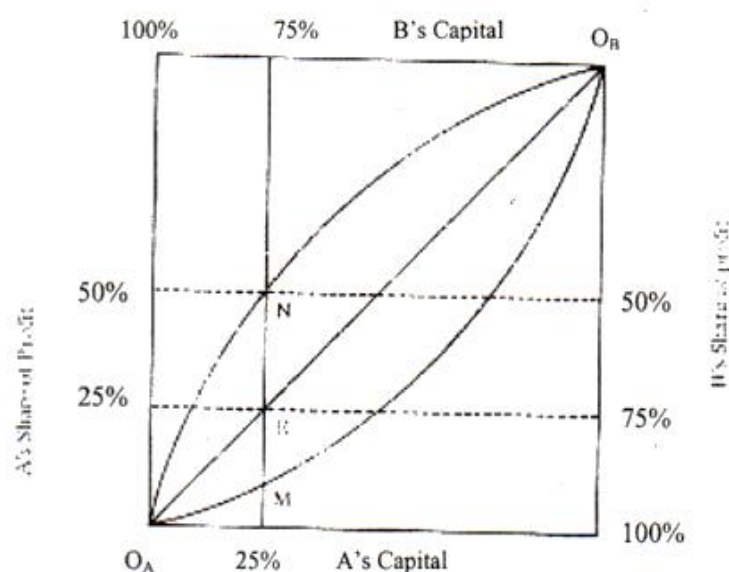
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The distribution line may be different when the second opinion is applied. The shape may vary from a straight line like OAROB to

## FUNCTIONAL DISTRIBUTION OF INCOME 69

any curvature above or below the straight line. If the share of A is larger, the distribution curve will be above OAROB and vice versa. For example, let us assume that the distribution curve is OANOB. Then A will get 50% of profits by contributing only 25% of the capital, while he gets only 10% if the distribution curve is OAMOB.

ni In case any losses are incurred, the distributing of losses will be based on the share of capital contributed, because the share of entrepreneurial services will go unrewarded. q los doTherefore, the straight line OAROB, will be applicable for the distribution of losses.



*Ex-ante Determination of Profit Shares in Musharakah Business*

*Figure 3.5*

The income distribution in both the Mudharabah and Musharakah arrangements are equitable because each party receives a share of profits on the basis of its contribution in the production process. None gets a fixed share irrespective of the size of profit.

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In short, the factors of production in Islamic Economics are different from those of traditional analysis. The principles of factor pricing are justice and scarcity. Justice requires a price which corresponds to a factor's contribution and scarcity refers to the market forces in determining prices. It should be borne in mind that this is to reflect the real scarcity, and not a crisis created artificially. A human element is incorporated in pricing labour service.

Factor pricing in Islamic Economics is equitable. Every factor of production gets a just reward of its services which limits the possibility of gross inequalities in income.

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### NOTES

1 For example, Mahmud Abu Saud considers four factors of production along the line of traditional economics, See his *Aututun Riasiyah fil 19sisad al-Islam* (Beirut: Matba'at Ms-tuq Ikhwan 1%5). On the other hand, Mufti Muhammad Shafi and Dr. M.A. Mannan enumerate only three factors of production; the former excludes entrepreneurship, while the latter excludes capital from the list of factors of production. See Mufti Muhammad Shafi, *Distribution of Wealth in Islam*. (Karachi: Begum Aisha Bawany Wakf, 1979), and Dr. M.A. Mannan, *Islamic Economics*. Lahore: Ashraf Publications, 1970. See also A.H.M., Sadeq, "Distribution of Wealth in Islam" in Dr. K.T Hussain et al. (eds.) *Thoughts on Islamic Economics*. Dhaka: Islamic Economics Research Bureau, 1980. Mufti Muhammad Shafi also provides a definition of capital which is distinctively different from others.

2 See for example, Mufti Muluunmad Shafi, op. cit. and the present authors "Distribution of Wealth in Islam", op. cit., pp. 54-62.

3 For instance, see the definition of capital and physical assets.

4 In a partnership business, a partner may use his physical assets as a share of his capital contribution. In such cases, the value of the physical assets, rather than the physical assets themselves, is treated as capital.

5 This will be elaborated later in this chapter.

6 In the real world, many of these functions are performed by salaried managers in large scale enterprises. But they are not entrepreneurs. The entrepreneurs are those shareholders who employ the managers, make policies to be implemented by the managers, and finally take the risks and responsibilities.

7 See Jan Pen, *Income Distribution*. London: Penguin Books, 1971..

8 For a detailed analysis of criticisms see Jan Pen, op. cit., pp. 76-87.

9 Ibid, p. 80.

10 *Al-Qur'an* 16:90

11 *Al-Qur'an* 53:39, 4:32, 83:1-3.

12 *Al-Qur'an* 59:7.

13 For equity implications of the Islamic law of inheritance, see A.H.M. Sadeq *Distribution of Wealth in Islam*, op. cit., pp. 49-54.

14 See chapter four of this book, and ibid., pp. 6-73.

15 Ibid., pp. 73-76, 78-80.

16 Ibid., pp. 76-78.

17 Ibid., 80-86.

18 In traditional Economics, labour is treated as a saleable commodity.

19 *Al Qur'an* 3:110,51:56.

20 *Al Qur'an* 43:32.

21 Those are your brethren whom Allah (swt) has made under you...".. (Bukhari).

22 See A.H.M. Sadeq, "Distribution of Wealth in Islam", op. cit., p. 59; and Dr. K.T.

Hussain and Dr. A.H.M. Sadeq, *Islamic Economics* (Islamic Economics) Vol. 1. Dhaka Bangladesh Madrasa Education Board 1996, pp. 81-82.

23 *Al Qur'an* 28:27; "Do not assign a work to your employee which is burdensome on him if you do so help him out" (Sahih Bukhari).

24 "Who so ever Allah (swt) made under one he should give him such food what he eats and such clothes which he wears" (Sahih Bukhari). Although this refers to domestic slaves and probably servants, the spirit, of the tradition may perhaps be generalised to include other workers and employees.

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25 This assumption seems to be logical since, in reality, the entrepreneurs rarely consider marginal values in order to satisfy the marginal conditions of profit maximisation. 26 "Who soever Allah (swt) has made under one he should give him such food what he eats and such clothes which he wears" (Sahih Bukhari). Although this refers to domestic slaves (and probably servants), the spirit of the tradition may perhaps be generalised to include other workers and employees.

27 The labour supply may, however, increase smoothly when the wage is above OWA because of the entry into the labour force at higher wages.

28 Although a cultivable land does not seem to depreciate, its utilization does use up its fertilizer content which is compensated by man or nature.

29 The depreciation of the value of money due to inflation is not because of its use, but rather because of other conditions of the economy.

30 Al-Qur'an 2: 275, 278-279.

31 See A.H.M. Sadeq, "Distribution of Wealth in Islam", op.cit., p. 60.

32 For more details on this, see the present author's "Economic Development in Islam", Journal of Islamic Economics, vol. 1, No. 1 (Aug.-Sept., 1987), pp. 35-45.

33 See K.T. Hussain, and A.H.M. Sadeq, op. cit., pp.98.

34 Al Qur'an 2:275, 278-279.

35 This the view of the Shafi'i and Maliki Schools of Islamic jurisprudence, see K, T. Hussain and A.H.M. Sadeq, op. cit., p. 123.

36 This according to the Hanafi and Hanbali Schools of Islamic jurisprudence, Ibid., p. 12.,

## **Chapter Four**

### **DISTRIBUTION THROUGH TRANSFERS AND OTHER MEASURES**

As analysed in the previous chapter, if generated income is functionally distributed according to the Islamic norms and values the distribution of income, and wealth is not expected to be highly skewed. It does not imply, however, that income distribution will be absolutely equal in an Islamic economy. Individuals differ in professional knowledge and skill as well as in work efforts, and justice requires rewarding of efforts duly. Therefore, it is not an either/or question, but rather a matter of degrees; if functional income distribution is based on Islamic principles of factor pricing, the "degree" of income inequality is not expected to be very high.<sup>1</sup>

As a principle, Islam is for equity in the distribution of income and hence additional policy measures are suggested to even out whatever degree of inequality is not taken care of by functional distribution of income. This is done by provisions of transfer payments which refer to transfer of income and wealth from the relatively well-off people to the worse-off population. Besides, distributional considerations play an important role in the inter-generational transfer of assets from the deceased to the inheritors.

The philosophy underlying distribution through transfers is inherent in the Islamic belief system. That wealth in all its possible forms is created by Allah (swt) and belongs basically to Him. The right to property which accrues to man is delegated by Allah (swt) and as such He has all legal rights to guide the norms of expenditure.<sup>2</sup> Therefore, all the Shari'ah provisions of distribution through transfers and other measures will have to be implemented with a sense of religious obligation.

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Distribution through transfers may broadly be divided into several categories; (1) compulsory transfers, (2) recommended transfers, and (3) distribution through inheritance. In addition, the state has its role to play which has distributional implications.

### **4.1 COMPULSORY TRANSFERS**

Islam provides a unique mechanism of mandatory transfer of resources from the better-offs to the worse-off people of the society. There are several kinds of compulsory levies, ranging from a high rate of 10% of output to the minimum of 2.5% of wealth. The heads of expenditure of these revenues are reserved mainly for the relatively disadvantaged group of population which bring about favourable redistributional implications. These levies include Ushr, and Sadaqatul Fitr.

#### **(i) Zakah**

Zakah is a compulsory levy on the wealth of the well-off members of the Muslim community at a prescribed rate in order to provide financial assistance to mainly the destitutes and needy. It is an institutionalised transfer of resources from the rich to the lower income group through the state. It is a compulsory social security measure in which funds are contributed not by those who usually benefit from it, but by those who do not need monetary help and have ability to help others.

Islam makes it obligatory on every Muslim, who possesses for one year a Nisa<sup>3</sup> amount of wealth, to pay a certain percentage of it for the destitutes and needy.<sup>4</sup> This is called zakah. It is such an important requirement in Islam that the obligation of Salata (prayer) has mostly followed by that of zakah. And the Prophet (saw) described Zakah to be one of the five pillars of Islam.<sup>5</sup>

Every Muslim with zakatable wealth must pay Zakah and this payment should be through the state. The fact that Zakah should be collected through the state is clear from making the state responsible to collect Zakah and providing for the payment of salaries of the Zakah administrators from the Zakah proceeds.<sup>6</sup>

## **DISTRIBUTION THROUGH TRANSFER 75**

Therefore, the institution of Zakah is to be administered by the state. The Government will assess income of the individuals and collect zakah from everybody having zakatable wealth. The government or any other authority does not have any legal right to exempt even a small amount from Zakah amount. The state will apply every possible measure to collect it. On the other hand, every Muslim with Zakatable wealth will pay Zakah willingly. If anyone does not pay Zakah, he or she destroys one pillar of Islam from his or her life and if anybody disbelieves in the obligation (Fardiah) of Zakah he will be treated as a non-believer, and hence the Government of the Muslim state will have legal right rather responsibility to declare war against him. Abu Bakar Siddiq (ra), the first Caliph of Islam, declared war as the head of the Islamic state against those who tried to avoid the payment of Zdkah.<sup>7</sup>

Therefore, the spirit of Islam is that the Government will apply all possible state force to collect Zakah from the rich and then distribute it to the poor and needy. There will be a full-fledged administrative body or department at the national level consisting of such persons who are properly trained in both professional and Shari'ah fields for assessment and collection of Zakah. Zakah can be paid individually only when there is no provision for collecting Zakah through the state.

This Nisab of Zakah has not been fixed at very high level, but rather at a low level so that Zakah can be collected from as many persons of the community as possible and that a maximum possible amount of Zakah can be collected. The minimum Zakatable limit has been placed so low as 85 grams of gold or 595 grams of silver, or their equivalence in value, whichever is less.

The provisions for distributing the Zakah revenues prove its major objective to be the transfer of resources from the better offs to the worse off people of the economy. The Qur'an determines eight broad heads of expenditure of Zakah: Sadaqat (Zakah) are for the poor (Faquir) and the needy (Miskeen), and those employed to administer it and those whose hearts are made to incline (to truth) and (to free) the captives, and those in debt and in the way of Allah and for the wayfarer, an ordinance from Allah".<sup>8</sup>

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ordinance from Allah".<sup>8</sup>

The concluding words "an ordinance from Allah" implies that the word Sadaqat does not stand for optional charity, but for obligatory levy which is Zakah. These eight heads for spending Zakah revenues are determined by Allah (swt) in the Holy Qur'an and must be strictly followed during distribution of Zakah proceeds.

The first beneficiary is the Faqir', a poor person with a property below Zakatable Nisab; that is, the real poor who are in need of others' help for their livelihood whether due to physical disability, old age, and so on. This also includes persons in temporary poverty, for instance, poverty arising out of unemployment, or persons thrown out to seek refuge abroad for political or other reasons. Faqir also includes such persons who are devoted for the cause of Islam finding no time for earning living.<sup>9</sup>

In short, the term includes all the poor, unemployed, incapacitated individuals (those who cannot earn a livelihood) as well as those who are performing the duties of Islam such that they have no time to devote for earning a livelihood.

The second beneficiary is Miskeen. These are such poor people who are poor but do not express it.<sup>10</sup> The third beneficiaries of Zakah are those who are employed to administer it. This includes all officials and employees who are appointed by the state to do Zakah related jobs like assessment and collection of Zakah and disbursement of its revenues. Anybody involved in Zakah activities is eligible to receive a salary from the Zakah fund, irrespective of financial position of the employee or officer concerned.

Views differ as to how much can be spent out of Zakah fund for Zakah administration. An agreed upon principle is that the expenditure should be kept as low as possible so that Zakah fund does not lose its real purpose of helping the poor and the needy.

The fourth beneficiaries are Muallafat al-Qulub', those whose hearts are made to incline (to truth). In principle, this includes those people whose friendship and co-operation might contribute

## **DISTRIBUTION THROUGH TRANSFER 77**

in strengthening Islam. This includes those who are newly converted to Islam who might have lost their previous property and therefore need assistance and encouragement; those who are newly converted to Islam but are weak, financial help may strengthen their Iman and the sense of belonging to the Islamic Ummah; those who are very active against Islam but money may stop them, and so on. Zakah revenues can be spent for this purpose even though the people concerned are well off.

The fifth head of expenditure is to spend on 'Rikab', that is, freeing slaves. Islam suggested different effective measures to remove the curse of slavery from the humanity as a result of which slavery is absent in the present world. One of these measures is to open Zakah fund to free slaves.

The sixth beneficiary is 'Gharitn', a person who is in debt. The gharim is a person, if he repays his loans out of his own property, the remaining part of his property will be less than Zakah Nisab. Zakah may be spent on him without any reference to whether he is known as a poor or not in the society, provided he is not fallen into debt due to prohibited activities.

The seventh head of expenditure of Zakah revenues is 'Fi-sabilillah', that is, in the way of Allah (swt). Some Muslim jurists are of the opinion that this includes all that please Allah (m). According to some, Zakah fund may be spent to meet such expenditures as printing of relevant materials for the popularisation of Islamic ideals and even the lump-sum or regular allowance to the full time workers of Islamic movements. The stronger view is that "the way of Allah" means "the act of establishing the Deen of Allah (i.e. Islam)" in the world, the extreme form of which is 'Jihad' (Islamic War).

The last beneficiary is the 'Ibn al-Sabil', that is, the 'Wayfarer'. The wayfarer might be a rich man at his native home but might become a destitute elsewhere seeking help from others. Zakah fund can be utilised to help such people; and the eligibility of the poor wayfarer is quite obvious.

This is a bit long list of the beneficiaries of Zakah fund. There are broadly eight heads of expenditure of Zakah proceeds each of

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which may include several types of people needing financial assistance.<sup>11</sup> It is clear from this description that the lower income and needy people, temporary or permanent, are covered by Zakah. The amount spent on those who are in temporary need of help is not expected to be significant, rather the major part would be distributed among those who are worse off in the economy. In this way, money collected from the higher income bracket is transferred to the lower income population through the institution of Zakah with an obvious redistributive effect in the community.

### **(ii) Ushr**

The Zakah of the produce of the earth to be collected from Muslim land owners and farmers is called Ushr. It is called "Ushr" (tithe) because the usual rate of this levy is one-tenth of the produce, although the rate may vary with variations in the cost of cultivation in the form of irrigation, etc.

It is not merely a land tax but it has got the status of worship. Its obligation is ordained by Allah (swt).<sup>12</sup> It is a Shari'ah requirement to pay Ushr out of the produce of land and, accordingly, the Prophet (saw) and the Caliphs (ra) collected Ushr from those who had Ushr amount of land produce.

The produce will be subject to Ushr when the produce amounts to five wasaqs' which is about 1000 kilograms of the produce.<sup>13</sup> This Nisab is kept low so that a sizeable amount can be collected from the relatively better off people. The redistributive consideration in this case is so strong that Ushr is levied also on those are not subject to Zakah.<sup>14</sup>

The rate of Ushr is one-tenth of the produce in case of the non- irrigated land, and one-twentieth of it in case of irrigated land."<sup>15</sup>

Ushr revenues will be utilized for the provision of the financial assistance to the lower income people and the needy and for the common good of the people.

In short, the Nisab of Ushr is fixed at a lower amount so that a large number of people can be covered by Ushr levy and the rate is fixed at a high rate in order that a large amount can be collected from the better off people for the well-being of mainly

## **DISTRIBUTION THROUGH TRANSFER 79**

the lower income group. This, if practiced properly, would be an effective means of redistributing income in the economy.

### **(iii) Sadaqatul Fitr**

The wealthy Muslims are required to make a payment to the lower income population at the time of Eid al-Fitr, the Holy festival of the Muslims after one month's fasting in the month of Ramadan. This is called Sadaqatul Fitr.

Sadaqatul Fitr is obligatory on every Muslim who possesses the Nisab of Zakah. Every Muslim with zakatable nisab is required to pay this Sadaqah on his or her behalf and also on behalf of his or her child (children) including even the child (children) born on the night of the Eid al-Fitr.

According to the measure of wheat, the rate of Sadaqatul Fitr is 1.5 Sa'a per person, child or adult, male or female, which is equal to about 1.75 kilograms of wheat or its price.<sup>16</sup>

Sadaqatul Fitr is to be distributed among the lower income bracket and the needy before going to the Eid prayer so that the poor can enjoy the Eid. The distributive objective is stronger in case of the Sadaqatul Fitr since its obligation is extended beyond the person of Zakatable income to his or her children including new born babies. In this way, a part of the wealth of the rich is distributed among the lower income population of the economy.

## **4.2 RECOMMENDED TRANSFERS**

Islam recommends payments to the people of the lower income bracket over and above compulsory levies. It should be clear that these payments are not merely optional, but recommended to the extent that a person is denied to be among the Muslim Ummah if he/she eats a full belly when his/her neighbours starve, even if he/she carries out all the other Islamic obligations including formal rituals. That means, when there is a need, it should be taken care of, and even without needs, a Muslim is always encouraged to give his wealth away for the benefit of the society and in particular, for the benefit of the lower income population. There are many Qur'anic verses and traditions of the Prophet (saw) to pay over and

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above Zakah.<sup>17</sup> Therefore, every better-off person must help the worse-off people, and this payment is not out of mercy and kindness but only to pay the right of the needy.<sup>18</sup>

Ali (ra), the fourth Caliph, put it in the following words: "Allah has ordained that the rich are to pay out of their wealth to that extent which is sufficient for the needs of the poor, so that if they do not find food or clothing or struggle (unsuccessfully for their living), it would be because the rich are not doing their duty and Allah will take them to task on the Day of Judgment and will punish them."

Legally, these bestowals over and above Zakah are recommended, but a good Muslim takes it as if it is morally binding. This is a moral obligation on the wealthy members of the society to help the lower income population until and unless there is none in need of financial assistance. In this way, a provision is made to transfer resources for equitable distribution of income and wealth in an Islamic economy.

### **4.3 DISTRIBUTION OF INHERITANCE**

Inheritance is an important source of getting right to wealth in the social system of the world. But the nature of the laws of inheritance varies in different religious and culture, which leads to different patterns of distribution of the deceased's wealth. One of these laws gives the eldest son the sole right to the property of the deceased, thus depriving all other younger sons and daughters, not to speak of other relatives, near or distant. Some other system lays down the provision for distributing entire wealth among the sons only, and the daughters are excluded from this right to inheritance. These laws obviously lead to concentration of the property of the deceased among a few, adding to maldistribution of wealth in the society.

Islam presents a unique system of distributing inheritance among the kith and kin on the basis of nearness of relationship. According to the Islamic law of inheritance, all children of the deceased will get due shares prescribed by Allah (swt) without reference to the age and sex of the children. That is, the entire

## **DISTRIBUTION THROUGH TRANSFER 81**

inheritance will not be received by the eldest son. But all sons (men) get equal inheritance, and daughters (women) are not excluded from heirship, but get a share in the inheritance, whether the volume of inheritance is small or large.

A general principle of distributing inheritance in Islam is that the relatives of the deceased, irrespective of age and sex, will receive a prescribed share in inheritance on the basis of the degree of nearness.<sup>20</sup>

The shares of the sons and daughters in the parent's inheritance and that of parents in the inheritance of the deceased have been fixed in the Qur'an: "Allah enjoins you concerning your children's (inheritance), to the male (son) a portion equal to that of two females (daughters); but if there be only daughters, two or more, two-thirds of what the deceased leaves is theirs; and if there be one, for her is the half. For his parents, to each of them is the sixth share of what he leaves, if he has children; but if he has no child and (only) his parents inherit him,, for his mother is the third; but if he has brother (or sisters), to his mother is the sixth, after (payment of) a bequest, he may have bequeathed or a debt; your parents and your children, you do not know which of them is nearer to you in benefit; this is an ordinance from Allah, Allah is surely All-knowing and All-wise" <sup>21</sup>

A basic principle of the Islamic law of inheritance is that man gets two-times of what woman receives. This is justified because man has got obligation of arranging livelihood for himself, for his wife and their children; and woman has none of such obligations, even her own livelihood is provided by man (husband). A woman is not required to spend anything from her earnings or assets for the family, for herself or for her children. Therefore, it is justice to give man more than woman from inheritance.

The shares of husband and wife are fixed in the following way: "And yours is half of what your wives leave if they have no child, if they have child (children) your share is a fourth of what they leave after (payment of) any bequest they may have made or a debt. And to your wives belongs the fourth of what you leave if you have no child, but if you have a child, their share is the eighth of what you leave after (payment of) a bequest you may have made or a debt.,"<sup>22</sup>

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Child (children) of wives include that (those) from this husband as well as from other husband, and child (children) of husbands includes that (those) from this wife as well as from other wives. In all these cases, the residual will be distributed among other relatives of the deceased. But if the deceased has neither parents nor children (who is known as kalala' in the Qur'anic language) and leaves brother(s) and/or sister(s), then his/her property will be distributed in the following way: "And if a Kalala, male or female, leaves property to the inherited and he (or she) has a brother or a sister, then for each of them is the sixth; but if there are more than that, they shall be sharers in one-third (of the property) after (payment of) a bequest that may have been made or a debt, not injuring others. This is a commandment from Allah and Allah is All-knowing, most For-bearing".<sup>23</sup>

The law of distributing inheritance of the property of kalala who leaves behind step-brothers and/or step-sister is described as follows: "If a man dies (and) without leaving any child, but he has a sister, hers is half of what he leaves, and he shall be her heir if she has no child. But if there be two sisters, they shall have two-thirds of what he leaves. And if there be some brothers and sisters, then the men gets what two women get."<sup>24</sup>

Allah (swt) has determined the shares of these inheritors in the property of the deceased which will be distributed after the payment of debts of the deceased (whatever the magnitude of debt might be) and bequest to the maximum of one-third of his/her property.

Bequest is referred to in the Qur'anic verses. A person can bequeath his property, but cannot do it in favour of an heir, because the inheritors have already been given due shares in the inheritance on the basis of nearness of relation with the deceased.

Nobody is allowed to disturb it by allowing any of the heirs to get more than what is prescribed.<sup>25</sup> He, however, can make bequest in favour of a person who is not a legal heir in the inheritance. But there is again an additional restriction that he/she cannot bequeath more than one-third of the property excluding debt.<sup>26</sup> This restriction is imposed so that the deceased cannot give anybody so much which would help in concentrating the deceased's wealth among a few.

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In addition to the distribution of inheritance among the near and distant inheritors, it is recommended to distribute some of it among the poor and needy who are present during the distribution of inheritance.<sup>27</sup>

This instruction refers to the responsibility of the distributors of inheritance after the death of the deceased. Besides, Allah (swt) has directed the deceased to make bequest before death for the poor, needy, friends and for those relatives who are not legal heirs.<sup>28</sup>

Islam has given to both men and women the right to inherit property without any reference to their ages and at least eight near relatives of deceased will receive a share from the property of the deceased, if they are available. This intergenerational transfer of the wealth of the deceased is binding and equitable.

### **4.4 STATE AND INCOME DISTRIBUTION**

An Islamic state is responsible for the overall well-being of the people, both material and spiritual. The Hisbah role of the state includes ensuring supervised implementation of the tenets of Islam in all spheres of human life. The state administration is held responsible to ensure that the distribution system of income and wealth is operating in the community smoothly and its implementation is not disturbed. If necessary, the state is allowed to apply force, rather it is the duty of the state to apply force to implement the compulsory measures of the distribution of income and wealth. Accordingly, as mentioned earlier, the first Caliph of Islam Abu Bakr (ra) declared war against those who refused to pay Zakah.<sup>29</sup>

In this way, the responsibility of the state is not only to collect Zakah, but to ensure the implementation of all other measures of distribution of wealth in the economy, and to ensure that the activities which lead to concentration of wealth are not practiced such as interest based financial transactions, hoarding of necessities to create artificial crisis, gambling, bribing and other malpractices of business.

In addition, an Islamic state is made responsible for the proper distribution of the state funds, that is, the revenues of .....itul Mall<sup>30</sup>

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Besides, a state may be directly involved in some other activities with favourable redistributive effects in the society. Some of them are briefly described below.

### **(1) Imposition of Taxes**

Money collected from compulsory levies which are mentioned above is meant mainly for the lower income population and the destitute except for the proceeds of the Ushr. But the state has to spend a lot for administration, defence, education, economic and social infra-structures, so on and so forth. For this, the state must have sufficient funds for meeting these expenses. In principle, this can domestically originate mainly from two sources: (1) income received from the state-owned industries and (2) money collected from the people in the form of taxes.

Income received from the state-owned industries will vary from country to country. The more common source is the imposition of taxes. There is no objection to the imposition of taxes over and above Zakah if this is needed, and obviously this is needed for a state in the present world. The imposition of these taxes will have obvious redistributive effects, because usually more will be collected from the rich than the poor. The money thus collected will be spent for the common good of the people. There is also a strong possibility of spending relatively more on the poor and the destitutes as is encouraged in the Islamic code of life. It will thus imply a transfer of resources mainly from the rich to mainly the poor and the needy with an favourable redistributive effects in the economy.

### **(ii) Nudemalisatios of Key Industries**

Islam recognises individual skill, efficiency and efforts. If one can establish an industrial activity, Islam doer, not impose any barrier to its establishment, rather encourages it, provided it does not retard national objectives and Islamic norms. However, the state may wish to have some industries in the public sector for different reacons which include: (a) operation of public utilities on non-profit basis for common good of the people; (b) private

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individuals will not make proper utilisation of the industry or resources; (c) private ownership in some particular industries may lead to concentration of income and wealth among a few; and (d) the need for generating income in the public sector.

In such cases, the state may nationalise the ownership of such industries. There are two ways of doing so: (i) prior announcement that no individual is allowed to establish the specified industries, and that only the state can establish them; (ii) nationalisation of some existing industries from the private sector. Nationalization of such industries must be compensated.

In the first case, the question of interference in the property of others does not arise and no Islamic injunction is perhaps available to impose any restriction in doing so when the state considers it important to do so. The second type of nationalisation is also allowed in Islam when any state considers it necessary due to reasons such as mentioned above. Nationalisation at the limited scale has been practised during the period of the caliphs (ra).<sup>31</sup>

### **(iii) State Responsibility to Arrange Basic Needs**

It is a responsibility of the Islamic state to guarantee basic needs for all. "Omar, the second caliph, explaining redistributive justice in Islam, emphasised in one of his public addresses that everyone had an equal right in the wealth of the community, that none, not even he himself, enjoyed a greater right in it than anyone else, and that if he were to live longer, he would see to it that even a shepherd on Mount Sinai' received his share from this wealth".<sup>32</sup>

It is a sacred function of an Islamic state to provide necessities of life to those who are needy, poor, unemployed, handicapped, and so on. The Caliph (head of the Islamic state) will not let a poor man to be poor, a debtor to be in debt and will not do without helping the weak and the oppressed and without subjugating the oppressors and arranging dress for the clothless people.<sup>33</sup> This will have obvious implications for distribution of income and wealth in an Islamic economy.

In short, Islam recognises the right to private ownership. Man is allowed to earn as much as he can by utilising all his skill,

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efficiency and efforts without exceeding Islamic norms of earning. He is permitted to earn, but is not allowed to engage himself in any activity he likes. There are some restrictions in order to control activities that disturb smooth functioning of the mechanism of income and wealth distribution or which may affect social discipline and peace. Regarding spending, there are some measures in the positive direction of distribution which lead to an equitable and justifiable degree of distribution in a society, and some measures in the negative direction in order to prevent immorality and maldistribution. Besides, the state is responsible for ensuring implementation of these measures in both earning and spending.

The positive mechanism of distributing wealth ensures distributive justice which contributes to equity. Activities and practices which create bottlenecks in the process of equitable distribution of wealth have been declared prohibited by the Our'anic and Prophetic injunctions. Religious moral obligations have been imposed to do what is permitted and to refrain from what is prohibited. This is because each and every injunction, economic or non-economic, positive or prohibitive, has been given the status of worship in order to stimulate moral behavior in favour of the implementation of such injunctions, which is supplemented by hisbah (supervisory) role of the state. All these contribute to the achievement and maintenance of equity in the distribution of income and wealth in an Islamic economy.

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### NOTES

1 For a detailed discussion of functional distribution of income from an Islamic perspective, see the present author's "Factor Pricing and Income Distribution in Islam" (included in this book); and for a further discussion on the distribution of wealth in Islam, see the same author's "Distribution of Wealth" in K.T. Hussain et al (eds.), *Thoughts on Islamic Economics*. Dhaka: Islamic Economics Research Bureau 1980, pp. 44-93.

2 The Qur'an explicitly says: "Give to them from the property of Allah (swt) which He has bestowed upon you". (Al-Quran 24:33).

3 The minimum level of wealth, both in liquid form or in kind, for the imposition of Zakah is called "nisab." For further elaboration and details of nisab, please refer to any authentic book on Fiqh (Islamic jurisprudence).

4 The Holy Qur'an says: "Establish Salah and pay Zakah (Al-Quran 2:43).

5 He says, "Islam stands on five pillars, (1) the belief that there is no God but Allah (swt) and Mohammad (saw) is His servant and Messenger, (2) establishment of Salah, (3) payment of zakah, (4) performance of the pilgrimage (Hajj) and (5) fasting in the month of Ramadan." (Bukhari, Muslim).

6 "Collect Sadaqah (Zakah) from their wealth" (Al-Quran 9:103); "Sadaqat (Zakah) are for the poor and needy and those employed to administer it and (Al-Quran 9:60); "it is to be collected from their rich". (Bukhari, Muslim).

7 "By Allah, I will definitely fight against those who make any distinction between Salah and Zakah" (Muslim.- Kitab al-Zakah).

8 (*Al-Qur'an* 9:60).

9 The Holy Qur'an says: "Alms are for the poor who are straitened for the cause of Allah, who cannot travel in the land (for trade); the unthinking man accounts them wealthy because of their restraint." (Al-Qur'an 2:273).

10 The Prophet (saw) said: "Miskeen is he who does not have enough to suffice his needs but is not recognised as Poor so that he can be helped, and does not stand to ask for help". (Bukhari, Muslim). Opinions vary as to the definition of Faqir and Miskeen. Some say that they carry the same meaning, and some others say that these two are different. But this is immaterial for the purpose of Zakah. These include all those people who require others' help whether it might be permanent in nature or temporary.

11 An exception is those who are involved in the administration of Zakah, they receive from Zakah fund as salaries and not as needy help.

12 Allah (swt) says in the Holy Qur'an: "And on the day of harvest, pay its right" (Al-Qur'an; 6: 141); "Ye who believe, bestow alms from the choice part of what you have earned and we have made to grow for you from the ground" (Al-Quran 2:267). 13 Imam Abu Yusuf said by quoting the saying of the Prophet (saw): "It produce of the earth is less than five wasaqs, then is no Ushr on that produce." (Dar Qutni, Mishkat: Bab Ma Tajibo Fihi al-Zakah); "One wasaq is equal to 60' Sa'a of the Prophet (saw)" (Abu Yusuf, Kitabul Kharaj, Urdu translation, Maktaba-I-Cheragh-i- Rah, Karachi, 1966, p.228). One 'sa'a is equal to 3.5 kilograms (approx).

14 "Ushr is due on the produce of 'waqf lands' as well as on the lands belonging to the minors, the insane, the 'makatabs' (the slaves who have permission to trade) and the indebted person. This is based on the argument that like kharaj, Ushr is a charge on the productive land and, therefore, it strikes the produce, no matter who the owner is." (Sharnsuddin al-Sarakhsi, Al-Mabsoot: part-III, p. 4, quoted by S. A. Siddiqui, Public Finance in Islam, Muhammad Ashraf, Lahore, 1948).

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15 The Prophet (saw) said: "The land irrigated by rainfall, streams or rivers shall be charged one-tenth of the produce, and the land irrigated by well one - twentieth." (Bukhari, Mishkat: Bab Ma Tajibo Fi al-Zakah).

16 "The messenger of Allah (swt) addressed the people one or two days before the Eid-ul-Fitr and said: pay one Sa'a of wheat per two persons or one Sa'a of dates or barley per person, free or slave, minor or adult." (Bukhari, Ibn Maja)..

17 For example, the Qur'an says: "It is not righteousness that you turn your face to the East and to the West, but righteous is he who believes in Allah, the Last Day, the Angels, the Scripture, the Prophets and gives his wealth for His love to kinsfolk, to orphans, the needy, the wayfarer, to those who ask for and to set slaves free; and also observe proper worship and pay the Zakah "(Al-Qur'an 2:177). It is clear from this verse that by giving of wealth is meant a bestowal over and above Zakah, since Zakah is separately stated. The Prophet (saw) made it clearer in the following Hadith: "In your wealth there is a definite right of mankind over and above Zakah " (Tirmizi, Ibn Maja).

18 According to the Holy Qur'an: "In their wealth, there is a known right for those who ask for and those who have need for it." (Al-Qur'an 70:24-25).

19 *Mohalla, vol.vi, p. 58 (quoted by Afzalur Rahman, Economic Doctrines of Islam, vol. 11, p. 77).*

20 "For men is a share of what the parents and the near relatives leave, and for women a share of what the parents and the near relatives leave, whether it be small or large, a fixed share." (Al-Qur'an 4:7).

21 *Al-Qur'an 4:11.*

22 *Al-Qur'an 4:12.* 23 *Al-Qur'an 4:12.*

24 *Al-Qur'an 4:176.*

25 The prophet said: "Allah has definitely given inheritor his due share in inheritance. Beware! no bequest is allowed for an heir." (Ibn Maja, quoted in Hidayah, chapter on Inheritance).

26 Saad-Ibn-Abi Waqqas reported that he asked the Prophet (saw) whether he should make a bequest of his entire property. The Prophet (saw) replied, "No". He asked, "Then half of the property?" The Prophet (saw) replied "No"; He again asked "then one-third of the property?" The Prophet (saw) replied "Yes, one-third, but one-third is large enough". (Kitabul Asar: Imam Muhammad bin Hasan, quoted in Hidayah, vol. 11, p. 655).

27 "And when kinsfolk and orphans and the needy are present at the division (of the inheritance), bestow on them therefrom and speak kindly unto them." (Al-Qur'an 4:8).

28 "It is prescribed for you, when one of you approaches death, if he leaves wealth, that he bequeaths unto parents and near relatives in kindness. (This is) a duty for all those who ward off evil" (Al-Qur'an 2:180); "This injunction for making a bequest was before the revelation of the verse of inheritance quoted above. Now none is allowed to bequeath for parents; because they are made legal heirs. But the spirit of making a bequest remains unchanged for those who are not made legal heirs, for example, orphans, grandsons, public utilities, etc. If this duty of making a bequest is performed, many misunderstanding regarding the law of inheritance will automatically disappear." (Syed Abul Ala Maudfudi, Ta 'heemul Qur'an, vol. 1, Makataba-i Tameer-i-Islami, Lahore, 1967, p. 141).

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29 Abu Bakar (RA) said, "By Allah, if they refuse to pay one rope, which ties the foot of a camel, what they used to pay to the Holy Prophet as Zakah, I will declare war against them for their refusal". (Abu Daud: Kitab al-Zakah).

30 "It is the duty of the Head of the Islamic state to distribute the revenues of 'Baitul Maal' among people properly, without any waste and miserliness." (Ahkam al-Sultania, p. 32; quoted by Noor Muhammad Azami, Islami Samaj Bebootha (Social System of Islam) 1970, p. 14).

31 See Dr. Hasanuzzaman, The Economic Functions of the Early Islamic State, (Karachi: International Islamic Publishers 1981), pp. 86-93; also see Noor Muhammad Azami, Islami Nizam-i-Ma'yishat ke Chand Usul. Dhaka: Idaratul Ma'arif 1970, pp. 59-62. 32 Hykal, Al-Faruq, (Cairo: Maktabah al-Nahdah al-Misriyyah al-Kubra 1964), vol. 11, p. 233. (Quoted from M. Umer Chapra, "Islamic Welfare State and Its Role in the Economy" in Khurshid Ahmad et al (eds.), Islamic Perspectives, The Islamic Foundation, U.K., 1979, pp. 208-209).

33 Sharh Shiratul Islam: Islam Ka Nizam-i-Iqtisadiat: quoted by Alauddin Khan, Rastro o Khilafat (State and Caliphate), 1971, p. 208.