CHAPTER - II

LITERATURE REVIEW
CHAPTER-II

LITERATURE REVIEW

The study of literature review on Islamic Economics can be made under two sections. Section I deals with Studies on the early thought in Islamic Economics and Section II deals with recent appraisal (Modern Development) in Islamic Economics.

Section I

2.1 Studies on the Early Thought in Islamic Economics.

The Islamic Economics developed gradually through time since early times as an interdisciplinary subject in the writings of Qur’anic commentators, jurists, historians, and social, political and moral philosophers, a large member of scholars including Abu-Yusaf (H182, 798AD∗), Al-Masudi (H346,957AD) AlMawavdi (H450,1058AD), Ibn-Hazan (H456,1064AD), Al-Sarkashi (H482,1090AD), Al-Tusi (H485,1093AD), Al Gazali (H505-1111AD), Al-Dimashqi (H570,1175AD), Ibn-Rushd (H595,1198AD), Ibn-Taymiyyah (H728,1328AD), Ibn-al-Ukhwah (H729,1329AD), Ibn-AlAayyini (H751,1350AD), Al-Shatibi (H790,1388AD), Ibn-Khaidusi (H808,1406AD), Al-Maqrizi (H845,442AD), Al-Dawwani (H906,501AD), and Shah Waliyulla (H1176,1762AD) have made valuable contributions through an

∗ Hence forth first figure after H world men after Hijara 2nd figure for AD
evolutionary process extending over a number of countries. The process was perhaps slower than it would have been in modern times because of the reliance on the oral world and manuscripts for dissemination of knowledge over a substantial part of Muslim history. Several of the manuscripts have been lost due to the vicissitudes of time and wave of invasion, particularly by Mongols. These scholars were however not specialist in economics. The strict compartmentalization action of disciplines had not developed by them. They were accordingly masters of a number of different intellectual disciplines. Perhaps because they adopted an inter disciplines approach and did not focus their attention primarily an economic variables [M. Umer Chapra (2000)].

2.2 Phases of the Development of Economic Thought in Islam.

2.2.1 Revealed Knowledge: The Starting Point

The history of Islamic economics goes back to the Qur’ans and Sunnah. The Qur’an as the Word of God revealed to the prophet Muhammed [Peace Be Upon Him (PBUH)], and Sunnah as his practical demonstration and explanations, contain a number of economic teachings and principles applicable to various conditions. Muslim scholars accepted the economic teachings of the Qura’an and Sunnah as the basis and starting point. Then they used their own reason and applied the principles derived from the basis sources of Islam to solve the emerging problems in the changing historical and economical conditions. One can divide this process into three broad classifications:
1. First Phase, the formation period. This will cover the period just after cessation of the revelation to the end of the Companions’ era. [11-100 A. H./632-718 A.D]

2. Second Phase, the translation period, when foreign ideas were translated into Arabic and Muslim scholars got an opportunity to benefit from the intellectual and practical works of other nations [2\nd-5\textsuperscript{th}–8\textsuperscript{th}-11\textsuperscript{th} century]

3. Third Phase, the re-translation and transmission period, when Greco-Arab Islamic ideas reached Europe through translation and other contacts [6\textsuperscript{th}-9\textsuperscript{th} \textasciitilde 12\textsuperscript{th}-15\textsuperscript{th} century]

\textbf{2.2.2 First Phase: The Formation Period}

Economic ideas in written form existed long before the advent of Islam. Especially the Greek ideas are considered as the fountain spring of conventional Western economics. However, Islamic economic though, in its early formation period, was not influenced by any outside elements. The very basic sources of Islam – the Qur’an and Sunnah-contained a number of economic principles and many detailed economic teachings. There was, therefore, no need to look for an alien source. The early Islamic economic thought was based on its internal sources.

The Qur’an mostly gave principles and stressed on use of mind and application of reasoning. This led to the appearance of a chain of scholars who derived rules to solve new problems and created juristic logic applicable to a wide variety of social panels. Their methodology was to refer first to the Qur’an and

\* The companions (Sahabah), the faithful who had seen the prophet
practices of the prophet (p.b.u.h) and precedents of his companions and immediate followers, who were trained by him. Not finding anything there, they applied analogy and other inferred rules to deduce the Shariah injunctions for the new situation. Gradually, a number of schools of thought in Juristprudence emerged. They were named after their leading scholars and creative thinkers (imam or mujtahid mutlaq), most famous among them are Abu Hanifah*, Malik**, Shafi***, Ahmad bin Hanbal****.

Writings on economic topics and collection of the prophet’s traditions on financial matters started by the end of this phase and in the early period of the next phase by the students of the leading jurists (imam) and their contemporaries. But due to nature of their works, they are apt to be considered part of this phase. For example, Abu Yusaf and Muhammad al Shaybani authored Kitab al Kharaj and Kitab al Kasb respectively. Yahya b. Adam al Qurashi compiled traditions of the Prophet related to taxes and other financial obligations, while Abu Ubayed al Qasim bin sallam and later his student, Ibn Zanjawayh authored Kitab al Amwal. Ibn Abi al Dunya wrote Islah al- mal and Abu Bakr al Khallal on business and economic activities in general.

The importance of this period will be clear if we have just a look on the economic ideas that were touched by Muslim scholars in the foundation phase of Islamic economics. Following is an incomplete list of such ideas: Market and its regulation, supply and demand, price fixation, money, credit and

* The founder of Hanafi school of jurisprudence 81-150 - AD 700-767
** The founder of Maliki school of jurisprudence 94-179 - AD 716-795
*** The founder of Shafi school of jurisprudence 150-205 - AD 767-820
**** The founder of Hambali school of jurisprudence 164-241 - AD 780-855
credit instruments, interest, and commodity exchange, taxation, public finance, fiscal policy, various forms of business organizations, agricultural relations, zakah, inheritance, property, poverty and riches.

2.2.3 Second Phase the Translation Period

Master pieces, especially those embodying Greek ideas, were translated into Arabic Muslim scholars came into learn them and benefit from them. The translation activity started in the first century Hijirah itself although it took two more centuries to make its influence felt among Muslim By translation period we mean the age when foreign classical works and scholars. The first incidence of translation is reported during the Caliphate of Umar*.

By the 3rd/9th century, scholars were generally were of and conversant with the contents of the translation works and they started exposition, assessment, addition and commentary on those sciences and even production of similar works. The major areas of translation included medicine, philosophy, and economy.

2.2.4 Third Phase: The Retranslation and Transmission Period

The third phase Islamic economic thought marks the translation of Islamic sciences in general and Greco-Arab sciences’ (Muslim scholars’ additions and commentaries over Greek philosophy) in particular from Arabic to Latin and other European languages. We have reports regarding translation activities from Arabic to

* Umar bin al Khathab, the second Khalifa 33-1644

Louis Beak (1994) has classified three periods of translation from Arabic. First from the early twelfth century to the beginning of the thirteenth century ‘in which most important texts written by Arab Greek scholars were translated into Castilian Catalan and Langue d’Oc. In the second period ‘from these vernacular languages, they were rendered into latin’. The third period starts from the middle of thirteenth century – ‘returned to the double pass: Arabic – Langue d’Oc – Latin’.

2.3 The Islamic Tradition in Economic Thought.

2.3.1 Theory of Value, Market and Pricing

Muslim scholars benefited from the Greek translations, at the least the groups of mutakallium and hukama. But before they got these translations during third century Hijrah and subsequent period, they had already developed a host of economic ideas and policy concerns. The union of these two elements provided impetus to this branch of knowledge. They improved and developed Hellenic thought; they introduced new concepts as well.

2.3.2 Elements of Value Theory and Muslim Scholars

The subject of value received increasing importance ever since economics became a science. Adam Smith [1723-1790] forcefully presented labour theory of
value but “confused” with the cost of production theory of value [Roll, 1974, p.162]. Ricardo [1772-1823] tried to remove Smith’s “inconsistency” but ‘could not be free from confusion himself’ (Ibid p.178) tried to take the Smithian and Ricardian labour theory of value to its logical conclusion by presenting the theory of exploitation to invite opposition from every corner.

2.3.3 Value Based on Marginal Utility

Muslim scholars perceived valuation based on marginal utility as early as 2nd-9th century, of course without using the terminology. Ibn –Abd al Salam quotes Imam Shafi’I as saying “A poor man assigns to one dinar much greater value for himself, while a rich man may not consider hundreds of any big value due to his riches” Ibn Abd al Salam (1992). Similar opinion was also expressed by Al-Juwani (1400H.part2, p.920). Al-Shaybani (1986) recognized even the idea of ‘disutility’ as the says “……..a person eats for his own utility and there is no utility after being full stomach, rather there could be ‘disutility’. Subjective nature of utility is best described by Ibn al Jawazi (1962) who says,”the extent of pleasure from food and drink will depend on how strong is the thirst or hunger. When a thirsty or hungry person reaches to his initial condition (of satiety), after that forcing him to take more food and drink will be highly painful (of great disutility)”. Thus, it is clear that to these scholars value of an object is a subjective thing and depends on its diminishing marginal utility.
It is due to diminishing marginal utility that al-Dimashqi (1997) considers it irrational to spend ‘too much money on satisfaction of one need and ignoring the other’.

2.3.4 Cost of Production Value

Ibn Taymiyyah (1963) thinks that value is an increment obtained from both labour and capital. So it should be divided among them as an increment resulting from two factors’ From his another statement, it appears that he considers value creation due to all factors, land including water, air and raw material, labour and capital.(IbnTaymiyyah,p.120,vol29,p.103).It means, his was a cost of production theory of value.

2.3.5 Labour Theory of Value

Ibn Khaldun insists that ‘profit is the value realized from labour (1967). At another occasion he says, ‘It should be further known that the capital a person earns and acquires, if resulting from a craft, is the value realized from human labour ’(ibid.,p.314).

Although Ibn Kaldum has not used the term exchange value, it is clear that his intention is the same. Implied in his statements in provision of ‘use value’ as well since labour was desired because of the value realized from it in the form of output which men and for the supply of which labour was entirely responsible’ [Spengler
(1964)]. One may responsibly think that Ibn Khaldun took the theory of value to the point from where classical economists began their journey. Later Adam Smith borrowed much from Ibn Khaldun.

2.4 Market and Price

2.4.1 Demand, Supply and Prices

The question of administrative fixation of price arose during the lie of the Prophet (b.p.u.h) who refused to fix it [Ibn-Taymiyah, (1976)]. By prohibition of hoarding and forestalling and with his remarks”…let Allah provide them with living-some of them with other”, he approved determination of price by free play of market forces –demand and supply. Muslim scholars were aware of this mechanism. We find a chain of scholars who visualized this. Perhaps the earliest explicit statement on the role of demand and supply in determination of the price came from the leading jurist Imam Shafi’i. Al-Kasani* quotes him to have said that “the value of a commodity changes each time there is change in the price, due to increase or decrease of people’s willingness to acquire the commodity (demand) and depending whether it is available in small quantity or large quantity (supply)” (al-Kasani, n.d.Vol2, p.16)

But the earliest account of price movement as a result of good or bad harvest (read increase or decrease in the supply of agricultural product) is found in Ibn Al-

* Ala al din Aboobacker b Masood-al Kassani 587-1189 Hijira Hanafi school of jurisprudence
Muqaffa*. But his sole concern was to show its likely effect on fate of the farmers and revenue of the government collected as fixed land tax. (Essid, 1995, p. 101, the author res o ibn al Muqaffa’s work Risalah fi’l Sahabah,p. 76). A similar analysis as provided by Abu Yusuf (192H.p. 52) who was assigned by caliph Harun al Rashid (d.193/809) to give his opinion about replacing the land tax with proportional agricultural tax.

Another early expression of the role of demand and supply came from al-Jahiz*** in his work ‘al-Tabassur bi’il –Tijarah’ [the Insight in Commerce]: “Everything becomes cheaper if its amount increases except knowledge as its value is enhanced if it increases” al-Jahiz (1966). He refers to it as an Indian wisdom [ibid]. Qadi Abd al-Jabbar*(1965) enumerates some of the demand and supply functions and attributes them to the Almighty Creator as the final course, and invites to distinction between what changes we see as a result of market sources and what are seen due to manipulation of some people so that intervention may be resorted to prevent them.

However, we must mention here Ibn Khaldun who introduced many new determinants of supply and demand and their influence on prices. Among the determinants of demands he noted purchasing power of the community at various levels of civilization and development. It also depends on tastes. Accordingly, composition of goods demanded and willingness to buy changes in countryside and cities, in the beginning of a dynasty and at its advanced stage, Ibn Khaldun (1967).

** Abd Allah b. al Mubarak Ibn-al- Muqaffa 102-139H – 720-756 Arabic author of Persian origin
*** Amir b. bahr al Kinani al Basari known as al-Jahiz
Supply is effected by procurement costs such as cost of rent, wages, duties, taxes on profits, risks attached to storage [ibd.,pp.339-40,341], profit expectations [ibd.,pp.301-02,351-52,367], etc. According to Ibn Khaldum; “Moderate profits boost trade whereas very low profits discourage traders and artisans and very high profits decrease demand” [ibid, 340-01]’ Implied in this statement is the role of prices in the market and their bearing upon the economic activities. In support of his ideas, Ibn Khaldum presents evidence from different countries and so he provides a blend of applied economics, though he avoids any quantitative analysis.

2.5 Imperfections in the Market and Price Control.

Muslim scholars did not discuss pricing mechanism and market functioning an intellectual exercise or academic discourse. They did it in quest of justice for the participants of market when price would be abnormally high – to formulate a policy and suggest preventive measures or recommend intervention to strike a balance between the interest of sellers and buyers. We have already noted that the question of price control arose during the Prophets time which he rejected. And because of his refusal, many scholars opposed any price control policy and it becomes a controversial issue in the literature of Islamic jurisprudence [Islahi (1988)]. We confine our review to a few representative scholars who presented economic reasoning in their analysis.

While opposing the administrative price fixation Al-Maqdisi (1972) analyses it from an economic perspective and points out the disadvantage of this form of price
control. Price fixing will bring about a result exactly the opposite of what it intends, because ‘outside traders will not bring their good where they would be forced to sell at a price against their will and local traders who have the stock will also conceal them’. The net result will be further shortage and deterioration of the situation. ‘The needy consumers will demand the goods and having their demand unsatisfied, will bid the price up. The price will thus increase and both parties will suffer’.

According to Ibn –Taymiyyah (1976) the prophet (p.b.u.h) did not fix the price because economic factors were against it. It was not a ‘general ruling’. He showed that the prophet himself recommended ‘just price’ fixation at two other occasions.

Muslim scholars had the idea of price of the equivalent (qimat-al-mithl) or just price (qimat-al-adl). But their concept of just price was not borrowed from the Greek literature. It originate in Islamic tradition itself as the term was used by the prophet (ibid.) as well as by his two Caliphs, Umar (IbnHanbaln.dVol.5,p.327) andAli** (alRadin.dVol3, p.110,Vol5,p.342). Ibn Taymiyyah0s interpretation shows that the just price is one which is determined by the competitive market forces [Islahi, [1988]].

For administrative price fixation, al-Baji*** quotes an earlier scholar Ibn Habib who proposes a committee idea for this purpose. According to him the Imam (authority in change) should call a meeting of market representatives. Others also

---

** Ali-bin-Abithalib-Son in law of Prophet
*** Abu-I- Walid Sulayman al Baji 403-474 AD 1012-1081 a maliki school of jurisprudence
should be admitted to the meeting so that they could verify their statement. After negotiation and investigation about their sale and purchase he should persuade them to a price that can support them as well as the common people. Thus they all might agree. Price cannot be fixed without consent and agreement. The logic behind this provision is to find out, in this way, the interests of sellers and buyers and fix a price that should bring advantage and satisfy the needs and that would involve no embarrassment for the people. If a price has been imposed without the consent of the sellers, leaving them no profit, such a price would be corrupt, foodstuffs would be concealed and people’s goods would be destroyed (al-Baji, 1332 A.H., Vol5, p.19).

2.6 The Islamic Tradition in Economic Thought

2.6.1 Production

Inspired by the Qur’anic consideration that lawful, economic activities are as if seeking ‘bounty of Allah’ (cf. the Qur’an 62:10 and 73:20) and inspired by the Prophet's (p.b.u.h) saying that planting a plant is also a good deed (cf. al- Qurashi, 1987 , pp. 115-16), Muslim scholars gave high value to engagement in production activities. Al-Shaybani (1986) classified productive activities into four categories, services, agriculture, trade and industry. An 8th/ 14th century scholar Muhammad b. Abd al-Rahman al- Wasabi* (1982) divides basic sources of earning into three categories agriculture, industry, and trade. Depending upon the basic needs of living entities, al-Ghazali (n.d. [a] Vol.3,p.225) classified them into five categories: farming

* Muhammad b. Abd al-Rahman al- Wasabi 712-782 AD1312-1380
(food for people), grazing (food for animals, hunting (including exploration of mineral and forest products, wearing (textiles for clothing) and building and construction (for dwelling).

One may not find in the writing of Muslim scholars description of efficiency-oriented different laws of production, but there are production related many important ideas that are necessary for continuation and optimization of production function such as linkages in production activities, division of labour and specialization and role of human capital.

His recognition of interdependence of economic activities is shown in his statement: "the blacksmith makes the tools for farmer’s cultivations and the carpenter manufactures the tools needed by the blacksmith. The same goes for all those who engage in the production of tools and equipments, needed for production of foodstuffs (ibid). Such ideas we find with al-Dimashqi (1977) also: "Industries are interdependent on each other. The builder needs carpenter, the carpenter needs blacksmith. The iron workers need industry of mine workers who need builders."

2.6.2 Cooperation and Division of Labour


It is found that find several passages in Muqaddimah of Ibn Khaldun [(1964), Vol.1, pp. 89-91; Vol. II, pp. 271-274, 301-02, 336-41)] in which important of cooperation as well as advantage of division of labour has been discussed.

2.6.3 Economics of Distribution.

Distribution is one of the two main economic problems of human kind, the other being production. There have been differences of opinion among the economists about which one is most fundamental. Again, distribution is of two kinds: Functional that takes place as a result of production process; it may be called initial distribution, and personal distribution which means redistribution. In Islamic system, the letter is much emphasized and a detailed scheme is found in its basic sources. Muslim scholars have also discussed them elaborately. Elsewhere we have given an account of it [(Islahi (1995), pp. 19-35)]. In the mainstream economics, analysis of functional distribution has been given more importance. We shall therefore confine our discussion to Muslim scholar’s perception of functional distribution.
2.6.4 Profit

It may be noted that Muslim scholars excluded interests (a rate charged on capital lent against the time given for use) from the list of rewards for factors. Capital has to come in terms with entrepreneur as equity participant and share in loss and profit of the enterprise. Thus, one will never find in Islamic tradition a discussion on interest determination.

As far rewards of other factors are concerned, they leave them to be determined by market forces and their discussions also come along with the price. However, they always emphasize observation on fair practices and due consideration for weak players. By doing this one must keep in mind that enormous amount of ‘profit’ one would gain in the ‘market of the Hereafter’ (al-Ghazali, n.d. [a], Vol 2, pp. 75,76,84), meaning by it ones salvation.

There seems to be awareness among Muslim scholars of ‘abnormal profit’ when it is said that “since profit represents an extra worth”, it should be sought from that types of goods which are not necessary for people. (ibid., p. 73). According to al-Ghazali, ‘given the sellers’ benevolence as well as the norms of trading practices and market condition, the profit rate should be around 5 to 10 percent of the price of the goods:. One who is content with a small profit has many transactions and earns a lot of profit by large volume of sales and thus he is favored (ibid., p. 80).
2.6.5 Wages

In Islamic system labour has been considered as a service carrying a market price and therefore in normal condition it will be left to the free play of market forces to determine the wage. Although the question of paying just and fair wages has been frequently discussed in the Islamic thought, Ibn Thaymiyyah has rather detailed reflection on wages, so for our purpose it suffice to present his ideas. He uses terms like ‘pricing in labour market’ (tas ‘ir fil-a ‘mal), ‘wage of the equivalant’ (ujrat al-mithl) analogous to ‘pricing in goods market’ (tas ‘ ir fi’l-amwal) and’ price of the equivalent’ (thaman al-mithl ,) (Ibn thaymiyyah, 1976,p.34). To avoid any dispute wages like prices should be fully defined.

Ibn Khaldun has also something to say about wages. While giving the substance of his thought, Spengler says: “what increases the money cost of the worker’s or merchant’s standard of life is or may be reflected in his supply price”. (Spengler (1964), p.298). At this he comments that ‘Ibn Khaldun’s’ statements suggest, however, that it is usually demand rather than supply that fixes the price of the labour which, though it ought at least to furnish the ‘necessities of life’, often fails to do so in villages and hamlets where demand for labour is negligible.

2.6.6 Rent

Muslim scholars talked more about rental that rent and mostly of juridical nature. Their statement about economic rent is rare and is not clear. Ibn Khaldun
(1967) reached very near to Ricardo in his example how real estate forms an ‘unearned income’ for his owner but could not strike it to point the element of rent, ‘their value (i.e. real estate’s ‘and farms’) increases, and they assume an importance they did not have before. This is the meaning of “fluctuation in (the real estate market)”. The owner of (real estate) now turns out to be one of the wealthiest men in the city. That is not the result of his own effort and business activity,’ (Ibn Khaldun (1967), Vol.2, p.284.)

2.7 Contribution of Muslim Scholars from Part of the Family-Tree of Economics.

Some textbooks give family tree of Economics and its development in diagrammatic form (Figure No.2.1). It will be interesting to study such family trees and trace the part occupied by the economic thought of Muslim scholars.

The below mentioned family tree of Islamic Economic thought depicts its rise from beginning up to its modern development. The present treatise provides an explanation up to 1500 A.D. Period after that largely remained unexplored. The modern development of Islamic economics came as a response to the challenge posed by the materialistic system of both Capitalism and Marxism.

For the sake of convenience we choose the work Ingrid Rima (1991) and Blanch Field (1975) in his work in Evolution of economic thought-3rd edition p.p 94-95.
Contributions of Muslim scholars come after Greek in the family tree of economics. They were the main cause, not only, of the birth of scholastic economic ideas but for the rise of mercantilism. Scholastic ideas stand nowhere in quantity, quality and originality as compared to Islamic tradition in economic thought. About St. Thomas Aquinas who is considered the most outstanding scholastic scholar, Copleston, a historian of medieval philosophy observes: “The fact that Aquinas derived ideas and stimulus from a variety of sources tend to suggest both that he was an eclectic and that he was licking in originality. For when we consider this or that doctrine or theory, it is very often possible to make claims such as, ‘this comes straight from Aristotle’, ‘that has already been said by Avicenna and al-gazali’ or that is obviously a development of an argument used by Maimonides’. In other words, the more we know about Aristotle and about Islamic and Jewish philosophy, as also of course about previous Christian thought, the more we may be inclined to wonder what, if anything is peculiar to Aquinas himself.” (Copleston, 1972, p.181, quoted by Mirakhor (1987), p. 249)

2.7.1 Place of Muslim scholars in the family tree of mainstream economics

The fact that scholastic scholars could get Greek ideas through the medium of Muslim scholars and based their ideas on Greek philosophy and its commentary presented by Muslim philosophers, and the fact that mercantilism came as a result of Muslim influence, the contributions of Muslim scholars deserve a place in development of mainstream economics. And they must be rehabilitated for the sake of doctrinal continuity and objectivity, academic honesty and justice. A correct family tree of economics will be given in the figure no.2.2.
Fig No. 2.1
Development Chart of Islamic Economics

Source: Ingrid Rima (1991)"Development of Economic analysis
However the idea of family tree may not be acceptable to many readers because the word family denotes that there should be essential harmony and resemblance between successors and predecessors. In economics generally it has not been the case. There is least similarity between scholastic and mercantilism. Adam Smith attacked both mercantilism and physiocracy.

A better presentation will to be the development economics tracing various influences that worked behind it. This is especially important in case of Islamic economics because the other systems emerged with the new one or vanished altogether, but Islamic economic though, inspite of influencing the Medieval West, maintained its identity. It went in eclipse for a long period but never died. That is the reason it has re-emerged with full strength. Perhaps this is the right time for its re-emergence, as the conventional materialistic self seeking economics could not satisfy the aspirations and the urges of humanity. See the flow chart1:3 which show interaction and influence of Islamic economics from the beginning up to the modern period.
Figure No. 2.2

Place of Muslim Scholars in the Family Tree of Mainstream Economics

Greek Ideas

Muslim Contribution

Scholastics

Mercantilism

Physiocracy

Adam Smith or Classical Economics

(Source: Grice Hutchinson (1978) Early Economic thought in Spain)
Interaction and Influence of Islamic Economics from Beginning up to the Modern Period

Source: Lowry (1987) "Pre Classical Economic Thought" Lowry (p.p 77-144)
Analysing the place of Muslim Economics Scholars in the Family Tree of Mainstream Economics Marakhar (1987), ‘To say that the crusaders epitomized this negative attitude is an understatement ‘. Without naming the quotes a scholar who suggests that in denigrating Islam and Muslims, Medieval Europe found a way to form a new image to it. ‘Because Europe was reacting against Islam, it belittled the influence of the Saracens and exaggerated its dependence on its Greek and Roman heritage’ (ibid., pp. 262-63). In the fourteenth century a large number of European scholars studied translation of Arabic books and prepared their own volumes and summary in which they not only dropped the names of Muslim authors, but ascribed the whole thing to those Greek scholars who where occasionally referred in those works (Sezgin,p.127).

Section II

2.8 Recent Appraisal (Modern Development in Islamic Economics).

Modern development in Islamic Economics began during the second quarter of the 20th century. Writings on contribution of Muslim scholars of the past were part of this development. Perhaps the first article to introduce Economic Thought of Muslim Scholars was written by Salih (1933) in Arabic entitled ‘Arabic Economic Thought in the Fifteenth Century’ in which he discussed economic ideas of Ibn-Kaldun, al-Maqrsi, al-Dulaji. Next al-Hashimi (1937) published his paper on “Economic views of al-Biruni again in Arabic. The same year Rifat (1937) wrote Ibn
–Khaldun views on Economic in Urdu. In the first half of the 20th century most of works on economic thought in Islam were written in Urdu Arabic and English.

This survey covers three principle languages in which the bulk of the literature on our subject has appeared in the last half century-Arabic, Urdu and English. Some contributions were made in the Persian, Turkish, French and Indonesian languages. Multiplicity of languages coupled with deficient communications has also affected the growth of thinking on the subject. No efficient translation and abstraction services have been available.

This survey covers the book as well as the periodical literature. In the circumstances it is not possible to claim that one knows about each and every contribution to the subject. This is especially true of the papers contributed to the numerous popular journals in the three languages. Yet I do hope that I have not missed many of them, as a glance of the bibliography will show.

2.8.1 Economic Philosophy of Islam

The key to economic philosophy of Islam lies in man’s relationship with god, his universe His people. With every human being sharing the same relationship with God and his universe, a definite relationship between man and man is also prescribed. This is a relationship of brotherhood and equality. “Tawhid is a coin with two faces: one implies that Allah is the creator and the other that men are equal partners or that each man brother to another man” (7:35).
While the writers on the subject agree on this basic philosophy, one finds variety of emphasis in their elaboration of the last-mentioned point: the relation between man and man in sharing the boundaries of Allah. It is just agreed that for the test life is to be conducted in fair circumstances and no one should go without an adequate share of resources that are needed for survival and a good life. Equality of opportunity and social care of the disabled is the minimum that this calls for. They differ, however, regarding the mode of equal or equitable sharing of these resources by individuals, and the degree of social control is necessary- a subject we take up later on.

It is also agreed that Islam rejects asceticism and a good life means, among other things, a materially well provisioned life. Basing his argument on two clear verses of the Qur’an another writer declares that sufficiency (Kifayah) and piece (amn) are two inalienable features of the good life envisaged by Allah (77,1:6-9), a point that finds the widest support in the literature on the subject (73:24).

2.8.2 Economic Enterprises

The above philosophy provides the proper perspective to man’s economic activities. No inhibitions attach to economic enterprise. Men are encouraged to avail themselves of the vast opportunities of productive enterprise afforded by the almost limitless bounties of Allah: “And if ye would count the bounty of Allah ye cannot reckon it.”
Every writer on the subject cites verses from the Qur’an and traditions from the Prophet to show that agriculture, trade, commerce and industry and the various forms of productive enterprise known in the early days of Islam have been explicitly mentioned in this context. What is curtailed, however, is the motivation, the ends of economic activity.

Many writers discuss the proper ends of economic enterprise in detail. These ends may be individual or social. Legitimate individual ends include the fulfillment of personal needs and those of the family. Saving to provide for the future and the desire to leave an inheritance are also recognized as proper ends of productive effort. The minimum necessary for survival is in fact a duty to earn. While no maxima are fixed in quantitative terms, moderation in fulfillment of these needs is emphasized.

Recent writings on economic enterprise attach great importance to the social ends, which are summed up by the phrase “striving in the cause of Allah (Oneness of God)”. Eradication of hunger and poverty, diseases and literacy and mobilization of resources for strengthening the country and spreading the message of Allah are stated to be the laudable aims of individual economic activities.

2.8.3 Ownership

The nature and scope of ownership has been one of the most discussed subjects in the literature of Islamic Economics, works exclusively devoted to the subject being available in a number of languages.
Real ownership belongs to Allah, man holds property in trust for which he is accountable to Him, in accordance with rules clearly laid down in the Shari’ah and the economic philosophy underlined above. Acquisition of property as well as its uses and disposal are subject to limits set and should be guided by norms laid down by Allah. Absolute ownership of man is a concept alien to Islam, as it belongs to Allah alone. There are definite obligation towards others attending upon the individual rights of ownership. Besides private property, public ownership is a central concept in Islam. The respective scopes of the two are not rigidly defined but left to be determined in the light of certain principles, depending on the needs and circumstances [Ali Abd al Rasul (1976)] Quran (3:8; 62: 111-119, 160-162; 70:80; 134; 158: 41-90; 171 : 150).

Abdul Hamid Abu Sulaiman (1960) recognizes the individual’s right to own the fruits of his labour, but so far as the natural resources, natural powers and general circumstances of the society are concerned every individual has an equal share in them.

The rationale of allowing in-equality in the private ownership of means of production is stated by him in these words:

“A strict equality in the ownership of natural resources would require very frequent redistribution of those resources among members of society. This would be disruptive to economic activity and social relations. A reasonable alternative is, first,
to avoid frequent re-distribution and permit private ownership of resources, thus achieving stability; and second, to redistribute equality among members of society that part of income which is due to natural resources, thus achieving equality and justice”. Equal sharing of the “income from natural resources” is basic to Abu Sulaiman’s understanding of riba and his views on land rent, share cropping and profit-sharing.

Baqr alSadir (1968) is also critical of the view that in Islam individual ownership is the rule and public ownership the exception. He regards individual ownership, state ownership and communal ownership as three forms existing parallel to one another in Islamic Law (171:257).

The early writings of Mawdudi (1969) lean heavily towards assigning the central place to individual ownership (51:32). His later views are nearer to the middle position that admits social control whenever social interest calls for it. But he would still like to keep state intervention at the minimum (51: 116). Far from the position taken by Abu Sulaiman, his views on specific issues like land reforms are shaped by this approach, for which he finds support in the fiqh literature. A similar position is taken by the martyr Sayyid Qutb (1967) who declares the right of individual ownership basic to the Islamic system.

Notwithstanding individual’s stances, some of the powerful collective movement for Islamic reorientation of modern life have tended towards the approach closer to the “economic philosophy of Islam”.

52
2.8.4 Relations of Production: Co-operation

Economic relations, especially those in production and exchange of wealth, should be co-operative in nature. “Rivalry and cut-throat competition make no sense in this context” (73:27). Co-operation is seen as the basic value in Islam’s economic philosophy al-Tahavi Ibrahim (1974). Ali Abd al- Rasul calls, in this context, for “constructive competition” aiming at what is best for the society and high quality production, while avoiding all activities injuries to other producers and the consumers.

Mohammed Najathullah Siddiqi (1972) pointed out that the Islamic view of co-operation does not rule out free and fair competition in the market, provided all economic agents adhere to Islamic morality. Competition is emphasized in contrast to monopoly whose elimination is regarded as a prerequisite to ensuring justice and growth.

2.8.5 Development and Growth

According to Najjah Ahamad (1972) economic development has become a necessary condition to be fulfilled to enable the Muslim peoples to perform their mission with the humanity what the Qur’an declares to be their raison d’ entre. This mission is related to the well being of all human beings. It cannot be performed while Muslim countries continue to be politically and economically subservient to the powers which stand for alien cultures.

According to Muzzafa Hussain (1974) as to the Islamic strategy for economic development its chief distinguishing feature is that social justice and growth go together (177: 593). This is ensured by the motivation that Islam provides for economic development (56:45). Individual profit motive is not the chief propelling force in Islam. Development efforts are mainly social and the individuals willingly co-operate in this venture (475: 43, 96- 113).

2.9 Economic System of Islam

While economic philosophy states the overall approach, the economic system comprises ways and means of securing human welfare in general and economic welfare in particular. Economic literature on the subject discusses “alternative methods of determining the bill of goods to be produced, the allocation of resources to produce it, and the distribution of the resulting income”. Emphasis in Islamic literature on the subject has been somewhat different. The ends of economic system are discussed, followed by a discussion of those behaviour
patterns on the part of economic agents which are expected to go a long way in securing these ends.

2.9.1 Comparative Study

In comparative studies we see that Islamic Economic methodology uses a framework derived from divine texts. No individual or group of individuals can make it irrelevant. This approach is quite distinct from that of the mainstream economics were the fundamental paradigm is subject to criticism and can undergo change (AJISS Herndon VA (2:1)-THE Islamic economics the beginning of scientific revolution 1985). Secondly Islamic Economics primarily follows the indicative method. In the mainstream economics the deductive method is more common as the acceptations of the economists need not always be realistic. Generally, a combination of inductive and deductive method with emphasize on the former is used in Islamic Economics. Thirdly Islamic Economics builds ethical values such as justice benevolence moderation, sacrifice etc., into analysis as behavioural parameters. In the mainstream economics certain value judgments is a lengthy one (Mohammed Akram Khan 1999 an introduction to Islamic Economics Page 70.).

2.9.2 Goals of the System

Economic well-being is one of the goals emphasized from economic systems by every writer in Islamic economics, though each one of them proceeds to mention
a number of other, non-economic, goals too. We shall first consider the contents of this goal, according to various writers; before we pass on to examine their views on non-economic goals.

When one referred to Tahawi, twin goals of sufficiency and peace which can come about by eradicating hunger and fear from society and ensuring the fulfillment of the basic needs of each and every human being. His list of basic needs includes food, clothing and shelter; medical aid for the sick and from domestic services for the invalid, education for those who need it, marriage in some cases and “all that is regarded necessary according to the custom of the society “ (77, 1: 394). This is a point that finds universal support in the literature and the list of the basic needs given by Mawdudi (ibid), Sayyid Qutb (ibid), and Siddiqi (ibid) does not differ materially from the above.

Baqir al Sadr (ibid) emphasizes provision of ease and convenience in life, consequent upon growth and development and maximum utilization of natural resources (171: 595). Kahf (1973) makes “maximization of the rate of utilization of the resources “the first goal of economic policy in Islam (612:93).

Chapra’s (1970) list gives priority to “economic well being “followed by universal brotherhood and justice, equitable distribution of income and freedom of the individual within the context of social welfare. Siddiqi discusses the rationale of including these non-economic goals in the ends of economic system and points out
the impact their inclusion has on the ways and means adopted for achievement of the ends of economic system in Islam (73:28).

2.9.3 The Owner

Behavioral norms for the owner have been discussed by a number of writers including Hifzur Rahman (1942) (20:68-77, 299-302), Mawdudi (51:81-96), Sayyid Qutb (62:111-112), Siddiqi (221, 1: 205-288), Manna’ Qattan (1976) and A. Mannan (1976) (132:77-85). The owner has no right to destroy useful property. Wasteful use and extravagance is prohibited. He has to avoid using it in a manner injurious to others or detrimental to public interest. Other individuals and the society have a claim on the owner’s property. This includes the obligation to support dependence in the nuclear family and other members of the extended family when they are in need. Ibrahim, Ahmad Ibrahim (1971) (336; 221, 1:252-259).

Besides obligatory Zakat the owner owes help to those in dire need, and should not refuse a loan in cash or kind when a request comes from one who is in real need. Several writers stress the significance of the provision that the presence of a pressing need obliges those with a surplus to surrender such part of their surplus as will fulfill that need (77, 11:214; 221, 1:272-280).

Abu Sulaiman (ibid) explains the illegitimacy of interest charged by the owner, and the relevance of profit-loss-sharing system while using capital. He further argues that money rent for land and building is legitimate but should be according to
its quality or productivity. He cited the examples from prophets (B.P.U.H) traditions both allowing and prohibiting money rent on land.

Abu Sulaiman allows profit sharing but “the share of the capital owner is only to compensate him for probable loss (8:59). He is not entitled to a net pure profit. Other writers on the subject endorse the unanimous verdict of all the four principle schools of Islamic law that the two parties to the mudarbah contract are free to agree on any formula of sharing the profits provided these shares are fixed percentage-wise and not in the form of given amounts (176:30). Abu Sulaiman’s opinion is derived from his basic stand relating to the equal sharing of gifts of God (other than the fruits of personal ingenuity and labour). But he fails to counter the obvious argument than an entrepreneurial decision is involved in selecting the right party in mudarbah (221,1: 167-171). He does not support his view by any precedents from the sunnah and gives no argument against the unanimous verdict of fiqh. Contemporary writers on Islamic banking, who make mudarbah the basics of its operations, do not stipulate any ceilings on the percentage share of capital in profits.

Nasir A. Sheikh (1967) (154:181) and A.Mannan (ibid) oppose both land rent and share cropping. S.M Yusuf (1957) discerns “in early Islam a definite tendency to ordain the future development of agriculture in such a way that there is no charge for the use of what Ricardo in his own definition of rent called original and indestructible powers of land”. Quoting Iqbal’s Bal e Jibril he ascribes the same view to him (242:34) (1957).
2.9.4 The Consumer

The list of articles whose consumption in Islam is well known and non-controversial. There is no limit to what one might consume to lead a good life, so increasing efficiency and playing the role Islam envisages for a true Muslim in the service of society.

Baqir al Sadr suggests that resources should not be allowed to be diverted to the production of luxuries until the production of necessaries is ensured in sufficient quantities (ibid). The consumer must abstain from extravagance defined as expenditure in excess of what is necessary to fulfill a need. Extravagance is related to the average standards of consumption obtaining in a society, the idea being that big departures from these standards should not be permissible. Several writers have discussed the concept of extravagance, including Naiem Siddiqi (1960).

2.9.5 The Entrepreneur: Producer and Trader

The code of conduct for an entrepreneur under Islamic Ecosystem has been by Mawdudi (51:83-89) Siddiqi (619:35-64), Chapra (115:27-33) Ali Abdur Rasul and Kahf (1969) (612:15-20), among others. Dishonesty, fraud and deception, coercive practices, and gamble some or usurious dealing are prohibited. He should not do anything injuries to others. These rules out hoarding, speculation and collusion among producers and traders against the interests of the consumers.
Monopoly is also regarded as injurious to the interests of society. He is charged with justice and truthfulness in all his dealings. On the positive side he should serve the interests of the society. Social good should guide him in his decisions, besides his own profit.

In Islamic economics the allocation of resources is optimum if it is first in conformity with the norms of Islam and then in accordance with consumers’ preferences. In a truly Islamic society there is no likelihood of any divergence between the two (ibid). The meaning of the second sentence is not entirely clear. Does it mean that if all economic agents behave in accordance with the Islamic code of conduct and the distribution of income and wealth is according to the Islamic ideals, the functioning of the market system would result in optimum allocation of resource, in the Islamic sense? An affirmative answer raises questions relating to knowledge, wisdom, power and organization which have not been discussed so far. Kahfs discussion on the market structure (612: 29-45) focuses its attention on co-operation and emphasizes the role of the government in the market.

Baqir al-Sadr regards work to be the chief basics of distribution. But this result in one class of people earning more than they need and another class earning less than they need. This solution has to be modified by transferring some income from the former class to the latter. Property, which is based in Islam primarily on work, becomes a secondary basis for distribution next to work and need. Thahawi also endorses the same theory. Commenting on distribution, Abu Sulaiman puts great reliance on properly functioning markets.
2.9.6 Role of the State

Baqir al Sadr has discussed the role of the state in Islam’s economic system at some length. Besides enforcing the relevant laws the state guarantees social security, ensuring fulfillment of needs to each individual, and maintain a balance in the standards of living in the society. The states direct responsibility as regards social security is based on the general claim of the entire society on natural resources, and on the fact that those individuals of the society who do not have the capacity to work also have this claim.

In this decision on the role of the state in the economy Muhammad al Mubarak (1972) declares the state to be one of the three pillars of the Islamic economic system, along with faith and commitment to moral values and certain principles of organization. Its function is to establish justice and ensure fulfillment of needs by organizing the public utilities and the social security system.

In his doctrinal dissertation on the “Political Economy of the Islamic State”, Awsaf Ali (1970) concludes that the social philosophy of Islam envisions an economic society based on a wide–ranging state directions of, and participation in, the economic, commercial and financial spheres.

Fazlur Rahman (27:5) says that “in the basic interest of socio economic justice, the state shall interfere with private wealth to the extent that socio-economic
justice demands”. Chapra also regards an active economic role by the state to be an inalienable feature of the Islamic economic system (115:41-42); providing physical and social overhead capital and arranging social security are listed among the necessary functions of a modern Islamic state (115:40)

Among close associates of Mawdudi, Naiem Siddiqi (1958) has also spelled out many positive actions by the state which are called for in the circumstances prevailing in some of the Muslim countries. A very active role for the state is envisaged in the report of the economic committee of Jama at –i- Islami Pakistan, written by Khurshid Ahmad and Naiem Siddiq (1970).

2.10 Economic Systems of Islam: Some Specific Aspects

2.10.1 Public Finance

A vast variety literature is available on public finance in Islam in view of the explicit provisions in the Shari ah in this regard and the historical material available on the subject. Besides Aghnides Mohammed Theories of Finance a number of specialized works are available, though mostly historical and descriptive in nature.

This is also true of the chapters on public finance in almost every work on the economic system of Islam. Our interest lies in the way the operation of Islamic institutions like Zakat and the application of general principles of policy derived from public finance in early Islamic history are visualized in modern circumstances.
The center piece of Islamic public Finance being zakat, its coverage, rates, beneficiaries and administration have been discussed in detail. The most comprehensive work in Qardawi Fiqh al Zakat (1949) (313). In English “The Law and Philosophy of Zakat “is less original yet comprehensive on points of law (319). Among economists A. Mannans book (132) has a good chapter on Public Finance and Fiscal Policy, and some of the younger economists have offered analytical pieces on the subject (623:624:615).

(a) Coverage

It is generally agreed that the coverage of Zakat has to be extended to forms of wealth not known in the early days of Islam. Shares and securities, savings in the form of insurance premia and provident funds, rented buildings and vehicles on hire machinery and other capital goods. Qardawi (313,I: 139, 466-486, 581-573), Abu Zahra (1965) (300:181-186) and Mawdudi (51:339-342, 351-363) discuss the application of Zakat to these assets and the rates applicable to them.

Many issues continue to be controversial, one of them being the Zakat on machinery and capital goods. Mawdudi regards only the marketable producer of industrial units to be subject to 2.5 per cent annual tax, like all other merchandise (51:339) exempting capital goods and machinery installed in these units from Zakat.
According to Khan Mohammed Atran (1971) the arguments in favour of valuation of the nasab, i.e the exemption limits prescribed by the Shari ah are, however, more formidable.

(b) Disbursement of Zakat Revenue

Among other issues on which there is a difference of opinion is the way Zakat benefits should flow to the various groups of the beneficiaries listed in the Qu’an. Some ulema insist on direct transfer payments to the beneficiaries. As a transfer payment Zakat has direct impact on Marginal Propensity to Consume (M.P.C) leading to increase in investment and capital formation.

2.10.2 Inheritances

The Islamic laws of inheritance are invariably mentioned by various writers along with Zakat in view of their redistributive function, and their role in removing concentrations of wealth is highlighted by almost every writer. Whereas Zakat redistribution wealth in the present generation, the Islamic laws of inheritance do so between the outgoing generation and the present one, so that the wealth accumulated at one point, despite Zakat, is further dispersed.
2.10.3 Social Security and Insurance

Social security is generally discussed in the context of Zakat. Historical material on how the early Islamic State arranged social security is presented by almost every writer on the subject. It is affirmed that new institutional arrangements can always be devised and the various institutions in modern welfare states are referred to approvingly. The principles involved have been discussed, among others, by Baqir al Sadr (171:615-623). The subject has also been discussed at the International Islamic Conference at Cario, Kuala Lumpur and other places and practical suggestions mooted (1965) (300:405)

2.11 Insurance

Insurance continue to be one of the most controversial subjects in the literature. Opinion is sharply divided both on the principle of insurance and the forms of its organization.

Several writers see nothing wrong in insurance, in so far as the basic principles underlying insurance are concerned. It is present practice, and the ignorance (jahl) and uncertainly (gharar) involved are not of a degree large enough to call for its prohibition. These writers include Zarqa (1976) (380), Yousuf Moosa (1954) (256:101,181), Ali Khafeef (1965) (361), Mohammad al Bahy (351), Sanous (373), Roohani (372), Tahawi (77, I.441-470), Taqi Amini (556: 231-232), Sheik
Some writers agree with this view so far as general insurance is concerned, but they find life insurance unacceptable as it involves gambling and uncertainty and militates against the Islamic conception of taqdir. Abu Zuhra (376; 365), Ahmad Ibrahim (1971) (357) take this stand.

The most important issue in the controversy is whether insurance involves gambling. Those who insist that it does quote the relevant definitions given by early jurists. But several writers including Zarqa (380), Ali al Khafeef (361), have pointed out the difference between insurance and gambling. Siddiqi has shown the difference between the risk taken by the gambler, which he creates for himself, and those involved in the ordinary business of life that the insurers try to meet, utilizing the law of large numbers, at a cost (374)

Most writers make a plea for a comprehensive system comprising Zakat-based social security and insurance administered by the state. Mutual insurance should be allowed in matters not covered by the state system. As regards commercial insurance it may be allowed to function in certain areas where great importance is attached to innovation and initiative (374)

As ably argued by Fanjari (1976) in a recent paper, there are separate roles for Zakat based social security and insurance organized on the basics of contributions
made by the on dividuals involved (pp. 7-8). This point is increasingly being appreciated and one tends to agree with Fanjari that the area of consensus is widening and that of controversy shrinking in respect of commercial insurance also.

2.12 Money and Banking

Baqir al Sadr (1968) has paid special attention to money and its role. Baqir and Saud conclude that the use of money as a store of value is a source of many troubles. While Baqir regards Zakat, which frustrates the desire to earn guaranteed profits by using such money, as a sufficient remedies for the troubles in the Islamic System.

Of special interest in the context of money in an Islamic economy is the contribution of Mabid al Jarhi (1976) who pleads for the creation of a “fiat means of exchange” by the state and their supply free of cost (i.e. interest) to the public. This method, adopted along with abolition of interest will raise real income.

Akram has discussed money in the international context. An “Islamic solution” to the present international monetary crisis lies in prohibiting interest, speculation, hoarding of gold and suspension of the foreign exchange market, the central banks becoming the only dealers of foreign exchange.
2.13 Banking

The Islamic evaluation of modern banking centered around the evils of the institution of interest. Very soon it developed into an exploration which bears great promise of giving modern man a new and just institution, of banking without interest.

2.13.1 Banking without Interest

The earliest references to the reorganization of banking on the basis of profit sharing rather than interest are found in Qureshi (1958), Naiem Siddiqi (419) and Mahmud Ahmad (168) in the late forties. Though a small booklet of 21 pages, Muhammad Uzair’s (1955) “An Outline of interest less Banking” has the distinction of being the first published work exclusively devoted to the subject by a professional economist (422). It contains the core of all the future proposals on the subject basing depositor-banker and banker-businessmen relations on mudarabah, which is defined correctly.

Ahmad Irshad’s work (400) is also devoted exclusively to the subject and contains useful suggestions on the creation of reserve funds to absorb losses. It discusses Industrial Development banks, Building Corporation and consumption loans.

Abdul Hadi Ghanameh’s (1968) paper on the subject (392) takes a line different from the one along which further thinking on the subject has developed. He
relies on issue of common stock for long–term financing and the use of mutual funds for short term financing.

A mature and comprehensive model of interest-free banking has resulted from works appearing in the late sixties by the late Dr. Abdullah al Araby (1967) (384), Siddiqi (417), Baqil al Sadr(387) and Najjar(411). Followed by the Egyptian study in 1972 and the deliberation at the Karachi Conference of the Finance Ministers of the Islamic Countries in 1970, they lead to the adoption of the charter of the Islamic Development Bank in 1974, which is the first major institution of its kind in history. In between we have the “Kuwaiti Investment House” project (405) and some periodical literature contributed by Shalbi51 (415), Mannan (407), Muhammad Uzair (420; 421) and Ibrahim Dasuqi Abaza (1972) (381).

More contributions have been made during the early seventies, including fairly comprehensive studies by Gharib al Gammal (1972) (391) and Mustafa Abdullah al Hamshari (1955) (396) besides the papers presented at the Makka Conference on Islamic Economics.

Siddiqi is mainly concerned with the economics of the juristic issues in a separate work (249). He has full length discussion on the creation and control of credit, consumer finance and finance for the government and, provision of short-term interest-free loans to business. He introduces certain financial papers to replace bonds and securities. His main contribution lies in a number of novel suggestions relating to central banking.
Siddiqi suggests the use of “shares” issued by the government for financing public sector enterprises as a means of open market operations by the central banks (417:123-129). Loan Certificates of various denominations and different maturites, to be issued by the government, are suggested as a means of providing short term finance for it.

The Egyptian study on the Establishment of the Islamic Banking System envisages a Zakat Fund and a “local and public Islamic fund” besides organizing the normal banking functions on the basis of mudarabah of. Uzair thinks the annual rate of return in an enterprise can be applied for calculating the returns on advances made for a period of one to three months. Alternatively we can try to determine the specific rate of return on the funds advanced. But it may not be possible to do so in many cases for short time loans for less than a month, Uzair suggests “service charges” on a per transaction basis. The problem of bad debts is solved by means of Co-operative Insurance to which “borrowers contribute a certain sum of money to cover the possible risk.

Local banks may carry out direct investments besides advancing capital on basis of mudarabah. The Egyptian study also spells out the salient features of central banking and international banking.
2.13.2 The Islamic Development Bank

The purpose of the bank which was established in Jiddah is

1. To foster economic development and social progress of member countries and Muslim Communities individually as well as jointly in accordance with the principles of the Shari’ah (389: Article 1).
2. It will participate in equity capital of productive projects and enterprises in member countries
3. Invest in economic and social infrastructure in member countries.
4. Make loans to the private and public sectors for the financing of productive projects.
5. Establish and operate special fund for specific purposes including a fund for assistance to Muslim communities in non member countries (article 2, i-vii).
6. It will also operate Trust Funds accept deposits and raise funds in any other manner
7. It will provide technical assistance to member countries and assist in promotion of foreign trade, especially in capital goods, among member countries.

Studies in Islamic Economics (1976) it intends to co-operate with all bodies, institutions and organizations having similar purposes, in pursuance of international economic co-operation. The function of the bank shall be “to undertake research for enabling the economic. Financial and banking activities in Muslim countries to conform to Shari’ah (Article 2, xii).
The authorized capital stock of the Bank will be two thousand million Islamic Dinars…” (Article 4, 6), one Islamic Dinar having the value of one special Drawing Right of the IMF. The establishment of the IDB has been followed by a few more Islamic Banks at Dubai (386), Cairo and Khartoum. The Dubai Islamic Bank established in 1975 has successfully completed the first year of its operation. It has mostly gone into real estate business and construction projects. No reports are available on the one established at Cairo in 1976 and its counterpart at Khartoum. The Philippines Amanah Bank has also been working without interest as a subsidiary of the Central Bank of the Philippines which, as the custodian of its reserves, earmarks the interest for a special fund for Muslim welfare.

2.14 Industrial Relations, Labour and Population Policy

The who have paid special attention to labor and industrial relations emphasis dignity of labour in Islam, the religious significance of good, honest work, and the labour’s right to a decent wage commensurate with the average standards of living in the society. There is great emphasis on co-operation between labour and enterprise and on mutual consultation as a mode of decision making. Yusuddin(1950) (165:365-388), Gamaluddin (1967) (425:426) are some of the writers sharing this emphasis.

Qureshi adopted the Marxian approach Shafi Malik too regard Qureshi to be vague and confused (435:90). Examining the notion of “Just wages” Mohammed
Akram finds economic rationale dubious and suggests another model in which the wage rate is linked with the profits of the firm.


Population control through family planning has been one of the most controversial subjects in the literature. The permission or otherwise of birth control by individuals in certain circumstances, in the light of the Qur’an and the sunnah, though relevant for this controversy, is not the matter that concerns us here. From the viewpoint of Islamic Economics we are interested mainly in two points. Does there exist an economic base for population control? And if it does, is family planning permitted by Islam, as a means to this end? It is only on these points that we will record the various opinions below.

According to Mawdudi the only solution Islam presents for the problem of increasing world population is “augmentation and full utilization of the resources of His bounty that God has created and a perpetual effort at discovering hidden resources”.

The discussion on population control emerges from the scarcity Lionel Robinson’s definition of Economics. According to Robinson economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses. The definition is based on two points which are scarcity of resources and the never ending needs. But in reality former is a myth. The survey
conducted by UNO in 2006 shows that there are enough resources for 20,000 million people on earth. We have only 6000 million people on earth residing now. The later point never ending needs is also incorrect as the desire and greed of the man is unlimited but the need is countable and controllable (source-Nabeed Kaltakkath (2007) India.).

The real solution lies in improving economic and cultural resources and increasing production (454:201). Similar views have been expressed by Sheik Abu Zuhra who opposed population control through family planning on religious grounds (448:449).

The International Planned Parenthood Federation organized a conference on this issue in December 1971 at Rabat, of which the complete proceedings are now available in two volumes covering 1000 pages (452). Most of the participants considered population control through family planning as lawful in Islam and many regarded it as having become a necessity under the present circumstances.

2.15 Growth and Development

That one of the main objectives of modern Islamic states will be to achieve rapid economic development (221, II: 123-141) is a point stressed by all recent writings on the subject. What, then, is the strategy of economic development in the Economic system of Islam? Some writers, including Akram (483) and Fanjari (477;
lay the main emphasis on the transformation of man, and the ethos of an Islamic society.

Abaza (473) like Fanjari (477) sees a great role for Islam in economic development as it regards developmental efforts to be jihad. Once that idea catches on we can except big results. Tahawi also thinks that invoking the Islamic injections in the context of development efforts will prove to be the most effective way of generating a powerful movement for economic development among the Muslim masses (77, II:32)

According to Abaza (473:1127) the Shari,ah calls for interaction and co-ordination between production and distribution in the framework of comprehensive economic planning. Priority be given to directing maximum efforts towards increasing production. Distribution can take priority when the fruits of these are available. It is not the distribution of a static quantity but that of a dynamic and growing one that is visualized by Islam.

Economic development is an Islamic society has to be a co-operative affair (475:96-113). He envisages significant role for planning in economic development in Islam.

Faridi refutes the view that Islamic values are inimical to economic progress and points out that “the present acquiescence in established institutions and practices has been borne of internal political organizations, colonialism and other vested
interests. Islam has little to do with it. Kalim Siddiqi (1974) Islamic development plan regards the “socialization of surplus value”.

Economic development in an Islamic framework has recently attracted several writers including Khurshid and Siddiqi. Ahmad notes the “crisis and revolution” through which development Economics is presently passing. Siddiqi regards increasing in production, distributive justice, environmental balance and improvement in the quality of life in the cultural sense as the four necessary dimensions of development in an Islamic framework.

2.16 Literature on Islamic critique of contemporary Economic theories and systems

Criticism and Capitalism of Communication dates back quite early in literature on Islamic Economics. It started during the twenties and the thirties and it was largely the challenge of these alien economic philosophies which provided the impetus for the first works on the subject that appeared during the fourth decade of this century.

Both laissez faire capitalism and Marxian socialism have been subjected to serve criticism. This criticism is generally based on the end product of these systems, in terms of injustice, human suffering and loss of individual freedom. But the philosophical and theoretical bases of the two systems have also been examined and refuted. The philosophy of Natural law, Individualism, Utilitarianism and the view
that pursuits of self-interest by individual’s results in ensuring the social good have all been rejected as baseless. Similarly the Labour Theory of Value, the view that forces of production determine relations of production which determine “the superstructure of values” and the Marxian theory of state have also been criticized and rejected. The two systems have been characterized as two extreme and unbalanced approaches to solving man’s economic problem and Islam has been projected as the Middle Way assimilating the good points in both the systems and free from the imbalances from which they suffer. The great poet of Islam Muhammad Iqbal (d.1938) had already popularized this approach long before scholars and journalists took up the subject.

2.16.1 Capitalism

Mawdudi (607:26-51) mentions private property, freedom of enterprise, profit motive as the sole incentive, competition, discrimination between the rights of the employees and those of the employer, reliance on natural forces or growth and the principles of non-intervention by the state as the basic tenets of modern capitalism. He reviews the reforms introduced in capitalistic countries allowing an active role for the state and a better deal for labour. Despite these changes, large-scale unemployment and the existence of unsatisfied needs when production resources lie unutilized, the occurrence of trade cycles and the domination of society by usurious financiers continue today (607:100-106)
Mahmud Ahmad (1972) rejects capitalism’s claim of being a self-adjusting process leading to maximum satisfaction of human wants, by pointing out the chaos it has led to. Economic crises are sufficient to refute such a claim (168: 4-17). Quoting Halm, A. Mannan (132:37-38) criticizes capitalism due to its failure in maintaining full employment and ensuring free competition.

The main weakness of capitalism according to Baqir is its failure on the distribution front. Mabid (1974), Mahmud (624) and Chawdhiri (620) make the additional point that it is through equitable distribution of the social product that welfare and satisfaction can be ensured and the size of the cake is not always relevant in this context. Every increase in the size of the cake in the capitalist system decreases human welfare and satisfaction as it increases the gap between the rich and the poor.

A strong condemnation of capitalism comes from Syed qutb (500) who finds it to be thoroughly inhuman and un-Islamic.

**2.16.2 Theories of Interest**

While the main target of attack have been the absolute conception of individual ownership rights and the unrestrained nature of freedom of enterprise in capitalism and the cut-throat competition, the inevitable rise of monopoly capitalism, exploitation of labor and emergence of imperialism, the most criticized institution is interest which is regarded as the source of many evils in the system.
2.16.3 Speculation and Forward Transaction

Another institution of capitalist economy severely criticized by Islamic economist is speculation. Many writers have briefly referred to this institution and have noted that Islam does not permit it.

Maulana Muhammad Taqi Amini, in a detailed juridical discussion on speculation and stock exchange transaction, declared purchase and sale on the stock exchange to be illegal (556:118-155). Qureshi had also characterized speculation to be unlawful in Islam. He considers trade cycles to be the result of brisk activity of foreign transaction (526:101-102). Naseer A. Sheikh (154:128-135) regards speculation to be anti social. He examines the arguments given in defense of forward trading and finds them to be unconvincing. A great harm done by speculation is that “money that ought to have been invested in industry and commerce finds its way into the speculative market where it is feeding disguised and parasitical workers like brokers and shrewd operators” (154:132). A. Mannan (132:195-197) thinks that “in so far as speculation renders social service by helping production and controlling sudden fluctuation of prices it is in conformity with spirit of Islam”.

Such speculative practices, as well as forward transaction, were condemned in Islamic Economics. Kahf notes (612: 75-76) that Islamic economists disapproval of speculation is based on two reasons. Firstly it is considered as a kind of gambling, and secondly, it involves a sale of what one does not own. Discussing speculation in the context of international monetary crises Akram notes that it is not generally
acknowledged “that until speculation is retired, stability for the world economy would remain as illusion”.

2.16.4 Lottery

Another modern institution attacked by our scholars is the system of lotteries. While the ulema giving their opinion on the subject have unanimously declared it to be unlawful on account of gambling, and have indicated the economic and social evils consequent upon the adoption of this method.

2.16.5 Socialism and Communism

Exploitation of man by man cannot be eliminated by changing the hands that control the means of exploitation. The only way to achieve this end is a moral reorientation of the individuals which makes them servants of society and workers for the social good. This is what Islam does by relating man to God and making him live in accordance with restraint.

Masud Alam Nadvi (1949) regards the undue emphasis on distribution and the move to abolish private property to be mere reactions to the evils of capitalism. Man does not have to opt for such an extreme solution as the Middle Path shown by Islam is sufficient to ensure the elimination of these evils and secure the legitimate ends of socialism.
Siddiqi examines and rejects the arguments in favour of socialization of all means of production (221;1:93-118) and concludes that individual ownership is a necessary condition for democracy and spiritual and moral growth (221,1; 119-124). A balanced approach would accommodate individual ownership under social supervision as well as socialization whenever necessary.

Mirza Muhammed Hussain (1973) condemns socialistic doctrines as they ferment class war (580). Abdul Hameed Siddiqi (181) refuses the Marxian theories and finds that communism has created more than it has solved.

2.16.6 Other Systems

Besides Capitalism, Socialism, and Communism, Islamic writers have also criticized State Socialism, Fascism, and Nascism (1969) (607:84-95; 168:136-168; 132; 53-60). These systems were reactions to the other systems, and they achieved very little, at great cost to humanity.

2.17 Literature Review on Development of Economic Analysis in the Islamic Framework

As the number of trained economists taking up our subject increases analytical approach to the issues under discussion gains in strength. The generation represented by Dr. Anwar Iqbal Qureshi and Sheikh Mahmud Ahmad is followed by a number of younger economists like Khurshid Ahmad, Monzer Kahf, Abu sulaiman,
Muhammed Sakr, Anas Zarqa, Faridi, Chapra, Abdul, Mannan, Musaudul Alam Chawdhri, Uzair, Mohammad Akram and Siddiqi, who go further and deeper into the analysis of abolition of interest, Zakat and mudarabah and analyse the behaviour of economic units under the influence of Islamic teachings. Though most of these attempts are still rudimentary, they indicate uncharted explorations which might lead to new insights and better policy prescriptions. It is the promise and not the performance that persuades us to pay closer attention to the contributions relevant for this section. This we do under the following heads:

2.17.1 Consumption

According to Siddiqi the consumer “must, first of all, be satisfied that he is living up to the Islamic standards. To get this satisfaction he can forgo any satisfaction in the economic or utilitarian sense of the term” (619:89). Despite this modification which introduces non-temporal, on-individualistic elements in the objectives of the consumer, these writers still find the principle of rationality applicable. As Siddiqi puts it Islamic rationality implies “orientation of action towards maximal conformity with the Islamic norms” (619:90). 1973 proceeds to affirm, on the basis of this point, the validity of the maximization proposition in the context of consumer behaviour in Islam.

Kahf (1972) has sought to present a model of household decision assuming an Islamic system with Zakat, replacement of interest by profit sharing (qirad) and of competition by co-operation, where economic units maximize utility of profit(615).
He describes the behaviour of the consumer as maximization of utility subject to two constraints, the size of income and a desire to maintain wealth. Abolition of interest encourages current consumption at the expense of deferred consumption but Zakat urges a higher savings ratio. It also raises the aggregate consumption by redistributing wealth in favour of classes having a higher propensity to consume. The combined effect of Zakat and non-interest is called the “consumption effect” (615:22). A resolution of these conflicting “effects” takes place by the direct linkage between savings and earning (profits) through investment on the basis of Qirad(profit sharing) that the abolition of interest ensures in the system. This leads Kahf to the most important conclusion of his brilliant paper: “saving is positively related to investment opportunities and expectations. This relationship implies that at times of declining investment expectations saving will decline and consumption will rise, this in turn increases aggregate demand and raises business expectation”(615:26).

2.17.2 Production

Siddiqi (1971) summarises the main aspects of business motivation in Islamic Economics as under:

1. Full compliance with the Islamic idea of justice.

2. An urge to serve the society which makes the entrepreneur take the welfare of other into consideration, while he makes his entrepreneurial decisions.

3. Profit maximization within the limits set by the operation of the above principles.

The last point is seen to imply that:
1. Producers would not be maximizing their profit if, and when, they feel that by lowering their profit margins they can further the good of the society by satisfying unsatisfied needs.

2. No producer, in any circumstances, shall increase his profit at the cost of explicit injury to the consumers or to his competitors.

3. Producers will generally be content with satisfactory profits.

He tries to define “satisfactory profits” with reference to an upper limit permitted by the circumstances (without violating the legally-binding part of the Islamic code of conduct) and a lower limit affording the entrepreneur a decent living and a surplus to average out the losses.

2.17.3 Factors of Production

It is interesting to note that Islamic economists have given different answers to the question: what are the factors of production? Mawdudi endorses the traditional list: land, labour, capital and organisations and finds in justification in the Islamic law relating to profit sharing (mudarabah).

Abu Saud reduces the list to three: elements of nature, good work and capital (5:54-55), submitting labour and organisation under one category. He views capital as resulting from the operation of human labour on elements of nature. Baqir notes these three factors as they are so characterized by Political Economy but remarks that labour (including organization) is not material wealth subject to ownership but the
human element in production. Capital results from the operations of this factor. Hence nature is the chief source of production (171:396-397). A. Mannan also proceeds on the basis of this tripartite categorization of the factors of production.

Tahawi (77, 1:277) includes land and capital in “wealth” so that there remain only two factors of production “wealth” and labour, which includes enterprise.

Wealth granted as loan on borrowed does not become capital, says alavi (10:30-31) and Mahmud Ahmad clarifies that it is only risk capital that actually participates in production and can be characterized as productive. “Loan capital” does not do so (628). Stressing the “need to modify the conceptual framework of economics to suit the requirements of Islamic economics” Uzair says that a beginning will have to be made by redefining the factors of production. Capital as a separate factor of production does not exist but it is a part of another factor of production, namely enterprise”.

2.17.4 Exchange and Determination of Prices and Profits

Baqir’s analysis (171:326-328) lays the blame on the use of money as a store of value which makes exchange a means to the accumulation of wealth. This distorts the equilibrium between supply and demand. The Islamic Economics remedy lies in Zakat and the abolition of interest which will confine money to its basic role of mediating between production and consumption.
Freed of monopoly, hoarding, speculation and other un-Islamic practices the free working of the competitive forces is expected to result in prices which may be regarded as normal. This seems to be the assumption underlying the following definition of just profits given by Khurshid Ahmad and Naiem Siddiqi(126:33)

There is some disagreement among our economists regarding the nature of profit. According to Baqir, Islamic Economics does not consider “risk” to be a factor of production (171:58) and profit is not the reward of risk bearing. It devolves on present work or past labour congealed in the form of property. He disagrees with the view that the share of the supplier of capital in mudarabah contract can be regarded as a reward of uncertainty bearing (171:559). This is in sharp contrast to Siddiqi’s point of view (221, 1,157-171_. Baqir explains rents also with reference to labour that originally resulted in ownership of property.

2.17.5 Profit Sharing

The rate of profit sharing is also being explored as a tool of analysis and possible instrument of fiscal policy (1972). Khaf defines Qirad (mudarabah) as “the act of transforming money assets into factors of production as a result of a joint action between the two parties”. Two crucial differences between profit-share and interest are stated. Firstly, “the profit sharer has direct interest and real concern in the activity of the firm”. Second “profit share is a long run phenomenon in which the preference for liquid assets is almost neglected, whereas interest is a dual phenomenon, short and long run, for which the economic thought could not provide
any serious theory to provide the term structure. …In profit share the short run changes do not interfere in the finance of investment unless through their effect on the rate of return expectations only, so that one source of long run fluctuation is eliminated, namely variation in short run interest rest” (612:62-63).

He proceeds to discuss the equilibrium rate of profit-share which should be equal to the return on partnership, i.e. on the share capital in joint stock companies (612:85-86). Traditional economic theory fails to determine profits (612:82, fn.84) whereas his own theory is able to do so. Turning then to the capital market he notes that “in the traditional theory this market determines the rate of interest but not but not the entrepreneurial profit, whereas by having prices are determined simultaneously” (612:85-86).

A recent contribution to the subject is a paper by Chowdhury (1974) (620) in which he shows that the only value which comes nearer to a suitable capitalization rate or acts as a reasonable substitute for the interest rate, is the rate of profit actually realized by the firm or the economy or the individual at any time during the period and process of capital formation.

2.17.6 The Role of Zakat

Zakat one of the main pillars of Islam’s economic system, has attracted the attention of almost every writer on the subject, who emphasise its redistributive function as a splendid transfer system. According to Mabid Mhmud (1974) Zakat
transfers part of the wealth of the haves to the have-notes, lessening the inequality in the distribution of income and wealth, and counteracting any tendency towards concentration of wealth. As a result of this transfer there is an upward shift in the aggregate demand function because the marginal propensity to consume of those who receive the transfer payments is comparatively higher. Zakat’s distributive role involves an allocative role, too, as the Zakat funds are mostly used on essential goods and services. Factors of production are thus diverted to the production of necessaries from that of luxuries on which the taxed persons might have spent these amounts. Zakat discourages hording and accumulation of idle wealth. It tries to put the waiting resources back into economic activity as increased capacity, through the investment of such wealth, or as increased demand for consumption.

2.18 Interest and Abolition

2.18.1 Rationale Prohibition

The main reason why Interest is abolished under Islamic Economic system that it is oppression (zulm) involving exploitation. The second reason is that it transfers wealth from the poor to the rich, increasing the inequality in the distribution of wealth. A third reason is that it creates an idle class of people who receive their income from accumulated wealth. The society is deprived of the labour and enterprise of these people. Such a way of life is also harmful for their personalities.
Mawdudi has pointed out that a basic imbalance is caused between production and consumption by the phenomenon of interest. This happens in two ways. Firstly, interest on consumption loans transfers part of the purchasing power from a group of people with high propensity to consume to a group with law propensity to consume. This latter group mostly reinvests its income from the interest which means that the decrease in consumption demand is accompanied by an increase in production. Secondly, interest on productive loans raises the cost of production, hence the prices of consumption goods. Once again the amount taxed away from the people, in the form of higher prices falls in the hands of a class with a lower than average propensity to consume.

This imbalance is seen as the source of many evils such as stagnation and depression, monopoly and ultimately imperialism (521:85-87).

2.18.2 Interest, Savings and Investment

This brings us to the impact of the abolition of interest on savings and investment and on the level of economic activity and allocation of resources in the economy. Many writers have dispelled the doubt that abolition of interest will decrease the propensity to save. Quoting Keynes they argue that savings are a function of income and earning interest is only a minor motive of savings. In the absence of interest the possibility of earnings profits on common stock or through mudarabah contract will serve the same purpose. Moreover, the bulk of the savings in a developed economy arise from institutional sources.
2.18.3 Abolition of Interest and Demand for Consumption Loans

Hasanuzzaman (1964) (629:147-164) examines the argument that abolition of interest will increase the demand for consumption loans, accelerating inflation and, in under-developed countries, worsening the balance of payments. He finds little functional relationship between demand for consumer credit and the rate of interest. It is “increase in income and not the rate of interest that governs the demand for loans” (629:160).

2.18.4 Interest and Trade Cycles

According to Mahmud Ahmad (1972) interest is seen as the root cause of the instability characterizing the modern economic system. Interest creates “liquidity preference” for speculative purposes and results in keeping a large part of the money supply in hoards waiting for the rate interest to rise. It encourages speculation which is the cause of instability in the system.

Analyzing in detail the role of interest in the various phases of the trade cycle, Mahmud Ahmad concludes that “the abolition of interest can abolish the crises”.

2.18.5 Accounting Concept of Interest

also thinks that in an Islamic economy the accounting rate of interest must of necessity be used and it is only in the sense of abolition interest as a source of private income that the Islamic economy can function as an interest less economy. It is not entirely clear, however, why an estimated average rate of profit should not sufficient for his purpose.

2.19 Economic Thought in Islam

The advent of Islamic Economics directed the attention of scholars towards the Economic thinking of the Muslim thinkers in the past, of which the works on history of economics though had taken no notice at all, with the sole exception of a casual mention of Ibn Khaldun in Schumpeter’s compendium.

Besides the economic thinking of the early Jurists and the great philosophers in the later Abbasid period, attention has been paid to such writers as Abu Yusuf, Abu Ubaid, Yahya Ibn Adam, Qudama bin Ja’far, Ibn al-Muqaffa, al-Jahiz, al-Mawardi, Ibn Hazm, Ibn Taimiyah, Ibn Qayyim, Shatibi, Dimashqi, Ibn Khaldun, Tusi, Ghazali, al-Hariri, Shah Waliullah al-Dehlavi.

2.19.1 Ibn Khaldun, Father of Economics

Ibn Khaldun (1332-1466) as father of economics in his Prolegomena (The Muqaddimah) Abd al-Rahman Ibn Muhammed Ibn Khaldun al-Hadrami of Tunis (A.D 1332-1406), commonly known as Ibn Khaldun, laid down the foundations of
different fields of knowledge. Ibn Khaldun has rightly been hailed as the greatest economists of Islam. His significant contributions to economics, however, should place him on the history of economic thought as a major forerunner if not the father, of economics, a little which has been given to Adam’s Smith, whose great works were published some three hundred and seventy years after Ibn Khaldun’s death. Not only did Ibn Khaldun plant the germinating seeds of classical economics, whether in production, supply, or cost, but he also pioneered in consumption, demand, and utility, the cornerstones of modern economic theory. Ezzat el-Alfit(1968). Production distribution and Exchange in Khaldun’s writings PhD thesis. University Minnesota 1968. His work on Ibn Khaldun, The Muquddinal, An indroduch to history. V.I handon P.481 68.

Joseph A.Schumpeter discovered Ibn Khaldun’s writing only a few months before his death, Joseph J.Spengler, (Economic thought of Islam; Ibn Khaldun-Vol-VI,64:268-306) and major western economists trace the theory of value to Adam Smith and David Ricardo for the paradox of value. It was Ibn Khaldun, a believer in the free market economy, who first introduces the labor theory of value without the extensions of Karl Marx 69.

According to Ibn Khaldun, labor is the source of value. He gave a detailed account of his labor theory of value, presenting it for the first time in history. 370 years before Adam Smith explained it (Rosenttle 1958). Khaldun’s contribution was later picked up by David Hume in his Political Discourses, published in 1752. Adam Smith’s major work published in AD 1776 declared that labor is the real measure of
the exchangeable value of all communities. If his punage is carefully analyzed, one can find it’s seed in Ibn Khaldun’s Prolegomena the Muqaddimal. According to him labor is the source of value. It is necessary for all earnings and capital accumulation (muqaddimah).

It was also Ibn Khaldun, long before Adam Smith, who made a strong case for a free economy and for freedom of choice (Nash at Mohammed Ali (1944) PhD thesis Cairo University, Malaba Dar-al Kutub al- Misiriyya) 70.

In addition to his original contribution to the economics of labor, Ibn Khaldun introduced and ingeniously analyzed the interplay of several tools of economic analysis; such is demand, supply, prices and profits. Al –Tahawi, Ibrahim Islamic Economics a school of thought and system- a corporative study (Arabic) al-Qahirah, Majma’al Buhuth –al Islamiyya2v 616,400,(A) 71.

Even if Adam Smith was not directly exposed to Ibn Khaldun’s economic thoughts, the fact remains that they were the original seeds of classical economics and even modern economic theory.

Though his great sense and knowledge in Economic ideals Ibn Khaldun used an insightful empirical investigation to analyze and produce original economic thought. He left a wealth of contributions for the first time in history in the field of economics. His theory of capital accumulation and its relationship to the rise and fall of dynasties, dynamics of demand, supply, prices, and profits; his treatment of the
subjects of money and the role of governments; his remarkable theory of taxation, and other economic subjects. His unprecedented contributions to the overall field of economics should make him, Ibn Khaldun, the father of economics 72.

2.19.2 Ibn Taymiya (1262-1328)


Kahf discusses his notion of “price of the equivalent” and the complementary concept of “fair profit”. Ibn Taimiya wanted to investigate what the price would be if there were no imperfections in the market. He held that the price of labor was determined in the same way as the other prices. Siddiqi has discussed Ibn Taimiya’s view on price control at some length.

Sherwani (1965) focuses his attention of Ibn Taimiya’s views on the concept of ownership in Islam, emphasizing the right of the state to abridge or abrogate this right in certain circumstances.

2.19.3 Abu Yusuf (731-7980)

Abu Yusuf’s main subject was taxation and the public finance and economic responsibilities of the state. His contribution lies in demonstrating the superiority of
proportional taxation over the system of fixed levy on land, both from the viewpoint of revenue and equity. In his discussion on he also refers to the other canons of taxation: capacity to pay, a consideration for the convenience of assesses in fixing the time of collection and its mode, and centralization of decision making in tax administration.

2.19.4 Nasirudin Tusi (1201-1274)

Tusi’s contribution has been discussed by Rifa’t (1980). Tusi discussed the revenue and expenditure of the household as well as those of the ruler. He emphasized saving and warned against extravagance and expenditure on unproductive assets such as jewellery and uncultivable land.

2.19.5 Shah Waliullah (1702-1763)

A resume of Shah Waliullah’s broad sweep on the subject has been given by Tufail Ahmad Qureshi. He regarded economic well-being to be a prerequisite of a good life and proceeded to discuss needs, ownership, means of production, cooperation, distribution and consumption with remarkable insight.