

ISLAMIC ECONOMICS BULLETIN

INDIAN ASSOCIATION FOR ISLAMIC ECONOMICS

نشرة
الجمعية الهندية للاقتصاد الإسلامي



VOLUME 10 No. 2

March - April 2000

DhulQa'd – DhulHiji 1420 AH

ADVISORY COUNCIL

F.R. FARIDI	(President)
ABDUL HASEEB	(Member)
M.N. SIDDIQI	(Member)
AUSAF AHMAD	(Member)
M. OBAIDULLAH	(Member)
ZAFARUL ISLAM	(Member)
S. AFZAL PEERZADE	(Member)
VALEED AHMAD ANSARI	(Member)
ABDUL AZIM ISLAMI	(Hon'y Secretary)

Editor

JAVED AHMAD KHAN

Joint Editor

SHARIQ NISAR

IAFIE BULLETIN is published six times a year by the Indian Association for Islamic Economics. It aims to create awareness of the latest development in theory and practice of Islamic Economics.

SUBSCRIPTION

	Overseas	India
One year	US\$ 10	Rs. 25
Two year	US\$ 20	Rs. 50
Five year	US\$ 50	Rs. 100

IAFIE MEMBERSHIP

Patron	US\$ 500	Rs. 5000
Life Member	US\$ 100	Rs. 2000
Annual Member	US\$ 10	Rs. 50

The Bulletin will be offered to the Members free of charge. Subscription is payable in Bank draft, Cheques, M.O. or Cash. Cheques and drafts should be drawn in favour of Indian Association for Islamic Economics payable at Aligarh. Outstation cheques should add Rs. 15/- towards bank collection charges.

Address for Correspondence:

IAFIE-4-1212, Sir Syed Nagar
Aligarh-202 002, India
Tel. 0571 - 502256
Telefax 0571 - 401028
E-mail: cct02aai@amu.up.nic.in

GOVERNMENT FINANCE IN AN ISLAMIC ECONOMY

Dr. F.R. Faridi

Government financing on a non-interest basis has presented a dilemma as there has been no generally acceptable method that meets the requirements of Islamic law. Simply stated, in an Islamic system all rates of return in the financial sector are determined by activities in the real sector. This requirement causes difficulties for governments used to conventional debt financing of expenditure without the need to justify financially the operations being undertaken or, as is often the case, to compete with the private for financial resources.

There is now a consensus view that, in the absence of a predetermined rate of interest, the economy's financial system becomes predominantly equity-based and the stock of physical capital is valued in the market for equities. The significance of a system that operates without the central authority's intervention, as is the case in an interest-based regime, is that it allows the price system, via a market determined rate of return driven by the real sector activities, to function freely and to ensure the efficient rationing of scarce financial resources.

While in such system private sector financing can be arranged on an equity basis, difficult issue arise when government need to mobilize funds for their operation. Presumably, the nature of government operations does not permit equity participation by private agents. But, while current government expenditures may not allow assignment of individual equity claims, public expenditure on infrastructure and development project often a major element of government's budget can be financed via equity participation. This approach bifurcates government expenditure into asset creating and non-asset creating. The former is financed via equity participation. The latter is financed through taxation.

Islam recognized public and joint ownership of assets as legitimate even then they are indivisible as long as ownership claims can be priced in the market so that, in the event of dissolving partnerships, equity holders can monetise their claims. Therefore, capital expenditure can be financed via equity participation, provided that a market exists for trading shares. The issue then becomes one of determining a rate of return that compensates shareholders of assets created by the government when there is no benchmark, such as a fixed and predetermined interest rates in reference to which market participations can make a decision, as is the case in a conventional financial system. In an Islamic system, the rate of return to financial assets is determined by the rate of return to the real sector of the economy that serves as a benchmark for investment decision. It can also be argued that since the expected dividends, the discounted value of stream of expected earnings at the prevailing rate of return is the market value of security and supply price of capital. In the case of government securities, this would also constitute the demand side of the market for these instruments. Moreover, the face value of securities, the length of maturity, and the expected dividend constitute the supply side of the market for government securities. Based on these reasoning, the coupon on non-interest-based government securities can be issued and traded in equity markets that promise on maturity to pay a rate of return proxies by an average rate of return on the underlying assets that is equal to the rate of return in the private sector.

Source: Nadeemul Haque & Abbas Mirakhor, "The Design of Instruments for Government Finance in an Islamic Economy". *Islamic Economic Studies*, vol. 6, No. 2, May 1999, pp.27-43.

UGC Sanctions Grant for Holding Seminar on Participatory Banking

The University Grants Commission (UGC), New Delhi, has sanctioned a grant to Islamia College, Vaniyamvadi, Tamil Nadu, for holding a seminar on new concept of banking on Profit and Loss sharing basis. For more details and information contact:

Dr. Ghalib Hussain

Chairman Dept. of Corporate Secretariship
Islamia College, Vaniyambadi, Tamil Nadu.

Dr. Javed Ahmad to Edit IAFIE Seminar Papers

The Executive Committee of Indian Association for Islamic Economics has assigned Dr. Javed Ahmad the task of editing the papers presented in Delhi Seminar of IAFIE during October 4-5, 1999. Dr. Javed has already finished the initial work. He may send some of the papers to their authors for revision and improvement in the light of comments made on the papers.

Ph.D. on "Public Finance in Early Islamic Thought"

Mr. Sabahuddin Azmi has successfully completed his research leading to Ph.D. on "Public Finance in Early Islamic Thought" under the supervision of Dr. A. A. Islahi. His Viva Voce examination took place on February 16, 2000 in the Department of Economics, Aligarh Muslim University, Aligarh. Indian association for Islamic Economics congratulates Mr. Sabahuddin Azmi for the award of doctorate on an important aspect of Islamic economics. An abstract of his thesis is given on p. 3 of this issue. It may be noted that Dr. Sabahuddin Azmi had been the joint editor of Islamic Economics Bulletin for five years from January 1995 to December 1999. His M. Phil. dissertation is entitled as "Abu Yusuf's Contribution to the Theory of Public Finance"

4th International Conference on Islamic Economics & Banking

Loughborough University, U.K. invites the interested scholars to register for the International Conference on Islamic Economics and Banking to be held during 13-15 August 2000, at Loughborough, U.K. The theme of the conference is "Islamic Finance: Challenges and Opportunities in the 21st Century".

This will be the fourth in a series of international Islamic Finance conferences that have been organised since the first conference was launched in Makkah in 1976, under the auspices of King Abdul Aziz University. Sponsored by the International Association for Islamic Economics, in collaboration with The Islamic Development Bank, Jeddah, Saudi Arabia; the Islamic Foundation, Leicester; and Loughborough University, this event will bring together some of the world's leading experts to discuss new developments in Islamic Economics and Banking.

Both theoreticians and practitioners will examine the practical implications of the latest innovations in Islamic Finance, including Islamic Banking Windows, Venture Capital, Monetary System Reform and Poverty Elimination.

Themes and Topics

Modelling Commercial, Universal and Islamic Banking within Banking Theory

Prospects and Problems of Islamic Financial Services in Western Countries

The Optimal Regulatory Rules for Banking: Comparative Analysis

Alternative Visions of Monetary System Reforms

Comparative Survey of Financial Instruments and Financial Engineering

Financing Micro Enterprises and the Self Employment of the poor

Housing Finance

Risk and Insurance

Expected Speakers Include

Dr. Ahmad Mohammad Ali (*President IDB*)

Prof. Khurshid Ahmad (*Chairman Islamic Foundation*)

Dr. Abid Ali (*Director IRTI*)

Dr. Mohsin S. Khan (*Director IMF*)

Mr. Iqbal Khan (*MD, Global Islamic Finance*)

Dr. M. Umar Chapra (*Senior Economic Advisor SAMA*)

Mr. Nabeel Nasif (*Chief Executive, Faisal Islamic Bank*)

Prof M. Nejatullah Siddiqui (*JRTI*)

For details and registration contact:

Professor John Presley

Chairman, Organising Committee

Professor of Economics

Loughborough University, UK

Tata Core Sector Equity Fund rare up

A closed ended core sector growth scheme launched by Tata and marketed by Barkat Investment Group of Bombay in May 1996 was the first private sector mutual fund to structure a scheme for investment in core sector has gone up three times in less than four years.

It is the only mutual fund in India, which was specially designed to cater the need of Muslims investors, both individuals and institutions. The major attraction of the scheme was its promise to avoid all interest based transactions and investment in companies connected with production, distribution or sale of alcoholic beverages and non vegetarian products. The fund was invested only in core sector areas like cement, steel, power, chemicals, fertilizers, petrochemicals and electronics, through equity and equity related instruments. The management of Tata has also declared 10% dividend to its unit holders, They have also informed the investors that they propose to convert the fund into a dedicated information technology & communication fund.

The good result of this scheme will certainly induce others to launch such schemes keeping in view the Muslim's religious constraints on investment.

PhD Abstract

PUBLIC FINANCE IN EARLY ISLAMIC THOUGHT

By Sabahuddin Azmi

Supervisor: Dr. Abdul Azim Islahi

Department of Economics, Aligarh Muslim University, Aligarh, India, 1999, PP. 320

Based on classical Arab-Islamic sources, the present study attempts to trace the evolution of the Theory of Public finance in early Islamic Thought. In this connection, Mr. Azmi has analysed original Islamic fiscal institutions and practices and underlying theories and principles. He has also presented a general survey of the fiscal practices and ideas right from Greek, Roman and ancient Indian sources to European writings, which is, in nut shell, a history of the development of the subject of public finance. This is important information because there is great gap between doctrinal history of public finance and scientific literature on the subject. He has also made an extensive survey of the literature concerning financial system of Islam and government sources of revenue and heads of expenditure, produced by Muslim thinkers beginning from the earliest period to the end of the fifth century of Islam a period in which Islamic ideas and institutions were fully established.

While analysing the income sources of Islamic state, the author has rightly divided them into semi-state and full-state revenues. He has examined the semi-state revenue in the form of zakah and spoils of war and full-state revenue like land tax, custom duties, poll tax, lost and found without claimant, inheritance without survivors, etc. He has also examined the opinions of early scholars on the question of public borrowing and imposition of extra-Shariah taxes – a subject still very controversial among the Islamic scholars. He explored the role of voluntary sector-waqf, etc. – in Islamic system and its sharing the government burden in performing its various welfare functions. Finally, he has also discussed views of early Islamic Thinkers regarding public expenditure and in this way presented a complete account of Islamic theory of public finance.

Unfortunately the Muslim contribution to the evolution of economic thought has been ignored by the western attempt to set aright the historical record about the history of the economic thought particularly in the field of public finance. It objectively tries to demonstrate that the Muslim possessed a specific intellectual history that can hardly be ignored. The main concern of the researcher has been to impart an impartial treatment to the subject and demonstrate the contributions that Muslim scholars have made in this domain. In fact, for the sake of objectivity and doctrinal continuity the Muslim contribution must be assimilated in the contemporary literature on the subject.

The analysis presented in this study spreads over seven chapters followed by a concluding chapter and bibliography.

New Books and Articles

Books:

1. Amuzegar, Jahangir,
Iran's Economy Under the Islamic Republic,
New York and London: I.B. Tauris, 1993, pp. 359
2. Kahf, Monzer,
Lessons in Islamic Economics
(Seminar Proceedings, No. 4),
Jeddah, Saudi Arabia: Islamic Research and Training Institute,
Islamic Development Bank, 1998, pp. 850.
3. Izzi Din, M.,
The Theory and the Practice of Market Law in Medieval Islam: A Study of Kitab Nisab al-Ihtisab,
Warminster, UK: David Broom Book Co, 1997, pp. 247.
4. Wilson, Rodney (ed.),
Islamic Economics, Cheltenham, Glo, UK: Edward Elgar Publishing Ltd. 1999, pp. 528.

Articles:

1. Bahir, Abdel-Hamid M.,
"Risk and Profitability Measures in Islamic Banks: The Case of Two Sudanese Banks",
Islamic Economic Studies (Jeddah, Saudi Arabia), Vol. 6, No. 2, May 1999, pp. 1-24.
2. Haque, Nadeemul and Mirakhor, Abbas,
"The Design of Instruments of Government Finance in an Islamic Economy",
Islamic Economic Studies (Jeddah, Saudi Arabia), Vol. 6, No. 2, May 1999, pp. 27-43.
3. Hoodfar, H.,
"The Impact of Male Migration on Domestic Budgeting: Egyptian Women Striving of an Islamic Budgeting Pattern",
Journal of Comparative Family Studies (Calgary, Alberta, Canada), Vol. 28, No. 2, 1997, pp. 74-98.
4. Ikhamon, Alisher
"Shirkats, Dekhqon Farmers and others: Farm Restructuring in Uzbekistan"
Central Asian Survey (Abingdon, UK), Vol. 17, No. 4, 1998, pp. 539-60.
5. Saleh, N.,
"Origin of the Sanctity of Contracts in Islamic Law",
Arab Law Quarterly (London), Vol. 13, No. 3, 1998, pp. 252-64.
6. Usmani, M. Taqi,
"A Review of Islamization of Economy, Banking and Corporate Finance – Progress and Prospects",
Journal of Islamic Banking and Finance (Karachi, Pakistan), vol. 16, No. 2, 1999, pp. 12 – 18.
7. Wilson, R.,
"The Contribution of Muhammad Baqir al-Sadar To Contemporary Islamic economic thought",
Journal of Islamic Studies, vol. 9, No. 1, 1998, pp. 46-59.
"Takaful: (Insurance) Approaching New Frontiers"
New Horizon (London), 1999, pp. 3-5.

**Prof. S.M. Ghazanfar Speaks on:
Social Sciences in the New Millennium**

In an illuminating lecture delivered at the Aligarh Muslim University, Prof. S.M. Ghazanfar A noted Muslim economist from the University of Idaho, U.S.A., focused on new dimensions taking place in the disciplines of social sciences in the new millennium. He hinted towards the enormous discussion going on this topic particularly in the western academic circles. While pointing towards Schumpeter's "Great Gap" theory he tried to show how the Adam Smith's self interest philosophy was related to the origin of Al-Gazali's thought and in what ways Ibn-ur-Rushd scientific analysis had helped in the evolution of social sciences, a fact hardly acknowledged in the western literature of economic history, Prof. Ghazanfar mentioned the new literature examining the internal conflict in the socio-economic milieu of the west and also of the intellectual discussion to "Open-up Social Sciences". What he tried to argue is that this epistemological upheaval, going on in the western universities has in fact raised the question of rationalism, leading the scholars' Back to the basics', somewhere away from the classical market approach. He emphasized that in the late 19th century the development of social sciences made rather a distinction between the western civilized world and the rest of the world, or what he called as an Europeanisation of social sciences first in the fields of economics, political sciences, and sociology and then in the form of area studies, inter-disciplinary studies which concerned mainly with the Euro centric social science approach. According to him, this value-free approach created an "exhort ion of culture" posing the new kind of challenges that resulted into some more discussion on the 'end of rationality'. This exercise, he said, led the social scientists to a new synthesis; the support of orthodoxy or back to the basic such as "Who am I ?, Where I came from ? and where I am going? Addressing to a large gathering of academics of Social Sciences, Prof. Ghaznafar said that the existing culture of knowledge is rather rigid in nature and the time has come to ask: 'how to break the barriers' ? Already, the scholars have started debating structure of knowledge to go across the boarder through the internet. Moreover, the global expansion of education has turned the younger generations towards the classical eastern knowledge.

Here, he said, the social sciences can play a major, role, taking into consideration the human and ethical aspect and testing it empirically.

This lecture was arranged by Prof. A.Z. Rizvi, chairman, Department of Economics, Aligarh Muslim University at its Art Faculty Lounge and Pro-Vice Chancellor of A.M.U. Prof. H.A.S. Jafry had presided over the function.

**Obituary
Dr. Syed Thanvir Ahmad Passes Away**

One of the young and bright scholars of Islamic Economics Dr. Syed Thanvir Ahmad has died after a brief illness in Bangalore on February 13. (May Allah bestow peace to his soul and give strength on patience to his family members. A Deputy Secretary Finance in the government of the state of Karnataka, (India), he was a permanent member of The Indian Association for Islamic Economics, (IAFIE), Dr. Thanvir was President of the Karnataka chapter of this association. He was a leading figure in promoting Islamic economics in his state and to promote it he organised an historic conference in 1993 at Bangalore which had attracted for the first time the professional economists, bankers, and businessmen who joined hands in strengthening the Islamic economic association in the country. Besides that, Dr. Thanvir has contributed several papers in the field of Islamic economics, which has been published in various academic journals. He was also the member of advisory board of the Islamic Economics Bulletin since 1993.

**M.Sc. in Islamic Finance,
MA in Islamic Political Economy at Durham
University, Durham DH13HY, U.K.**

Applications are welcome for the above-mentioned courses to begin in October 2000.

Details are available on following webs.
www.durham.ac.uk/economics/islam.html
E-mail: PGAdmission@durham.ac.uk

PRINTED MATTER

To

If undelivered, please return to:
The Editor
Islamic Economics Bulletin
4-1212, S.S. Nagar, Aligarh -202 002