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STABILITY OF ISLAMIC FINANCIAL SYSTEM

The stability of a financial system refers to its capability to absorb unanticipated shocks. A stable financial system absorbs these shocks without disrupting its smooth working.

The instability in the traditional system emanates from the divergence in its value of liabilities from the value of its assets. In this system the banks issue fixed liabilities to depositors by guaranteeing the nominal value of their deposits along with a fixed return. On the other hand, the investments undertaken by the banks typically carry a risk of default. Usually banks build reserves to ensure that such losses do not lead to bankruptcy. Such reserves are generally insufficient to absorb major shocks in the system. If an event occurs where the value of assets plus reserves is not sufficient to meet the fixed liabilities, then the knowledge of this event to depositors will lead to a bank-run.

To see why a bank-run is a natural outcome under the present situation, note that each depositor has a fixed claim on the assets of the bank. Now, the earlier one gets to the bank, the greater is his chance of getting his claim. The welfare of each depositor depends on the actions of other depositors. This causes panic and a run on the bank.

On the other hand, under an Islamic profit and loss sharing (PLS) system there is remarkable equality between liabilities and assets of the banks. In fact, the two sides are transparent. The assets are no more risky than what is allowed by the kind of liabilities banks have issued. Furthermore, in the case of a major shock, there is no incentive on the part of depositors to withdraw their deposits from the banks. This is because each depositor is holding a share in the banks' portfolio, thus his share is always available no matter what other depositors do. In fact, under this arrangement there will be a tendency to remain a depositor in the bank in the hope of a future revaluation of bank assets rather than accepting a loss in the nominal value of deposits.

Recent developments in the international financial markets indicate that there is growing awareness of the inherent problems associated with the debt-based system. The most notable development is the manner in which the world debt problem is being handled. Increasingly, the creditors are realizing that recovery of loans on original terms and conditions is quite impossible. The only viable solution to the world debt problem is either a write-off or a conversion into some kind of equity based instruments. Both these methods are adopted to ease this problem. The latter is gaining increasing popularity and now a well established market deals in debt-equity conversions.

Waqar Masood Khan

Indian Economy under the Shackles of Interest

Aligarh, April 29. The Economic Society of Aligarh Muslim University organised a lecture on Union Budget 1995-96". Dr. Nasim Ahmad Zaidi, professor and Chairman, Department of Economics, delivered a very informative and thought provoking lecture on the topic, followed by lively discussion. It was a well attended gathering. The audience was shocked to hear that interest payment forms Rs. 52,000 crores in the Indian budget estimate of 1995-96, which is 70% of the tax revenue of the Centre, 42% of non plan expenditure of the Central government and 30% of its total expenditure. Interest payment is more than double the amount earmarked for defence i.e. Rs. 25,500 crores. One of the audience drew the attention of scholars and researchers towards investigation into possibility of running the Indian economy without interest, the root cause of economic evils. He pointed out that such researches have already started in the West.

Need to Project Welfare Aspect of Islamic Economic System

Mr. K. Rahman Khan, Member of Parliament appealed to the Ulama to take out the concept of prohibition of interest (*Riba*) from the realm of *Halal* and *Haram* and project it as a system of public weal and distributive justice.

In a lecture at the Indian International Centre (IIC) under the aegis of the Hakim Mohammad Abdur Razzack Foundation on April 7, Mr. Khan said the Islamic Prohibition of *riba* may appeal to Muslims as a religious concept. But its welfare aspect must be projected before the wider non-Muslim society which is amenable to pragmatic ideas, be they from any quarter. Mr. Khan who has headed the Al-Ameen Islamic Financial Investment corporation in Bangalore, said the concept was based on the Islamic belief in economic dynamism wherein money represents store of value and is a facilitator of exchange of goods. He said role of money itself demands that it is not traded for profits and contravenes the principles of justice and equity.

Mr. Khan said the Islamic banking works on the concept of profit and loss sharing rather than being the recipient of profit alone regardless of the lender's profit or loss. He viewed the policy of allowing banks to operate investment institutions and joint ventures as proximate to Islamic concept of PLS and felt that the banking system in India was itself heading for the system. He said the Islamic banking was anti-inflationary and high rates of interest hinders investment.

Presiding, Prof. A. M. Khusro said the Ulama would need to do much explaining for the prohibition of *riba*. He said in modern democracies people reject religious dogmas for application even while accepting them for the sake of respect and their sanctity.

He wanted to know if the Quranic *riba* was same as the modern day usuary or interest and felt that the two had certain fundamental differences. Quoting from the British king, Mr. Khusro however concurred with Mr. Khan on the iniquitous nature of interest. He said the king had preferred 100 thieves in England than 20 usurers.

Publication Pattern in Islamic Economics Literature

In the last three decades, Islamic economic has emerged as a fast-developing discipline that draws on both classical and modern sources.

According to a report published in 'Research And Information Bulletin' (September 1994) from the International Islamic University, Malaysia, in a bibliometric study of Islamic economics literature it was found that a large majority of authors (76%) in Islamic economics had written only one document. A core of ten (1.7%), who has written more than ten documents, was identified. The study further revealed that a very large number of the publishers of monographs (63%) had only one citation while a core of 4.4% has more than ten, six publishers, or one percent of the total number had 19% of the citation.

The Holy Quran and Hadith are the two most frequently mentioned sources receiving, respectively 1.2% and 1.7% of the citation. A micro analysis of the Quranic references indicated that 117 of the 359 citation (33%) were from Surat al-Baqrah. As for the country wise publication are concerned, the study shows that out of the 31 countries studied, three had 1,672 of the 2414 (64%) citation, with the following breakdown: the United States, 711, The United Kingdom, 625, and Pakistan, 336.

The findings have indicated that as a discipline, Islamic economics is still in its infancy and needs to be periodically monitored and examined, using bibliometric methods of investigation.

Islamic Development Bank Increases Financing Commitments.

The Islamic Development Bank (IDB) which is owned by the 47 member states of the Organisation of the Islamic Conference, increased its financial commitments during its last year of operations, making it one of the few Arab aid agencies which is raising its level of activity. During the Islamic year 1414 (the year to 10 June 1994) it committed \$ 591.7mn, 17% more than the previous year. Most of the increase was devoted to trade finance, which accounted for 67% of all commitments, roughly consistent with previous years. Egypt, Morocco, Pakistan and Turkey were the main beneficiaries of these facilities.

NEW BOOKS AND ARTICLES

BOOKS:

Akhtar, Wazir *Economics in Islamic law*,
New Delhi: Kitab Bhavan, 1992 71 Pp

Choudhary, M.Sharif, *Taxation in Islam and Modern Taxes*,
Lahore: Impact Publication
International, 1992, 21 9 Pp

Constable, O.Remie *Trade and Traders in Muslim Spain:
The Commercial relignment of the
Liberian Peninsula, 900-150*
Cambridge University Press, 1994,
320 Pp

Elim *Elimination of Riba from the Economyi
(Bank Interest)*
Islamabad; Pakistan: Institute of Policy
Studies, 1994, 425 Pp.

Khan, F.Fahim *Essays in Islamic Economics*,
Leicester, UK: The Islamic Foundation,
1995, Pp. 264

ARTICLES:

Shingeri, M.Saeed *A model of pure Interest-Free Banking*
New Delhi: Genuine Publications
1994: Pp. 140

Abaza, Mona, "Some Reflections on the Question of
Islam and Social Sciences in the
Contemporary Muslim World",
Social Compass, Vol 40, No.2 1993,
Pp. 301- 321

Anwar, M., "Strategies to settle existing Debts
Under an Islamised banking system";
Pakistan Development Review, Vol.
32, No.4 Part 2, Winter 1993, Pp. 961-
69

Choudhury, M.A. "Syllogistic Deductionism in Islamic
Social Choice Theory",
*International Journal Of Social
Economics* Vol 16, No. 6, 1990 Pp.
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Hasan, Farhat, "The Mughal Fiscal System in Surat
and English East India Company".
Modern Asain Studies, (Cambridge)
vol 27, No.4, 1993, Pp. 711-18

Hamat, Mustapha "Accounting Standards and Tax Laws
in Islamic Banking",

Muzrul, A. A., *New Horizon*, (London), No. 25, March
1994, Pp.8-11
"Islamic Doctrine and the Politics of
Induced Fertility Change: An African
Perspective",
Population Development Review,
suppl. 1994 pp.1 21-34

Rashid, Syed Khad, "Islamisation of Insurance: A Religio-
legal Experiment in Malaysia",
Religion and Law Review vol. 11,
No.1, Summer 1993.

Annual Essay Competition on Islamic Economics

The Islamic Foundation is pleased to announce the annual essay competition on Islamic Economics, participants are invited to write an essay on the following topics :

TOPICS

- * The Islamic Economics Paradigm, how it is different from the modern capitalist model
- * Prohibition of Riba (interest) Social, Moral and economic rationale
- * Zakat as a basis for a modern system of welfare state.

PRIZES

- * First Prize £ 1,000
- * Second Prize £ 750
- * Third Prize £ 500

Plus

- * One special award for the best undergraduate essay
- * Five consolation award of £ 100

RULES

- 1) The competition is open to all bona fide under-graduate and post-graduate students
- 2) Essay must be original and based on own research
- 3) Essay should be 8,000, 10,000 words
- 4) Essay should be submitted typed (double spaced) on one side of paper
- 5) Last date for receipt of the essay is 15th August 1995
- 6) Essay will be judged by a panel of independent judges who will decide on the prize to be awarded
- 7) Judges decision will be final
- 8) Selected essay may be published in *Review of Islamic Economics- Journal of the International Association of Islamic Economics*,

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BOOK REVIEW

ISLAM AND FAMILY PLANNING

By Dr. Javed Jamil

Mission Publication, Qazi Street,
Saharanpur-247001 India
1995, 32p. Rs. 7.00, Rs. 30.00 (Abroad).

'ISLAM AND FAMILY PLANNING' is a small tract authored by Dr. Javed Jamil, a medical practitioner. It came in the wake of recent conference on population at Cairo. The author has tried to present a balanced approach on the subject based on his knowledge of medicine and Islam. At the same time he expected from *ulama* to verify his views or correct them.

The author accepts that the mass suffering and increasing gap between the rich and the poor cannot be solely attributed to the increasing population as the production has always increased more than increase in population. It is merely due to maldistribution and monopolisation of resources by small minority of capitalists (p.28,30). But he advocates family planning, in its broader sense, on individual's health and socio-economic grounds (pp. 10-11).

According to the author, increase in the number of children is not desirable in absolute terms. In Islam quality is preferable to quantity (p.14). He supports his stand from the following:

- * In many verses of the Quran, large number of multiplicity of children has been censured.
- * Delay in marriage is recommended if economic means are not available.

- * Proper spacing between two issues is desired as mothers should give suck to their children for two whole years.
- * Most of the high ranking (ulu'lazm) prophets and the companions of the prophets (SAW) had few children.
- * In addition to the above Quaranic guidance, the ahadith about *azl* also support permissibility of family planning on personal ground.

The points raised by Dr. Jamil, no doubt, invite reconsideration on the subject. However, his exhortation to take lesson from some of the 'Muslim countries' and their 'Islamic constitution' only weakens the author's stand as even the ordinary Muslim knows how 'Islamic' their constitution is.

An additional information contained in the book is description of a number of Islamic injunctions which have built-in-protection from many fatal diseases. In this context it is surprising to read that the flesh of cow has diseases, so it was disliked by the Prophet (SAW) (p.23,24). Such a claim must have been supported by authentic sources. Some other statements of the book also lack references.

The book suffers from a number of typographical mistakes which are much more than what a reader may expect in a book of such a size. As a whole the book is good for researchers as well as common man.

A.A.J.

Seminar Date:

The proposed seminar on "Issues in Islamic Economics" jointly sponsored by IAFIE and Jameatul-Falah will be held during Oct. 27-28, 1995, at Bilariaganj (Azamgarh)

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