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## ISLAMIC APPROACH TO CONTEMPORARY ECONOMIC PROBLEMS – UNEMPLOYMENT AND INFLATION

Since 1960s the economies of the free world have been facing the twin problems of inflation and unemployment. Earlier, it was believed that the two problems had an inverse relationship. If we were to control inflation, we would get higher unemployment, and *vice versa*. But the experience of the recent past has been particularly perplexing to economists. So far no recipe has succeeded. The formulas tried so far include the management of fiscal deficit, incomes policy, control of money supply, manipulation of exchange rates, supply side economic package, etc.

The Islamic position is quite simple: abolish interest on capital in all its forms and allow the investment to rise to its maximum. It will increase employment levels, reducing the need for social security spending. Second, from an Islamic viewpoint deficit financing does not appear to be a desirable policy. The once golden rule of balanced budget is closer to the ethos of Islam. Once this is accepted, the only problem and of course, a formidable one -- would be to develop an institutional arrangement for providing interest-free finance. To our mind, human efforts should have been focused on this question instead of elaborating the rather easier course of providing social security benefits.

So far as the problem of inflation is concerned, the Islamic policy takes care of that also. First, one of the causes of inflation is interest itself, since the latter enters into the cost of production and thus becomes a part of the price of the products. This point might not have appeared plausible under the assumption of perfect competition. But now when we know that corporations wield enormous economic power and are almost autonomous in fixing the price of their products, it is accepted that interest enters into the price level and causes inflation. Once we abolish interest, prices would come down to the extent the interest entered in the cost of production. Second, the abolition of interest would lead to higher investment and to greater supply of goods and services. This, too, will become an element in bringing down the price level. Third, *zakah* is tax on financial wealth and agricultural income and is collected and distributed at the local level to provide assistance to those who need it for one reason or the other. The community at the local level and the family at the micro level are responsible for looking after the poor and the indigent. The government only takes up the residual needs of the poor and that too through taxation and other revenues rather than through deficit financing. Fourth, Islam extols simple living which leads to a consumer behaviour sharply distinct from the consumerism prevalent in the Western society. Nor is this feasible in an environment where interest-bearing finance is not available. Islam also does not approve that people should live beyond their means. Thus the cultural pattern prescribed by Islam keeps the inflationary forces in check. Fifth, Islam visualizes an economy wherein the production sector is preferably organized on a profit-sharing basis so that labour has a stake in the well-being of the industry. As a result, the chances of wage-push inflation are reduced to a minimum.

In brief, Islam follows a straightforward approach in tackling the twin problems of unemployment and inflation. The foremost measures are abolition of interest, balanced budget, effective collection and disbursement of *zakah* and a consumer behaviour based on the values of Islam. The neoclassical approach to solve these problems is topsy turvy. It does not seek to abolish interest which is the main cause of unemployment. It tends, on the contrary, to have recourse to deficit financing to provide for social insurance and debt-servicing measures which generate inflation. Thus the said approach would lead the economy to disasters of the worst kind.

Muhammad Akram Khan



### Lecture on 'Rationale of Islamic Banking'

Aligarh : The Economics society of the Deptt. of Economics, Aligarh Muslim University, invited Dr. F.R. Faridi, president IAFIE, to speak on 'Rationale of Islamic Banking' at Arts Faculty Lounge on 29, April 1997. The Lecture was attended by a select gathering of staff members and students of departments of Economics, Commerce and Business Administration. In his thought provoking lecture, Dr. Faridi explored the theoretical bases of interest free banking mechanism and highlighted the feasibility and viability of Islamic banking system. He referred to empirical studies to show the remarkable progress of Islamic Banking institutions throughout world and held that the mechanism of Islamic banking is more efficient, more just and more stable than the conventional banking system.

The lecture was followed by a session of question-answer and concluded with the presidential remarks of Prof. Nasim. A. Zaidi of the Deptt. of Economics.

### Abu Dhabi Plans to Launch World's Biggest Islamic Bank

The Gulf Emirate of Abu Dhabi is set to launch the world's biggest Islamic bank to take advantage of the growing regional demand for such financial institutions. The capital of the bank, to be based on Abu Dhabi will be higher than the capital of any other bank in the U.A.E.

The Abu Dahabi government has almost completed procedures for the creation of the bank, which will be partially owned by the private sector.

It will be the second Islamic bank in the UAE after the Dubai Islamic Bank (DIB), the biggest Islamic bank in the world in terms of paid up capital, which stood at 420 millions dirham (114.4 millions dollars) at the end of 1995.

As there is strong demand for Islamic bank services in the UAE and other gulf states, it is expected that the floated capital of the new Islamic bank to be quickly over scribed given the large domestic liquidity and investor's confidence in enterprises with government involvement.

The Muslim World

### Conference on Globalization of Islamic Banking : Is Canada Next?

As the thrust continues to operate Innovative financial systems globally, the need to establish Islamic financial Institutions to meet the needs of the hundreds of millions of Muslims world-wide becomes increasingly important.

This conference (scheduled to be held on 2-3, June 1997 at Toronto, Canada) is dedicated to the establishment of an appropriate Islamic financial Institution in Canada to tap the significant financial resources of the North American Muslim community by providing them with a realistic alternative to the existing financial structure. Eminent Shariah Scholars, Economists and financial experts are expected to speak on various topics which include Strategies for Islamic Banks, Islamic Housing, Islamic Insurance, Islamic Banking & Mutual Funds, United States experiences and Harvard University Survey.

### Institute of Islamic Banking Launches Web-Site

London : The London based Institute of Islamic Banking and Insurance, has established a place for itself on the fast-moving world wide super high way.

The institute, which specialises in promoting Islamic banking through various activities including publications, development programmes and a diploma course, as well as participating in research and development sees this as a logical next step in achieving its aims.

An introduction to the institute and details of all its activities, including the publication of New Horizon, is available at the site which can be found at :

<http://www.Islamicbanking.com>.

#### ATTENTION :

**Writers and Institutions of Islamic Economics and Finance are requested to send the bibliographical details of their publications and brief report of their business activities for the benefit of researchers and students of Islamic economics :**

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1. **Ahmad, Mushtaq**, *Business Ethics in Islam*, International Institute of Islamic Thought, (Islamabad), 211 pp. (1995)
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1. **Bashar, M.L.A.**, 'Two Aspects of Exchange in Islamic Jurisprudence : *Re Joinder*' *Review of Islamic Economics*, (Leicestershire, U.K.) Vol. 4, No. 1. 1995 , pp. 1-16
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3. **Loqman, M., Nazneen, S.**, 'Islamic Economics an Approach to Human Welfare: An Evaluation' *Thoughts on Economics*, (Dhaka) Vol.6. No.2, 1996, pp. 24-38
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**ROLE OF STATE IN THE ECONOMY – AN ISLAMIC PERSPECTIVE**, by **M. Nejatullah, Siddiqi**, *Islamic Foundation Leicester, U.K.* 168 pp. 1996.

The book under review is the collection of articles authored by Prof. M.N. Siddiqi. The book visits an important subject against a background of the collapse of State managed economics and imperfection of market economy. The subject of the book affirms the importance of the state in Islamic society and underlines its place as an active agent in the economy.

Prof. Siddiqi in this current volume enumerates the essential economic functions of an Islamic State and examines them in their contemporary setting. He strongly supports his views by verses of Holy Qur'an, traditions of Prophet (PBUH), views of Jurists and early Islamic practices and discusses the subject from an Islamic perspective.

The subject matter of the book is divided into five chapters which are preceded by Prof. Khurshid Ahmad's foreword and followed by an exhaustive bibliography and an Index.

In Chapter one 'Guarantee of a Minimum level of living in an Islamic State' Prof. Siddiqi presents the theoretical position of the Role of State in an Islamic economy and highlights the cooperative nature of Islamic living. He also examines how the Islamic State guarantees a minimum level of living to all inhabitants in the society.

Chapter two 'Public Expenditure in an Islamic State' discusses the principles of public expenditure in an Islamic State. Here the author points out that the scope of public expenditure is determined by *Maslahah* (Public interest) and it is directed towards elimination of poverty, reduction of inequality and promotion of the welfare of the people.

In Chapter three 'Public Borrowing in Early Islamic History' the author shows that public borrowing for development and need fulfilment was adopted in early Islamic history as a source of revenue. Presenting the cases of public borrowing from the time of Prophet upto half of the fourth century A.H., he concludes that the rulers borrowed for need fulfilment and defence purposes even no future revenues were immediately in sight.

Chapter four 'International Economic Relations in Islam' studies the frame work for relations between human beings provided by the Islamic world-view of *Tauhid* and vicegerency. He also tries to explore the nature and scope of role of state in economic relations from an Islamic view point.

Chapter five of the book 'Role of voluntary Sector in Islam- A Conceptual Framework' discusses the role of voluntary sector in the fulfilment of material and other needs within the family and in the provision of public goods. It shows that voluntary sector in an Islamic economy plays a crucial role by supplementing the market mechanism in establishing a just social order.

The present publication highlights different aspects of state functions in the context of the current economic debate from an Islamic perspective. It enables students and scholars alike to have a better understanding of the Role of State in an Islamic economy.



### Religious Economics :- Rejoinder

*In an article "Religious Economics" appeared in 'The Economics Times' New Delhi 1st April 1997, Mr. S. Ambirajan has charged that religious economics aims at protecting the unique cultural characteristics of a particular religion from the onslaught of the assimilative culture from elsewhere, and does not aim at the improvement of economic performances in terms of output or productivity of the society. Here Mr. Sharjeel Ahmad, an undergraduate student, Deptt. of Economics, Aligarh Muslim University Aligarh, critically examines some of the misconceptions on the part of the author and concludes that his reference is irrelevant in the case of Islamic economics as his criticism only speaks of his limited knowledge of this fast growing discipline. Editor*

Interest free economic system is one of the building blocks of Islamic economics. Many western countries have allowed their premises to be used for the establishment of interest free banks or investment houses. Some of the world famous banks have opened windows for interest free deposits, and this is only because they have realised the rising prospects and significance of this concept.

For the upraisal of the economically weaker section of the society, Islamic Economics has a unique provision of *Zakah*. It is obligatory for every Muslim (who is liable) to pay this tax, and he pays it not only due to the fear of tax collectors, but also because he fears the Almighty. Since its rate is quite low, there is a much less chance of tax evasion. It would be significant to point out that many poverty alleviation schemes of the Government fail due to tax evasion, whose rate is sometimes even higher than the rate of taxation; and a steep price hike is a direct consequence to compensate for this tax evasion.

Prof. Ambirajan's statement that "ideologues have to

justify their philosophy of uniqueness in the fast changing world" requires a modification. If Justification of a philosophy of uniqueness does not involve any modification of the philosophy, it means there is a uniqueness in the philosophy, in accordance with the changing world, and logically, it should not be considered uncommendable. Islamic ideologues have tried to justify Islamic philosophy, but definitely, they have never gone for any modification. Islamic philosophy is the only philosophy which is in accordance with the progressing world (it can be proved or justified) and it has not witnessed even a slightest modification for as long as 15 centuries. Circumstances demand justification (not modification) only to show that the Islamic philosophy is uniquely in accordance with the changing world. In this regard, I would like to point out that the Holy Qur'an, which is the basic source of Islamic economics, consists of many detailed economic teaching and a number of principles applicable to the economic life. It also emphasises on the use of reasoning to solve the new problems confronted in the day to day life. This is not so in case of any other religious economics.

The proclamation that "religious specific economic thinking is facing a losing battle" is only a wishful thinking of the author. Islamic economics is a well recognized discipline all over the world. Hundreds of Universities have included it as a paper of study and scores of Universities grant master degree in the subject. Even in India, more than ten Universities have registered topic of research related to Islamic Economics. The very write-up by Mr. S. Ambirajan contradicts his statement (he himself says that a majority of Professors recognise the religious aspect). Instead of adopting a point-blank criticism methodology, he should have undertaken a deep, comparative study of Islamic and other religious economics, which would have enabled him to come out of his umbrage of biased thinking.

*Sharjeel Ahmad, Aligarh*

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