

ETHICAL FOUNDATIONS OF ISLAMIC ECONOMICS

Syed Nawab Haider Naqvi

Islam is a self-sufficient entity, with clearly defined features—an arabesque wherein reside the religious, economic and social dimensions, providentially equilibrated to form a unity. It contains complete guidance for man in spiritual and mundane matters. The Qur'ān has advised all mankind to seek God's mercy in both: "Our Lord! Give unto us in the world that which is good and in the Hereafter that which is good..." (2:201). The way to Heaven, according to Islam, passes through the Earth. In fact, the Qur'ān condemns misplaced self-denial. "Say: Who hath forbidden the adornment of Allah which He hath brought forth for His bondman, and the good things of His providing?" (7:32). Islam's originality lies in unifying the other-worldly and the mundane aspects of man's life, and in establishing a correct equilibrium between them.

The prefiguring vision of man in relation to his environment that Islam presented to the world at the beginning of the seventh century A.D., got obscured as the Islamic world moved away from the Centre. This divergent movement was helped by a decline in the spiritual values among the Muslims and the rise of the cult of materialism in the West. The colonial era, which gathered momentum in the 18th century, also fostered the cultivation and propagation among Muslims of the secularistic-materialistic values of the West. The cumulative effect of all these forces, buttressed by the powerful weapons of modern science and technology, was to undermine seriously the faith of Muslims. In fact, many a frustrated soul blamed Islam for his economic backwardness.

For a time, the victory of the Western value system over Islam's was complete; or so it seemed. However, the West, though it appeared to be regenerated intellectually, had in fact degenerated through spiritual decadence. Excessive materialism, in the end, proved to be self-destructive.¹ There has occurred, as a result, a remarkable resurgence of interest throughout the Muslim world in the Islamic way of life. Economic

prosperity among the oil-rich Muslim countries has forced even the Western countries to take Islam seriously, if only for transitory political ends.

Yet the modern Muslim looks back on the Islamic heritage with bewilderment. The world has come a long way since the Middle Ages. It has become much more complicated than it ever was; and easy solutions, which sufficed in those halcyon days of ascetic simplicity, have become inadequate in the modern world. What is the Islamic 'way' of solving these intricate economic problems? The situation becomes more difficult as we do not have a model Islamic economic system anywhere in full operation, which can be 'simulated' and generalized to form the basis of Islamic economics. No doubt, Muslim philosophers, like al-Fārābī, Ṭūsī and Ibn Khaldūn, wrote extensively on economics;² yet they all belonged to a different socio-economic milieu.

While it is true that the Islamic way of life forms a self-sufficient orbit of social, economic and moral values, it is by no means insular. It is *complete* in terms of given socio-economic parameters, which change with time, but is not closed with respect to future potentialities. In fact, "Islam was given providentially the power to synthesize, to integrate and absorb what was in conformity with its perspective from previous civilization."³ As a living religion, Islam cannot fail to absorb from its surroundings what conforms to its own native genius. In particular, there is nothing wrong with assimilating Western thought into Islamic economics. After all, Muslim philosophers did study Pythagoras, Plato and Aristotle to propound the Islamic point of view on science and metaphysics, in a language which even non-Muslim philosophers and scientists could understand.

How can this task be accomplished in the field of Islamic economics—the task of transforming and integrating into the Islamic pattern the extant economic wisdom, most of which has evolved in the Christian West? It is important to remember that this assimilation and integration cannot be done by an indiscriminate levelling out into uniformity what essentially runs counter to basic Islamic ethical values. The first step in the elaboration of an Islamic economics is to recognize and understand clearly what these fundamental ethical values are, in order to discover the touchstone by reference to which can be established the Islamic (or un-Islamic) nature of given economic principles or economic systems.

THE ANALYTICAL FRAMEWORK

The essence of scientific method is to discover a general theory, which can unify particular theories of a discipline with respect to its central features.⁴ Any such fruitful generalization presupposes a limited number of restrictive hypotheses which can explain a wide range of phenomena. The aim of this article is to outline a "general" theory, which can "span" the essential features of an Islamic economic system. Its basic insight is the observation that Islam's ethical system provides such a "unifying principle."

Our approach in this study, therefore, has been to formulate a minimum number of ethical axioms, which adequately summarize the basic Islamic views on the philosophy of life. Such an axiom system furnishes *the* framework within which to study the concrete objects of an Islamic economy. Then, through the process of logical deduction, we arrive at a set of economic principles which can be recognized as unambiguously Islamic.⁵ The general criterion of accepting any existing "alien" economic principle into the Islamic fold is that it must satisfy all the axioms simultaneously. The choice of this method was dictated by the inapplicability of inductive method for want of a fully-functioning Islamic system.

Such an analytical technique is warranted because the subjective approach, so common in the literature on Islamic economics, must be replaced by scientific objectivism in order to minimize the element of personal idiosyncracies. The four ethical axioms—Unity, Equilibrium, Free Will and Responsibility—described in the next section, seek to provide *a set of necessary and sufficient conditions* for Islamic economics: not only does an Islamic social ordering imply these axioms; but these axioms also imply a social rank ordering based on the teachings of Islam. Such a claim, however, constitutes a refutable hypothesis and needs at least an heuristic proof. The necessary part of this hypothesis is proved if it can be shown that the set of axioms is 'independent'. Its sufficiency also follows from the demonstration in this article that all the basic principles of an Islamic economy can be derived from the given set of axioms.

However, it should be noted that a full validation of such a claim, particularly that relating to the consistency of the axiom system, can be substantiated only by a thorough research on Islam, based on the Qur'an

and the *Sunna*. It may turn out that the set of axioms, stated below, is smaller and may, therefore, be enlarged by adding more axioms to the set. The effect of this enlargement of the set will be to make the criteria of 'acceptability' even more 'restrictive'. Also, in this case the axiom system, described below, will constitute only necessary but *not* sufficient conditions for a truly Islamic economic order. The reverse possibility of the 'contraction' of the existing criteria set can also not be ruled out. It may be argued, for instance, that while Equilibrium is implied by Unity, Responsibility is implicit in Free Will. The set may therefore be contracted to only two, dropping Equilibrium and Responsibility as additional axioms from the set. However, as pointed out later in this study, the axioms of Unity and Equilibrium constitute the vertical and horizontal dimensions respectively of the Islamic ethical system; and are, therefore, (mathematically) 'independent'. The same holds for the third axiom of Free Will, which also is independent of both Unity and Equilibrium. As for the axiom of Responsibility, from a strictly logical point of view, it is not independent of Free Will *and* Equilibrium. However, we have kept it as a separate axiom only for analytical convenience and clarity. This decision is, however, based on 'expediency' rather than on logic. At any rate, our analysis will not be much affected by such a contraction of the criteria set, since its effect will be only to make implicit what in our system is explicit, without invalidating it; which, incidentally, is a decisive argument against any such contraction.

THE ETHICAL VALUES OF ISLAM

Man, in the Islamic perspective, is not the one "fallen" with "original sin", but a theomorphic (*not* anthropomorphic) being, with something God-like in him. The Qur'ān explicitly attests to this exalted state of Man's situation: "So, when I have made him and have breathed into him of My spirit" (15:29).⁶ Like the universe around him, his sinner self has been chosen by God to reflect His glory:" We shall show them Our portents on the horizons and within themselves until it will be manifest unto them that it is the Truth" (41:53). Man could not have been assigned a higher place in the scale of the Universe than be the reflector of God's portents.

By virtue of his exalted station in the Universe, man has the *potentiality* of becoming God's vicegerent on Earth; of walking where angels

fear to tread, and of ultimately becoming crystallized in immortality. At the same time, man is prone to avarice and given to love for material possessions: "And lo! in the love of wealth he is violent". (100:8). Also, "if you possessed the treasures of the mercy of my Lord, ye would surely hold them back for fear of spending, for man was ever grudging." (17:100).

The remarkable thing about Islam's ethical system is that it combines the soaring idealism of man's spiritual ascent with a deep concern for his worldly attachment, which within specified limits, has been willed by God. Its ethics are based on the clear recognition that the basic traits of man's nature can at best be *neutralized* at a personal level; they can never be altogether *abolished* on the plane of our social existence. Hence, while every effort must be made to cure man of his weaknesses, his natural love for self-interest cannot be altogether ignored. No ethical system which suspends natural laws for the benefit of some kind of hypocritical idealism can find any place in a revealed message; for only God knows his creatures best: "We verily created man, and We know what his soul whispereth to him, and We are nearer to him than his jugular vein." (50:16).

This integrated, balanced and realistic view of man's nature and his social role, exclusive to Islam, can be summarized exactly by four ethical axioms.

FUNDAMENTAL ETHICAL AXIOMS

(a) *Unity*: Islam's ethical system, which encompasses man's life on this earth in its entirety, resides eternally 'prefigured in the concept of Unity. This concept forms the cornerstone of the Islamic message and bears out all Islamic arts and sciences.⁷ It shows, within the compass of one immaculate, divinely revealed vision, the inter-relatedness of all that exists. Indeed, in the Islamic view, which is perfectly coordinated and necessary, the Universe, this life on earth, and man himself all form a Unity, wherein the perceptible and the imperceptible, material abilities and spiritual powers coalesce and intersperse with the theomorphic character of man. Through the *direct* knowledge of all things created, that alone makes a unified view possible, the dream of a humanity marching towards the ultimate Truth can be realized on the Earth. The Qur'an is explicit on this point: "But seek the abode of the Hereafter in that which Allah hath given thee and neglect not thy portion of the world." (28:77).

The Islamic ethical conceptualization, *of which its economic system is only a subset*, must therefore be seen from the vantage point of Unity, which can be described as the “vertical” dimension of Islam. According to this view, economics gets integrated with ethics and gains strength from it; for it is only with the aid of Islamic ethics that a rank ordering of economic preferences is possible in an Islamic society. Indeed, an Islamic economic system is meaningless outside of the matrix of an Islamic ethical system.

(b) *Equilibrium*: In addition to the “vertical” dimension, contained in the concept of Unity, Islam has also a “horizontal” dimension, symbolized by Equilibrium.⁸ In fact, Unity carries within itself all the qualities in an “undifferentiated equilibrium”, so that any “rupture” of it is a positive evil.⁹ Equilibrium exists in the very order of the universe: “—He hath created everything, and hath meted out for it a measure.” (25:2); also: “Lo! We have created everything by measure.” (54:49). This fundamental Equilibrium must hold in our individual lives also. The innermost of each individual, itself a living tabernacle of Truth, is not only unified with it vertically as a homogenous whole, but is also equilibrated with respect to the elements within this whole.¹⁰ Within ourselves there is a world of conflicting emotions, wild instincts and errant desires which must be held together in correct balance to produce a balanced and just human being. Furthermore, being an integral part of this universe, man must live in harmony with it.¹¹

The idea of social justice is only one aspect of universal Equilibrium. The Qur’ān enjoins:

“—Be Ye staunch in justice, witnesses for Allah, even though it be against yourselves, or (your) parents or (your) kindreds, whether (the case be of) a rich man or a poor man, for Allah is nearer unto both (than ye are)—” (4:135).

An undue concentration of wealth or of power are both inimical to the Natural Law, since both of these disturb economic and political equilibrium. The Qur’ān ordains: “Wrong not mankind in their goods” (26:183). This injunction warns against producing social and economic disequilibrium. Hence equilibrium must hold in all aspects of human society. And one of the most important modes of realizing Equilibrium is precisely an accord between the sacred Law relating to man as such and the law relating to society.

(c) *Free Will*: Man has been endowed with a free will. This follows from the theomorphic character of man. Only God is absolutely free, but man is also relatively free since God has willed it so. Because of this faculty, man not only has the capacity to become God-like but, exercising his free will, can also deny God.¹² This freedom to accept or reject followed from man's acceptance, even before creation, of a burden which no one else could take. The Qur'ān relates this eloquently: "Lo! We offered the trust unto the heavens and the earth and the hills, but they shrank from bearing it and were afraid of it. And man assumed it. Lo! he hath proved a tyrant and a fool." (33:72). Man alone was thus given the power to choose between good and evil, to separate the grain from the chaff.

His theomorphic character, combined with Free Will, assigns man to the most distinguished niche in the universe. It also follows that depriving man of his natural freedom is to degrade him below his God-given stature and produce disequilibrium in the social framework. Any such move is, therefore, against the fundamental laws of the universe. Hence the absolute need for maintaining it in any viable social ordering.¹³

(d) *Responsibility*: Within the grand Unity that lords over this universe, man is free. However, his freedom must be counter-balanced by "responsibility", if only to satisfy the dictates of nature's equilibrium. Man, having opted for the power to choose, must logically endure the consequences of this power. The Qur'ān is explicit: "Remind (mankind) hereby lest a soul be destroyed by what it earneth." (6:70). The Qur'ān warns:

"Say: O mankind! Now hath the Truth from your Lord come unto you. So whosoever is guided is guided, only for (the good of) his soul, and whosoever erreth, erreth only against it. And I am not a warder over you." (10:109).

The effect of the doctrine of responsibility is to curtail man's natural freedom, mainly by placing ethical constraints on his social behaviour.¹⁴ While man cannot be denied his natural freedom, the cult of unbridled individualism is also not allowed by Islam. Even pure logic should convince us that unlimited freedom implies unlimited responsibility, which is a contradiction in terms. At any rate, according to the Qur'ān, man can take only limited responsibility: "Allah would make the burden light

for you, for man was created weak." (4:28). It thus follows that his freedom must also be limited.

To summarize, the doctrines of Free Will and Responsibility ultimately merge with the law of universal Equilibrium to create a just and fruitful socio-economic order, within the framework of the all-embracing Unity; and maximize material happiness, without depriving man of spiritual bliss.

THE ELEMENTS OF ISLAMIC ECONOMIC ORDER

A practical Islamic economic system entails three inter-related issues (i) We must clearly identify the specific institutional setting, and the ideological framework wherein a distinctly Islamic economic system must operate. (ii) The economic objectives of such a system need to be clearly defined; and (iii) the policy instruments required to achieve the specified policy objective explicitly stated.¹⁵ Our search for an ethically acceptable solution to these problems must be guided by the axiom system stated above, namely, Unity, Equilibrium, Free Will and the doctrine of Responsibility. These axioms are our objective criteria set: anything that does not satisfy these must be rejected. They should also help us compare the existing economic systems from an Islamic point of view and to determine what can and what cannot be borrowed from other systems. Such an analysis is essential because indiscriminate borrowing from "alien" systems, not in conformity with basic Islamic values, is not permissible: Islam cannot be "modernized" by destroying or eroding its highly distinctive ethical base.

(i) *The Economic-Ideological Framework*

The Islamic system has been variously identified with capitalism, socialism, or even with welfare state, without laying down any explicit criteria by reference to which the legitimacy of these conflicting assertions can be tested. The resulting intellectual ambivalence has obscured the vision of a new Islamic economic order. Within the framework of the axiomatic approach adopted in this study, we shall make an effort to find a more probable answer to this problem.

(a) *Socialism*: Is the Islamic framework socialistic? The temptation is great to give at least a partially affirmative answer. Not only in theory, but also in practice, socialism has come to grips with the problem

of ensuring an equitable distribution of income among various social classes. Furthermore, the institution of private property, and with it the parasitic rentier class of feudal lords, has been effectively routed. The equalization of the opportunities of education, culture, medical care etc., has been carried the farthest in socialistic countries, which were the pioneers, the idea-givers and the practitioners, in this area. In terms of the Islamic axiom system, as far as the distribution of income and wealth is concerned, socialism ensures social equilibrium to a much greater degree than any other system. Furthermore, by mobilizing the labour force effectively for social reconstruction, socialism also satisfies the axiom of responsibility.

And yet the answer to the question is in the negative: socialism does not seem to be Islamic. Firstly, and most importantly, socialism negates the Islamic concept of unity in every possible manner: the notion of the mutual cooperation and brotherhood has been replaced by that of class war. The Qur'an preaches the providential oneness of human society by virtue of their belonging to one religion: "Lo! this, your religion, is one religion, and I am your Lord, so worship Me" (21:92). According to the Islamic message, even the differences of sex, religion and culture are a means to unity, based on mutual understanding: "O mankind! Lo! We have created you male and female, and have made you nations and tribes that ye may know one another." (49:13). Socialism, in sharp contrast, slices up societies into classes to promote mutual hatred and distrust. Even the so-called social equilibrium, the Marxian synthesis, is seen only in terms of cataclysmic turmoil in the passage from a thesis to its antithesis. Furthermore, man's material desires have been totally divorced from his spiritual aspirations. This is again a negation of the Islamic ideal of Unity.

Secondly, while socialism restores equilibrium in the distribution of income and wealth, it effectively destroys the most fundamental equilibrium in the distribution of power, political and economic.¹⁶ Thirdly, thanks to the concentration of all power in the hands of the State—in fact the ruling elite—the axiom of Free Will is also violated in socialistic societies.¹⁷ This is by far the most serious violation of Islam's ethical system. As a result, man is reduced in a socialist order to the degrading level of a cog in a gigantic social machine; and even the mobilization of manpower, in which socialist countries take so much pride, is brought about through draconian measures like concentration camps and the so-called

community projects. Islam stands for a more even distribution of both power and wealth; but it rejects an unnatural degree of harshness in work which snuffs out all leisure and happiness from life. The Qur'an beautifully summarizes the deeply humanistic philosophy of Islam: Thus "Allah would not place a burden on you, but He would purify you and would perfect His grace upon you, that ye may give thanks."(5:6). At the same time, Islam does not tolerate indolence, irresponsibility and sloth: "And that man hath only that for which he maketh effort." (53-39). Even more emphatically: "Whatever of misfortune striketh you, it is what your right hands have earned." (42:30). Thus scapegoats, so popular in socialistic thinking (e.g., the capitalists), find no place in Islamic thinking. In this way, Islam induces an even greater personal responsibility than socialism.

Socialism thus destroys social equilibrium by negating human freedom, and dissipating the essential unity of all living things envisaged by Islam. The conclusion thus emerges: Socialism is not only not near to Islam but is very far removed from it.¹⁸

(b) *Capitalism*: Is capitalism, then, any nearer to the Islamic ideal? One can easily be trapped, at the conceptual level, in the following logical fallacy: Having shown that Islam rejects socialism, one might conclude that capitalism may be nearer to Islam since both reject the same system with great vehemence. This is, however, a very dangerous conclusion. Any Islamic edifice raised on such a fallacious reasoning will be the greatest disservice to Islam. The falsity of such reasoning will become transparent when analysed in terms of the fundamental ethical axioms.

Firstly, like socialism, capitalism also fails to realize the unity of life, by overemphasizing man's material values at the cost of his spiritual aspirations. Indeed, the longing for material acquisitions under a capitalistic order soon degenerates into mammonism. This is bad, because worship of money and lust for material acquisitions dulls human initiative and dries up the well-springs of happiness, which comes from creative work.¹⁹ From an Islamic point of view, such an attitude is a fatal diversion of man's efforts, which should instead be bent to the realization of his theomorphic nature. Hence, the acquisition of money has been reduced considerably in the scale of human values in the Islamic perspective. The Qur'an makes this clear: "Wealth and children are an ornament of life of the world; but the abiding things, the deeds of righteousness, are better in Thy Lord's sight for reward, and better in hope."(18-46).

Secondly, capitalism destroys social equilibrium. It allows wealth to get concentrated in few hands on the grounds that only the rich save and invest. The institution of private property deepens social disequilibrium under capitalism and sets up a vicious circle wherein opportunities for material advancement are pre-empted by the owners of wealth. As pointed out above, the Qur'an rejects the closed circle of wealth getting narrower at each turn: "Wealth does not circulate only among your rich." (59:7). The failure of capitalism to keep social equilibrium also follows from its undue emphasis on competition—indeed, cut-throat competition—as a key to worldly success.²⁰ By contrast, according to Islam, life is a matter of mutual cooperation and personal responsibility.

Thirdly, while capitalism safeguards Free Will, it violates the axiom of Responsibility. True, at the collective level, responsibility is forced on individuals through policies like progressive income taxes and death duties, yet the individual in such societies is almost entirely attuned to grabbing rather than giving. Widespread tax avoidance and tax evasion, hidden from the public eye in a labyrinth of complicated legal systems, attest to this insensitiveness of the individual to collective responsibility. In this respect, socialism does just the reverse of what capitalism practices: it overemphasizes responsibility but destroys human freedom. Islam spurns both these attitudes.

Welfare State Doctrine: The development of the Welfare State doctrine in the West, particularly in England and the Scandinavian countries, was accelerated by the establishment of a Communist state in Soviet Russia. The objective was to save the West from communism. This could be achieved only by curing the main ailments of capitalism. The unorthodox Keynesian remedies—so considered in the mid 30's—focused mainly on state intervention to forestall major economic depressions. Before him, the Cambridge economist Pigou had also 'legitimized' state intervention in cases where market profitability of specific investment projects diverged from its social profitability due to the existence of various "distorting" factors—like monopolies, external economies. Under these circumstances the market mechanism cannot maximize social welfare since market prices no longer reflect their opportunity cost.

This brief review should serve to highlight the middle-of-the-road philosophy of a modern welfare state. Let us examine this philosophy in the light of the Islamic ethical axiom system. It may be noted that, like

capitalism and socialism, a welfare state also fails to ensure the unity of material preoccupations and spiritual pursuits. It is exclusively oriented to material welfare. The general orientation is materialistic because of the secularistic outlook of Western societies.²¹ Such an attitude cannot last, even for a short time, in a society reorganized on the teachings of Islam. It is the only religion in the world which calls attention to the theomorphic nature of man, endowed with free will; and capable of unlimited spiritual distinction by reproducing in his individual life that unity which pervades the entire universe.

However, apart from this vital distinction, welfare state is the only institutional framework which, from among the extant economic institutions in the West, comes closest to the Islamic ideal.

It strengthens social equilibrium by ensuring an egalitarian and democratic social order, by enhancing liberty and honour of the individual, by providing unemployment insurance, universal education and by progressive direct taxation.

(ii) *Economic Objectives of Islamic Society*

We next turn to elucidate the economic objectives of a social order founded on Islamic teachings. Again, the basic criteria of judging the legitimacy of these objectives will be the four ethical axioms explained above.

Social Justice: As pointed out above, social justice is an aspect of universal equilibrium, which forms the cornerstone of Islam's ethical system. It implies guarantees for man's innate freedom, with the concomitant social responsibility. Furthermore, social justice is not only economic justice but requires a simultaneous adjustment in all aspects of human life, as ordained by the axiom of Unity. It follows that a "just" society satisfies all of the fundamental ethical axioms and is, *by definition*, an Islamic society.

Such a society is based on two well-known maxims: it must not only secure "from everyone according to his ability", but also provide "to everyone according to his needs." This general principle forms the basis of a welfare state, but is in complete accord with the Islamic conception of what

is socially just. Essentially, these maxims entail an effective 'separation' of the *requirement* to satisfy man's basic needs from his *ability* to earn it. This is exactly what Islam seeks to accomplish at the social plane. The Qur'an makes this point crystal clear: "And in their wealth the beggar and the outcast has due share." (51:19)

However, the redistributive mechanism in Islam is embedded in voluntary submission to God's will: "And bestow upon them of the wealth of Allah which he hath bestowed upon you." (24:33) Persuasion rather than coercion is the basis of the Islamic scheme of ensuring social justice. The act of giving has been exalted to be the noblest virtue of man in pursuit of spiritual salvation. "Ah, what will convey unto thee what the Ascent is! (it is) to free a slave; And to feed in the day of hunger; An orphan near of kin; or some poor wretch in misery." (90:12-14). Such a message touches the human heart with a whiff of morning breeze. No forcible expropriation is warranted for a man prepared to part with his wealth voluntarily: "Who giveth his wealth that he may grow (in goodness)." (92:18).

It should be noted here that social justice is not an absolute objective. For justice is as much ensured by making all men equally happy, as by making them all equally unhappy.²² Also, social justice can as much be the property of a stagnant economy as of a dynamic economy. Islam cannot possibly stand for a justice with unhappiness and economic stagnation. It is a dynamic religion which seeks to maximize man's happiness, not only in the Hereafter, but also in this world.

There is another aspect of social justice. There is a sense in which all men are equal; and there is yet another sense in which they are not. All men are born equal because they all are theomorphic in nature; and have the God-given potentiality of spiritual ascent. However, this potential can only be actualized through the acquisition of knowledge; and not all succeed in doing so. Islam, instead of equalizing, differentiates between those who have knowledge and those who have not: "Allah will exalt those who believe among you and those who have knowledge to high ranks." (58:11) At another place in the Qur'an, these two aspects of man, equality and inequality, have been beautifully brought together: "He it is who hath placed you as viceroys of the earth and hath exalted some of you in rank above others, that He may try you by (the test of) that which He hath given you." (6:166).

Employment and Education: Here we consider these objectives as inter-related: better education leads to technological change, which then is directed to lowering the capital labour ratios in the case of a labour-surplus country and raising it in a capital-rich country. If this sequence holds, more education leads in the long run to more employment. These two objectives, thus, merge into one: universal education.

An Islamic society must distinguish itself by the excellence of its educated class. The seeking of knowledge has been declared to be the sacred duty of man and finding it to be his greatest good fortune. The Qur'ān extols both the process of learning and the learned: "He giveth wisdom unto whom He will, and unto whom wisdom is given, he trully hath received abundant good. But none remember except men of understanding." (2:269) Also God has advised men to pray: "My Lord! increase me in knowledge." (20:114). It is, therefore, clear that the acquisition of knowledge in an Islamic society must be subsidized and the men of learning be assigned to the highest niche. The Qur'ān makes the clearest possible distinction between those who are educated and those who are not: "... Say (unto them, O Muḥammad): Are those who know equal with those who know not? But only men of understanding will pay heed." (39:9).

It follows that the opportunities to educate oneself should be open to all equally, without any regard to the accident of their birth. This observation has a direct policy implication: an Islamic society must provide free universal education to all. This is essential because, starting from a position where men are differently endowed with wealth and property, education has a great equalizing effect in case the opportunities to get it are open to all who deserve. In this way education contributes to social equilibrium. It guarantees human freedom; and brings up the type of people who not only know the worth of their natural freedom but also have a special conscience and are prepared to take up the corresponding responsibility voluntarily. It helps man also to unify, at least in his own person, this-worldly and the other-worldly desires and aspirations.

Economic Growth: As pointed out above, social justice has meaning only in the context of a growing economy. Economic growth enlarges national wealth, which then becomes available for consumption and capital formation. Over a period of time, the main policy objective of an Islamic society shall be precisely to achieve an equilibrium between present and

future consumption. In technical language, the policy-maker will seek to maximize an integral of the flows of consumption over a specified period of time, subject to the all-important constraint of providing enough resources for capital formation.

It must be noted that maximizing the growth rate of national income *per se* cannot be the primary objective of an Islamic economy. This may sound paradoxical; but is true since economic growth is a function of investment, which in effect constitutes a postponement of current consumption and amounts to sacrificing the welfare of the present generation for posterity. In Soviet Russia, for example, untold sufferings were imposed on the generation which lived on the morrow of the Bolshevik Revolution in order to let the national income grow at the fastest possible rate. High rates of reinvestment in succeeding years were used to impose a disproportionate amount of austerity on one generation after another. Most of this growth potential has however been used for defence production to stay one up in the armament race, instead of contributing positively to human happiness.

Such a strategy has nothing to do with the Islamic ideal; for it violates the axioms of equilibrium and human freedom, with an unnatural (and therefore unIslamic) emphasis on responsibility. Since economic progress is bought at a very high price in terms of the sacrifice of human happiness and spiritual advance, a helter-skelter growth falls right outside the unitary scheme of things envisaged in Islam.²³ In sharp contrast to the communist strategy, the welfare states of Western Europe have settled for a lower growth rate, precisely because of their commitment to the egalitarian objectives of social policy which, in turn, set an upper bound on feasible growth rates. Such a humane attitude is in full accord with the moralistic spirit of Islam.

We now come to a very important point: what should be the place of individual initiative in this growth-oriented Islamic economy? The answer should now have become obvious: Islam assigns a central role to the individual, by virtue of the axioms of Equilibrium and Free Will. At the same time, the unbridled individualism of *laissez faire* is also not acceptable since it negates the axiom of responsibility and also upsets social equilibrium. It follows that the regime of free competition must gradually be replaced by an order wherein economic cooperation and social harmony are emphasized. Again, in sharp contrast to socialism, where individual

is completely stifled, and to capitalism where it runs wild, the middle-of-the road philosophy of Welfare State is nearer to Islam than any other economic system.

The upshot of the analysis presented above can be put briefly: an Islamic society should aim at providing universal free education in order to help the individual to realize his God-given potential; and to set in motion an income-equalizing mechanism of great force. Such a policy will also activate, to the fullest extent possible, individual initiative, which in free societies constitutes the primary agent of growth and change. The policy of unbridled growthmanship will be replaced, in an Islamic state, by a more moderate policy which eschews unnatural haste and, along the growth path, makes ample provision for education, health and social welfare. It is only in a dynamic context that social justice has any real meaning. Any justice achieved by a profligate squandering of capital resources is contrary to Islamic prudence, which insists on social equilibrium and human freedom along with individual responsibility.

(iii) *Economic Policies in an Islamic Economy*

Having analysed the basic policy objectives of an Islamic economy, the final question concerns the choice of specific policy instruments for their attainment. It may be noted that, as a general rule, Islam insists not only on the legitimacy of the policy goals but also of the policy instruments, since both must satisfy, or at least be not inconsistent with the fundamental ethical axioms of Islam.²⁴

The specific economic policies suitable to an Islamic society will naturally be determined by its economic objectives. Accordingly, they fall under two broad headings: (a) redistributing income, wealth and economic power; and (b) ensuring economic growth consistent with (a). The policies concerning education and greater employment will be discussed in the context of these two sets of policies. The ultimate test of the "legitimacy" of specific instruments will again be their conformity with the ethical axioms.

(a) *Redistributive Policies*

An Islamic society will have to devise a proper redistributive machinery to correct income inequalities *not only on the margin but also intra-marginally*. Equality on the margin will require, over time, an equitable

distribution of the fruits of economic progress, among various classes of the society. Intra-marginal equality, at any given point of time, will be ensured by correcting the initial endowments of wealth, symbolized by the institution of private property. In economic jargon, the former is a flow concept, while the latter is a stock concept. We will begin our analysis with the latter.

The Institution of Private Property: The institution of private property has three dimensions. First is the right of the worker (in the broadest of the term) to the fruits of his work. If an individual is not allowed the monetary reward of his labour, the creative instinct in him will become atrophied; though this line of reasoning, while generally correct, cannot be pushed too far, for the very best work is done for the satisfaction that comes naturally from all creative work. However, it will be legitimate, from an Islamic point of view, to concede one's right to the income received from his work. The labour theory of value, while formally incorrect and practically unworkable because of the impossibility of "imputation", has an element of truth which must be recognized to avoid unpleasant social consequences.

Second, the right of an individual to own some property in the form of cultivable land or a house can also be socially justified. Everyone needs some security. However, the need for security comes essentially from fear—a fear of the unforeseen. Even the so-called ordinary prudence is mostly nothing but disguised fear. Islam minimizes fear by making man to rely on God's Mercy. The Qur'an is explicit: "Say, O My slaves who have been prodigal to their own hurt: Despair not of the Mercy of Allah, who forgiveth all sins. Lo! He is the Forgiving and Merciful". (39:53). This soul-lifting verse destroys in one sweep fear and awakens hope; for hope is the well-spring of individual initiative on which all creative activity, including economic activity, depends. Within this frame of thought, the desire to own property will be checked, in the same measure as man conquers that fear which arises from purely psychological reasons.

Thirdly, private property is also a symbol of social distinction. What makes it worse, most of such property is not due to one's labour. This is a controversial aspect from a social angle. "Man shall have nothing but what he strives for." (53:39) At the same time, Islam, by the Law of Inheritance, formally recognizes the legitimacy of inherited wealth.

But should this recognition be taken as an unlimited licence for the institution of private property? The Law of Inheritance, so often cited in its support, may itself be considered as a distributive mechanism designed to weaken the *power base* of this institution. This interpretation, read along with the Qur'anic verse just quoted above, points towards an egalitarian rather than a conservative Islamic view. Hence, steeply graduated death duties, which tend to dilute over time this institution, should be consistent with the Islamic ideal. Redistribution of income will restore social equilibrium inter-generationally, and ensure responsibility without compromising human freedom. At any rate, man's unlimited natural right to property has been rejected by Islam. "To Allah (belongeth) whatsoever is in the heavens and whatsoever is in the earth." (2:284). Man holds the right to property only as a trust. "And spend of that whereof He hath made you trustees" (7:7).

However, it must be pointed out that, in the Islamic perspective, private property is not looked upon in a spirit of class war, which is ultimately a destroyer of natural equilibrium. Forcible expropriation and unwarranted nationalization of all land negate the Islamic spirit of solving such issues in an evolutionary context. There can be no doubt, though, that steps should be taken to dilute this institution in order to defuse social tensions. If private property becomes merely a symbol of ostentation and social influence, then a social upheaval cannot be avoided. Furthermore, an Islamic society cannot tolerate a bunch of reactionaries blocking all social reform for fear that it will be directed against them; influence national outlook through their considerable political power, and obfuscate the forces of social change which leads to violence. If Islam is against violence as a solver of social problems, it is even more against the forces and policies which make revolutions inevitable. In any case, all such forces, in one form or another, violate all the ethical axioms of Islam; and must therefore be rejected on these grounds alone. It follows that a sensible mechanism for controlling private property—e.g., land reforms—is warranted if only to prevent an inevitable cataclysmic disequilibrium.

At this point it may be interesting to analyse the Islamic injunction against a positive interest rate in relation to the institution of private property. The owners of wealth, including that which they inherit, can lend money at high interest rates to those who do not have it. The institution of interest rate, therefore, not only perpetuates the evils of the syst fmeo

private property but aggravates it. Through a web of general equilibrium inter-relations the owners of wealth can live in luxury at the expense of the society.²⁵ Thus the abolition of interest rate will plug in one, but only one, source of income inequality. However, this cannot be an end in itself.

From a philosophical angle every dogma is both a "limited idea" and an "unlimited symbol" at one and the same time.²⁶ The abolition of interest rate, in this sense, is only a "limited idea". Logically, one cannot stop at this point. The institution of interest is in a deeper sense also an "unlimited symbol" of social injustices, arising out of a grossly unequal distribution of income and wealth in capitalistic societies—a disequilibrating factor increasing the 'distance' between the haves and the have-nots. If interest rate is abolished but what it symbolizes is left untouched, this "achievement" will not bear any fruit because of the inner contradictions. Even worse, if the abolition of interest rate leads to the adoption of such alternative policies which tend to aggravate income inequalities instead of reducing them, then the whole exercise will not only be self-defeating and wasteful but considerable harm will be done to the cause of propagating Islamic values in the modern world.²⁷

Nationalization: The economic case of nationalizing industries usually rests on the argument that the market does not function optimally to maximize social consumption and production. There is an element of truth in the second part of this argument. It is clearly recognized in welfare economics that market imperfections (e.g., monopolies, and external economies),²⁸ drive a wedge between the market profitability and the social profitability of investment projects. State intervention becomes warranted since, if left to the market, social production (consumption) will be underexpanded.

The question then arises: what *form* should this legitimate state intervention take. It would be logically a *non-sequitur* to argue that the failure of the market to achieve the social optimum is by itself sufficient to prove that the market system should be thrown overboard and all industries nationalized. It must be clearly recognized that the public control of business is not the same thing as nationalization. The State can also regulate the market system, with a view to correcting its imperfections through fiscal and monetary policies. For instance, a properly-designed tax-cum-subsidy policy can remove the wedge between social and market profitability arising from external economies.

The Islamic point of view in this matter can be easily established if it is remembered that an undue concentration of economic power in the hands of the state also upsets social equilibrium, and negates human freedom. Furthermore, such a policy is an expression of distrust in man's capacity to assume social responsibility. The Qur'anic declaration that: "To God belongs whatever is in the heavens or the earth" (2:284) does not necessarily imply state control; for, according to the Islamic perspective, man, in his individual capacity, is perfectly capable of holding God's treasure in trust.

On the other hand, man's innate capacity to assume such a responsibility is no guarantee that he necessarily will: Man does not always realize his theomorphic nature. Thus *laissez faire*, or an excessive trust in the "invisible hand" guiding economic affairs, does not accord with the Islamic perspective as well. Furthermore, the assumption, on which the market system crucially depends, that consumers "reveal" their preferences through their market behaviour and hence production be reorganized to conform to these preference, does not fully agree with the Islamic view point. For just *any* man's preferences cannot be taken as a parameter of the Islamic economic system, without regard to their social consequences.

It therefore follows that economy-wide nationalization does not accord with the Islamic perspective. However, a *considerable* degree of state control of the economy through fiscal, monetary and other economic policies is in consonance with it, for the simple reason that *laissez faire* also negates the Islamic perspective.

Social Security System: There is another aspect of *laissez faire* that is not always noticed. The system of free markets fails also because it does not make an explicit provision for institutions which equalize the marginal utility of consumption among all consumers. It then follows that the state must create some such institutions. One of the most promising policy instruments is a comprehensive social security system, financed out of government's tax revenues—particularly those collected through a levy of *Zakāt* tax. Such a system will provide a minimum economic sustenance to every individual of the Islamic society, particularly the old, the sick and the unemployed among them, irrespective of their ability to earn. Such a system is clearly Islamic since it restores social equilibrium, upholds human freedom by releasing man from the fear of destitution, and enables him to assume, with dignity, his social responsi-

bility. To repeat the terse Qur'anic injunction; "And in their wealth the beggar and the outcast has due share." (51:19) Hence the rich are not doing any favour to the poor if they help them. However, this is not to say that the poor should not feel grateful for such help.

(b) *Growth Policies*: So far we have dwelt upon the redistributive policies in an Islamic society. However, as observed above, a redistribution of income (and of power) is not by itself sufficient to maximize social bliss. It is only in a dynamic context that such redistributive policies become meaningful. For, in a growing economy, a proper redistributive policy will not only ensure the recipients an increase in their relative but also their absolute shares in national wealth. Furthermore, a social system wherein everybody gains is clearly superior to a static situation where only a few gain at the expense of others.

However, economic growth can be accelerated in a variety of ways. There are two main dimensions of this problem: first, economic growth is a function of investment, mainly financed through domestic saving. Second, the human factor in the growth process is also crucial. Both these dimensions are briefly analysed here. This discussion is followed by a brief analysis of *indirect* economic controls.

Saving and Investment: In a dynamic context, the processes of saving and investment are inter-related. More investment requires more saving; but acts of investment can also provoke additional saving. The latter sequence is mostly the characteristic of market economies, particularly in the initial stages of economic development. Corporate sector is relied upon heavily to generate the necessary savings to finance reinvestment activity. This investible surplus grows out of corporate (undistributed) profits, which are then allowed to multiply through a combination of liberal fiscal and restrictive import policies and the absence of any price controls. This sequence was followed in Pakistan during the 60's.²⁹

Such a policy is premised on the belief that only the rich save and invest. Thus a conscious policy of promoting saving and investment through creating inequalities of income and wealth is justified on purely economic grounds, even though it is conceded to be morally reprehensible. However, this theory, which is incorrect from a purely economic point of view also, cannot form the basis of a growth policy in an Islamic society. Firstly, such a policy destroys the unity of moral and economic considera-

tions, so essential in the Islamic perspective. Secondly, it disturbs the social and economic equilibrium. Thirdly, it frees the capitalistic class of their social responsibility; while, fourthly, it compromises the economic freedom of rest of the society. This policy must, therefore, be rejected. However, this is not to deny the corporate sector a proper place in the growth process; but only to disapprove of a more or less *exclusive* reliance on it.

The second sequence of generating more savings directly to finance additional investment requires, in capitalistic societies, a properly-functioning capital market to form the channel through which community's savings are made available to investors. Furthermore, depending on the relative scarcity of capital, it can be made available to prospective users only at a "price". This price, which will always be high and positive in a capital-scarce economy like Pakistan's, takes at present the form of interest rate. A positive interest rate is also required to attract saving and to make up real losses the fixed income group has to take in an inflationary context. The dilemma arises for the policy-makers because Islam prohibits *ribā* (interest, usury) in all its recognizable forms.

The Abolition of Ribā: There are three fundamental considerations, which must be kept in view in analysing *ribā's* prohibition in an Islamic economy. First, while a zero rate of interest may be a necessary condition, it is by no means sufficient for an Islamic economic order: a zero rate of interest does *not* necessarily imply an Islamic economy; for socialistic societies are also marked by the absence of the institution of interest rate. However, an Islamic economy, once fully established, will have no use for interest rate as an explicit policy instrument.

Secondly, rate of interest is a policy instrument and, therefore, must not be confused with the economic objectives of an Islamic economy—which are mainly economic growth, social justice and the achievement of free universal education. As pointed out above, the institution of interest is just *one* fact in the chain of events creating gross economic inequalities. This matter has been analysed in the previous section and need not be repeated here.

Thirdly, although in an Islamic economy, the rate of interest will ultimately disappear, the socially-desirable functions it performs will still have to be pandered to if the economy is to grow at all. In a static context, these functions are: (i) ration scarce capital resources; (ii) promote their economic utilization; (iii) safeguard the real value of cash balances of the

savers in an inflationary context. As argued elsewhere, while the first two functions can be taken care of through a system of investment auctioning, the third can be performed by a carefully devised scheme of indexing the bank deposits.³⁰

The theories usually advocated in this context are those of *shirka* (partnership) and *muḍāraba* (sleeping partnership), which remain to be tested in the real world and hence cannot be meaningfully evaluated. However, on a *priori* grounds, their defects seem to outweigh their merits. Firstly, it will make the economy highly sensitive to business fluctuations. A remedy may be to create a sinking fund into which will be directed the excessive liquidity flowing into the banks in an inflationary period to cushion the losses to be incurred in a depression. In practice, this sinking fund will absorb excessive profits from some industries and finance the losses of the others. On balance, the depositors may end up with a zero or very low rate of return, which will not be enough to protect the real value of bank deposits. Secondly, by the same token, these policies will fail to perform functions (i) and (ii). Thirdly, this system will be very costly to operate. Active participation in business will require recruitment of highly-trained staff to evaluate loan applications. Thus a simple system will be replaced by a complicated system, with an uncertain impact on the economy. This last consideration alone can prove to be a decisive argument against the proposed reform.

In a dynamic context, the rate of interest equals the rate of capital depreciation, a positive rate of time preference and a secular decline in the marginal utility of saving due to its growth.³¹ An Islamic economy, to remain dynamic, will have to make enough provision for capital depreciation. To remain just it cannot arbitrarily force a zero rate of time preference on the individuals, since that would sacrifice the welfare of the present generation for posterity, giving rise to inter-generational inequities. This is a common occurrence in socialistic economies; but an Islamic economy cannot countenance such gross injustices to the present generation. Furthermore, the marginal utility of saving will decline with the passage of time even in an Islamic economy. All these considerations point to a positive "shadow" price of capital. At present, this shadow price is reflected, though imperfectly, by a positive rate of interest. *If interest is abolished, then some other means must be found to reflect a hard economic fact: capital is scarce.* It can be doled out at an artificial price of zero, only

at the cost of a wasteful squandering of nation's capital resources, a cost which the Qur'ān definitely refuses to tolerate: "O Ye who believe! Squander not your wealth among yourselves in vanity....". (4:29)

The Human Factor: In development theory and practice the human factor has generally been neglected only at a heavy cost to society. The developmental efforts have run aground because of neglecting, in the developing countries, the crucial role of individual initiative in the process of economic growth.

The lack of regard for the human factor manifests itself in three main forms: (i) the employment component of investment projects remains minimal because of high capital-labour ratios. The result is "immiserizing growth"—growth adding to, instead of subtracting from, human misery. (ii) The contribution of human ingenuity, as an important contributing factor in the development process, is disregarded. Investment in education, therefore, becomes a residual and is considered to be merely consumption expenditure. (iii) The objective of maximizing growth rate is achieved through organizational efficiency, like in Soviet Russia and China, with no place left for innovative souls, acting in their individual capacities.

As pointed out in an earlier section, the individual cannot be sacrificed in the Islamic framework for the sake of organization. In it the micro socio-economic unit, the individual, springs into significance charged with the task of becoming, not just a cog in a social machine, but the idea-giver and the prime mover.³² An Islamic society will, therefore, subsidize the process of expertise formation by promoting universal free education and by giving monetary and other rewards for meritorious work. The acquisition of knowledge is the highest form of prayer in Islam because it activates the mainsprings of human advancement by enhancing the level of intellectual sophistication.

The first problem of high capital-labour ratios is related to the problem of insufficient technological change, which again boils down to inadequate education. The countries which have developed the fastest in recent years are those which succeeded in innovating new techniques of production, without which no big "leap forward" can take place. The problem of unemployment is also traceable to the failure of the developing countries to invent a technique of production which suits their own resource endowment. These matters have already been discussed in the previous sections and need not be repeated here.

Indirect Economic Controls: The general picture of an Islamic economy, emerging from the analysis presented so far, is remarkably free of both the collectivizing zeal of socialism as well as of the individualistic anarchism of capitalism. The State features prominently in it; but, within the specified ethical limits, leaves completely unhindered the *creative* instincts of the individual in order to maximize the growth impulses emanating from this source. In such a scenario, government's regulatory functions will be performed through monetary, fiscal and investment controls, to enable the market to behave in a socially desirable fashion—i.e., to maintain social equilibrium.

(a) *Monetary Policy:* Complexities will arise for the policy-makers because the rate of interest will be practically abolished in a *fully-functioning* Islamic economy. The Central Bank will thus be deprived of an important policy instrument, impairing its regulatory powers to control the level of liquidity in the economy. The Bank will also have to abandon the Open Market Operations, which it undertakes mainly to keep the interest rate structure—the long term rates and the short term rates—properly aligned. For instance, the government may want to encourage domestic investment by lowering interest rates, without impairing country's balance-of-payments position through an outflow of long-term capital. This can be done by designing the open market operations in such a way that short rates are lowered while keeping up the long rates—the so-called "Operations Twist". An Islamic State Bank will have to find other *indirect* means of achieving such results.

However, in practice, the absence of these two policy instruments will not cripple an Islamic State Bank. In the post-war world even the Bank of England have found it difficult to manage the economy *only* through the manipulations of the Bank Rate and the open market operations. As a result, increasing reliance has been placed on varying the statutory deposit ratios to keep the commercial banks' liquidity at the socially desired level. Even more importantly, "moral suasion", under which occasional "advice" is given by the Bank, is used to persuade the financial institutions to follow proper monetary policies.³³ Neither of these policy instruments, which have also been used by the State Bank of Pakistan with varying degrees of success, runs counter to the Islamic ethical system.

(b) *Fiscal and Investment Policies:* The prohibition of interest rate will also have important consequences for the role of fiscal policy in

an Islamic economy. The government normally allows accelerated depreciation allowances, tax holidays etc., to encourage new investment in specific industries. The wisdom of such over-strong fiscal incentives can be questioned on purely economic and administrative grounds. Such incentives result in a significant contraction of the corporate tax base and make tax administration difficult. However, their legitimacy becomes all the more questionable, should capital resources be provided to industries *literally* at a zero price, which itself will be a substantial monetary subsidy—the extent of the subsidy being calculated as the differential between the shadow price of capital and the zero price. It follows that in case the monetary policy instrument is completely “frozen”, this will result in a corresponding “freezing up” of the fiscal policy instruments also. This is an undesirable state of affairs and reinforces the argument against arbitrarily driving to zero the price of capital, in a regime of widespread capital scarcity. If the rate of interest is *formally* abolished, means must be found to raise the price of loaned capital towards its opportunity cost, say, through investment auctioning. In that case, fiscal policy will still remain economically “operational”.

In the realm of tax policy, the emphasis in an Islamic economy will shift more towards broadening the tax *base* rather than increasing the tax *rates*. This shift in tax policy, which incidentally is in accord with modern thinking in public finance, is warranted by the increasing concern for social justice and economic growth, based on individual initiative. A broadening of the tax base—e.g., by withdrawing overstrong fiscal incentives—will permit a substantial lowering of tax rates, which alone count for the marginal investor. In an Islamic society the overemphasis on corporate saving, usually inflated through a conscious policy of increasing income inequalities, will have to be done away with to ensure social equilibrium. Furthermore, the suggested reform will also de-emphasize indirect taxation in favour of direct taxation, again the corollary of the axioms of Equilibrium and Responsibility.

A distinguishing feature of an Islamic fiscal system should be to establish a *visible* link between taxation and expenditure. This is very important. If the benefits that tax payers themselves receive, or are received by the needy in the society, become visible to them, the psychological atmosphere will be much improved. This will minimize the element of tax fraud. In the Welfare States of Scandinavia the incidence of tax evasion and avoidance is the lowest in the world, by comparison with other

countries, simply because the tax payers know that what they themselves get or what the poor in the society receive, is much more than what they have to pay by way of tax. In an Islamic society, *Zakāt*, which will be one of the many other taxes imposed, possesses this characteristic *par excellence*: not only the tax rate but also the recipients of *Zakāt* funds have been specified in advance.

Of course in modern societies, particularly in developing countries like Pakistan, the need for growth-oriented investment obscures the visible link between taxation and expenditure, but such things should be explained. What is being advocated here amounts to a system of public accountability, the need for which can be understood better if it is remembered that large sums of tax money are lost through fraudulent tax practices. However, such practices cannot really be eliminated unless the taxation system ceases to be unnecessarily oppressive and the public expenditure acquires a "face"—right now it is by and large "faceless"—which can be seen and recognized by the tax payers.

CONCLUSION

We conclude that the first step towards understanding the economic principles suitable to the Islamic perspective on life is to understand clearly its ethical system. However, this system must be summarized into a set of axioms which, in a mathematical sense, must be both necessary and sufficient. Unity, Equilibrium, Human Freedom and Responsibility provide such a set.

After applying this criteria set to the existing economic systems of Socialism and Capitalism we found that these systems do not seem to be Islamic, since they violate almost all the ethical axioms. Furthermore, the Welfare State comes nearest to the Islamic ideal by satisfying three axioms of Equilibrium, Free Will and Responsibility. However, it is not entirely Islamic, since it too violates the axiom of Unity. This also confirms our hypothesis that there exists an imperative need to develop a fully Islamic economic system, because it alone can truly satisfy all the fundamental ethical axioms.

Having established this, the next step is to identify the economic objectives suitable for an Islamic system, and the specific policy instruments which can help achieve them. Social justice, economic growth, universal education and higher employment constitute such objectives, since they

help the society to find a system which can satisfy all the ethical axioms. In our search for appropriate policy instruments we were led to reject abolition of private property and complete nationalization of the means of production on the one hand; and the system of free markets, with an exclusive reliance on the corporate sector, on the other. An Islamic state will also have to impose death duties to dilute inherited wealth and to provide a *minimum* of income to the sick and the poor and the unemployed, *irrespective of their ability to earn*. An Islamic government will, however, be an important regulator of the economy, using mainly fiscal, monetary and other *indirect* controls which regulate, but do not supplant, the market system. The rate of interest will have to go as a policy instrument in an Islamic economy. Its socially-desirable *functions* will, however, have to be performed, simply because the price of capital must reflect its scarcity and a mechanism be found to protect the real value of saving in an inflationary context. An important aspect of the Islamic fiscal system will be to establish as far as possible a *visible* link between tax policy and expenditure policy, with a marked emphasis on public accountability—on giving a recognizable “face” to government expenditure. Furthermore, a better balance will have to be achieved between direct and indirect taxes.

In this study we did not aim at providing a complete economic system. We have rather confined ourselves to introduce a scientific method of analysis, and to set up normative standards which can serve as guide-posts in our intellectual venture into the unknown. Along this perilous road there are opportunities and there are temptations. One may be tempted to accept as gold whatever glitters in the shop window of the West; and act ostrich-like, accepting blithely and mindlessly what is there already, forgetting the intellectual storm that rages around him. The daring souls will, however, like to take up the opportunity to realize their true potentialities—as innovators and idea givers, instead of being condemned eternally to imitate blindly what others do.

In this intellectual endeavour one must always remember that the dark recesses of our thought and the blind spots of our action can never be completely eradicated unless economic systems are founded on ethics which unifies man's theomorphic potentialities and his legitimate material desires, ensures social equilibrium, guarantees human dignity, and prepares men to assume their full responsibilities towards society. Only then will individual initiative blossom forth, innovating and creating, to become the sheet-anchor of a process of change, combining economic growth with social justice.

NOTES

1. For an excellent discussion of this theme see S.H. Naşr, *Islam and the Plight of the Modern World*, (London: Longman, 1975), esp. Chs. 1, 2. At a different level of exposition a similar theme, the essential "naivety" of the modern man, recurs in Firthjof Schuon, *Lights on the Ancient World*, (London: Perennial Book, 1965), esp. Chs. VI and VII.
2. For a valuable discussion of the origins of economic thought among the early Muslims see, Rafiq Ahmed, "The Origin of Economics and the Muslims — A Preliminary Survey," *Punjab University Economist*, Vol. VII, Number 1, June 1969. For a brief discussion of Ibn Khaldūn's contribution to economic science, and the relevant references, see Note 2 of my "Islamic Economic System: Fundamental Issues," *Islamic Studies*, XVI, No. 4, (Winter 1977), pp. 342-43.
3. S.H. Naşr, *Ideals and Realities of Islam*, (London: George Allen and Unwin, 1966), p. 36.
4. P.A. Samuelson, *Foundations of Economic Analysis* (New York: Atheneum, 1947), reprint 1965, esp. Chs. 1 and 2.
5. This approach is known as the 'axiomatic' approach and forms the basis of mathematical logic since the time of D. Hilbert, an outstanding mathematician. Fullest development of such an approach is, however, found in K. Popper, *The Logic of Scientific Discovery*, New York (1959). See also his, "Three Views Concerning Human Knowledge", *Contemporary British Philosophy*, (1956) Vol. III. My attention to this source was drawn by Dr. Aşghar Qādir, Assistant Professor of Mathematics, Quaid-i-A'zam University.
6. All English translations of the Qur'ānic verses quoted in this article are from M. Pickthal, *The Meaning of Glorious Qur'ān*, (London: George Allen and Unwin, 1930). The first number in the parenthesis refers to the chapter in the Qur'ān, while the second indicates the verse (*āyat*).
7. This aspect has been explicitly emphasized in the scholarly work: S.H. Naşr, *Science and Civilization in Islam*, New American Library (1968). However, a complete development of Unity in relation to Islamic social system is given in Sayyid Quţb, 'Islamic Approach to Social Justice,' Ch. 8 in Khurshid Aḥmad (ed.) *Islam, its Meaning and Message* (London: Islamic Council of Europe 1976), However, the analytical edge of Quţb's profound paper, has been considerably blunted because it does not make explicit the horizontal dimension of Islam without which the problems of social justice cannot be adequately handled.
8. The characterization of Islam as having a 'vertical' and a 'horizontal' dimension is made abundantly clear in the profound work: Frithjof Schuon, *Understanding Islam*, (Mandala Edition, Unwin Paper-backs, 1976).

9. Compare Frithjof Schuon, *The Transcendent Unity of Religions* (London: Harper and Row, 1975), p. 114. We have substituted the word Unity for Existence used by Schuon. See also Schuon, *Islam and the Perennial Philosophy*, (1976), (World of Islam Festival Publishing Co. Ltd., 1976). "It is the aim of Islam to combine the sense of the Absolute with the quality of Equilibrium. . . ." (p. 23).
10. In fact, in an 'historical' perspective, Islam itself represents a providential synthesis, equilibrating perfectly and finally the various elements of the Divine Message. As Frithjof Schuon has profoundly remarked, "the equilibrium between the two Divine aspects of Justice and Mercy constitutes the very essence of the Mohammedan Revolution, in which it rejoins the Abrahamic Revolution," *op. cit.*, p. 96. This also explains the logic of the Qur'anic injunction: "So follow the religion of Abraham, the upright." (3:95) For the religion of Abraham represented an "undifferentiated equilibrium", between Justice and Mercy, the exoteric and the esoteric, which Islam providentially sought to re-establish. Indeed, *it is equilibrium which distinguishes the Islamic concept of Unity from that of the Jewish and of the Christian religions and aligns it with that of the original Abrahamic religion.*
11. Social equilibrium must be maintained not only in material terms (e.g., an equitable distribution of wealth) *but also, and even more importantly, in terms of an equitable distribution of self-respect among the haves and the have-nots.* The rich are not allowed to exchange their money for the self-respect of the poor. The Qur'anic denunciation of such upright attitudes among the givers attests to Islam's total commitment to upholding human dignity: "O Ye who believe! Render not vain your almsgiving by reproach and injury, like him who spendeth his wealth only to be seen of men and believeth not in Allah and the Last Day. His likeness is as the likeness of a rock whereon is dust of earth; a rainstorm smiteth it, leaving it smooth and bare. . . ." (2:264).
12. This aspect has been pointed out in the two most profound works on Islamic philosophy by S.H. Naşr, *Ideals and Realities. . . .*, (*op. cit.*); and by Schuon, (1976), (*op. cit.*).
13. Schuon has beautifully remarked: "Islam is a religion of certitude and equilibrium". *op. cit.*; p. 16. Certitude comes from unity, while "free will", if not associated with equilibrium, will result in pure 'noise'.
14. For an excellent discussion of this aspect of Islam's ethical system see Syed Ameer Ali, *The Spirit of Islam*, (London: Christophers, 1922), esp. Ch. 10.
15. The discussion in this section enlarges considerably the analysis presented in my "Islamic Economic System: Fundamental Issues", *Islamic Studies* (Winter 1977), The reader may also consult the admirable piece: M.U. Chapra, "Objectives of Islamic Economic Order," in Khursheed Ahmad (ed.), *op. cit.*, Ch. 11.
16. Bertrand Russell has discussed at great length the central importance of the power motive in human affairs. "When a moderate degree of comfort is assured both individuals and communities will pursue power rather than wealth." He seeks to

prove that power is to social dynamics what energy is to physics. See his, *Power: A New Social Analysis* (London: Unwin Books, 1938), p. 9. If Russell's prescription is right, the concentration of all power in the hands of the State destroys the social equilibrium in such a way as can never be restored by the income-distribution palliatives advocated by socialism.

17. Bertrand Russell has pointed out, "there can be no adequate individual freedom where the state is all-powerful, even if the state be a socialist one." *Roads to Freedom* (London: Unwin Books, 1918).
18. The system that goes under the name of "modern Anarchism", which originated with Michael Bakunin, is subject to similar criticism as far as its economic programme is concerned. However, there is an important element of truth in its political programme which seeks to replace the rule of majority by one of consensus. According to the Anarchist doctrine, the rule of majority can be as detrimental as the rule of minority. "For the divine right of majorities as a dogma is as little possessed of absolute truth as any other." See Russell, *Roads to Freedom, ibid*, p. 50. (This book contains an excellent analysis of socialism, Anarchism and Syndicalism). In fact, the rule of majority is *not* a divine law, according to Islam, if only because it violates the axioms of equilibrium and human freedom. Muslim political scientists ought to ponder this aspect of democracy, which has been generally held close to the Islamic ideal.
19. Bertrand Russell has denounced worship of money, because "it leads men to mutilate their own nature from a mistaken theory of what constitutes success, and to give admiration to enterprises which add nothing to human welfare." "*Principles of Social Reconstruction* (London: Unwin Books, 1916), p. 79.
20. Many an acute social philosopher has noted this. For instance, Russell held the opinion that "all institutions, if they are not to hamper individual growth, must be based as far as possible upon voluntary combination---", *Principles of Social Reconstruction, op. cit.*, p. 25.
21. Asad Ahmed has traced this aspect of the western thought to Christianity: inherited sin, and its mystical—to the average man incomprehensible—redemption through the suffering of Jesus on the cross, erects a barrier between man's spiritual longing and his legitimate desire to live. "See Asad Ahmed, "The Spirit of Islam", Ch. 3 in Khursheed Ahmad, *op. cit.*
22. For instance, Bertrand Russell notes: "There is equality where all are slaves as well as where all are free. This shows that equality, by itself, is not enough to make a good society." *Authority and the Individual*, (London: Allen and Unwin, 1949).
23. Such a growth strategy has also been ruled out in the modern economic literature, which emphasizes the optimization of the *utility* of consumption flows as the most appropriate policy objective. See for instance, Robert Dorfman, "An Economic Interpretation of Optimal Control Theory." *American Economic Review*, 1967. For a discussion of alternative policy objectives, see S. Chakravarty, *Capital and Development Planning* (M.I.T. Press: 1969), pp. 19-24.

24. However, while this principle holds generally, Islamic realism leaves room for exceptions, when "ends may sanctify the means"; also, in appropriate circumstances, "means may profane the ends." Indeed, these exceptions are also a part of divinely revealed vision of Islam, and just one example of Islam's ethical philosophy it never pulls in the webs of individual idealism so tightly so as to exclude collective possibilities. See Frithjof Schuon, *op. cit.*, p. 28. An example of ends sanctifying the means, is the use of force to make the recalcitrant souls see the truth. This is the philosophy behind *Jihād*, which is one of the basic cornerstones of the Islamic teachings.
 25. Bertrand Russell has observed: "The power of lending money gives such great wealth and influence to private capitalists that, unless strictly controlled, it is not compatible with any real freedom for the rest of the population." *Principles of Social Reconstruction, cit.*, p. 87.
 26. Frithjof Schuon, *Transcendant Unity of Religions, op. cit.*, p. 7.
 27. I have argued elsewhere that if additional saving and investment are generated *exclusively* through the corporate sector, i.e., by allowing corporate savings to multiply without limit on the facile assumption that only the rich save and invest, social inequalities will be even more sharply increased with a zero rate of interest. In fact, such a policy is an interest-free loan to the industrialists. In the past, industrialists misused it and contributed to overcapitalization, excess capacity, allocative inefficiency and unemployment. See my, "Islamic Economic System", *op. cit.*, esp. pp. 335-37.
 28. External economies—i.e., extra benefits that are incidental to the main operations of the industry, but accrue free of cost to other users — drive a wedge because the private producers will *not* reckon these extra social benefits, as such since they cannot change any price for them. Social production is therefore unedr- expanded.
 29. For details of this strategy and its consequences, see my, *Egalitarianism Versus Growthmanship* (Islamabad: Pakistan Institute of Development Economics, 1971).
 30. See my, "Islamic Economic System," *op. cit.*, p. 339.
 31. This is the thesis of my (unpublished) study: "Rate of Interest and Inter-temporal Allocative Efficiency in a Dynamic Islamic Economy." (Paper to be presented at the Mecca Conference on the Fiscal and Monetary Economics of Islam, October 1978).
 32. Russell observes "The chief test of an economic system is not whether it makes man prosperous or whether it secures distributive justice (though these are both desirable) but whether it leaves man's instinctive growth unimpeded." *Principles of Social Reconstruction, op. cit.*, p. 94.
 33. For a detailed discussion, see R.S. Sayers, *Modern Banking* (London: Oxford University Press, 7th ed. 1967), Ch. 5.
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