

# THE ECONOMIC ROLE OF STATE IN ISLAM

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## **Section I: Islamic State as a Political Institution**

### ***I.1 The Islamic State's Function***

The first Islamic state was evolved in Madinah at the time of the Prophet Muhammad (Pbuh) and his first four successors. The principles of this state are to be found in the Qu'ran and the Sunnah. The essence of the Islamic state is the notion that "all sovereignty belongs to Allah". The state is one of the means that brings human beings closer to Him.

Consequently, we find a Muslim scholar like Al-Mawardi defining the objective of the Islamic state as "to continue the function of prophethood in safeguarding religion and managing the worldly affairs". Ibn Taymiyah adds that the objective of statehood is "that all religion be to Allah and that Allah's word be supreme". In the same line of thought, Ibn Khaldoon explains the relation between "the management of the worldly affairs" and "Allah's world being supreme" because according to Shari'ah worldly affairs are all considered with reference to their benefits in the Hereafter". Ibn Khaldoon clarifies the function of the Islamic state as "getting everybody to follow the intent of the Shari'ah's rationale in their worldly and other than worldly affairs".

In this definition of an Islamic state's function, two elements can be pointed out as distinct and unique:

First, a system of rationalization is utilized by the state to determine the relevance, usefulness and efficacy of political decisions and the process of their making. However, it is recognized that every political system has its own rationale, and Ibn Khaldoon, himself, distinguishes among three different kinds of political rationalization: monarchic, democratic, and Islamic. The monarchic rationale is based on a set of values that surrounds and nourishes the desire, voracity, and lust of the monarch. The democratic rationale is based on the human reasoning without being value-committed or guided by Godly revelation. While the Islamic rationale is based on the human reasoning which is committed to the divine revelation in both values and methodology.

Secondly, the domain and the scope of the Islamic state covers the worldly affairs as well as the affairs of the Hereafter. The responsibility of the Islamic state towards the members of its society covers their interests in the afterlife in the sense of helping people work toward their own salvation and success in pleasing Allah, in addition to attaining their satisfaction with regard to worldly joys and matters. Imam Shatibi argues that the Islamic state has to make more effort in helping its citizens achieve their goals because: "the interests of religion have absolutely priority over the interests of the worldly life.

Having a primarily religious role for the Islamic state is the cornerstone of the Islamic political system. It represents the principal characteristic of the Islamic system and stands in contrast with the capitalistic democracy (rule by people, for people, and from people) and the communist democracy (rule for people), because both these democracies are limited to the worldly affairs.

Hence, by virtue of its definition and the two fundamental elements arising from it, the Islamic state is uniquely and distinctively characterized as the vicegerent of Almighty Allah, Who is the source of religion. The Islamic state as an institution "represents" Him in promoting religion and administering the world according to His commandments, although obviously, the government is appointed by people and it acts on the basis of their deputation or attorney.

## ***1.2 Implications of the Notion of Islamic State***

On the basis of the preceding definition and characteristics of the Islamic state, one may look to studying their implications. This will be done in the following areas:

1. the priorities of the political apparatus of the Islamic state;
2. the scope of the function of the state; and
3. the limitations within which the state operates.

In all these three areas, the discussion will concentrate on the political and economic aspects.

### ***1.3 Priorities***

In the Islamic state, the safeguard of religion and the supremacy of the Word of Allah are the primary objectives. This is in contrast to modern democracy where the main objective is servicing the national interest of the people, and the welfare state for which the main objective is providing social services to the poor and bringing the society closer to an "economic equality" through the use of social services such as health care, education, elderly pensions, etc.

These differences in priorities have several practical implications. For instance, while the welfare state is service oriented, the Islamic state is geared towards the best implementation and expansion of religion. It was such motivations that pushed the poverty-ridden society of the first Islamic state in Madinah to devote the majority of its resources towards: "taking people out of the worship of creatures and into the worship of God, and moving them from the narrow mindedness of the worldly matters to the vast vision of the whole universe, and from the oppression of religions to the justice of Islam".

Economically, the priorities of the Islamic state represent a clear deviation from traditional welfare economics and policies in terms of objectives as well as measurements. Economic development, economic equality, and economic equilibrium relegate to a secondary place, whereas economic performance in production (of goods and services) in areas that enhance the ability of the society, and especially the state, of defending Muslims and Islam both as a political entity and as a vehicle for worldwide da'wah movement.

It should be noted, however, that there are two levels of social services that are usually provided by the state. The first level of services is provided as a relief to disaster-stricken areas, where the survival of people and the salvation of their properties are at stake. Included in this category are aids and services provided to people stricken by war, famine, production below subsistence level, etc. The second level of social services aims at improving the economic living of the poor.

According to Shari'ah, the first level of social services can be classified as necessities; as such fulfillment of these necessities is one of the functions of the Islamic state. Necessities are defined by al Shatibi as things and services that are "indispensable for the survival of human beings in areas of religion, life, mind, genealogical reproduction and

property" Consequently, the Islamic state is obliged to provide these services and to procure the necessary resources for them even to the extent of imposing special taxes in addition to zakah.

The second level of social services aims at improving the quality of life rather than maintaining it; thus, the Islamic state is not obliged to guaranteeing the provision of these services. However, if there are natural resource endowments or any remainder of zakah after fulfilling other necessities, these may be used for this level of social services.

As for the welfare measurements, it should be noted that the yardsticks of per capital income, and per capital public spending on social services are inadequate in the Islamic society, since they lack the spiritual and religious content of welfare. This can be explained by quoting an example from the life of the Prophet (Pbuh) when a woman came to him and said: "I get fits of epilepsy and my body becomes uncovered; please invoke Allah for me. The Prophet (Pbuh) said: 'if you wish, you can be patient and enter Paradise, and if you wish, I will invoke Allah to cure you'. She said: I will remain patient, and added: but I become uncovered, so please invoke Allah for me that I may not become uncovered. So he invoked Allah for her." Moreover, the concept of richness was defined by the Prophet (Pbuh) as self-contentment by what one has. Also, the concept of modesty is used in the Qur'an as satisfaction with a little to the extent that one appears rich. With the elements of reward (thawab), modesty (afaf) and self-contentment (ghina al-nafs) entering in the welfare of Muslims there is a need for formulating new criteria to measure welfare in order to include those who do not ask for help although they need it.

#### ***1.4 Scope of the state's Function***

The scope of an Islamic state's function goes beyond the worldly affairs of its people. El Awwa, and al Mawardi before him, includes into the duties of the state:

"preservation of faith in its established principles and in the form in which al salaf (the predecessors) of the Ummah had unanimously agreed;

- jihad against those who oppose Islam after calling upon them to embrace it, or to accept protection as non-Muslim citizens, so that the word of Allah is upheld.
- by proclamation of the religion in its entirety".

Consequently, the Islamic state carries a political responsibility for the establishment of religion. This responsibility gives a new dimension to the role of the state which allows it to adopt policies that help Muslims, in the Islamic state, to perform their religious obligations to their best. In reality, this role of the state may reach as far as the individual private practice of worship such as prayers and fasting. Besides, an Islamic state is obliged to protect the Muslim minorities outside the Muslim state and to preserve their Islamic identity:

"... But if they seek your aid in religion, it is your duty to help them..." [Qur'an 8:72.]

Additionally, the Islamic state is responsible to make the "Word of Allah" reach non-Muslims both inside and outside the boundaries of the state. It is further required to exert its best effort to remove any obstacles that may be in the way of the spread of Islam to non-Muslims.

The economic implications of this wide function of the Islamic state include the reallocation of resources necessary for the establishment of religion, the formulation of anti-moral pollution policies in places and environment of work, and the elimination of the morally-condemned goods and services from both production and distribution.

### ***1.5 Limitations on the State Operation***

In the welfare state, two major constraints impose limitations on the conduct of its affairs. They are: the state's commitment to equality via social policy, and its commitment to democracy by voting. The first constraint distinguishes the welfare state from a nineteenth century capitalist state, and the second distinguishes it from a totalitarian socialist state. In the field of economic policy, these limitations imply that the welfare state determines the desired social services and their means of finance by way of majority voting. And in the political field, these limitations imply an increase in the consideration of humanitarian concerns and the protection of privacy in shaping the policies and laws of the welfare state. This is very much expressed in abolishing the capital punishment, treating alcoholics as sick rather than sinful, relaxing the traditional prohibitions in marital bonds, and in treating fornication and adultery as private rather than social offenses.

On the other hand, the Islamic state has two important constraints that are derived from the Islamic ideology: the state's commitment to Shari'ah, and its commitment to shura. Shari'ah is the *raison d'être* of the Islamic state. It can only operate within the boundaries of Shari'ah. Muslim thinkers distinguish between two areas of state operations with regard to Shari'ah's boundaries. The first area is where Shari'ah provides complete prescription of Allah's guidance. In this area the role of the state is limited to a sincere implementation of Shari'ah. This area covers matters like the majority of the rules of inheritance, penal code for major crimes, prohibition of interest, and imposition of zakah.

The second area is where Shari'ah provides the principles and the guidelines for state operations leaving to it the task of shaping the detailed rules and regulations. The second area which is sometimes called "the open area" or "the area of the vacuum" covers issues such as penal code of minor crimes, «ôàïèûç» taxation other than zakah, capital accumulation, resource allocation, organization of the governmental bodies and division of authorities.

The commitment to Shura requires that in all the affairs of the state, the believers (i.e., people) should be involved and consulted . The political decision making must only be done by the people themselves. Islam does not recognize any form of individual or inherited political privileges to any person or group. When facing Allah, "the most honored of you in the sight of Allah is (he who is) the most righteous of you" (Qur'an 49:B ) and since righteousness can only be known by Allah then all people are equal. The Prophet (Pbuh) said "people are all equal like comb's teeth".

## **Section II: The Economic Objectives of the Islamic State**

The economic objectives of the Islamic state are derived from its definition and functions. Muslim scholars talk about the following functions of the Islamic state:

1. public administration, law enforcement and protection of internal and external security;
2. defence of religion and its territory and the promotion of righteousness, and God fearfulness;

3. guaranteeing a minimum level of living for all those whose own earnings fall shorter than satisfying their basic needs;
4. working towards improving material welfare of the society and its individuals as much as possible within the limits of available resources. This includes objectives of economic stability, equality, increasing of employment, social and economic development, etc.
5. management of public properties for the benefit of all members of the society;
6. ordaining that which is good and preventing that which is bad in general and protection and reservation of moral commitment and requirement of members of the society.

From these functions one may derive the essential economic objectives of the Islamic state as follows:

### ***II.1 Economic Objectives of the Islamic State***

1. Achieving of economic capability necessary for strengthening Islamic state in such a way as to allow it to be a safeguard of religion, the protector of the society and its values and a vehicle of spreading Islamic da'wah in the world. This includes adequate level of performance specially in areas of economic development, science and technology, and military might.
2. Working towards securing economic satisfaction of the society in general and promoting general material welfare while guaranteeing the basic needs of its individuals.
3. Maximization of the benefits of public properties, their expansion and use for the benefit of all people.
4. Obtaining necessary financial resources to run the government and spending them in accordance with Shari'ah.
5. Protecting the moral and legal framework and promoting a work environment conducive towards success in the hereafter. This includes ordaining what is good and preventing what is wrong.
6. Maintaining economic justice by preserving social and economic balances, achieving adequate employment for all members of the society and preserving the wealth and income of the people.

Some of the above mentioned objectives may require more elaboration. For instance, attaining maximum level of benefits for the society does not necessarily mean maximum production nor contradicts it. Attaining quantitative maxima is undoubtedly an essential ingredient of the benefits of all people although alone, it is not sufficient; because the Islamic state is also charged with the safeguard of religion and observance of its moral and ethical standards. In other word, material performance should always be coupled with spiritual and moral upliftment.

It may be noted that the concept of asceticism in Islam which is urged in many verses and sayings is only an individual practice which does not interfere with actions meant to affect other people. For instance, a guardian of a minor may not practice asceticism with regard to the guardian's duty of protection and promotion of the minor's material welfare. A guardian is required to achieve maximum preservation, protection, and promotion of a minor's material interests. By the same the Islamic state may not proclaim asceticism in its promotion of people's interests. Consequently, achieving highest possible quantitative production is an important element in achieving the interests of Muslims; although it must not encroach on the distributive and moral aspects of the present as well the future generations. This implies that maximization of interests to people includes the moral, social, material, and religious interests of the present and future generations taken all together. On the other hand, this objective also covers matters related to economic stability in general and stability of the value of money in particular, economic equilibrium and creating job opportunities sufficient to achieve full employment for all labor force in the society.

With regard to the second objective, there is a difference between guaranteeing a minimum standard of living and working toward economic sufficiency. The Islamic state is required to guarantee a minimum level of living for those whose own earnings fall short of fulfilling their basic needs and who could not secure bare necessities through individual means of intra-personal solidarity. One has to distinguish between a minimum level of living and an adequate one. There is a lot of discussion among muslim thinkers and Muslim economists on this concept. What is required, by all means, from the state, from the society, and from the neighborhood is to guarantee the minimum level of living that must be served to everyone and if it is not, i.e., if there is shortage for any person, as you find it in many statements by some sahabah and others, then there would no recognition of any private property i.e. all private properties should be made available towards servicing this objective regardless of any other consideration. All other considerations become secondary in relation to the objective that all

individuals or persons in the Islamic society regardless of their race, religion, and what not, should be guaranteed a minimum level of living, which is a subsistence level. Subsistence level of living can be defined in basically biological terms, adding to them some Islamic refinements which includes for example, clothing that is required for the Islamic way of life, protection from the heat of the sun in summer and coolness of the wind in winter etc. Going beyond that minimum level depends on resources. If there are resources available, definitely these resources belong to the owners, i.e. members of the ummah; and the government, as a guardian of the resources of the ummah, must utilize them in going beyond guaranteeing a minimum level of living. That is, whenever we talk about adequate level and improvement of material welfare of people, that depends on resource availability. Even 'Umar bin al Khattab distributed money to people; and they did not need to work, instead of guaranteeing full employment. But that was only when the state has those funds available. If the state does not have them and if it has to infringe on private property it can do that only for guaranteeing the minimum level of income, but not for the adequate level. The objective of working toward improving material welfare of individuals and society, in as much as the available resources permit, includes economic objectives like stability, improvement of employment both quantitatively and qualitatively, social and economic development, etc. All these come after that.

Now would we consider, for example, education as part of the minimum level of living requirements. My own answer is: I don't know since I can't be sure. As a matter of fact, I expect many people would say: "Yes", obviously. Let me then give you some details. In Shari'ah it is a well known fact that teaching even Qur'an and prayers is essentially the responsibility of the father or the parents, and not the society. Even teaching the basics of Islam is essentially the responsibility of the parents. Teaching a handicraft to earn income is also the responsibility of the father or the parents and not the state. This has been known in fiqh throughout history and we have an example from the time of 'Umar. When a man came to 'Umar having conflict with his father; and in solving that conflict 'Umar asked: "What was the problem?" The man told him: "Well, whose responsibility is it to teach me Qur'an?". He said: "Your father's". The man said: "But he did not teach me. Whose responsibility is to teach me a craft to earn my living through?" He said: "Your father"s. So, the man said: "But he did not teach me that. Whose responsibility is to select for me a mother and a name I feel proud of or at least not be insulted by?" He said: "Your ather's". "But he did not do that for me", the man said. So, he said: "He didn't do all that and how would you expect me then to be good to him?"

Turning to the father, 'Umar concluded: "You abused your son long time before he abused you".

On the other hand, one may argue that there may be circumstances where leaving education to individuals may lead to gross injustice in the society. This should definitely be taken into consideration. But I would not hasten to answer quickly that education, elimination of illiteracy, university education must in Islam be the responsibility of the state. I would rather say: "The issue needs to be carefully studied and, perhaps, we may reach a conclusion that it is essentially the responsibility of the father, or the family, and only in those cases where they can not provide it or they can not provide it adequately or they can not provide it with justice, then the state may step in and only in as much as required. In other words, I don't have to reach a definite conclusion. It looks that at least for those who are rich, there is no responsibility on the part of government to teach their children even from first grade or to eliminate illiteracy. For them, they should pay for education. It should be at their own cost and not at the society's cost.

Historical considerations tell us that in most cases education in the Muslim society was provided either by the family as the father who is basically responsible for its provision or by the third sector - the charitable sector., i.e., mainly the awqaf and sometimes the zakah too. Throughout our history, education was very often offered free by the awqaf institution not by the state resources. In other words, if we consider the education as part of the minimum standard of living, then we permit the state to impose taxes to provide it, we permit it to take even from private properties by any means, and in any ways in order to fulfil this responsibility. But if we consider it as basically an individual responsibility of parents, families, or the voluntary sector, then we may not reach the same conclusion.

A third important objective of the Islamic state is to manage the public properties in order to maximize the interests of Muslims derived therein. When we discuss the public property in another lecture, perhaps there we will see whether Islam propagates a big state or a small state. It seems that to take a position whether we are for a big state or a small state before we look at the types of property that is provided for in Shari'ah would be like jumping to the conclusion before it is available. But I would say that there is a considerable size of the public property and administering it for the benefits of people is an important function of the Islamic state. So, one of its objectives is to maximize the benefits of people derived out of the public property.

With regard to the fifth objective, one may notice that imam Mawardi distinguishes between two kinds of "ordaining what is good and prohibiting what is wrong": public and personal. He says, "There are two meanings. One, intra-personal 'khas'; it applies between individuals that you find a person not doing right or doing wrong and you advise him/her to do the right; and you try to prevent him/her from doing wrong. But he adds, "There are also kinds of ma'ruf and munkar that belong to the society. For example, drinking requires purified or healthy water. This is the responsibility of the whole people together. The state has that responsibility of ordaining this kind maruf and preventing a public wrong such as infringing on a public road, polluting the environment, destroying forests or rivers, placing one's own shop or merchandize on a part of a road and using it as private property, in a way that hinders traffic, etc .....

The last point with regards to the objectives of the Islamic state which may require some comment is preservation of overall social and economic balance. You may call it equity, or tendency towards equity. Looking at the relevant texts that we have in the Qur'an, Sunnah and fiqh, the Islamic economic system has a clear tendency towards more equitable distribution of resources (wealth and income). It has a built-in mechanism to go into that direction. For example, 'Umar bin al Khattab once preserved certain land, a lot of land, for the camels and herds that are collected as zakah and he instructed the officer on it that: "Well, if some poor man comes to you with his few sheep or few camels, let them graze in this land, that is ok. But if 'Usman bin 'Affan and Abd al Rahman bin 'Auf come to you with their herds, don't allow them in. These are rich people. Even if all their cattle is wiped out because of drought, they can lean back to their wealth that they have in the city. But those poor guys have nothing else to lean on. So, you let them in and don't ever let thecattle of 'Uthman and bin 'Auf in". This is a tendency toward more equity and there are many other indications in the Qur'anic verses and other sources of Shari'ah.

## ***II.2 Basic principles related to the economic functions of the government***

While working towards fulfillment of these objectives the Islamic government is required to observe some principles that govern its operations the most important principles are the following:

1. Commitment to the terms of Shari'ah Shari'ah outlines a framework for action that determines what is permissible and what is not

permissible knowing that there is a broad area left by Shari'ah itself for human mind to exercise its role is discovering that which is best within the broad guidelines provided by the Divine revelation.

2. Commitment to the order of priorities given in general by the Shari'ah. Most Muslim scholars accept the order of priorities given by imam Ghazali and imam Shatibi. Both argue that all things of life may be divided in three categories:

- (a) necessities that represent indispensable things and actions that preserve religion, life, mind, posterity and wealth.
- (b) the second category covers what they call needs. Needs are those things and actions without which there may be serious inconvenience in life, religion, mind, posterity and wealth.
- (c) the third category covers those things and actions that improve and refine the quality and the performance of human beings in those five areas.

These two Muslim scholars also discussed priorities among five axioms related to human beings on earth : religion, life, mind, posterity and wealth. They argue that religion comes first then life then mind then posterity and lastly wealth. Consequently, for necessities related to religion one may sacrifice necessities related to life or wealth whereas, for refinements in religion one may not sacrifice needs or necessities of life. The sacrifice of life and wealth for religion is called al jihad fi sabil Allah. There is certain order in safeguarding these basic axioms and the state must observe that order in all its functions. For instance, if the state has some funds to be used for establishing a factory. And, there is a need for baby milk in the society, and there is also a desire for perfume. Would the state build a perfume factory or a baby milk factory? It seems to me that it must start with those essential projects, those that can be defined within the necessities that safeguard and preserve the five basic axioms.

Let us take the same example and put in front of private individuals. If an individual is interested in producing perfume because it is more profitable for him/her than producing baby milk or even basic food stuff, can the state force this individual to abandon his/her profitable perfume project in order to go into the baby milk? It seems to me that an affirmative answer to this question would be very difficult. It may run in opposition to the basics of

Shari'ah. Because a private person is free and cannot be forced to alter his/her preferences that do not contradict a Shari'ah commandment. Let us remember in this regard, that on the individual level, people were using perfume and the Prophet (pbuh) even ordained them on Friday to use perfume saying "take some out of your wife's perfume before you go to prayers on Friday." He said this at the time when some companions and the Prophet (pbuh) himself were putting one or two stones on their stomachs to push it inside out of hunger, and a companion would sometimes fall down in the street out of hunger too. When it comes to forcing individuals against their own will, there is a lot of barriers before the state can infringe on the individual freedom and a lot of justification would have to be presented before such a limitation on private ownership may be permitted in Shari'ah . This is not the case, however with public funds. They definitely must be used in accordance with that priority of the people and to serve their best interests following the priority order mentioned earlier.

3. Strong interrelation between the functions/objectives of the Islamic government and availability of resources This means a strong link between public revenues and expenditures. It can be observed by looking carefully at the different kinds of public revenues in the Islamic system. Some of these revenues, e.g., zakah is strictly designated to fulfil certain objectives and it may not be diverted towards others. On the other hand, there are certain public revenues whose utilization is not restricted and they can be utilized to achieve any of the objectives of the Islamic government. These include kharaj, and revenues from the public properties.

This kind of inter-relation is also found when one looks at the discussions of the Muslim scholars about the permissibility of imposing taxes, e.g., while all Muslim scholars agree that imposing of any taxes to fulfill wishes, pleasures and private interests of the rulers is strongly prohibited, many of them argue that if there are necessities for spending, the Islamic state may impose taxes to the extent of those necessities (See, for instance, Abbadi, Vol. II, pp.288-289 and Qardawi, vol. II, pp.981-982). In other words, there are functions and expenses for which the government may use any available resources and if there are no available resources then it may take from the private resources.

But there are functions for which you cannot do that nor can you take from individuals in order to achieve them. For instance, if there are hungry stomachs in the society or defence needs, they must be fulfilled even if it were at the expenses of confiscating the private

property of the rich. On the other hand, you cannot do that for other purposes, such as promoting employment or university education unless related to the security or the defense of the ummah.

4. Adherence to the principle of economic freedom and protection of private properties:

The Islamic Shari'ah emphasizes that human beings are authorized over their private properties; they dispose of them the way they like; and they are completely free to take their decisions with regard to their own properties. Private ownership is protected by Shari'ah itself and not left to the authority of the government to eliminate, restrict or limit. Private ownership is protected in Islam vis-a-vis the government itself. It must be noted that presence of a few prohibitions in Shari'ah is by no means a restriction on economic freedom because any social order requires certain organization of transactions and inter-personal relationships; and those prohibitions are only imposed to the extent that is necessary to preserve the religious values, moral standards and social order. After all, every society has to choose certain for a social organization that put caps on certain individual activities one way or another.

Additionally, let us take a look at what is prohibited on the level of individual behavior, only a few things that are usually harmful. You can produce anything, you can enter any market, you can buy any commodity, you can quit producing, you can be employed, you may select to be self employed, etc.

5. General interests have priority over private interests:

This principle establishes that individual interests may be foregone if this is necessary for preserving the interests of all. However, a public interest for which such a sacrifice may be tolerable should be certain, indispensable and can only be achieved through this sacrifice.

6. The principle of social duties:

Shari'ah introduces a unique concept for things that are needed in a society requiring collective action, whereby it establishes individual responsibility and accountability for fulfillment of these social duties, i.e., a social duty is coupled in Shari'ah with an individual responsibility of all those who are capable of discharging of the social duties. Until and unless a social need is fulfilled, individuals are personally responsible for its fulfillment. This personal and individual responsibility is only relieved if the social duty is achieved by any one. This concept is called fard al kifayah «ô»û-

it allows the society to dispose of things that require collective action by means of political decision making.

Beyond those social necessities, any obligation that may be created by the government can only be justified by the individuals' acceptance and nothing else. That is, whenever you talk about say a traffic law that is not in Shari'ah, and you want to force people to stop at the red light, which is not obviously in Shari'ah, such an action can only be justified by the votes of people. It can only be on the basis of people's acceptance either directly or by their representatives, i.e., by the public vote. This public acceptance, while discussed in some detail in my other lecture, was in the early Islamic state very much binding with regard to voluntary public revenues. The Prophet (pbuh) did not collect any tax except zakah. He depended on voluntary contributions, and whenever he had any project, he would call for people to volunteer to finance that project. Obviously, if no people volunteered to finance the project, it would have been scrapped, because people didn't like it. This is the principle that justifies any government-imposed obligations or restrictions that are not already existing in Shari'ah.

7. Shura:

Shari'ah also requires that decisions in the society be taken in accordance with principle of shura. This principle is based on the verses of the Qu'ran and is applied in accordance with the sayings of the Prophet (Pbuh): "Human beings are like comb's teeth". This requires that with regard to shura, people may only be treated equally; and in a metropolitan society of today's world, it can only be fulfilled by voting.

### **Section III : Means of fulfilling the objectives of the Islamic state**

The tools available for the Islamic state to achieve its objectives are the following:

1. Changes in the volume of production and employment in the public sector
2. Tools related to promoting private sector's activities.
3. Public sector's pricing
4. Fiscal policy

5. Monetary and credit policy
6. Investment of public sector's properties and surpluses.

### ***III.1 Changes in the volume of production and employment in the public sector***

We shall see when we study the principles of ownership in Islam that the Islamic economic system designates considerable part of material resources in the society as public property. Public property, according to the Islamic view, includes minerals on the surface or underground, major energy sources such as waterfalls, land not unutilized in the production process, etc. The economic public sector is based on public properties. This provides an effective tool for introducing changes in the major economic variables by means of changing the volume of production and employment in basic industries like extraction and energy. Obviously those changes will have influences on other economic sectors as well as on aggregate demand in the economy.

### ***III.2 Tools related to promoting private sector's activities.***

The Islamic state is assigned a significant role in elevating and stimulating the private sector. In addition to its traditional role in maintaining law and order, the following points are emphasized in the Islamic literature on economics and fiqh.

- a) In the Islamic system, an important use of public property is its distribution to individuals in order to encourage and help them make productive projects. The Islamic jurisprudence calls for this practice. The Islamic principles of iqta' (giving away public property). Detailed rules of iqta' are given in fiqh books. These rules suggest that distribution may be on a permanent or temporary basis, it may be free or for a nominal fee, but insist that in all cases such distribution must serve the interests of the society and must not be restricted to selected individuals or groups except the poor.
- b) Land which is not owned by any body is let free for all potential users. Revivification of land and making it productive through land reclamation and improvement is called ihya' in fiqh literature. This system entitles the person who revivifies it to claim full ownership of the land.

- c) Except in very limited cases, which can be described as cases of daily needs, state-owned lands were entrusted to individuals against some rental fee by the Prophet (Pbuh) and the four Khalifahs (Caliphs) after him. This principle was applied by the Prophet (Pbuh) to the lands of Khaibar and Fadak in the northern part of the Arabian peninsula and later, on a mass scale, by the second Khalifah, 'Umar, to the lands of Syria, Iraq, Persia and Egypt. These lands are known as the lands of kharaj. The implication of this principle is that public property should best be invested by means which link it to the private incentive of profit making as far as possible. Furthermore, the Islamic state is not encouraged to engage in economic activities that compete with the private sector. The rare cases when the state decided to run its land directly by employing workers were those lands used for grazing livestock collected as zakah or horses designated for soldiers. This is called a public hima and it was applied on a very small scale to a few plots of land only. Here again, the fiqh writings provide many details stipulating the conditions of public hima, its objectives and its permissible utilization.
- d) The Islamic state is also assigned the responsibility of helping, encouraging and supporting the private sector. An often narrated parable is the story of a man from al ansar who came to the Prophet (Pbuh) asking him (for financial help). [The Prophet (Pbuh)] said " isn't there anything in your house? [The man] said, yes, a piece of cloth part of which we use as a cover and part of which we lay [on the floor] and a jug with which we drink water. [The Prophet (Pbuh)] said: bring them to me. Then, he brought them in; and the Messenger of God (Pbuh) said: who buys these two (things)? A man said: I buy them for one dirham. [The Prophet (Pbuh) said: who offers more than a dirham? [He said that] two or three times. [Another] man said: I take them for two dirham. [The Prophet (Pbuh) gave them, took the two dirham, gave them to the man from al Ansar and said: buy food with one of them and send it to your family, and buy an axe with the other and bring it to me. Then, with his own hands, the Messenger of God (Pbuh) tied it a piece of wood (as a handle) and said to the man: go cut (fire) wood and sell it, and let me not see you for fifteen days. The man went on cutting and selling wood, then, he came with ten dirham which he gained. With some (of the money), he bought a piece of cloth and some food... The Messenger of God (Pbuh) said: This is better than begging which will come, on the Day of Resurrection, as a dark spot on your face. (Reported by Al Timidhi, al Nasa'i, Abu Dawud and Ibn Majah).

The behavior of the Prophet (Pbuh), in this incident, indicates that the state is responsible for helping private individuals find decent employment which suits their capabilities. It is worth noticing, however, that resources of both the individual and the state, in addition to publicly free goods, were utilized in the process of finding remunerating work for the unemployed. Moreover, the state's responsibility toward the well-being of all Muslims in general, and its citizens in particular, thus includes the obligation to help them support themselves, thereby raising their standard of living.

- e) Taxation is a last resort in the Islamic economic system. In principle and in general, private property is protected even against taxes. The Islamic state can only impose taxes as an ultimate solution and after exhausting all other means. Even when they are levied, they can be levied only to the needed extent and they should not be a means of penalizing the wealthy. To this, one should also add the protection of private property against confiscation, usurpation or any kind of seizure by the state or any other authority or individual.
- f) Shari'ah (the Islamic law) also provides another protection to private investment under what is called the principle of private hima. Hima literally means protection. If a person digs a well at a place, other persons are not permitted to dig well(s) within certain radius of that well in order to protect its sources of water. This principle has several other applications in agriculture, industry and retail trade. Similarly, Shari'ah recognizes a right of pre-emption in both private and public land and other forms of investments.
- g) The institution of al hisbah is another means for supporting the activities of the private sector. The responsibility of this institution is to see to it that moral and ethical norms, and safety and health conditions are observed by all actors in the market, and to maintain an environment in which fairness and prosperity can prevail.
- h) The social insurance system in Islam is structured to support and promote the private sector's activities and initiatives. Among other things, it provides for the poor and the needy, regardless of any contributions they might have made in the past; it includes a guarantee of dependants, orphans and handicapped; and, provided resources permit, it has a debt insurance scheme which covers all legitimate debts in society if the debtor fails to repay them. The principal source of financing social insurance is zakah which is a well-defined tax on wealth and income. Most of the regulations of zakah, including its rate structure, subjected items of wealth and income and its exemptions, are given in the texts of the Qur'an and the Sunnah, and cannot be altered by man.

The institution of zakah also provides a sort of debt payment guarantee scheme under the item of gharimin. Gharimin are those who are under the burden of debts. The origin of these debts must be lawful such as legitimate business, trade, provision for self and family, carrying a responsibility of blood money or any other financial responsibility in the process of reconciling disputes among people or tribes, and so forth. What is relevant here is that it includes business debts. Disbursement to gharimin is mentioned in the Qur'an as one of the eight categories for which zakah proceeds may be spent. Such a guarantee would encourage individuals to be innovative and venturesome in business.

### ***III.3 Public sector's pricing policy***

This is a selective policy whereby the state permits certain sectors by providing them with concessional prices of energy, mineral products and other goods and services produced by the economic public sector. For instance, promotion of rural development may be enhanced by lowering electricity prices in rural areas, cheaper water and cheaper transportation if the government provides those kinds of services.

Discriminatory prices of public sector products may aim at privileging selected group of consumers, selected geographical locations or selected sectors and industries.

It may be noted at this point that there is a need for studying the issue of discriminatory pricing of public sector products from Shari'ah point of view specially if price policy relates to products of what is called in Shari'ah community property «*al-mal al-<sup>1</sup>amm*» - Community property is based on the saying of the Prophet (Pbuh): water, fire, grazing pasture and according to one version of the saying) salt are common among all people. The implication of this saying is that people must be left free and equal to extract by their own means any amount they like of this community property. If, for technological reasons, the government produces the services related to community property, then a question arises of whether the government is permitted in Shari'ah to discriminate in its pricing between different users. A partial answer to this question may be affirmative if discrimination is made only to privilege the poor and the needy. This is based on resemblance to land reserved as *hima* «*al-hima*» whereby, according to many Muslim scholars *hima* land may privilege the poor and the needy but it is not permissible for the rich to have any privileges over

the poor in the land of hima. Other forms of discriminatory prices of community property would require more detailed fiqhi analysis.

### ***III.4 Fiscal policy***

The Islamic state can also utilize fiscal tools for promoting the objectives of the Islamic economic system. Fiscal tools include variations in taxation whenever taxes are imposed, variations in public expenditure and changes in public debt.

However, fiscal policy tools must always be guided by the principle of distributive justice required according to the Islamic view point. No tax may be imposed on the poor and fiscal privileges may not be given to the rich in comparison with the poor.

Tools of public debt are obviously restricted to those which do not involve interest. There is a variety of public debt tools which may be based on the principle of ownership such as Mudarabah, Sharikah and ijarah certificates. Additionally, public debt tools based on the sale principle of financing can also be issued from an Islamic framework.

Lastly, zakah itself can be used as a tool of fiscal policy although it is not disputed that zakah rates are fixed as stated in the sayings of the Prophet (Pbuh), the timing of collection and distribution of zakah, and the monitorization level of its collection and distribution ( i.e., the percentage of zakah that is collected and/or distributed in cash or in kind) are issues left to the authority of the state and manipulation of timing and monitorization level may be used as tools for influencing the economy.

### ***III.5 Monetary and credit policy***

Monetary policy tools include changes in the supply of money through changes in reserve requirement, credit ceiling and open market operations on Shari'ah permitted financial certificates. They also include credit discriminatory policy that aims at promoting (discouraging) certain economic sectors and industries.

### ***III. 6 Investment of Public Properties and Surplus of Public Sector***

Not all revenues from economic public sector and from the public properties need to be distributed for public consumption purpose. Some of them may be re-invested in expanding the public property by integrating more industries under its fold. Development policy may specifically benefit from investment of the surplus of the economic public sector.

Economic public sector may also expand with the help of financing from the private sector through Islamically permitted certificates.

## **SECTION IV : Constraints on the Economic Activities of the Government**

The Islamic economic system, being based on the Divine revelation, provides principle and ideas in establishing a balanced relationship between government and individuals, i.e., the extent of government powers and authorities is not left to human reasoning alone but guided by a sort of constitutional boundaries and guidelines given by the revelation. This, in fact, makes the Islamic system unique since it is the system itself that protects individuals vis-a-vis the government. In this Section, I will deal with these institutional constraints that are derived from the Islamic politico-economic system.

There are two categories of constraints about the government activities in the Islamic economic system. First category relates to the general activities of the government in the economic arena and the second category relates to specific constraints that apply only to the use of certain kinds of public properties/ revenues.

### ***IV. 1 General Constraints on the Government Economic Activities***

#### **1. Application of the Principle of distributive justice**

I do not need here to reiterate the importance of the principle of justice in the Islamic system in general and throughout the Islamic economic system in particular. Islam itself is based on justice and you find this principle essential in all the writings on Islamic economic system. The application of the principle of justice with regard to the economic behavior of the government requires fair distribution of land not utilized in production among individuals who can bring in the production process, equal opportunities for jobs, equal opportunities to benefit from the projects of the public sector, maintenance of balance in the society between geographical areas, sectors, occupations, etc. It also requires that no economic privileges and favors may be given except to the poor and the needy. An example of application of principle of justice in the use of public resources is that which is given by the Prophet (Pbuh) when Abyad bin Hammal asked to be given a plot of land from which salt can be extracted. The Prophet (Pbuh) accepted that and granted him that land but he was immediately informed that quantity of salt of that land was very big to the extent that it created socio-economic imbalance in the area, he withdrew the grant and kept that salt land for all people of the community to use with equal opportunities.

The principle of justice also requires that any new investment decision taken by the government should also be based on equity and balance between geographical area, sectors, rural and urban areas, categories of employment, etc. so that the benefits of these investments may either reach all citizens or the distressed groups alone but certainly must not be distributed in such a way as to benefit and/or privilege the rich instead of the poor.

## **2. Avoidance of what is prohibited in Shari'ah**

The Islamic Shari'ah has its own set of prohibition that applies to the government behavior as much as to individuals and the government is required to abide by the rules of Shari'ah in this regard.

## **3. Government favors and privileges**

The Islamic Shari'ah has also a set of rules regarding distribution of favors and privileges by the government to the people. These privileges may include land grants which is called iqta'. They also include appropriation of certain land for certain uses by the government and/or by the community which is called hima, subsidies and tax privileges, licencing

and other non-monetary privileges, etc. All these grants, privileges and subsidies must be distributed in accordance with the public needs and/or relief to the poor. This means that the Shari'ah strictly prohibits distribution of government favors and privileges on the basis of family relations with the ruling individuals, social and political power or wealth, etc.

There are examples from the behavior of four Khulafa' strictly indicating the application of this constraint. For instance, distribution of grants the Islamic government during the time of 'Umar did not give any privilege to 'Umar and his family and he himself declared that he treated public property and public revenues as if they belonged to an orphan for whom he was only a guardian.

#### **4. The Constraints of Balance with the Private Sector**

The Islamic economic system creates a balance between public and private sectors. If a good part of economic resources in a society is assigned by the Islamic system to the public ownership, that was not meant to reduce or eliminate the private sector. The economic public sector is not supposed to overtake the whole economy or even most of it.

The Islamic Shari'ah provides detailed boundaries for each of the public and private ownerships in such a way that determines the scope and role of the economic public sector. The first and most important field of activity of the economic public sector is extraction and energy industries. Although nothing in Shari'ah prevents the economic public sector to go in other industries, the nature of the Islamic economic system does not allow this kind of expansion on behalf of the activities of the private sector. As we have seen earlier the private sector is considered the essential source for investments. The private sector is also the source of zakah, the third pillar of Islam, other financial obligations, spending on family and relatives and charity. On the other hand, inefficiency is a general characteristic of the economic public sector because of lack of personal incentive and because of the bureaucratic burden which is indispensable. This has been talked about in the classical literature one finds it by looking in the history of Islamic economic thinking since Ibn Khaldun. This calls for even more constraint on the economic public sector that restricts it from competing with the private sector in areas where the latter can be more efficient and more successful.

In order to derive the Islamic guidelines that outline the relationship between the public and private sectors and the constraints on the public

sector in this regard let us have a quick survey on how Islam treated land utilisation and exploitation of minerals, rivers, springs and forests.

With regard to the exploitation of land that was not economically utilized before, the Prophet (Pbuh) provides the concept ihya'. This concept requires that individuals, by using their own means, are fully authorized to revivify and reclaim unutilized land. They are, in fact, encouraged to do so by offering them the right of ownership on such land. This principle is a corner stone in Shari'ah for encouraging the private sector to take up productive initiatives, while it was possible that the public sector may take monopoly of this kind of land and utilize it by its own resources specially that such a practice was also made on a small scale and to the extent that is need for protecting public properties. For instance, the Prophet (Pbuh) made hima, i.e., certain lands designated for exclusive use by the public sector. This was done with the pasture land preserved for camels taken as zakah and horses reserved for the army.

Also when the Prophet (Pbuh) opened Khaibar, he preferred to keep the land cultivated by the private sector although the land was made public property and he only took a rent from the farmers. This was repeated on a large scale during the time of 'Umar for the newly conquered land of Syria, Iraq, Egypt and Persia. Both two instances indicate a preference towards encouraging the private sector's initiatives and restricting the public sector with regard to land to a background position, i.e., providing lands to farmers and encouragement to developers.

With regard to exploitation of minerals, the Shari'ah selected a different position for this activity by assigning it to the public sector because their benefits relate to the whole ummah (community).

The same thing applies on rivers, springs, forests, etc. They are left at the public sector because all Muslims are partners in these resources.

From the preceding discussion the following principles may be derived:

- a) In every case where the private sector can provide efforts in promoting production and development, the government must leave that industry for the private initiative. The government is also required to encourage and support private initiatives without sacrificing community's interests. The latter may be done by imposing certain fees or rent for the use of public properties by private individuals.

- b) Whenever the public sector can cooperate with the private sector by invoking profit and incentives, the public sector should opt for that. This is clear in the case of agricultural land which is owned by the public sector and rented to private individuals for a agreed upon rent.
- c) In those cases where public industries can only be secured by direct investment such as hima the government should take direct action and direct investment.
- d) In all those cases that the interests of the ummah or a segment of it are at stake in such a way that people's interests suffer if that project is left to profit drive of the private sector the government should also take initiative and take charge of such projects.
- e) Exploitation of minerals may be done through franchises, given to the private sector provided that the public interests are not affected specially in areas related to size of production, employment and prices of output. This is obviously in addition to 20 per cent obligation of zakah.
- f) The economic public sector should follow a policy of gap filling so that it will undertake those projects that are either pioneering or necessary from the public point of view, and are not advanced by the private sector with the ability of reallocating them to the private sector as much as possible.

## ***IV. 2 Special Constraints***

In this regards we will talk about three kinds of constraints with regards to awqaf, zakah proceeds, and community property.

In awqaf, it is known that waqf estate is not really a public property but a property designated for special purpose. It is generally a charitable third sector. The government is not permitted to divert uses of awqaf property from original designation. Zakah proceeds are designated in the Qur'an for eight categories of recipients. Here again the government is not permitted to divert this resource from the Quranic designation to other use although such other usages may very well fall within the public interests.

Lastly, we have seen earlier that projects based on utilization of community property are distingusihed from other public property, since they may have restrictions of providing equal opportunity and equal accessibilty to the output of these projects for all members of the community.

## DISCUSSION ON ECONOMIC ROLE OF STATE IN ISLAM

Chairman: There is no doubt that one of the objectives of the state in Islam is to promote the right of life and to advance the Islamic economic system. And it is indeed the state, as you know, which will actually give me inner life (or, light) to the theory and prove its success or failure in providing a viable system. And Alhamdu Lillah I believe that the paper given by Br. Monzer provided a very valuable insight in the major issues under this topic and I trust, Insha Allah, that the discussion will indeed enrich the subject and add underwheel.... (or, render) more or deep insight in understanding these basic issues. I would like to open the floor for questions and comments. Please try to be as brief as you can. I would like to adopt a little bit modified system. I would prefer that as long as the room is small and that every one can speak, ask his question himself, be brief and precise. And the only thing/ problem will be the hustle with the microphone. So, please you can start with any question you would like to ask.

Question: Bijan Latif from Ministry of Economic Affairs and Finance, Iran  
First of all, I would like to thank Dr Monzer Kahf for his very good speech, and I would like to ask a question: "Besides zakah, it seems to me that there should be some kharaj. The role of kharaj should be very important in the fiscal affairs of Islam, especially if the zakah is not enough for the state or the government. Thank you very much."

Dr. Kahf: The issue of taxes will be discussed in another lecture. However, the word 'kharaj' will be used was used historically to mean the rent of the land owned by the state, that is owned by the all Ummah as represented by the state. So, this is the historical use of the word 'kharaj'. It has started at the time of the Prophet (pbuh) in Khaybar and then it continued for the conquered land that was made public property and owned by the whole ummah during the time of 'Umar and after him.

In brief, zakah is designated for certain usages, it can not be used for outside these usages, i.e., the eight categories mentioned in the Qur'an. The government depends on the availability of other resources especially from public property, to finance its operations. Obviously if there is sufficient revenues from public property, you don't impose any taxes, because you don't need them. But if there is no sufficient other revenues, then you go and talk about taxes. To impose a tax on land owned by Muslims and call it 'kharaj' is not consistent with the idea of kharaj. Kharaj historically means rent of the land owned by the Ummah and given to the private sector, to run and cultivate. That rent is called kharaj. But, as a Muslim, why should you impose kharaj on me? Because the land I have is mine not the ummah's. Even if you need the revenue, you talk about taxes not kharaj, that is a different issue. Any way, we will discuss it in some detail, Insha Allah, when we talk about public finance.

Question: This is Habibur Rahman, Rajshahi University, (Bangladesh). Thank you brother Monzer Kahf. I have some comments, first, in respect of imposition of Muslim Law of Inheritance. Unless this Law of Inheritance is imposed emphatically, you know, there will be a lot of troubles and problems, in Bangladesh especially with regards women's part of inheritance.

And the second, there should be special mention about women. Because women are, more or less, in global context deprived of their rights and roles under the global systems. So, how the state can help in getting the resources of women promoted, developed and involved in the process of production and distribution. I think these two issues may be included in this paper which may enrich us and the paper as well. Thank you very much.

Dr Kahf: Thank you, brother. I think you are referring to two important points and perhaps I should have said a word on them when I spoke about 'law enforcement'. For the Inheritance Law, it is in Islam one of the devices that work towards redistribution of wealth in an equitable manner. With regard to the role of women in the economy, I think we realize in Islam that "al nis'a shaqa'iq al rijal" as the Prophet said. The word shaqa'iq means the equal part as if they were one thing cut in two halves. This means that men and women are equal halves,

i.e., Islam equalizes woman and man in their political and economic rights, work, property, etc. without any difference. So, if some Muslim societies today for some reasons impose differences, it is their problems, their mistakes not that of Islam. Thank you.

Question: Thank you very much. I am Abdul Hamid from Islamic University, (Kushtia, Bangladesh): "The paper is very exhaustive, there is no doubt about it. But just for the sake of clarification, I would like to raise some issues. Br. Dr Monzer Kahf has, at the initial stage, clarified that this paper although it is called 'economic role' it also covers the politico-economic aspects, that means it also covers the political aspects, that is fine.

And one question, he has said that one of the objectives of Islamic state would be to guarantee a minimum level of living for all. On the other hand, on page 2 of the outlines, he talked about the management of public property in the interests of Muslims. I would like to ask him whether he would anticipate any conflict between the two objectives.

My second point is that, he has said, about the balance, the economic and social balance, as one of the objectives of the Islamic state. I would like to add here that not only we should try to maintain economic and social balance, but also ecological balance, which means if it really disregards the environmental aspects, it might create a problem.

And, another point related the public-versus-private problems. In the paper, it appears that you are giving too much emphasis on the private sector, and in analyzing the public sector, you have always pointed out that one of the basic tasks of the public sector should be to give help, assistance and incentive to the private sector. I don't know it would have been more useful if you could find out the activities that should be covered by the public sector and they should be dealt with in the private sector.

Also, you have said that there may be discriminating prices for the public goods. How you would describe this discriminating price for public goods? Because in Bangladesh we have this discriminating policy but it was not successful at least with

respect to the prices of fertilizers for producing agricultural commodities. Another point is, you may have mentioned about the role of Zakah. Of course, I don't understand many things about it. In the Qur'an, as we have mentioned, there is a talk about sadaqah. Is sadaqah as specified in the Qur'an the same as Zakah. And if that is so, then in the Holy Qur'an, the sort of sadaqah that has been mentioned can it be used for economic development? Are you advocating that use of Zakah for public development projects? I am not sure whether Zakat fund can be used for that sort of development project. Please clarify.

My final point is the credit policy, here I am really confused. Of course, I am really confused in many other aspects too, about the role of credit policy in the public sector. I am not sure whether credit is allowed in Islam. Because, you mentioned yesterday the Qard-e-Hasan, of course, it is allowed, it is mentioned in the Holy Qur'an, too and the credit of the loan whether the public institutions can and how, I don't know, how they are going to deal with a loan policy, credit policy giving the dictates of the Holy Qur'an. Thank you.

Dr. Kahf: Thank you Dr. Abdul Hamid, too. Coming to these points. The first point - I don't see a conflict. Where is the conflict between guaranteeing a minimum level of living and managing the public property to the best interest of the people, i.e. managing public property to generate maximum return so you can improve your ability to help the poor and to guarantee them their basic needs, and any surplus revenues that is beyond that is also their right. What you give is coming out of public properties anyhow. Public property is, in principle, a property of all Muslims in a muslim society and the government in the muslim society is responsible for any citizens who live there. So guaranteeing the minimum level of living is for any person regardless of religion or race. This is a right of everybody, that is the guarantee of minimum level of living. Therefore, non-Muslim minorities are also taken care of; you cannot leave their level of living lagging or unpromoted and unenhanced simply because they are not muslim. Moreover, one can definitely argue that you should also care about adequate level of living when resources permit for Muslims and non-Muslims alike. This was done at the time of 'Umar when

resources permitted. He had given Muslims and non-muslims alike.

For the second point I appreciate you worry about the public sector, because of my too much emphasis on the private sector. Perhaps I had too much emphasis because there are some fears in my mind that it is usually under-emphasized by many Islamic writers and we will have time to discuss the public sector more in the other lectures. I think that there are areas where the state should run the economic scene, that is, areas that should not be given up by the state according at least to majority of 'ulama and I mentioned among them the mineral and the public sources of energy.

Yet, with regards to land for example, even public land, it would be better to follow the example that was done by the Prophet (Pbuh) and by 'Umar after Him, to give it to the private sector to cultivate instead of keeping it in the hands of the public sector. So there is some balance. There are areas where the state should be in, but we need not to think in terms of existing situations in many muslim countries where electricity, telephone, water, sewage, and garbage collection should all be done by the state. These need not necessarily be done by the state. We call them public utilities and we can't but to think of them that these should be state's projects, including education. That should not necessarily be the case. And it is not necessarily the case in the Islamic system.

For the discriminatory prices, I mentioned the possibility that the state may use discriminatory prices. Definitely according to the principles I mentioned, there should be no discrimination against the poor. For example, some economists argue that to promote development, you should take savings from agriculture and inject them in industry in order to make a take off in the economy. This can be done through a discriminatory price policy. It seems that this is not acceptable from the Islamic point of view. Because you are taking from the poor and giving to the rich. It should be the other way around. No matter what you do, it can not be accepted in Islam.

The point for sadaqah and zakah - the word sadaqah in language covers both voluntary and obligatory donations.

Zakah is a form of sadaqah in that sense, but it is obligatory. In the Qur'anic terminology, in many places the word sadaqah is used to mean zakah itself. And yet in many other places it is used to mean the voluntary contribution. For instance, even the verse that talks about obligating zakah, uses the word sadaqah, not the word zakah. "Khudh min amwalihim sadaqatan taheerohum wa tazakkihim beha. The verse that talks about its distribution also uses the word sadaqah "innama's sadaqatu lil fuqara'i wal masakin..." But in these two verses, definitely and without any dispute among commentators, sadaqah means zakah, the obligatory form of sadaqah nothing else. The use of zakah in public developmental project? This was not discussed in my lecture. But I can say a little about it as a quick answer. For example, there is a fatwa by the OIC Fiqh Academy to the effect that zakah may be used in some projects that are of public benefit provided they are addressed to help the poor and the needy, etc. without giving the ownership of that project to the poor and the needy. On the other hand, the four schools of jurisprudence, Hanafi, Maliki, Hanbali and Shafi'i - all of them agree that zakah must be made owned by the recipients, i.e., you give it to the poor, ... who must own it ... . You cannot only give him its benefit or its return. You have to give him the ownership itself. Surrendering ownership of zakah proceeds to the poor is necessary according to the four schools of jurisprudence. But that fatwa came using some opinions that are not very famous in the classical writings. On the other hand, I should say, even without going against the opinion of the established four schools of jurisprudence, you can make many public projects and make them owned by the poor and perhaps by doing so you can achieve a double target. For example, you need in your five year plan school buildings. Build schools from zakah, rent them to the Ministry of Education, let them be owned by the poor and make cooperatives, societies or corporations of them. These cooperatives will collect the rent and distribute it to the owners. Now, you have used the zakah proceeds for the poor, you invest them especially for longer term, you give them full right of ownership and for their children after them, and at the same you achieve your developmental project target. There are many places where zakah can be used in similar ways. You may build hospitals, and rent them to the private or public sector. You build an airport and rent it. You

can use zakah in that way as long as you are distributing the equity to the poor with the principle of tamlik... that is you make it owned by the poor, to make the project owned by the poor, why not ? Through an equity system of shares and stocks.

With respect to the credit policy of the state, there are two points: 1) state institutions that give credit. Like the central banks or like the zakah institution which may give some loans or may work on credit basis. In 1978 I presented a paper on the use of Zakah to provide credit. The inflow and outflow of fund in zakah is not synchronized together by definition. So, that lack of synchronization of inflow and outflow of funds allows us to provide credit on the basis of the monetary multiplier. This is the same way you create credit in banks. So, you can create credit through the zakah institution and its branches; exactly by the same way as the banking system behave. However, the more important mechanism is the governmental institutions that provide credit. By using those governmental institutions and their credit policy you can effect improvement in output on sectoral basis and on any other basis to achieve certain objectives. Also comes here the credit policy of the central bank; marginal requirements and other requirements. Even under the murabahah and mudarabah system there are requirements and tools that the central banks in the Islamic system may use. They also include rate of mark-up and rate of mudarabah or musharakah, rate of distribution of profit, imposing certain limits or ceilings, etc.

Question: K.T. Hussain

Mr. Chairman, before I make the specific point, may I bring to your kind attention that the subject of discussion is Teaching, Islamic Economics at University Level but we are spending our time on particular matters to be covered in Islamic economics. Possibly this would be helpful in planning our curriculum syllabus but there are lots of problems in connection with the teachings of Islamic economics at the University level. Those should also get our attention. From now on I would suggest that we keep this fact in mind and as regards the teaching of Islamic economics itself, planning curricula and so on we should actually give more attention and

the organization may have to be recast in that connection.. This is just my personal opinion.

Now, in connection with Dr. Monzer Kahf's paper presented this morning, a particular point which I like to bring to his attention is on page 2, 2nd para, item 6, of the outlines the writer is concerned with matters related to shura. Now, in case of shura, is it necessary to look for the approval of the people or can we rely on an individual's own judgement particularly if the judgement is in the light of some exposure to the teachings of Islam ? Thank you.

Dr. Kahf: Since the issue was brought in more than once, let me take a little time to answer it. The organizers inculcate teaching Islamic economics at University level with discussion of the issues that relate to what is to be taught and that issue include the exposition of Islamic economics, issues of Islamic economics etc. This is our interpretation of the title of the seminar and it is meant for the University professors mainly. So, they have good exposure to Islamic economics and they can select subjects and formulate courses or lectures out of it in their teaching. The objective of the seminar is not restricted to discuss the problems of how to teach Islamic economics alone. Our issue is not problems and manners of teaching Islamic economics at university level rather it is teaching Islamic economics. So this is our interpretation anyway, I think we have the privilege for that interpretation and there is a session on Thursday August 1st that will discuss the issue of teaching Islamic economics in Universities.

The point on page 2, I think there is a lot of writings on this issue by many Muslim scholars, one of them is shaikh al Qaradawi, to the effect that a ruler has no right to impose decisions out of his ownself. Nothing in Shari'ah permits such a thing without approval of the people. Your wish cannot be an obligation on others simply because you are a ruler. The Shari'ah determines what is obligated and what is not. Other things are to be decided by people themselves; and a government only represents them, it cannot take action without approval of those who have the right to decide. There is a lot of discussion in Islamic political theory on whether Shura is binding or not. Personally I believe it is definitely binding, otherwise we will be just laughing at people and

cheating them. If the Shura is not binding, it makes no sense as Ab al Ala al Moududi argues. If you are to consult then you have to be bound by that and I believe in that; I go along with Qaradawi and Moududui and many other thinkers including Turabi, Mohammad Selim Awa who wrote on the issue of Islamic political science. That is why I did not represent all the other opinion at all which I think does not make coherent sense.

Question: I am Dr. Muhammad Serajul Haq from Chittagong University. Brother, I have two points, first of all the functions of a state can be classified in three categories - actions related to maintaining efficiency, action related to Shari'ah stability and actions related to equity. And I wonder whether we need these functions of a state in Islamic environment. And secondly, there are cases where state actions are called for. For example, the case of market failure, the case of public goods, the case of externalities. Lastly, out of what I have learnt from listening to you and other speakers in the seminar so far, may I come to the conclusion that teaching Islamic economics does not necessarily preclude teaching mainstream economics and in Islamic economics we can complement and modify mainstream economics. Am I correct?

Dr. Kahf: Thank you Br. Serajul Haq. I think in your last sentence you are correct for highlighting the complementarity between Islamic and conventional economics, but this calls for you to keep in mind that most of us, who speak about Islamic economics, don't usually like to talk about things that are known and are granted in economics, an example of this is that I did not make any details about monetary policy and fiscal policy. If you notice, these are well known. Taxation, expenditures and deficit, tools of monetary policy other than interest, these are known and accepted in practice. These are the things that you find in regular text books and everyone of us wrote about them. So, in that sense only and from that angle, we see teaching Islamic economics as complementary. On the other hand, do we have to be bound by the standard classification that is mentioned in conventional economics, I think we need not to be bound by that. So from this angle we attempt, at least, to think freshly, without being bound even by the terminology. That is why I avoided the whole issue of

market failure, because, all tells is: there are areas where it is better for the state to step in. The simple example is defence. Well, without going through this, we know in Shari'ah, that defence is a responsibility of the state, as is law enforcement. These matters cannot be left to individuals. This is known in the Islamic literature as the wilayat 'ammah. The wilayat 'ammah mean public authorities that should be taken only by the State, and hisbah is one of them. No one can make an ombudsman out of oneself... Just you can not leave these to the private sector. It may be suggested that one should make specific effort to take the issues from the sources of Islamic economic literature, especially the classical one without putting them in terms of the conventional economics because I feel one needs not to be bound by those terminologies and that approach while looking at these issues. This is the reason why I avoided the whole issue of market failure in fact.

Question: My name is Ibrahim Qahatani from King Fahd University, Saudi Arabia. Appreciating Dr. Monzer's presentation, I have some questions regarding taxes. Since you mentioned in your lecture that during the time of the Prophet (Pbuh), taxes were not raised by him; and in some certain cases he resorted to voluntary contributions, but during the history of Islamic Khilafah taxes were imposed and we have some problem in that. Could you elaborate on it, what relevant taxes and what is the rate of taxes possibly since you mentioned something about that in page three of the outlines, when you talked about public sector's services and you mentioned service taxes. Thanks.

Dr. Kahf: Thank you, Br. Qahtani, I think we will discuss taxation in details in another lecture. Look at the other outlines that you have, you will find it there. But anyway, in brief, the way I understand it, taxes are looked at in Islam as a last resort. You come to them only when there is very clear justification for them. Without that, no state has any right to impose taxes. Inasmuch as it has other resources it cannot impose taxes. Simple example during the time of al 'Izz bin Abd al Salam in Egypt, in Cairo, when the ruler wanted to impose taxes. And he told him no, you cannot. He needed the approval from the great Judge, and al 'Izz said no, I would not approve of it and they had clashes so he left and embarked on his way to migrate outside the country. Any way, the story goes that the

ruler could not govern without him. So he asked him back and he told him: well, you can only impose taxes after you exhaust other sources, since the state is rich, you yourself, as a ruler, you were a slave owned by bayt al mal; how come you took over by power (the ruler was a soldier slave owned by bayt al mal). Let us start by selling you and other generals of your army and then we can use the return instead of imposing taxes which were needed to fight the Moghul. So he was able to force him sold, but the king then found ways to be freed again, but through that process bayt al mal got resources which were used for the battle in which Muslims defeated their enemy even with a very small number. One cannot say that a government that owns huge amount of resources may impose taxes. Take simply many oil rich countries. I think they should not impose any taxes, as long as they have so much resources, and imposing taxes in such countries seems to be outside the limit of Islam.

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