

CONTEMPORARY ECONOMIC
CHALLENGE AND THE ISLAMIC
RESPONSE: SOME REFLECTIONS ON
MUSLIM THINKING IN PAKISTAN

Reference to be provided by Prof. Khurshid

PROF. KHURSHID AHMAD



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By Professor Khurshid Ahmad*

Islamic resurgence is a phenomenon of historic significance. It is something which has filled the heart of every Muslim with genuine pride and confidence. But this development also constitutes a many-dimensional challenge. The claim that Islam is a complete way of life and is destined to develop a unique culture and civilization based on its own ideals, values, principles and historical traditions is yet to be vindicated in practice. The economic aspects of this challenge are very pertinent and Muslim economists and bankers are trying to grapple with some facets of this challenge in Pakistan and the Arab world.

Raising critical questions is not necessarily a negative phenomenon; such an exercise occupies a central place in the creative processes of reconstruction of thought and policy. Such questions can play very constructive role in clarifying certain issues, in identifying many a grey area, and in stimulating new and innovative thinking. The Muslim economists and bankers, who are involved in the challenging task of developing a monetary and fiscal system which is free from riba (interest)¹ and which is designed and regulated to serve the socio-economic objectives of Islam, are neither shy in raising critical questions nor embarrassed on facing awkward ones. They know if they want to achieve their goal, they will have to ward off the slumber that the Muslims have been wrapped in for so many centuries. They want to take up the establishment of an Islamic monetary and fiscal system as a challenge and strive to establish the New Order through efforts which spark off a social movement.

Amongst the questions which the Muslim thinkers are trying to face are the following:

1. Do we have an alternate system in Islam to replace the present economic and financial order? If not, how soon one can develop it?
2. Is it possible to have the same Islamic economic system in all the Muslim countries?
3. Do we have all the details of an economic system based on 'Adl and Ehsan?² If not, how they can be evolved?
4. Is interest the only form of exploitation, the elimination of which would solve all our problems?
5. Will the implementation of a system of Zakah result in the complete elimination of poverty? If not, what other steps shall we have to take in order to achieve this end?

*Prof. Khurshid Ahmad a former Federal Minister for Planning and Deputy Chairman Planning Commission is presently Chairman of the Institute of Policy Studies and Adviser to the Islamic University, Islamabad.

1. Riba, is interest on capital, whether simple or compound and whether on consumption or production loans.

2. Adl means justice in all aspects of human life, individual and social and Ehsan means benevolence and excellence and consists in giving to others even more than their legal due.

The first two questions are naturally receiving the largest attention in contemporary discussion. There is an emerging consensus on the fact that we certainly have an alternate monetary and fiscal system in Islam, which is not only workable but is economically and morally better than the existing system. Muslim economists are propounding the various components of the Islamic monetary and fiscal system at some length outlining the objectives of the Islamic system, the instruments to achieve those objectives, the institutions that need to be established and ii strategy of going about the whole process.³

Islamic economic system is an integral part of the Islamic Order. Any effort to establish the Islamic economic, order or any aspect of it, say monetary (j)r fiscal system, in isolation and without aiming at the restructuring of the entire society and transforming the whole social milieu is not going to deliver the goods. Islam aims at establishing a just social order and this calls for changes at different levels of national existence: formulation of the goals of economic policy and the strategy of development planning; choice of instruments of taxation and of monetary management; objectives and major parameters of income and wages policy; framing of a positive housing and educational policy; evolution of an effective system of social security; achievement of distributive justice; re-adjustment of the pattern of consumption and the product-mix; to mention a few major areas of policy formation. Abolition of interest and introduction of Zakah⁴ are extremely important and effective instruments of economic policy and are destined to radically change the institutional structures and the network of relationships that follow from them, yet their success would very much depend upon the direction of total change and the effectiveness of complimentary changes in the overall economic framework and its major institutions.

OBJECTIVES OF ECONOMIC POLICY

A near unanimity is emerging on the objectives of economic policy in an Islamic system. Socio-economic justice is the distinctive objective of the Islamic order, not as a dictate of expediency or as a clever device to appease certain sections of society, but as an integral part of the moral philosophy of Islam, its mission to mankind and its economic program. It is based on Islam's world-view, and on its firm spiritual commitment to human brotherhood and altruism. Justice in all human relations is the natural corollary of the Islamic concept of Tawhid, (Oneness of God).

It is also generally agreed that the elimination of gross inequalities in income and wealth and greater stability in the value of money should be-common objectives of public policy in all Muslim countries and at all times because these are fundamental to the structure of Islamic economic system.

3. See: Ahmad, Khurshid (ed.) Studies in Islamic Economics, Leicester, Islamic Foundation, 1980. See also papers presented to Seminar on Monetary and Fiscal Economics of Islam, Mecca, 19 78 and Follow-up Seminar on Monetary and Fiscal Economics of Islam, Islamabad, 1981.

4. Zakah is an annual levy on the wealth of the Muslims, to transfer wealth from the rich to the poor and to enable the underprivileged to seek economic self-sufficiency.

Stability in the value of money is fundamental to the system because of unequivocal stress of Islam on justice and fairplay. Inflation inflicts injustice on the poorer sections of society and favors the rich. It also puts at a disadvantage the riba-free lender and is repugnant to Islamic system.

Similarly, Islam's stress on justice, human brotherhood and regard for the poor and the weak, makes the objectives of equitable distribution of income and wealth an integral part of the system. Islam also stresses the growth objective but here the emphasis is on increasing economic well-being of the greatest number of people, nay of the entire creation, (notice that Islam considers the welfare of all living organisms, human or animal) rather than simply maximizing a numerical number i.e. the rate of growth. Proper regard for future generations in the use of natural resources also places a constraint on maximizing the rate of growth.

CHARACTERISTICS OF THE ISLAMIC ECONOMIC ORDER

It is important to emphasize that Islamic economy is not capitalism minus interest plus Zakah. Nor does it resemble a socialistic system after making a few corrections here and there. Islam does not aim at the abolition of private property and enterprise. Instead, it has changed the system by transforming the concept of ownership into the revolutionary concept of trusteeship, making the individual and the society conform to the norms of moral behavior laid down by God^{^^}and His Prophet (peace be upon him) and by developing a system of social regulation and accountability. As such the Islamic economic system has its own distinct and unique features and the Muslim economists and policy-makers should be clear on these before going into implementing the Islamic economic reforms. Some of these distinguishing features are:

1. That the moral aspect is fundamental to the Islamic economy. Individual and collective economic motives are constrained by moral bounds placed by Islam.
2. That fulfillment of the basic needs is central to the social welfare function in an Islamic framework. Mere expansion or growth cannot be the objective of an Islamic economy. Human dimension is the main aspect of economic enterprise in Islam. No doubt. Islamic economy has to be growth-oriented but this growth has to come along with the fulfillment of the norms of social justice. The emphasis in Islam economy will shift from rate and volume of growth to its composition and justice-orientation, even in the initial phases of development. Elimination of poverty and deprivation, and of exploitation and injustice reign supreme in Islamic economic reform.
3. That the stability of value of money has a unique position in Islamic economy. It is fundamental to its structure not just a desirable thing.
4. That along with genuine private and; public sectors, there is another unique sector playing an important role in an Islamic economy. This is the Altruistic Sector where a

number of voluntary' activities are performed to maximize moral and social welfare of the people, with no individual economic motives. Zakah and Waqf⁵ are major institutions with far reaching economic repercussions for the society.

Scholars and economic practitioners from all parts of the world show general agreement on these overall objectives of economic policy and suggest that the broad structure of the economic system may be the same in all the Islamic countries but in matters of detail there is enough room for local variations, reflecting and responding to indigenous conditions, historical backgrounds and institutional set ups of various countries. The basic features, common to all will be scrupulous adherence to the socio-economic goals of Islam and its justice-seeking strategy for economic reform, moral and ethical reorientation of the individual and society, institutional and policy changes designed to fulfill the Islami principle of trusteeship, the elimination of riba (in its limited as well as wider meaning) from the economy, the enforcement of Zakah and the introduction of profit-loss sharing system as the major form of investment.

ON FINANCIAL INSTITUTIONS

As regards financial institutions, two things have to be done. Firstly, the nature and functions of the existing institutions e.g. Central Bank, commercial banks, financial intermediaries and treasury, will have to be drastically changed. For example, the commercial banks will have to assume investment functions, the Central Bank will create and distribute credit under a different set of policy objectives and with many new instruments not available in the present system. Secondly, to cater for the needs of the new system, new institutions will have to be formed. For instance, since under the new system the predominant mode of investment will take the form of Mudarabah⁶ and Shirakah⁷ there is a need to develop an extensive and efficient equity market, investment cooperatives, and resource- mobilization banks directed at local and regional development. The rules and regulations to govern these institutions need to be framed or streamlined.

I have no hesitation in suggesting that there is a consensus amongst the Muslim economists on the objectives and distinctive characteristics of the Islamic monetary and fiscal system and there is almost near-consensus on the suggestion that profit- sharing has the potential to be the king-pin of the new system. Some colleagues, who have certain strong reservations about this system, do not challenge the premise that profit-sharing is a legitimate Islamic alternative, experimented in history, and capable of trying again in the contemporary context.

5. Hag for trust property which constitutes a significant portion of the third sector in an Islamic economy.

6. Mudarabah is a form of joint business venture in which one party contributes capital only and the other labour and enterprise.

7. Shirakah is a form of joint business venture in which both parties contribute capital and labour. It can have many forms.

The Muslim economists are, therefore, suggesting a phased and rather cautious approach where a number of other alternatives like leasing, hire-purchase, investment auctioning, financing on the basis of normal rate of return etc. can be judiciously used to supplement and not to supplant the new system of Profit and Loss Sharing.

As regards the strategy, it is being suggested that the approach should be gradual but not over-cautious. It should be continuous and vehement. An important document which reflects the contemporary Islamic thinking on this issue is the Report of the Council of Islamic Ideology on the Elimination of Interest from the Economy⁸. The general feeling of the Muslim economists is that the profit-loss-sharing system can be a viable alternative to the present interest-based system. Certain other alternatives for example, investment-auctioning and deferred sale can also be utilized to meet certain partial needs, but cannot provide a comprehensive alternative.

The Muslim economists, however, emphasize the need for substantial structural changes in the economic institutions of the country in order to make the new system effective and successful. This entails basic changes in economic motives, in consumption pattern, in the mechanism for distribution of income and wealth, in wages and incomes policy, in labour policy, in taxation structure, in the relative importance of education and of the production of wage-goods, and in the establishment of an effective system of social security and support for the needy and the weak.

On the question of details, it must be realized that we have yet to go a long way to work out all the details. There are, however, enough details, both for theory and for practice, to make an earnest beginning yet major gaps exist and efforts should be made to deal with them as the process goes on. These details may have to be settled differently in different countries and at different times, but continuous efforts should be made to spell them out.

ELIMINATION OF INTEREST AND ECONOMIC EXPLOITATION

About the question of freeing society from exploitation there is a general consensus in contemporary Muslim thought that interest in all its forms must be abolished. However, that is not all. There are other forms of exploitation and we must get rid of all of them. The term *riba* has a much wider meaning than the term; interest conveys. Interest refers to what has been termed as *riba al-jali* (interest that is manifest and explicit) or *riba al-duyun* (interest on loans) in the literature. This is the kind of *riba* that is directly covered by the Quranic injunctions. However, the Sunnah⁹ has also emphasized other aspects of *riba* generally termed as *riba al-khafi* (the implicit or hidden interest) or *riba al-buyu'*. (Interest concealed in trade).

This forms of *riba* covers all aspects of economic injustice, exploitation and unearned income (other than that like inheritance and genuine gifts, etc. Allowed by the Islamic law)

8. This report has been published by the Islamic Ideology Council, Islamabad in 1980.

9. Sunnah means the sayings of the Prophet or his practice and constitutes the second source of Islamic law.

Ibn Arabi, a great Muslim legist, has defined riba as all excess over what is justified by the consideration. According to the Holy Prophet Riba can appear in many garbs, with the result that even a Muslim may indulge in it, having been deceived by its dubious forms. That is why Caliph 'Umar felt inspired to say that "you should abstain from rib a as well as reebah", that is anything which has the semblance of riba or which raises doubts in the mind about its rightfulness. It covers all income derived from injustice to, or exploitation of others.

In view of this dimension of Islamic thought 'profiteering' or exploitative profits will also have to be eliminated. However, a clear distinction must be made between 'profit' and 'profiteering'. There is nothing wrong in private firms attempting to seek profit because that does not necessarily lead to exorbitant profits or exploitation. The allegation that is sometimes made that profit and loss system will lead to profiteering is not correct. It depends on the market structure and a host of other factors, motivational, institutional and socio-moral. To take only one aspect, under perfect competition, a profit maximizing firm is supposed to get only normal profit. If there is monopoly or ligopoly then the firms may get abnormal profits but that is the result of the market structure and not of the PLS System. This implies that under Islamic system private monopolies would not be tolerated. Islam has accepted profit motive as a genuine motive but has hedged it with a number of moral, social and institutional constraints, which result in containing profits within the limits of justice.

ZAKAH AND THE ERADICATION OF POVERTY

On the fifth question, it may be pointed out, firstly, that Zakah is a broad term of which Zakah al-Mai (Zakah on wealth) is only one component. Ushr, (Teth on agricultural produce), Khums (levy on treasure-troves or mineral wealth) and some other levies are also integral to the Islamic fiscal scheme. Secondly, if properly implemented Zakah has a great potential for alleviating poverty and for transforming the society into a responsible, just and welfare-ensuring one. However, if there are chronic disparities of income and wealth coming from past history, as is the case in many contemporary Muslim societies, suitable measures will have to be adopted in addition to Zakah to establish social equity and a new and more dynamic equilibrium between social forces in society based on justice. It is also generally agreed that the State is empowered to levy additional taxes with the s important qualification that their proceeds must be used to meet the genuine needs of the society, welfare as well as developmental, and not to pamper wasteful expenditure of the government and of the power elites in society.

Suming up, I may say that the Islamic economic system stands for total change, although it would have to be achieved through properly planned and phased reforms, each piece fitting into the overall scheme, each part supplementing the other and finally completing the mosaic. To that end the Muslims are trying to strive everywhere.
