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Public Finance in Islam *

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Abstract

The paper analyzes the bearing of Islamic teachings on the conduct of fiscal policy. It is shown that Islamic teachings do not prescribe any rigid system of public finance. The major emphasis is on the state's responsibility to assure at least a basic minimum standard of living for all citizens. The paper deals with issues related to evolution of fiscal policies best suited to achieve this and other Islamic socio-economic objectives in the specific framework of Islamic teachings. The implications of such a system for growth, monetary stability, resource allocation, and pattern of income distribution are also examined.

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Summary

The paper analyzes the bearing of Islamic teachings on the conduct of fiscal policy. It is shown that Islamic teachings do not prescribe any rigid system of public finance and allow a great deal of flexibility in framing tax and expenditure policies best suited to achieve Islamic socioeconomic objectives. These teachings emphasize the state's responsibility to assure at least a basic minimum standard of living for all citizens. Prevention of gross inequalities in income and wealth, promotion of economic growth, and avoidance of both inflation and deflation are identified as other important objectives of fiscal policy in the light of Islamic teachings. Among fiscal policy instruments, the divinely ordained levy known as zakah (the poor due) occupies a special place in implementing the Islamic concept of "the poor having a right in the wealth of the rich."

Islamic teachings do not preclude running a budgetary deficit in case of real need, but the quantum of such a deficit has to be regulated so as not to compromise the attainment of Islamic socioeconomic objectives. Further, the means adopted for financing the budgetary deficit have to be Islamically permissible.

While the main purpose of zakah is to eradicate the worst forms of poverty, it also serves to bring about some reduction in the disparity of income and wealth. The impact of the Islamic fiscal system on resource allocation is seen to lie in greater flow of productive resources to the production of goods satisfying basic needs. While the effect of zakah on savings is unpredictable, this levy is seen to be highly supportive of growth.

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Public Finance in Islam

Introduction

The Islamic approach to public finance is closely attuned to Islamic socio-economic objectives. Islam provides a clear vision of the type of society it wants to see established on earth and sets out basic guidelines for realizing this vision. The most crucial of these basic guidelines are found in the Qur'an ^{1/} and the Sunnah. ^{2/} For solving the newly emerging problems, Islam provides a framework for new thinking in every age which keeps the spirit of Islam alive and yet responds adequately to the needs and exigencies of particular situations. ^{3/} The Islamic fiscal system, like other components of the Islamic economic system, is thus neither rigid nor static and has the capacity to meet the differing requirements of different times.

The aim of this paper is to delineate the salient features of the Islamic fiscal system and to analyze its implications for the economy. Section I briefly outlines the Islamic socio-economic objectives to provide the needed perspective for a discussion of Islamic fiscal policies. Section II deals with issues related to the evolution of fiscal policies best suited to achieve Islamic socio-economic objectives. Section III analyzes the implications of Islamic fiscal policies for growth, monetary stability, resource allocation and pattern of income distribution. The final section summarizes the main contents of the paper. The paper has two Appendices. Appendix I outlines the basic teachings of Islam having a bearing on public finance. Appendix II provides more detailed information about the public finance system as it operated in the early Islamic period ^{4/} than is contained in the text.

^{1/} The Book consisting of revelations made by God to the Prophet Muhammad. In all references to the Qur'an in this paper, the first number refers to the surah (chapter) and the second to the ayah (verses). The English rendering of the verses has been taken from the translations of Muhammad Marmaduke Pickthall and Abdullah Yusuf Ali.

^{2/} The way of the Prophet comprising of what he did or said or tacitly approved.

^{3/} This is discussed at some length in para. 18 of Appendix I.

^{4/} The early Islamic period, for purposes of this paper, refers to the period starting from the migration of the Prophet from Makkah to Madina, when the foundations of a state based on Islamic teachings were laid, and ending with the rule of the last of the first four Caliphs. This period covered a time span of about forty years.

I. Islamic Socio-Economic Objectives

Islam seeks to establish a just and humane socio-economic order which should be free from all forms of exploitation and enable man to live a life of peace and contentment on this earth. The most prominent elements of such a socio-economic order may be listed as follows:

a. Man should be free to engage himself in any economic pursuit so long as it does not harm the general interests of the society. Some types of economic activity which hurt the general interests of the society have been specified in the Qur'an and the Sunnah. 1/ The state has the right to put restrictions on these activities as also on such others which are perceived to fall in the same category.

b. It is the collective responsibility of the society to ensure at least a basic minimum standard of living for all citizens. 2/ If birth or circumstances have denied to an individual access to even such a minimum standard of living, it is incumbent on an Islamic society to remedy this situation. According to the Qur'an, the poor have a right in the wealth of the rich. 3/

c. It is a fundamental doctrine of Islam that God is the real owner of all that exists, and man's ownership of any property or productive resources is in the nature of a trust. 4/ Islam preserves the ownership rights of individuals and does not allow any arbitrary expropriation of private property by the state in ordinary circumstances. However, in specific circumstances when it is clearly demonstrated that continued ownership of a certain property by an individual is hurting the general interests of the society, the state has the right to take over such property. 5/

d. Islam relies on private enterprise to serve as the main vehicle of economic activity. 6/ However, natural resources like forests, pastures, unowned unused land, water flowing in the rivers and sea are considered public property whose benefit should be available to all in the society.

1/ An identification of such types of economic activity is contained in para. 7 of Appendix I.

2/ The collective responsibility of the society to ensure at least a basic minimum standard of living for all citizens is brought out clearly by certain verses in the Qur'an and the sayings of the Prophet. See para. 10 of Appendix I.

3/ The Qur'an, 51:19 and 70:24-25.

4/ For an elaboration of the concept of trusteeship in Islam, see para. 5 of Appendix I.

5/ For further elucidation see para. 8 of Appendix I.

6/ Ibid.

e. Islam does not sanction forcible equalization of income and sees no harm in the existence of certain income differentials in the society. However, prevalence of gross inequalities of income and wealth is repugnant to the spirit of Islam and particularly so if it manifests itself in display of conspicuous consumption. 1/

f. The free market mechanism is afforded maximum scope in the allocation of resources in an Islamic society so long as it is compatible with the attainment of a just and humane socio-economic order. Direct price and distribution controls are to be avoided generally but regulation of the market through indirect policy instruments is allowed and even encouraged in the general interests of the society.

g. The payment and receipt of interest is strictly prohibited. Instead transactions on the basis of profit and loss sharing are afforded the fullest scope.

h. An Islamic economy depends a great deal on a proper motivating mechanism to help achieve Islamic socio-economic objectives. Islam provides this mechanism through a set of interlinked beliefs. The basic tenet in the Islamic beliefs system is that the earthly life of man is nothing but a trial 2/ and he will be accountable for everything that he does in this world before God in the hereafter. The Qur'an and the Sunnah provide him all the guidance he needs for conducting his affairs in this world. In the domain of economics, this guidance encompasses production, consumption, exchange, and distribution, the four distinctive spheres of economic activity. The keynote of Islamic teachings is that all human dealings should be permeated with the spirit of al Adl (justice) and Ihsan (benevolence). 3/ Those who act in accordance with the injunctions of Islam will be rewarded in the hereafter and those who defy and disobey will be subject to chastisement. Islam thus gives self interest a spiritual, long-term direction by extending the span of self interest beyond the confines of this life.

i. Islam also uses the state apparatus to reinforce the behavior pattern of people which is in line with Islamic norms and to correct deviations from such norms. Islamic teachings enjoin on the state the duty of instituting arrangements for amr bil maruf wa-n-nahi anil munkar

1/ The Islamic viewpoint on distribution of income and wealth is also set out in para. 11 of Appendix I.

2/ That life in this world is a trial is vividly brought out in several verses of the Qur'an. See para. 6 of Appendix I.

3/ For an elucidation of these teachings, see para. 12 of Appendix I.

(propagation of good and suppression of evil), 1/ and a vigorous institution by the name of hisba 2/ was developed in the early Islamic period for achieving the full flowering of the Islamic norms of behavior.

j. The Islamic vision of a just and humane socio-economic order free from all forms of exploitation can be realized in every age if individuals and government conform fully to the teachings of Islam. However, as any human society is subject to human failings, the actual behavior may deviate from the ideal, and the objective conditions prevalent at any particular time will reflect the extent of this deviation.

II. Islamic Approach to Public Finance

1. General principles

The Islamic approach to public finance has been the subject matter of extended discussion over the centuries. Ever since the advent of Islam, Muslim jurists have derived from the Qur'an and the Sunnah the laws and principles to be applied in various spheres of human life. The conclusive injunctions of the Qur'an and the Sunnah, from which no departure is allowed in any age, are known as nusus. Islam, however, allows considerable flexibility in using human reasoning for solving newly emerging problems. A jurist's use of his reasoning to find solutions to new problems keeping in full view the intent and spirit of Islam is known as ijtihad. Methods of ijtihad include qiyas (analogical deduction), istihsan (preference of one qiyas over another or even abandonment of qiyas for some strong reason), and istislah or al-masalih-al-mursalah (judgment on the basis of public welfare). Consensus of the jurists on a particular solution to a particular problem is known as ijma. The state in an Islamic framework is expected to give due regard to ijma in formulating its policies in various spheres. 3/

There is a consensus among jurists that the state has to shoulder a heavy responsibility in fashioning the socio-economic life of the people in line with the Islamic ideal. It has to concern itself not only with matters which are strictly economic and financial in nature but also with the moral values of the society and human interrelationships. It should, however, be noted that the degree of state intervention in the economic and social life of the people need not be pervasive at all

1/ See, in this connection, para. 14 of Appendix I.

2/ For some further observations on the institution of hisba, see para. 14 of Appendix I. A standard work on the subject is Al-Hisba fi al-Islam by Taqi al-Din Ahmad Ibn Taimiyah.

3/ For a fuller description of the role of ijma and ijtihad in finding satisfactory solutions to the newly emerging problems, see para. 18 of Appendix I.

times. In fact, if people themselves faithfully discharge their duties and responsibilities in the spheres of production, consumption, exchange, and distribution in conformity with Islamic teachings, the state may not have very extensive tasks to perform. On the other hand, the actual conditions prevalent in a society may warrant adoption of a highly interventionist role by the state. It should also be noted that in all its actions, the state is as much bound by the teachings and moral norms of Islam as the individual. The state power is to be exercised judiciously and in the best collective interest of the society.

2. The role and functions of the state

The Qur'an and the Sunnah provide basic guidance in determining the role and functions of the state. The following functions can be derived directly from these two sources: (a) defense of the territorial integrity of the state; (b) maintenance of law and order; (c) dispensation of justice; (d) civil administration; (e) propagation of good and suppression of evil; (f) assurance of at least a basic minimum standard of living for all citizens, and (g) prevention of gross inequalities in income and wealth.

The need for adequate preparedness for the defense of the territorial integrity of the state is specifically mentioned in the Qur'an. 1/ Maintenance of law and order, dispensation of justice, and civil administration are the basic requirements for prevention of fasad (mischief) and establishment of a just order which are referred to repeatedly in the Qur'an and also find expression in the Sunnah. 2/ Islamic teachings assign an important role to the state in propagation of good and suppression of evil, and specific arrangements for discharging this responsibility were made by the state in the early Islamic period. 3/ The obligation of the state to assure at least a basic minimum standard of living for all citizens is deduced from certain verses of the Qur'an and the traditions of the Prophet. 4/ Prevention of gross inequalities in income and wealth is also an obligation specifically mentioned in the Qur'an. 5/

There is a consensus among jurists that there is nothing to prevent the state from assuming functions additional to those directly mentioned in the Qur'an and the Sunnah provided that these are in conformity with and help promote the achievement of Islamic socio-economic objectives. In fact, many jurists have pointed out that assumption of new responsibility by the state is inevitable as time goes on and the complexity of

1/ Al-Qur'an (8:60).

2/ The Prophet took effective steps for the maintenance of law and order, dispensation of justice and civil administration as the head of the state with his headquarters in Madina. An account of these steps is found in all histories of the early Islamic period.

3/ See para. 14 of Appendix I.

4/ See paras. 10 and 15 of Appendix I.

5/ Al-Qur'an (59:7).

life increases. New thinking in this respect has been assisted by the permissibility of ijtihad in Islam. Applying the principles of qiyas and al-masalih-al-mursalah, jurists have concluded that the state should be active in promoting overall economic development and fuller utilization of productive resources through measures such as provision of necessary infrastructure and other public goods. ^{1/} Similarly, it is agreed that avoidance of inflationary and deflationary pressures and economic stabilization should figure prominently in the responsibilities of a state. ^{2/}

3. Objectives of fiscal policy

Fiscal policy of the state, which is guided by Islamic teachings, has to be evolved in the idealogical framework of Islam and has to reflect its basic values. It has to make a vital contribution to the establishment of a just socio-economic order as envisaged in Islamic teachings. Since its task in this respect can be considerably lightened if the behavior pattern of the people conforms to Islamic norms, the state has to set aside some resources for the promotion of Islamic values. However, irrespective of the actual state of morality prevalent at any particular time, the state has to fashion the various components of its fiscal policy in a manner which maximizes its contribution to the achievement of Islamic socio-economic objectives.

One of the most distinctive features of an Islamic socio-economic order is that, irrespective of the state of development of a country and irrespective of its per capita income, all citizens should be assured of at least a basic minimum standard of living. The attainment of this objective poses a big challenge for fiscal policy, especially in countries with low per capita incomes. There is consensus among jurists that it is the collective duty of the society in general that none should remain deprived of basic necessities of life. There is also broad agreement that the minimum needs that must be met of each citizen include food, clothing, shelter, medical care, and education. A number of jurists have held the view that legal protection should be afforded to the principle of need fulfillment in an Islamic society so that any citizen could go to court to secure the implementation of this

^{1/} According to Al-Sarakhsi, in his renowned work al-Mabsut, it is incumbent on the state to use public funds to build bridges, rest houses, and canals, and to maintain these in proper condition. Similar views are found in the works of other famous jurists like Abu Yusuf, Al-Mawardi and Al-Marghinani.

^{2/} There is evidence to show that the Prophet was specially concerned about price stability. The first four caliphs in the early Islamic period also tried to ensure price stability. Among the jurists, Ibn Taiymiah dealt with problems of economic stabilization at some length and clearly expounded the state's responsibility for the maintenance of monetary stability. See A. A. Islahi, Economic Concepts of Ibn Taimiyah, (Leicester, Islamic Foundation, 1988), especially Chapter 7 which discusses the role of the state in economic life.

principle. 1/ However, it does not follow from this that the entire financial burden of meeting such needs will fall on the state. There are several institutional mechanisms that exist in a truly Islamic society which help in the need fulfillment of poorer sections of society, and if these are operative the residual responsibility of the state in this respect is greatly reduced. 2/ Moreover, it would be essential that a pragmatic view is taken of the standard of need fulfillment keeping in view the general economic conditions so that this responsibility is financially manageable.

Another major objective of fiscal policy in the light of Islamic teachings is the prevention of gross inequalities in income and wealth. The Islamic concept of distributive justice does not sanction forceful equalization of income and wealth as human effort and capacity differ from person to person and should be duly rewarded. However, Islam disfavors undue concentration of income and wealth as this can lead to social discontent. Conspicuous consumption is especially discouraged as it creates a sense of deprivation among the poor sections of society. The guidelines in respect to the desired pattern of income and wealth distribution in an Islamic society are couched in general terms in the Qur'an and the Sunnah, and this allows for considerable flexibility in the framing of state policies in the context of actual conditions prevailing at any particular time.

It is the general philosophy of Islam that human beings should be properly motivated to do the right thing by themselves so that the coercive powers of the state are used to the minimum extent necessary. In the matter of income distribution particularly, Islam emphasizes the virtue of infaq, that is, voluntary spending for the welfare of the poor. The Qur'an proclaims that in no case will man attain piety unless he spends freely from his wealth in the way of God for the needy and the poor. 3/ Those who practice infaq are promised choicest of blessings in the heaven. The repeated exhortations in this respect in the Qur'an and the Sunnah are meant to promote a culture and a way of living where people care for each other and disparities in income and wealth are reduced through voluntary action.

1/ For a comprehensive discussion of the state's responsibility for meeting the minimum needs of all citizens and references to the thoughts of various jurists on this subject, see Nejatullah Siddiqi, "Guarantee of a Minimum Level of Living in an Islamic State" in Munawar Iqbal (ed): Distributive Justice and Need Fulfillment in an Islamic Economy (Islamabad, International Institute of Islamic Economics).

2/ For a succinct description of these institutional mechanisms, see Muhammad Anas Zarqa, "Islamic Distributive Schemes" in Munawar Iqbal (ed), op.cit.

3/ Al-Qur'an (3:92).

While emphasizing infaq, Islam seeks to ensure at least a minimum redistribution of wealth through the institutionalization of a system of collective charity by way of a special levy known as zakah and its mandatory laws of inheritance. In the early period of Islam, the state did not feel the need of using any other fiscal device besides zakah for reducing inequalities of income and wealth. However, the possibility of using other fiscal devices for this purpose in modern times is not ruled out provided this is essential in the general interests of the society.

Fiscal policy, in the context of Islamic teachings, has also to concern itself with growth and development. Growth is essential for the basic needs of all citizens being met over time to which Islam attaches so much importance. Policymakers have, therefore, to use fiscal policy instruments to achieve a satisfactory overall rate of growth. They have to be equally concerned with the mechanics of growth and the pattern of growth. An acceleration of the growth rate which is associated with considerable accentuation of inequalities of income and wealth would be clearly unacceptable. Similarly, a pattern of growth which does not give adequate attention to improvement in the quality of life of the poorer sections of society would be inconsistent with the Islamic concept of social justice. The various components of fiscal policy have, therefore, to be so designed as to achieve a satisfactory rate of growth with proper regard for the qualitative aspects of such growth.

The pronounced emphasis on justice and equity in Islamic teachings makes it imperative that fiscal policy should give due attention to avoidance of both inflation and deflation. The Qur'an exhorts: "Give just measure and weight nor withhold from the people the things that are their due." ^{1/} Inflation militates against the Islamic ideal of giving fair measure of value in all transactions. Deflation also is to be avoided because it runs counter to the Islamic goal of broad-based economic well-being.

4. Instruments of fiscal policy

a. Revenue system

The Islamic teachings are concerned more about the objectives and general features of a state's revenue system than its actual composition. However, imposition of a special levy known as zakah (poor due), which dates back from the time of the Prophet, is considered a cardinal feature of the system. Because of its great importance, this section gives foremost attention to zakah while other sources of revenue in the early Islamic period are only briefly reviewed. More detailed information about the different sources of revenue in the early Islamic period is given in Appendix II. The section concludes with some general observations about the revenue system of Islam in its historical perspective and the principles governing its applicability in modern times.

^{1/} Al-Qur'an (7:85).

i. Zakah - the Islamic social welfare tax

Zakah occupies a unique position in the Islamic fiscal system. It is a divinely ordained instrument of tax policy made available to the state in an Islamic economy, and a great deal of religious sanctity attaches to a meticulous fulfillment of the duty to pay it on the part of those who are obligated to pay it.

The Islamic teachings assign to the state a clear-cut duty to organize a system of collection and disbursement of zakah. The Qur'an says: "Take alms of their wealth, wherewith thou mayst purify them and mayst make them grow..." (9:103). Zakah, in its literal sense, means "purification" and "growth." According to the Islamic beliefs, as enunciated in the Qur'an and the Sunnah, payment of zakah purifies one's soul and leads to increase in material welfare in this world and growth of religious merit in the next. Those who fail to discharge this obligation are warned of severe chastisement in the hereafter. The system of collection and disbursement of zakah under state auspices was organized by the Prophet himself in his time and functioned with great effectiveness in the early Islamic period.

The purposes and uses for which zakah proceeds are earmarked have been specified in the Qur'an as follows: "The alms are only for the poor and the needy, and those who collect them, and those whose hearts are to be reconciled, and to free the captives and the debtors, and for the cause of Allah, and (for) the wayfarers: a duty imposed by Allah. Allah is Knower, Wise." (9:60)

While the Qur'an specified the uses of zakah, it did not lay down the specific characteristics of the levy such as its extent and scope, the items of wealth on which it is to be paid, and the rates of the levy on different items. These were prescribed by the Prophet, and are to be found in his reported instructions on the subject. Over time a vast literature has grown on various juristic issues related to zakah. Though the jurists differ on certain matters, there is broad agreement on most of the fundamental aspects of the levy. In this paper, attention is confined to the fundamental aspects, and only the salient features of the levy have been given.

The first attribute of zakah is that because of its explicit religious character, it is to be collected by the state from Muslims only. It is not necessary that the state should collect the entire amount of zakah due from a person. To the extent the full zakah due from a person is not collected by the state, the individual responsibility for disbursing zakah for the purposes specified in the Qur'an remains in effect.

In the early Islamic period, zakah was payable on gold, silver, merchandise, livestock, treasure trove, and mineral and agricultural produce. Applying the methodology of qiyas, the jurists are agreed that in modern times, zakah is also to be paid on holdings of currency and various types of financial assets like bank deposits, shares, and

securities. Items in personal use, and specifically the following are not subject to zakah: house used by the owner for his own residence and of his family, wearing apparel, household utensils, animals or any other means of transportation in personal use, and articles of adornment if not made of gold and silver. It can be seen that the coverage of zakah is very wide and exemptions are just a few.

There is difference of opinion on whether fixed assets are also subject to zakah. Agricultural land is unanimously held to be outside the purview of zakah. On the same analogy, many jurists regard other fixed assets like factory buildings, machinery, plant and equipment as not being subject to zakah. Some jurists, however, are of the view that such fixed assets should be liable for payment of zakah. It has also been suggested that earnings from rented land and buildings should be treated akin to agricultural produce for the levy of zakah. Some jurists favor imposition of zakah on wages and salaries as these are received while others are of the opinion that the base for zakah should be the annual salary net of deductions of debts and living expenses. ^{1/}

The nisab (the minimum quantity or amount of an asset which makes it liable to zakah) for different items was prescribed by the Prophet, and there is ijma (consensus of jurists) that no variation from the instructions in this respect is permissible. The nisab was so prescribed that almost everyone except the very poor are required to pay zakah. Detailed information about the nisab for different items is given in Appendix II of this paper.

The liability for the payment of zakah arises consequent to assets equal to or more than the nisab having been in the ownership and possession of someone for one full year. ^{2/} This condition attaches to most assets subject to zakah but does not apply in the case of agricultural produce. Zakah is payable once and only once in respect of the same asset in a zakah year but zakah on agricultural produce, known as ushr, is payable on the harvesting of each crop.

The rates of zakah for various classifications of wealth were also prescribed by the Prophet, and these also are regarded as invariant. Detailed information on these rates is given in Appendix II. The rates vary from 2.5 percent to 20 percent. Analyzing the rationale for this differentiation, many jurists have pointed out that justice demanded that the greater the amount of labor involved in the procurement of income from an asset, the lower should be the rate of zakah and vice

^{1/} For a detailed discussion of these issues, see Yusuf Al-Qardawi, Fiqh-Al-zakah, (Beirut: Dar Al Ershad, 1969).

^{2/} There is difference of opinion among jurists on the point whether the nisab must be complete every moment through the year or only at the beginning and end of the year. Similarly there are differences on the treatment to be accorded to increments in assets during the course of the year. See the chapter on zakah in Sheikh Abdulrahman al-Jazieri, Kitab al-fiqh ala al-madhahib al-arba'a (Cairo, 1970).

versa. Thus, the highest rate of 20 percent is imposed in the case of treasure trove and the lowest rate of 2.5 percent in the case of merchandise and financial assets which involve human effort for earning income throughout the year. The rate is 10 percent of the agricultural produce in the case of crops irrigated by rainfall and 5 percent where the land is artificially irrigated.

As mentioned earlier, the purposes for which the proceeds of zakah can be used have been specified in the Qur'an. The jurists are agreed that the first priority in the use of zakah funds has to be accorded to the alleviation of poverty through assistance to the poor and the needy.

ii. Other sources of revenue

The early Islamic period witnessed considerable expansion in the territorial boundaries of the first Islamic state. The ghanima (spoils of war) were a significant source of revenue in this period. One fifth of the spoils of war was apportioned for the state while four-fifths was generally distributed among the fighters. The booty surrendered by the enemy without actual fighting, known as fai, was the exclusive preserve of the state. These sources of revenue are only of historical interest now.

Two other taxes which figured prominently in the public finance of the early Islamic period were jizya and kharaj. Jizya represented the per capita financial contribution that non-Muslims were expected to make for the provision of amenities and protection that they enjoyed in an Islamic state without being obligated to fight for the defense of the state. It is noteworthy that while zakah is payable by all Muslims who possess nisab irrespective of age, sex or profession, jizya was not levied on women, children, the old, the infirm, and the monks. This shows that it was only levied on those capable of bearing arms and was in lieu of exemption of non-Muslims from compulsory military service. Kharaj was a tax on agricultural land located outside the Arabian peninsula in countries conquered by Muslims. It was sometimes applied as a fixed tax on the basis of acreage and sometimes as a proportional levy related to the output of particular crops. The following factors were given due consideration while fixing kharaj: (a) quality of land, (b) kinds of crops grown, and (c) method of irrigation of land. Kharaj on land irrigated with water carried on the backs of beasts or raised by water-wheel was less than on land watered by running water or rain. No kharaj was charged if the entire crop was destroyed by factors beyond the control of the cultivators of land.

Another tax imposed in the early Islamic period was known as ushoor. This was, to begin with, a type of retaliatory customs duty on goods imported by foreign merchants crossing into the Islamic state from countries where similar duty was charged from Muslim merchants. Later, ushoor took the form of generalized customs duties.

In addition to the above-mentioned revenue sources, the state in the early Islamic period had access to certain nontax revenues also. A substantial part of natural resources including minerals, forests, pastures, and water were owned by the state. In addition, the state held certain properties in the public domain. These included unowned, unused land and estates of deceased persons without a legal heir. The state earned substantial revenues from the exploitation of natural resources and properties in public domain which were used both for the welfare of the poor and meeting the general expenditures.

The early Islamic state did not stand in need of imposing any other tax as the yield from the above-mentioned sources was adequate to meet the expenditure requirements. Later, the Muslim rulers took resort to new taxes some of which drew strong criticism from Islamic scholars. However, the criticism was not directed at state policy of imposing new taxes as such but at their arbitrary and unjust nature and incidence. Muslim jurists through the ages have accorded qualified approval to imposition of new taxes provided the expenditures to be financed by new taxes fall in the category of "essential expenditure" and the tax burden is equitably distributed. 1/

It will be seen from the foregoing review of the revenue system of Islam that it is an open-ended and flexible system. In the early Islamic period, taxes were mostly levied on assets and income accruing from specific assets but there is nothing to prevent the state from levying taxes on some other base, such as income or expenditure or sales. The system was of multiple taxes. Use was made of both direct and indirect taxes. Some of the taxes were earmarked for specific purposes, with the goal of poverty alleviation and social welfare being the most prominent of such purposes. Reduction in the disparities of income and wealth was also one of the objectives of the system. The "ability to pay" criterion was kept in view in respect of all taxes imposed. Tax rates were generally low and most taxes were collected at convenient period intervals. The history of the early Islamic period also shows that tax collectors were constantly reminded to be humane and polite in the matter of tax collection. Tax collecting officials were ordered to treat taxpayers with respect and to avoid any harassment. Payment of tax was remitted in case of real hardship. All these considerations lead to the conclusion that the revenue system of a present day state guided by Islamic teachings can differ significantly from that of the early Islamic period in respect of the composition of taxes and other details but it will have to preserve its essential characteristics of justice and equity.

1/ For the views of a number of jurists on the question of taxation in an Islamic economy see Yusuf Al-Qardawi, Fiqh Al-Zakah, op.cit., Vol.4.

b. Public expenditures

While discussing the bearing of Islamic teachings on public expenditures it is necessary to make a clear distinction between zakah-related expenditures and other expenditures. Such a distinction is necessary because shariah prohibits the use of zakah proceeds for any other purpose except the eight heads of expenditure specified in the Qur'an. However, there is no bar on using a part of general revenues for any of these eight heads of expenditure.

i. Zakah-related expenditures

Zakah is an earmarked tax whose proceeds can be used only for eight heads of expenditure specified in the Qur'an, namely, the poor, the needy, zakah collectors, recent converts, to free captives, to pay off debt, promotion of Islam, and to assist stranded travelers. However, while the purposes for which zakah funds can be used have been specified, not all the heads of expenditure need to receive shares in zakah appropriation at all times. In fact, the first two categories are entitled to zakah outlays as a legal right while the others are accorded only situational rights. As mentioned earlier, alleviation of poverty ranks highest in the use of the proceeds of zakah.

Zakah can claim to be quite an elaborate system of social security. It's peculiarity lies in the religious sanctity attached to it, being unchangeable by human discretion, and its accrual and disbursement being divinely ordained. It is the chief instrument of realizing the Islamic principle of "the poor having a right in the wealth of the rich." It is an in-built mechanism of the Islamic fiscal system to assure a continuing transfer of resources from those with ability to pay to the needy for their support and uplift.

A basic principle underlying zakah expenditure is that it should be disbursed in such a way that the self respect of the recipients is not hurt. Those who are unable to work should be provided with means of subsistence in an impersonal way through the agency of the state. The incomes of those who are not able to earn enough for assuring a minimum standard of living for themselves and their dependent family members should be supplemented by transfers in cash or kind. However, maximum effort should be exerted to use the proceeds of zakah in such a manner that recipients become self-supporting in course of time and, after attaining nisab, begin to contribute themselves to zakah funds.

The proceeds of zakah can be used for provision of public goods provided these are exclusively for the benefit of the poor and the needy. Since it is difficult in practice to maintain such exclusiveness, the jurists generally favor the use of the general funds of the treasury for such purposes.

ii. Other expenditures

The Islamic teachings require other expenditures of the state to be also guided by the value system of Islam. The early Islamic state was meticulous in avoiding waste in public expenditures. Many jurists have emphasized the necessity of exercising utmost economy in government expenditures and referred in this connection to the strictures in the Qur'an on extravagance which apply as much to individuals as to government. In carrying out its functions, the state is expected to make use of the most efficient and cost-effective methods. The institution of hisba, which was operated with great success in the early Islamic period, played a crucial role in this connection by keeping a watch on the conduct of public functionaries to ensure economy and efficiency in government services. 1/

The state has to provide social overheads and has also to engage in developmental activity to promote the general interests of the people. A well articulated theory of "public goods" has been developed by Muslim jurists over the centuries to guide the policymakers in this respect. The first element of this theory which deserves mention is the concept of fard kifaya. As distinguished from fard'ain (duty devolving on all individuals), a fard kifaya is a duty devolving on the whole community with the specific provision that the duty is considered to have been discharged by all if at least some people come forward to perform it. The concept of fard kifaya encompasses all those maslaha (items of public welfare) which appear necessary for the general welfare of the society at a particular juncture and period of history. The value system of Islam is expected to motivate people to engage themselves in the fulfillment of fard kifaya in large number. However, to the extent a fard kifaya is not performed or not performed adequately, the state has the responsibility to fill the gap. 2/ Many of the present day state activities like the building of infrastructure and provision of health and education facilities fall in the category of fard kifaya.

In the early history of Islam, there was great enthusiasm for excelling each other in the performance of fard kifaya. People used to spend a good part of their wealth on public welfare. One of the ways in which this philanthropic urge was institutionalized is known as waqf. This essentially implies setting aside certain assets, like land and building, for exclusive use for specific purposes under a legal deed. The waqf so established can no longer be sold or otherwise dispensed, but the person establishing the waqf can designate the nature of the disbursements to be made out of the income of the property. Traditionally such income was designated for such public welfare

1/ For an account of the working of the institution of hisba, see Ibn Taimiyah, Al-Hisba fi al-Islam, op. cit.

2/ Ibn Taimiyah, al-Nawawi, Ibn Abedin and al-Sarkashi are some of the prominent jurists who have used analogical reasoning for identifying fard kifaya relevant to their age. Their writings are listed in the bibliography at the end of the paper.

projects as hospitals, inns, and educational institutions. With the passage of time, the institution of waqf has considerably waned in importance but with proper encouragement it can be reinvigorated. To the extent it can be done it can reduce the financial burden of providing public goods on the state finances.

The second element of the theory of public goods developed by Muslim jurists relates to the distinction between daruri (the necessary), haji (the needed), and tahsini (commendable) interests. The necessary takes precedence over the needed while the commendable comes last of all. According to a famous jurist, 1/ the necessary interests comprise the following five items: (i) deen (religion), (ii) nafs (life or self), (iii) nasl (family or progeny), (iv) mal (property), and (v) aql (intellect or reason). Reflecting the emphasis on these items, Muslim scholars are agreed that expenditures related to the defense of the territorial integrity of an Islamic state, maintenance of law and order, propagation of virtues enjoined by religion and suppression of evil, and fulfillment of such needs as are vital for the preservation of human life and intellectual development should be accorded the topmost priority.

Guidance in respect of preferred public expenditures in an Islamic economy can also be derived from the maxims developed by the Muslim jurists for the realization of maqasid (objectives) through a right choice among alternative policy options. 2/ Some of the maxims which are of special relevance in the context of public expenditures are as follows: (i) the removal of hardship and injury must take precedence over the provision of comfort; (ii) the larger interest of the majority should take precedence over the narrower interest of a minority, (iii) a private sacrifice or loss may be inflicted to save a public sacrifice or loss, and (iv) a greater sacrifice or loss for the society in general may be averted by imposing a smaller sacrifice or loss on a limited section of the society best able to bear it.

c. Budgetary policy

The Islamic teachings allow a great deal of flexibility to the Government in shaping its budgetary policy. There is nothing mansus (prescribed specifically by the Qur'an and the Sunnah) about the budget of a state being balanced or unbalanced or the quantum of budgetary deficit. The only binding constraint is that it cannot resort to

1/ Abu Ishaq al Shatibi, al Muwafaqat fi Usul al Sharia (Cairo, Maktaba Tijariyah).

2/ Such maxims are found in the work of many jurists. See, for example, the Majallah al-Ahkam al-Adaliyyah or its English translation by C. R. Tyser published in 1967.

borrowing on the basis of interest to cover its budgetary deficit. ^{1/} It can borrow from institutional as well as noninstitutional sources on interest-free basis. It can also seek to mobilize resources through other Islamically permissible modes of financing.

The history of public finance in the early Islamic period shows that state expenditures were generally financed by the regular revenue sources. However, voluntary donations were an important source of financing extraordinary expenditures like those related to war and famines. Borrowing was not undertaken ordinarily for financing state expenditures but was used as a last resort to meet the financial needs of an emergency. The writings of Muslim jurists generally disfavor borrowing by the Government to meet ordinary expenditures and advise resort to borrowing only in compelling circumstances. This attitude toward incurring public debt is based largely on the concern of the jurists that debt once incurred may not be easily repaid and may necessitate onerous additional taxation for its repayment. Borrowing for expenditure on welfare programs is especially disfavored as the provision of funds for such programs is a fard kifaya and the state should find ways of financing these programs by the contribution of well-to-do sections of society through taxation or otherwise. All jurists, however, agree that there is no legal bar on the state resorting to borrowing in cases of special need.

In modern times, when the state has to incur sizable capital expenditures for undertaking infrastructure and other highly capital-intensive projects, it would be inconsistent with the Islamic norms of justice to rely on taxation alone to finance such expenditures. Considerations of intergenerational equity require that the state should tap other sources for meeting a part of such expenditures. Modern juristic opinion therefore regards government borrowing for such purposes as having adequate justification. ^{2/} It is recognized, however, that borrowing can provide substantial resources to the state only if people are motivated to provide qard hasna (interest free loan) in larger common interests. In the event of lack of adequate voluntary response, it is considered Islamically permissible to allow certain tax concessions, as an incentive, to those who subscribe to government loans. ^{3/} Possibility also exists of mobilizing resources for certain public sector projects on the basis of musharakah (profit/loss sharing) and other Islamically permissible modes of financing. ^{4/}

^{1/} See, however, para. 13 of Appendix I.

^{2/} See, for example, Islami Nizam Maliyyat wa qwanin maali (Council of Islamic Ideology, Government of Pakistan, 1984).

^{3/} See Report of the Workshop on Elimination of Interest from Government Transactions, (Islamabad, International Institute of Islamic Economics, 1984).

^{4/} Ibid.

The state can also resort to borrowing from the banking system to meet a part of its budgetary deficit. Since such borrowing has to be on interest-free basis, commercial banks would need to be placed under a legal obligation to make such financing available to government in accordance with a set procedure. Proposals of this nature have been made in a number of contemporary writings. ^{1/} The reasoning behind such proposals is that banks would not be paying any return on demand deposits in an Islamic banking system and can therefore be expected to make some resources available to government on an interest-free basis which will be used for the general benefit.

Borrowing from the central bank of the country is also not ruled out. However, the state would be expected to exercise utmost caution in respect to its borrowing both from the commercial banks and the central bank because of the possible inflationary implications of such financing. In fact, on account of the great importance attached to monetary stability as a policy objective in an Islamic framework, the state would be expected to eschew "deficit financing" except in situations of deficient effective demand.

The state's policy in respect of meeting a part of its expenditures through borrowing from external sources would have to be decided after a good deal of deliberation. While absorption of foreign capital whose "servicing" takes the form of a share in profits actually realized by its use poses no problems from the shariah point of view, borrowing from abroad whose servicing entails payment of interest could only be justified on account of dire necessity. ^{2/}

d. Operational issues

The implementation of an Islamic fiscal system requires the adoption of a two-budget concept. The state's responsibility to ensure the fulfillment of the requirements of at least a basic minimum standard of living for all citizens and the shariah requirement that proceeds of zakah be used exclusively for the eight specified heads make it necessary that the state finances be divided into two broad groups which may be categorized as a welfare budget and a general budget. The salient features of such a budgetary structure are summarized in Table 1. Given the underlying objectives, two sets of budgetary accounts would have to be maintained. All zakah revenues will be credited to the welfare budget and expenditures will be appropriated for specified heads. The general budget will cover the rest of expenditures and revenues. If the resources accruing to the welfare budget from the proceeds of zakah and voluntary contributions fall short of the required expenditure, the deficiency will be met by transfer of funds from the general budget.

^{1/} See, for example, Nejatullah Siddiqi, Banking Without Interest (Leicester, The Islamic Foundation, 1983) and M. Umer Chapra, Towards a Just Monetary System (Leicester, the Islamic Foundation, 1985).

^{2/} For an elucidation of the concept of "dire necessity," see para. 13 of Appendix I.

Table 1. The Structure of the Islamic Fiscal System

Welfare Budget		General Budget	
Receipts	Expenditure	Receipts	Expenditure
1. Zakah receipts	1. Cash grants to the poor and the needy.	1. Tax revenues: a. direct taxes b. indirect taxes.	1. Defense
2. Transfers from the general budget.	2. Financial assistance in cash or kind to make the unemployed or under-employed self supporting.	2. Nontax revenues: a. natural resources b. public domain.	2. Law and order
3. Voluntary contributions.	3. Schemes of social welfare (especially education and health care) designed for the exclusive benefit of the poor.	3. Equity financing: a. domestic sources b. foreign sources.	3. Judiciary
	4. Administrative expenses of collecting and disbursing zakah.	4. Borrowing: a. general public b. commercial banks c. central bank d. foreign sources.	4. Civil administration
	5. Situational categories of which: a. protecting and propagating the religion b. paying off debt of poor debtors c. others.	5. Voluntary contributions.	5. Infrastructure and other public sector projects.
			6. Propagation of virtues, suppression of evil, and spreading the message of Islam.
			7. Transfers to the welfare budget.

Policies underlying the general budget will differ from country to country depending on individual circumstances and structural characteristics of the economy. Thus, countries with abundant natural resources which yield sizable revenue to the government may not need to resort to high level of taxation. Expenditure on defense may vary significantly from country to country depending on their geo-political situation. In general, however, in determining the actual pattern of its taxation and expenditure policies, a state seeking to conform to Islamic teachings will be faced, in several areas, with the same type of decision-making problems as any other state. It will be able to make use of all the tools of modern economic analysis to evolve an optimal policy package designed to achieve the set objectives.

An important consideration in the implementation of an Islamic fiscal system would be the adequacy of noninterest-based sources of financing and the extent to which the Government can resort to the banking system without crowding out the private sector and without adversely affecting the value of money. Since the limits to government borrowing from the banking system within the safe limits of monetary expansion are usually reached fairly quickly, the state would need to give special attention to the devising of proper noninterest-based financial instruments that can be used to raise the necessary funds.

Fiscal policy is concerned with the manner in which all the different elements of public finance may collectively be geared to help achieve a certain set of socio-economic objectives. The criteria which are supposed to be kept in view by a state while framing its taxation, expenditure, and overall budgetary policies in the context of Islamic teachings have already been discussed. It remains to point out that fiscal policy is merely one element in the policy package of a state to achieve its socio-economic objectives. To avoid overburdening of any particular policy instrument, it will be necessary to ensure to the extent this is possible, that all components of the policy package reinforce and supplement each other. The state will have a wide array of powers and inducement mechanisms that can be used to achieve the Islamic socio-economic objectives. It is only by a judicious combination of various policy instruments that the desired results will be obtained in the most satisfactory manner.

III. Economic Implications of the Islamic Fiscal System

Economic implications of the Islamic fiscal system as described in the preceding section can now be analyzed in terms of its effects on the distribution of income and wealth, resource allocation, economic growth, and monetary stability. This section concentrates mainly on the potential impact of the welfare budget which is the most distinctive feature of the Islamic fiscal system and whose characteristics are, in large measure, time invariant. Since the general budget is subject to changes over time and would use fiscal policy instruments of the conventional type, it is analyzed only in the context of its reinforcing

action vis-a-vis the welfare budget and the support provided to the achievement of the desired socio-economic objectives.

1. Distributive effects

The Islamic fiscal system attaches a high priority to the alleviation of poverty and assurance of at least a basic minimum standard of living for all citizens. The main instrument used for this purpose is zakah which involves a simultaneous tax and expenditure process. It is true that the rates of zakah on most of the items subject to this levy are low. Besides, these rates are invariant. ^{1/} However, it has the potential of mobilizing substantial resources for alleviation of poverty because the nisab for the levy of zakah is low and the base for the levy is fairly wide. In certain country studies, for example, zakah has been found to have the potential of transferring 3 percent to 4 percent of gross domestic product every year to poorer sections of the population. ^{2/} The position would, of course, vary from country to country depending on its structural characteristics.

It is an interesting question as to how far zakah can be expected to eradicate poverty in Muslim countries. A definitive answer to this question can only be given on the basis of careful empirical work. Much would depend on the number of people above and below the poverty line, the size distribution of income, and the pattern of ownership of wealth. In a fully functioning Islamic economy, poverty should neither be intense nor widespread. However, if for historical and other reasons, the number of poor people in a country is very large, it may be necessary to supplement the resources obtained through zakah by other means to meet the minimum basic needs of the poor. The transfer of resources from the general to the welfare budget, which is easily accomplished in the two budget system, is intended to achieve this very purpose.

While the main purpose of zakah is to eradicate the worst forms of poverty, it also serves to bring about a certain amount of reduction in the disparities of income and wealth. To the extent it takes the form of an income maintenance scheme, it reduces the income differential between zakah payers and zakah recipients in the short run. To the extent it is disbursed in the form of productive assets, it results in a more durable increase in the income of the poorer sections of the

^{1/} There have been suggestions off and on that the nisab of zakah and the rates of zakah should not be considered immutable. However, such views have found very little support in the Muslim world. The general consensus remains that any variation in these features would seriously compromise the sanctity of zakah which is a form of ibadah (worship), and could open the door for changes which may introduce erratic and arbitrary elements in a stable institution.

^{2/} For a mention of certain details of two such studies relating to Syria and Sudan, see Muhammad Anas Zarqa, "Islamic Distributive Schemes," op. cit.

population. However, because of its being a proportional levy at perennially fixed rates, it cannot be expected to play a major redistributive role in the elimination of gross inequalities of income and wealth if they exist in a country. Existence of gross inequalities of income and wealth is in itself a pointer to the fact that Islamic teachings have not been fully acted upon. In such a situation, other measures of tax policy as well as nonfiscal policy instruments can be used to supplement zakah in achieving the desired changes in the pattern of income distribution and ownership of assets.

2. Resource allocation

Resource allocation and the growth path of an economy will be significantly influenced if the norms of the Islamic fiscal system are applied and observed. Zakah, which is an integral part of the Islamic fiscal system, will bring about a continuous transference of purchasing power from the more affluent sections of the population to poorer sections. This will result in greater flow of productive resources to the production of goods satisfying basic needs. This effect will be reinforced to the extent other components of the tax policy also have an income redistributive effect similar to zakah.

The Islamic fiscal system will influence the pattern of resource allocation from the side of public expenditures also. A conscious effort will be made to increase the supply of such public goods as improve the living conditions of poorer sections of society and provide equality of opportunity to all to realize their full productive potential. This will involve greater emphasis on projects which upgrade health, education, and housing facilities for the poor. The policy on price subsidies will have to be a discriminating one as it will be against the norms of an Islamic fiscal system to take recourse to such subsidies as distort the allocation of resources without any net increase in general welfare of the poorer sections of society. ^{1/}

3. Economic growth

Specific effects of the Islamic fiscal system on economic growth can be evaluated in terms of its likely impact on savings, investment and work effort. Since zakah is a unique feature of the Islamic fiscal system, the analysis will be confined largely to the influence it is likely to exercise on these variables.

^{1/} A number of studies have come to the conclusion that although price subsidies symbolize the Government's commitment to help the poor, untargeted open-ended price subsidies are a relatively inefficient instrument for reaching the most needy, and middle income groups appropriate a large share of their benefits. See Peter S. Heller et al, The Implications of Fund-Supported Adjustment Programs for Poverty: Experience in Selected Countries, Occasional Paper No. 58, International Monetary Fund, Washington D.C., 1988.

a. Savings effects

Two factors need to be taken into consideration while analyzing the possible effects of zakah on savings. The first relates to its impact on the saving behavior of those who are required to pay zakah. The second is concerned with the effect of zakah-related income and wealth redistribution on the average propensity to save.

Payment of zakah represents fulfillment of a religious obligation. Besides, Islamic teachings give promise of barakah or God's blessing in the form of growth in one's wealth and level of prosperity if he discharges his zakah obligations sincerely. The spiritual satisfaction one gets from payment of zakah is therefore likely to more than compensate the sense of apparent material loss in terms of a somewhat reduced effective yield on savings. Moreover, even abstracting from the religious aspect, it is by no means certain that reduction in effective yield on savings caused by zakah will have an adverse effect on the growth of savings. Whether an individual with a given current income will save less on balance consequent to lower yield on savings depends on the relative strength of the substitution effect, which works toward less saving, and the income effect which works toward more saving. In other words, while a lower yield on saving may constitute a disincentive to save in the case of some, it may spur others to save more, particularly those who aim at a target level of saving to meet anticipated future needs. The net outcome of zakah on saving is therefore unpredictable. ^{1/}

The effect of zakah-related income and wealth redistribution on the average propensity to save also needs to be analyzed to explore the effects of zakah on savings. The possible impact of changes in income distribution on aggregate savings in an economy has been the subject matter of intense discussion in economic literature in recent years. In as far as theoretical contributions on the subject are concerned, it has come out quite clearly that varying assumptions about the type of consumption function give varying results. The traditional Keynesian consumption function suggests that savings will decline as a result of income and wealth redistribution. However, the adherents of relative income theory and life cycle hypothesis have differing viewpoints about the impact of income redistribution on savings. The relative income theory suggests that redistribution, instead of leading to increased consumption and lower savings, actually decreases consumption and increases savings, because the lessening of inequality reduces society's emulative spending. According to the permanent income theory, redistribution does not affect aggregate savings one way or the other. According to the life cycle hypothesis, in most situations, the

^{1/} Zakah is akin to wealth tax in that it reduces the effective yield from various types of assets in which one may invest his savings. There is a wide measure of agreement among economists that the net effect of wealth tax on saving is unpredictable. See John F. Due, "Net Worth Taxation," Public Finance, Vol. 25, No. 3-4, 1960, p.318.

aggregate savings are not affected by income redistribution. Though the relative merits of the competing theories continue to be sharply debated, a number of simulation studies indicate that "the orthodox fear of a decline in the savings rate with equalization is found empirically doubtful." 1/

b. Investment

Unlike the unpredictability of its effect on savings, zakah can be expected to have a favorable effect on investment. In the first instance, it serves as a strong incentive for moving from idle money balances to income earning assets. People generally hold a certain amount of idle money balances for transactions purposes. Since idle money balances are subject to zakah at the rate of 2.5 percent, the amount of such balances kept for transactions purposes would have a tendency to drop to the level considered absolutely essential. 2/ For similar reasons, the precautionary demand for money balances can also be expected to go down because of zakah. Both of these can be expected to have a stimulating effect on investment. 3/

The second, and more powerful, effect of zakah on investment arises from the changes brought about by it in the relative returns from various types of asset holdings. This is because while idle money balances and holdings of wealth in non-productive form like gold are subject to zakah at 2.5 percent, some productive assets are either not subject to zakah or are liable to this levy at a lower rate. Owner-occupied houses and agricultural land holdings are not subject to zakah. As mentioned in section two of the paper, there is difference of opinion among jurists on whether other fixed assets like factory buildings, plant and machinery, and other capital goods are subject to zakah. Among those who favor imposition of zakah on such assets, the predominant view is that zakah should be imposed not on the capital value of such assets but on the net income from such assets. The

1/ W.R. Cline, "Distribution and Development: A Survey of Literature," Journal of Development Economics, February 1975, p. 395.

2/ The money balances held for transactions purposes provide ease of liquidity and hence have a positive utility. Imposition of zakah on such balances creates a disutility. This has the effect of minimizing the holding of money balances for transactions purposes. This can also be analogically deduced from the generally agreed proposition that the transactions demand for money balances is inversely related to return on income-yielding assets. See James Tobin, "The Interest Elasticity of the Transactions Demand for Cash" in Review of Economics and Statistics, August 1956, and W. J. Baumol, "The Transactions Demand for Cash: An Inventory Theoretic Approach" in Quarterly Journal of Economics, November 1952.

3/ The desirability of a tax on idle balances to reduce such holdings and stimulate investment has received a good deal of attention in economic literature. See R.A. Musgrave, The Theory of Public Finance, (New York, McGraw Hill, 1959), pp. 327-8.

suggested rates of zakah on such net income range from 2.5 percent to 10 percent. 1/ It can be seen that even taking the highest suggested rate, the effective zakah rates would encourage movement from unproductive assets to productive assets until the net profit per annum reaches 25 percent of asset value. The stimulus to investment would, of course, be much greater if these assets are subjected to lower rates of zakah and at a maximum if they are not subject to zakah at all. In the process, given the expected rates of profitability from different types of investment, the level of investment is likely to be always higher in the presence of zakah than in its absence.

c. Work effort

The effect of zakah on work effort can be analyzed by tracing through its income and substitution effects. All direct taxes have a positive income and a negative substitution effect on work effort, and the net impact of a particular tax on work effort depends on the relative strength of these two effects. There are reasons to believe that in the case of zakah, the substitution effect would be weak. Since payment of zakah signifies fulfillment of a religious obligation, it is unlikely that it would adversely affect the work effort. Besides, on account of the low rate of the levy, the substitution effect, even if it exists, is not likely to be significant. The income effect is likely to be positive as in the case of other direct taxes. The net overall effect of zakah on work effort is thus likely to be positive.

The foregoing analysis leads to the conclusion that while the impact of zakah on savings is uncertain, its effect on work effort and investment is likely to be favorable. The presence of zakah in the fiscal system can therefore be expected to promote growth. The fact that proceeds of zakah will largely be spent on amelioration of the conditions of the poor in the society is likely to have additional favorable effects on growth. The increase in employment, improved nutrition and upgrading of skills, made possible through the use of zakah funds, can all be expected to benefit the growth process.

1/ For the views of jurists on this issue, see Yusuf Al-Qardawi, Fiqh Al-Zakah, op. cit and Monzer Kahf, "Zakat: Unresolved Issues in Contemporary Fiqh," Journal of Islamic Economics, January 1989.

All social security systems run the risk of impairing the work incentives of those receiving social security benefits and thereby retarding growth. 1/ In the case of zakah, Islamic teachings seek to minimize this risk by severe religious disapprobation of the conduct of those who tend to depend on doles though they can earn enough for the fulfillment of their basic needs through their own effort. 2/ The principles underlying the disbursement of zakah funds also seek to strengthen the work effort by according primacy to such methods of channeling assistance as enable the zakah recipients, who are able to work, to become self-supporting.

While zakah itself is a growth stimulating factor, the overall effect of the Islamic teachings in the field of fiscal policy on economic growth will depend crucially on the ingenuity and skill with which the system of zakah is integrated with other components of the fiscal system. Much would depend on how resources are raised to supplement the proceeds of zakah if these do not prove adequate to meet the minimum basic needs of the poor. The possible disincentive effects of a high level of taxation, particularly direct taxes, will have to be contended with in such a situation. The Government will usually have a number of fiscal policy options to choose from in case it is confronted with a serious trade-off between equity and growth, and the optimal course would have to be decided in the context of individual country circumstances.

4. Monetary stability and economic stabilization

It has been pointed out earlier that avoidance of both inflationary and deflationary pressures and stability in the value of money are to be regarded as an important objective of fiscal policy in the context of Islamic teachings. The exhortations in the Quran and the Sunnah for liberal spending by the rich for the welfare of the poor, the compulsory levy of zakah and other income redistributive measures that may be taken by the state in pursuance of the Islamic egalitarian objectives are

1/ In a recent study of the social security system of France, it has been concluded that over the longer term the expansion of the social security system has "adversely affected the supply response by reducing the incentives to work, employ, and invest, and this has hurt overall economic performance." See article by Klaus-Walter Riechel on this subject in IMF Survey, Volume 18, No. 9, May 1, 1989. An earlier study relating to the United States reached the conclusion that the income transfer program then in effect might have reduced aggregate labor supply at most by 4.8 percent, and that reductions in or elimination of such programs will increase poverty while achieving only small increases in work effort and savings. See Sheldon Danziger and Robert Haveman, "How Income Transfer Programs Affect Work, Savings and the Income Distribution: A Critical Review" in Journal of Economic Literature, Vol. 19, No. 3.

2/ For many sayings of the Prophet relevant in this context, see the Chapter on zakah in al-Khatib al-Umari, Mishkat al-Masabih.

likely to keep consumption demand at quite a high level. This will constitute a favorable factor for growth and employment provided the increase in the productive capacity of the economy also keeps pace with the level of consumption demand. ^{1/} However, if excess demand conditions emerge, the state will need to use an appropriate mix of fiscal, monetary, and other policies to preserve monetary stability. The Islamic teachings may be expected to exercise a special restraining influence on the spending of the state itself in such a situation to keep aggregate demand in the economy within proper limits.

The potential of zakah as an economic stabilizer within the confines of Islamic teachings has been the subject matter of a good deal of discussion in some recent writings. ^{2/} Some writers have suggested that zakah could be used as a counter-cyclical device by withholding some part of zakah proceeds in an inflationary situation and releasing them to increase purchasing power in a period of depressed economic activity. However, the widely prevalent view is that the primary aim of zakah is to help the poor and it would not be appropriate to withhold disbursements from zakah collections to serve an anti-inflationary purpose in the face of existence of want and poverty. ^{3/}

Variation in the modes of disbursement of zakah has also been proposed in some recent writings to serve a counter-cyclical purpose. Thus, it has been suggested that inflationary pressures could be dampened by reducing zakah disbursements in the form of cash or consumer goods and increasing the proportion of producer goods in such disbursements. On the other hand, the proportion could be changed in a downswing to favor consumption expenditures with a more immediate expansionary impact on aggregate-demand. ^{4/} However, the potential of such a variation to serve a counter-cyclical purpose seems to be limited because, keeping in view the philosophy of zakah, the relative

^{1/} This is a general formulation which subsumes an appropriate equilibrium in the balance of payments.

^{2/} See, for example, the papers on fiscal policy presented at the International Seminar on Monetary and Fiscal Economics of Islam held in Islamabad, Pakistan in 1981 and a gist of the discussion on these papers published in Ziauddin Ahmad et. al. (eds.), Fiscal Policy and Resource Allocation in Islam (Islamabad, Institute of Policy Studies and International Centre for Research in Islamic Economics, 1983).

^{3/} See the Introduction of the book Fiscal Policy and Resource Allocation in Islam, op. cit. p. 17.

^{4/} See S. I. Tag El-Din, "Allocative and Stabilising Functions of Zakah in an Islamic Economy," a paper presented at the International Seminar on Fiscal Policy and Development Planning held in July 1986 under the auspices of the International Institute of Islamic Economics, Islamabad.

proportions of cash or consumer goods and producer goods in zakah disbursements have to be guided more by the nature and urgency of the needs of the poor and the needy than considerations of dampening the amplitude of upswings and downswings of business cycles for purposes of economic stabilization.

Since the government budget would not be a source of imbalance if Islamic teachings are acted upon, the sources of disturbances requiring corrective action would either be exogenous factors or private sector supply-demand imbalances. The Government would be in a position to take a wide variety of measures to restore economic stability in such situations. ^{1/} These measures would of course be subject to the same limitations as in any other economy, and their effectiveness would vary from country to country and from time to time, depending on the intensity of disturbances and the skill and determination with which the corrective measures are employed.

IV. Summary and Conclusions

The Islamic fiscal system is an integral component of the overall economic system whose parameters are laid down by the basic teachings of Islam. It is a typical feature of Islamic teachings that strictly mandatory elements are kept to a minimum while man is left free to find suitable solutions to the emerging problems through a process of institutionalized thinking which keeps the spirit of Islam alive. This paper outlines the general framework of public finance and fiscal policy relevant to our age which emerges from Islamic teachings. It also analyzes the implications of the Islamic fiscal system for growth, monetary stability, resource allocation, and pattern of income distribution.

The Islamic fiscal system attaches a high priority to the assurance of at least a basic minimum standard of living for all citizens. The main instrument used for this purpose is zakah (the poor-due) which involves a simultaneous tax and expenditure process. As one of the pillars of Islam, zakah represents a religious obligation of the well-to-do Muslims to contribute a part of their wealth for the welfare of the poorer sectors of the society through the intermediary of the state in accordance with certain rules and regulations. Prevention of gross inequalities in income and wealth, promotion of economic growth, and avoidance of both inflation and deflation are recognized as other important objectives of fiscal policy in the light of Islamic teachings.

The achievement of Islamic fiscal policy objectives calls for two independent budgets--welfare and general. Zakah is the centerpiece of the welfare budget. While funds can be transferred from the general

^{1/} Excepting the interest rate policy, the Islamic teachings do not preclude the use of the commonly employed demand management and supply-side policies.

budget to the welfare budget to ensure the fulfillment of the basic needs of the poor, no transfers from the welfare budget to the general budget are permissible. The welfare budget is the chief instrument for implementing the Islamic concept of "the poor having a right in the wealth of the rich." Disbursements from the welfare budget are used not only for income maintenance of the poor but also for promoting productive activity through the provision of producer goods to those who can become self-supporting.

Islamic teachings call upon the state to play an active role in motivating the people to act in accordance with Islamic ideals and norms of human behavior. Excelling each other in spending voluntarily for the welfare of the poor is regarded as one of the highest moral virtues in Islam. To the extent people are so motivated, the task of fiscal policy in assuring a basic minimum standard of living for all citizens is eased.

Islamic teachings do not bind the state with regard to particular tax measures that may be adopted to achieve the various fiscal policy objectives. However, they do emphasize that taxes should be imposed only to finance "essential expenditure" and the tax burden should be equitably distributed. Avoidance of waste in government expenditure and necessity of exercising utmost economy in spending public money are particularly stressed. Islamic teachings also provide broad guidance with regard to priorities of public expenditure.

Islamic teachings allow a great deal of flexibility to the government in shaping its budgetary policy. In pursuit of the underlying objectives, the size, structure, and composition of the general budget can be suitably adjusted from time to time, and surpluses can be accumulated or deficits incurred according to the needs of the situation. Deficits can be financed by borrowing from institutional as well as noninstitutional sources on an interest-free basis. Resources can be mobilized through other Islamically permissible modes of financing. Islamic teachings do not allow resort to interest-based borrowings except in dire need and that too under severe constraints.

The analysis of the economic implications of the Islamic fiscal system contained in the paper concentrates mainly on the potential impact of the welfare budget which is the most distinctive feature of the Islamic fiscal system and whose characteristics are, in large measure, time invariant. It is seen that, among revenue sources, the first reliance of a state seeking to implement Islamic welfare objectives is on zakah which has the potential of mobilizing substantial resources for alleviation of poverty. If resources thus mobilized are not sufficient for the fulfillment of the basic needs of all citizens, they will need to be supplemented by transfer of resources from the general budget. It is noted that zakah will also serve to bring about a

certain amount of reduction in the disparities of income and wealth, but if social considerations necessitate a more drastic redistribution, resort can be taken to other measures of tax policy as well as nonfiscal policy instruments.

The impact of the Islamic fiscal system on resource allocation is seen to lie in greater flow of productive resources to the production of goods satisfying basic needs. While the effects of zakah on savings is unpredictable, this levy is seen to be highly supportive of growth because it penalizes idle balances, discourages hoarding in the form of unproductive wealth, stimulates investment, promotes employment, and raises labor efficiency. It is noted that because of a positive income effect and a weak substitution effect, zakah is likely to promote the work effort on the part of zakah payers while, because of severe religious disapprobation of the conduct of those who tend to depend on doles though they can be self-supporting, it is not likely to impair the work incentives of zakah recipients.

While analyzing the impact of the Islamic fiscal system on aggregate demand, the paper notes that zakah and other income redistributive measures taken in pursuance of the Islamic egalitarian objectives are likely to keep consumption demand at quite a high level. This will be favorable for growth provided the increase in the productive capacity of the economy also keeps pace with the level of consumption demand. However, if excess demand conditions emerge, the state will need to use an appropriate mix of fiscal, monetary, and other policies to preserve monetary stability.

It is emphasized throughout the paper that the Islamic fiscal system is not rigidly defined and has sufficient flexibility to address particular situations. It is also stressed that fiscal policy is merely one element in the policy package of a state, and to avoid overburdening it, it would need to be used in a judicious combination with other policy instruments to achieve the Islamic socio-economic objectives.

Basic Teachings of Islam Having a Bearing on Public Finance

1. One of the most basic teachings of Islam is that life is a homogenous whole and admits of no distinction between the temporal and spiritual dimensions of human existence. The Qur'an refers to this totality, covering life in this world and the hereafter, in the following words:

"Say: Lo! my worship and my sacrifice and my living and my dying are for Allah, Lord of the worlds." (6:163)

As an all-encompassing way of life, Islam provides guidance for every aspect of man's existence. Its precepts are designed to so integrate the material and spiritual aspects of life that worldly goals become inseparable from spiritual aspirations.

2. Another basic teaching of Islam is that God has created this world for a divine purpose. To fulfil this divine purpose, He has conferred upon man the unique distinction of His vicegerency on earth:

"And when thy Lord said unto the angels: Lo! I am about to place a viceroy in the earth, they said: Wilt Thou place therein one who will do harm therein and will shed blood, while we, we hymn thy praise and sanctify Thee? He said: Surely I know that which ye know not." (2:30)

3. To enable man to carry out His divine mission, God made everything in this world subservient to him and made provision for all that was needed for his physical sustenance and good living. At the same time He sent guidance, through His messengers, as to how man should conduct himself in this life. This string of messengers came to an end with Prophet Muhammad when God announced:

"...This day have I perfected your religion for you and completed My favor unto you, and have chosen for you as religion Al-Islam ...
." (5:3)

4. Islam is not merely a set of beliefs. It also provides a program of action based on that set of beliefs which is at once comprehensive and eternal. This program is two-dimensional. In the first instance, it seeks to infuse a set of moral values in human beings which are conducive to their own individual interests and interests of the society in which they live. Secondly, the state authorities are enjoined both to strengthen the moral fiber of the society and to set up a legal system which provides a fair deal to all the citizens irrespective of their standing and status in society. The aim of the program is to bring into being a just and humane socio-economic order which should be free from all forms of exploitation and enable man to live a life of peace and contentment on this earth.

5. To inculcate the moral values, Islam seeks to ingrain in the human mind the notion that he is the vicegerent of God on earth and he should therefore live up to the instructions of his Creator. The Qur'an repeats again and again that God is the real owner of all that exists and man's ownership of any property or productive resource is in the nature of a trust. One of the most lucid enunciations of this doctrine is contained in the following verse:

"Believe in Allah and His messenger, and spend of that whereof He hath made you trustees, and such of you as believe and spend (aright), theirs will be a great reward." (57:7)

6. Man is also reminded that this world is his temporary abode. The earthly life of man is nothing but a trial and he will be accountable for everything that he does in this world before God in the hereafter. That life in this world is a trial is vividly expressed in the following verse of the Qur'an:

"Do men imagine that they will be left (at ease) because they say, we believe, and will not be tested with affliction? Lo! We tested those who were before you. Thus, Allah knoweth those who are sincere, and knoweth those who feign. Or do those who do ill deeds imagine that they can outstrip Us? Evil (for them) is that which they decide. Whoso looketh forward to the meeting with Allah (let him know that) Allah's reckoning is surely nigh, and He is the Hearer, the Knower. And whosoever striveth, striveth only for himself, for lo! Allah is altogether independent of (His) creatures. And as for those who believe and do good works, We shall remit from them their evil deeds and shall repay them the best that they did." (29:2-7)

See also 2:38-39, 51:56-60 and 99:1-8.

7. Islam seeks to promote the economic well-being of man within the framework of its moral norms. It urges man not to sit idle but to engage in productive activity:

"And when the prayer is ended, then disperse in the land and seek of Allah's bounty, and remember Allah much, that ye may be successful." (62:10)

While productive effort is encouraged, man is cautioned not to acquire wealth through unfair means which hurt the general interests of the society. Unethical and unfair methods of acquiring wealth which have been identified in the Qur'an and the Sunnah include production and marketing of intoxicants, hoarding and cornering of stocks with a view to creating artificial scarcity and profiteering, gambling, interest-based transactions, bribery, theft, robbery, breach of trust and use of fraudulent weights and measures.

8. Islam envisages productive activity to be undertaken primarily on the basis of individual initiative. Excepting certain natural resources, whose benefits should be equally available to all in the society, there is no restriction on individuals owning any productive asset or property. The practice in the time of the Prophet is the basis of this assertion. Islam does not allow any arbitrary expropriation of private property by the state in ordinary circumstances. However, the state has the right to take over any property if its continuance in individual ownership is clearly seen to be hurting the general interests of the society. This is because Islam attaches great importance to protecting people from harm. The Prophet is reported to have said that "to cause harm to others is not allowed in Islam." In the early Islamic period, Caliph Umār acquired pieces of land from individuals, after paying compensation, when this was considered in public interest.

9. Islam allows maximum scope to market forces to determine prices in individual commodity markets but prescribes moral norms of behavior for all participants in the market so that the genuine interests of all parties are duly safeguarded. Some of the norms that are specified in the Qur'an and the Sunnah are as follows: free consent of the parties to enter into a sale-purchase transaction, fulfillment of all terms of the contract, full access to the market by all buyers and sellers, correct disclosure about the quality of goods being offered for sale, noninterference with supplies before entrance into the market, and use of correct weights and measures. On the other hand, adulteration, hoarding and cornering of stocks with a view to creating artificial scarcity and profiteering, collusion among buyers or sellers to hurt the interests of one party and bidding up of prices without the intention to purchase are severely condemned.

It is reported that at first the Prophet himself used to visit the markets to ensure that transactions conformed to Islamic norms. Later, he appointed others to carry out such inspections. This was the beginning of the institution of hisba in Islam.

10. Islam expects all able-bodied men to exert themselves to earn a livelihood for themselves and their families. However, it recognizes that all may not be able to earn enough to provide for themselves with basic necessities of life while some may not be able to earn at all due to physical disability or lack of employment opportunities. Islam regards it below the dignity of man that he should remain deprived of basic necessities of life. Islam, therefore, makes it a collective responsibility of the society to ensure at least a basic minimum standard of living for all citizens. The Qur'an says:

"It is not righteousness that ye turn your faces to the east and the west; but righteous is he who believeth in Allah and the Last Day and the angels and the Scripture and the Prophets; and giveth his wealth, for love of Him, to kinsfolk and to orphans and the needy and the wayfarer and to those who ask, and to set slaves free and observeth proper worship and payeth the poor-due"

(2:177) Another verse says: "And in whose wealth there is a right acknowledged for the beggar and the destitute." (70:24-25) The obligation of an Islamic society to take care of the needs of all can also be inferred from the following verse: "And when it is said unto them: spend of that wherewith Allah hath provided you, those who disbelieve say unto those who believe: shall we feed those whom Allah, if He willed, would feed? Ye are in naught else than error manifest." (36:47)

Some other verses which may be seen in this context are: 51:19, 17:70, and 7:10. There are several sayings of the Prophet which imply that a society which fails to guarantee the fulfillment of the needs of the needy cannot be regarded as Islamic. For example, the Prophet is reported to have said: "He is not a true Muslim who eats his fill when his next door neighbor is hungry."

11. Islam sees no harm in the existence of certain income differentials in the society. In fact, it regards such differentials as part of God's scheme of things:

"...We have distributed their livelihood among them in worldly life, and have raised some above others in the matter of social degrees, so that some of them may utilize the services of others in their work" (43:32)

However, Islam disfavors prevalence of gross inequalities of income and wealth. The Qur'an cautions against glaring inequalities in income and wealth in verse 59:7 where it is said that wealth should not be allowed to become "a commodity between the rich among you." Islam particularly condemns conspicuous consumption, and those who squander their wealth in extravagance are described as "brothers of the devils." (17:27)

12. Islam exhorts mankind to create a society which is permeated with the spirit of al Adl (justice) and Ihsan (kindness). A verse in the Qur'an says:

"Lo! Allah enjoineth justice and kindness" (16:90)

There are other verses which proclaim that establishment of justice has been one of the primary aims in the sending of messengers by the Creator:

"We verily sent Our messengers with clear proofs, and revealed with them the Scripture and the Balance, that mankind may observe right measure" (57:25)

The Qur'an and the Sunnah provide explicit guidance as to how justice may be ensured in various spheres of human activity. While justice is the minimum requirement, benevolence is extolled. In the matter of helping the poorer sections of society, for example, while a minimum

contribution by way of zakah (poor-due) by the well to do is made obligatory, choicest blessings in the hereafter are promised to those who spend liberally for the uplift of the poor:

"And vie one with another for forgiveness from your Lord, and for a Paradise as wide as are the heavens and the earth, prepared for them who ward off (evil); those who spend (of that which Allah hath given them) in ease and in adversity, those who control their wrath and are forgiving toward mankind; Allah loveth the good." (3:133-134)

13. Islam strongly disapproves lending and borrowing of money on interest. This is because interest represents, in the Islamic value system, a source of unjustified advantage. The Qur'an says:

"O ye who believe! Observe your duty to Allah, and give up what remaineth (due to you) from usury, if ye are (in truth) believers. And if ye do not, then be warned of war (against you) from Allah and His messenger. And if ye repent, then ye have your principal (without interest). Wrong not and ye shall not be wronged." (2:278-279)

Islamic scholars have written extensively on various aspects of the prohibition of interest in Islam. They have taken account of the fact that borrowing on the basis of interest may sometimes become inescapable. In such a situation, recourse to such borrowing could be taken conditionally on the analogy of permission to eat prohibited food in dire necessity. Permission to engage in something in the event of "dire necessity" which is otherwise prohibited is deduced by analogical reasoning from the following verse in the Qur'an:

"He hath forbidden you only carrion, and blood, and swineflesh, and that which hath been immolated to (the name of) any other than Allah. But he who is driven by necessity, neither craving nor transgressing, it is no sin for him. Lo! Allah is Forgiving, Merciful." (2:173)

In the case of borrowing on the basis of interest, it has been suggested that to establish "dire necessity," the following conditions must be met: (i) The need must be real...It must be so basic that life is not possible without it..., (ii) the concession is limited to the exact amount needed, (iii) the borrower must continue to search for ways to escape from his predicament, and (iv) He must continue to hate it and regret doing it until Allah opens a way out for him. See Yusuf al-Qardawi, Al-Halal Wal Haram Fil Islam, Chapter IV.

14. The teachings of Islam envisage an important role for the state in socio-economic life. The state, in the Islamic system, is a form of collectivity and derives its authority from the concept of "vicegerency of Allah." It is, therefore, as much bound by the moral norms of Islam as individuals. Within these moral norms, it has a number of duties to

perform. Its task in this respect is greatly lightened if people conform to Islamic teachings. Hence the state is enjoined to institute arrangements for propagation of good and suppression of evil (amr bil maruf wa-n-nahi anil munkar). The Qur'an says:

"They are those who, if we establish them in the land, establish regular prayer and give regular charity, enjoin the right and forbid wrong... ." (22:41)

The Prophet, after the establishment of the Islamic state at Madina, took steps to institutionalize arrangements for propagation of good and suppression of evil. In course of time, the state institution designed to promote what is proper and forbid what is improper came to be known as hisba. The officer in charge of the hisba was called the muhtasib. He was required to look after the people's social behavior and their performance of religious duties. He was particularly entrusted with the responsibility of ensuring the observance of business ethics. He was expected, among other things, to keep a watch on the availability of essential goods, prevent hoarding of goods, ensure freedom of entry in the market, check harmful interception of supplies by middlemen, ensure the use of correct weights and measures, prevent price collusion, adulteration and false publicity of goods by the sellers. The muhtasib was also expected to keep a watch on the conduct of public functionaries to ensure integrity, economy, and efficiency in government services.

15. Islamic teachings assign to the state the ultimate responsibility of ensuring at least a basic minimum standard of living for all citizens. Primarily it is one's own duty to earn a livelihood to meet his needs and those of his family. However, in case one's own earning is not enough to meet at least the basic needs, he becomes entitled to social support. Islamic teachings make it morally incumbent on the rich to help the poor and promise great reward in the hereafter to those who spend liberally for the welfare of the needy. However, if sufficient voluntary response to this moral exhortation is not forthcoming, it becomes the responsibility of the state to ensure that all citizens have access to at least the basic necessities of life. The Prophet is reported to have said:

"Allah and His messenger are the guardians of one who has no guardian."

The state in the early Islamic period was fully conscious of this responsibility. A member of jurists have held the view that legal protection should be afforded to the principle of need fulfillment in an Islamic society so that recourse could be taken to courts to secure the implementation of this principle. 1/

1/ For details see Nejatallah Siddiqi, "Guarantee of a Minimum Level of Living in an Islamic State" in Munawar Iqbal (ed): Distributive Justice and Need Fulfillment in an Islamic Economy (Islamabad, International Institute of Islamic Economies).

16. The Qur'an and the Sunnah provide broad guidance about the functions that should necessarily be performed by the state. These include defense, maintenance of law and order, dispensation of justice, civil administration, propagation of good, suppression of evil, and spreading the message of Islam, assurance of at least a basic minimum standard of living for all citizens and prevention of gross inequalities in income and wealth. The state can assume additional responsibilities according to the needs of the time. The exact determination of these responsibilities has been left to human judgment through the process of ijtihad, which is discussed in paragraph 18.

17. It is a typical feature of Islamic teachings that strictly mandatory elements are kept to a minimum while a wide area of discretion is allowed to man to manage his affairs. This is as true of public finance as of any other field. The Qur'an and the Sunnah do not prescribe any rigid system of public finance. The major emphasis is on the state's responsibility to come to the rescue of the needy, and in this context collection and distribution of zakah (poor-due) on the part of the state has been made obligatory. The main features of the fiscal system in the early Islamic period have been described in Appendix II. The succeeding generations have been free to devise a fiscal system suited to their needs keeping in view the Islamic imperatives of justice and equity and keeping away from practices which are prohibited. The general framework of public finance and fiscal policy relevant to our age which emerges from Islamic teachings has been outlined in the main text of the paper. The evolution of the fiscal system in this general framework is supposed to take place through the exercise of ijtihad, a subject which is discussed in the following paragraph.

18. Islam has a built-in mechanism to find solutions to the problems of every age. In seeking a solution to any problem, attention has to be focused first of all on the contents of the Qur'an and the Sunnah. The Qur'an, in the belief of all Muslims, is the very Word of God. The Sunnah covers the sayings of the Prophet, his actions or his tacit approval of something said or done in his presence. The conclusive injunctions of the Qur'an and the Sunnah, from which no departure is allowed in any age, are known as nusus. The Qur'an declares:

"It is not fitting for a believer, man or woman, when a matter has been decided by God and His apostle, to have any option about their decision. If anyone disobeys God and His apostle, he is indeed on a clearly wrong path." (33:36)

Islam, however, allows full scope to human reasoning for finding solutions to problems on which direct guidance is not available from the Qur'an and the Sunnah. The use of reasoning for this purpose is known as ijtihad.

The permissibility of exercising ijtihad for finding solutions to newly emerging problems became available in the time of the Prophet himself. It is reported that the Prophet asked Mu'adh Ibn Jabal, who was soon to assume office as a judge in Yaman, the following question: "According to what shalt thou judge?" He replied: "According to the Book of God." "And if thou findest nought therein?" "According to the sunnah of the Prophet of God." "And if thou findest nought therein?" "Then I will exert myself to form my own judgment." And thereupon the Prophet said: "Praise be to God Who has guided the messenger of His Prophet to that which pleases His Prophet."

Within a century of the death of the Prophet, the Muslim empire spread far and wide, and the need for resorting to ijtihad began to be felt acutely to tackle the problems of peoples living in different areas. The first four Caliphs, who assumed leadership of the Islamic state after the Prophet, exercised ijtihad, and the consensus that developed on the pronouncement of their opinion, and also on the opinion of other revered scholars, came to be known as ijma. Later years witnessed the emergence of several schools of fiqh (jurisprudence) representing sincere attempts on the part of outstanding scholars to find solutions to new problems as they emerged. The methods of ijtihad employed by them include qiyas (analogical deduction), istihsan (preference of one qiyas over another or even abandonment of qiyas for some strong reason), and istislah or al-masalih-al-mursalah (judgment on the basis of public welfare). The five most famous schools of jurisprudence, which took shape in the second and third centuries of the Islamic calendar, are associated with the names of Abu Hanifah, Malik Ibn Anas, al-Shafii, Ahmad Ibn Hanbal, and Jaffar Sadiq. These jurists, and others who followed them in same tradition, analyzed basic tenets and teachings of Islam, and inferred the fundamental principles applicable to new situations. They differed from one another in respect of the degree of reliance on different methodologies of ijtihad and in respect of conclusions reached on certain issues. However, they did not claim that truth lay only in their own expressed views, and held the views of others also in high esteem.

For several centuries after the advent of Islam, the Muslim world continued to benefit from dynamic interpretation of Islamic teachings through the process of ijtihad. However, subsequently a period of retrogression set in, and a large number of people in many countries came to believe that the stock of juristic opinion in the particular school of jurisprudence which they happened to follow was enough for their guidance in every respect, and there was no need for any further ijtihad. However, even in such an unfavorable environment, the Muslim world produced some jurists of a high caliber who kept the spirit of ijtihad alive. In the present century, the Muslim world has again reawakened to the crucial role of ijtihad in finding satisfactory solutions to modern-day problems. It is recognized that ijtihad does not imply unrestrained freedom to interpret Islamic teachings in any way one wants to solve modern problems. It is a very carefully exercised process of reasoning which has its own set of rules and principles which

keep it within the bounds of the fundamentals of Islam. The results of individual ijtihad pass through the watchful eyes of others well versed in shariah, and it is only after they attain a sort of consensus or ijma that they are considered deserving to be acted upon. Moreover, to consider more complex problems, it is considered advisable to undertake ijtihad collectively by a group of persons with the association, if need be, of experts in the field to which a matter under consideration relates, so that all the relevant aspects are fully taken into account before reaching a conclusion. This, then, is the built-in mechanism in Islam for new thinking in every age which keeps the spirit of Islam alive and yet responds adequately to the needs and exigencies of particular situations.

Fiscal System in the Early Islamic Period

The fiscal system in the early Islamic period evolved through two phases: (a) the initial period covering the time of the Prophet, and (b) the period of the first four Caliphs (Abu Bakr, Umar, Othman, and Ali) which experienced a major enlargement of government involvement in economic matters. The early Islamic period reflected considerable flexibility in achieving the primary objectives of the state.

1. Fiscal system in the initial phase

The fiscal system during the Prophet's time was directed at establishing the minimum necessary framework needed to achieve the state's socio-economic objectives. Based on the Qur'an the state had to establish a society with justice, peace, security, and economic well-being. In the early period, the main concern of the Prophet, as the head of the state, was to protect the faith and to spread Islam. At the same time, the achievement of social security (fulfillment of basic needs) and distributive justice was given high priority by the Islamic state. The Prophet achieved outstanding success in imbuing the people with the moral values of Islam. In the economic sphere, this manifested itself, among other things, in the widespread practice of infaq, i.e., giving of a part of one's wealth voluntarily to the poor. Additionally, a good part of the revenues of the state was spent for the welfare of the poor and the needy.

a. Revenue sources

The fiscal system during the Prophet's time drew upon four major sources of revenue: (a) Zakah (poor due to be recovered from Muslims), (b) ghanima (spoils of war), (c) jizya (poll tax on non-Muslims residing in Muslim territories), and (d) fai (booty surrendered by the enemy without actual fighting).

1. Zakah

Zakah was fully implemented during this period and became the core of the fiscal system. Helping the poor through payment of zakah was a religious obligation for the Muslims even before the Islamic state was established by the Prophet subsequent to his migration from Makkah to Madinah. However, prior to the establishment of the Islamic state, there were no set rules for the payment of zakah, and the individuals discharged their responsibility in regard to payment of zakah on their own by virtue of their religious commitment. Collection and disbursement of zakah became a responsibility of the state with the revelation of the verse "Take alms of their wealth, wherewith thou mayst purify them and mayst make them grow..." (Al-Quran, 9:103). Zakah proceeds were earmarked for specified expenditures through another revelation as will be discussed presently. However, the Qur'an did not

prescribe other details of the levy such as the items of wealth on which it is to be paid, and the rates of the levy on different items. These were prescribed by the Prophet, and are to be found in his reported instructions on the subject.

In the Prophet's time, zakah coverage was confined to gold, silver, merchandise, agricultural produce, livestock, minerals and treasure trove. The underlying principle appeared to be that zakah should be levied only on that property which is capable of generating income, and there should be no duplication in payment of zakah. Thus, assets and items which are used to satisfy the needs of everyday life were excluded from the purview of zakah. Examples of excluded items are: residential houses, wearing apparel, furniture and household utensils, work implements used by craftsman, books, animals used for personal transportation, and articles of adornment if not made of gold or silver.

Another principle laid down by the Prophet in respect of realization of zakah was that the property must have been in the ownership and possession of the person for one full year. This was meant to allow sufficient time for productivity of the asset to materialize so that payment of zakah should not be an undue burden. The condition of lapse of one year was, however, not applied in the case of agricultural produce, the levy being paid at the harvesting of each crop which constituted sufficient evidence of productive utilization of the land.

The nisab (the minimum quantity or amount of an asset which makes it liable to zakah) for different items was prescribed by the Prophet. The nisab for gold was set at twenty dinars ^{1/} and for silver at two hundred dirhams. ^{2/} Twenty dinars were roughly equivalent in value to two hundred dirhams at that time. The nisab for merchandise was the same as for gold and silver. Information on the nisab of various items subject to zakah is given in Table 1.

^{1/} Dinar literally meant a round gold coin and technically the weight of such a coin.

^{2/} Dirham literally meant a round silver coin and technically the weight of such a coin.

Table 1. Zakah: Coverage, Basis for Levy, and Rate Structure
During the Early Islamic Period

Type of Asset	Minimum Holding	Rate
Gold	20 dinars (85 grams)	2.5 percent
Silver	200 dirhams (595 grams)	2.5 percent
Merchandise	Equivalent of 20 dinars/ 200 dirhams <u>1/</u>	2.5 percent
Agricultural Produce	5 <u>wasqs</u> (653 kg)	5 percent on irrigated crops, 10 percent on rainfed crops
Livestock:		
Camels	5	
Bovine animals	30	Based on detailed schedule <u>2/</u>
Sheep and goats	40	
Treasure trove	None	20 percent
Minerals	Not known with certainty <u>3/</u>	Not known with certainty <u>3/</u>

1/ In the early Islamic period, 20 dinars were equivalent in value to 200 dirhams. Over time, silver has become cheaper relatively to gold. There is difference of opinion among the jurists whether the minimum holding at which cash and merchandise should be considered liable to pay zakah should be equivalent to 20 dinars or 200 dirhams. Some jurists favor equivalence in terms of dirhams as this would serve to enlarge the receipts from zakah and would be beneficial for the poor. Others favor equivalence in terms of dinars because of the general rise in the cost of living compared to the early Islamic period.

2/ For details, see Yusuf al Qardawi, Fiqh Al-Zakah.

3/ The position in regard to minimum holding and rate of zakah on mineral produce in the early Islamic period is not known with certainty. According to some jurists, there is no stipulation with regard to minimum holding in the case of mineral produce while others consider it subject to levy if the value of the quantity produced in a year is commensurate to that prescribed for merchandise. As for the rate of the levy, some jurists are of the view that it is the same as in the case of gold, silver, and merchandise, that is, 2.5 percent. Others are of the view that it is subject to khums, that is, a duty of 20 percent.

The rates of zakah on various items were also prescribed by the Prophet. The rates ranged between 2.5 percent to 20 percent. Details are given in Table 1.

2. Other revenues

Ghanima (spoils of war) were a significant source of revenue in the early Islamic period. Verse 8:41 in the Qur'an provides for one-fifth of the ghanima to be placed at the disposal of the Government while the recipients of the remaining four-fifths are not specified. In practice, however, during the time of the Prophet, four-fifths of the ghanima was generally distributed among the fighters.

Jizya (poll tax on non-Muslims residing in Muslim territories) was another important source of revenue. In a way, jizya corresponded to zakah payable only by Muslims, in order that non-Muslims may also share in meeting the expenditures of the state. At the same time, it was a levy on non-Muslims in lieu of the guarantee extended to them by the Islamic state for the protection of their lives and properties and for their exemption from military service. Women, children, the old, the infirm, and the monks, who could not be expected to render military service in any case, were not required to pay jizya. The rate of jizya imposed in the Prophet's time was one dinar per head. Unlike zakah, proceeds of jizya were not earmarked for any specific purpose and were part of the general budgetary resources.

Fai (booty surrendered by the enemy without actual fighting) was another source of income to the state. Unlike ghanima, no part of fai was distributed among the fighters, and the entire accruals were used for the benefit of the whole community.

b. Public expenditures

Public expenditures in the time of the Prophet were mainly related to defense, propagation of Islam and welfare of the poor and the needy. The purposes for which the proceeds of zakah could be used were specified in the Qur'an in the following verse: "The alms are only for the poor and the needy, and those who collect them, and those whose hearts are to be reconciled, and to free the captives and the debtors, and for the cause of Allah, and (for) the wayfarers: a duty imposed by Allah. Allah is Knower, Wise" (9:60). The Prophet ensured that zakah proceeds were used only for expenditure under the eight specified heads. The other sources of revenue were freely available for all types of state expenditures.

The bulk of the zakah proceeds in the time of the Prophet was spent for the relief of the hardships of the poor and the needy. 1/ In disbursing the proceeds of zakah the requirements of the deserving people living in the same area from where the proceeds were raised were accorded the first priority.

Besides the ordinary indigent, zakah proceeds could be used to help those in special need. Those mentioned specifically in the verse of the Qur'an cited above are: (a) captives of war and slaves, financial assistance to whom could buy them their freedom, (b) those, who on account of their straitened circumstances, are unable to repay the debt incurred by them, (c) wayfarers who for some reason are cut off from their homes and financial resources and need some help so that they can reach their destination and, (d) those who want to fight for the cause of God but lack resources to equip themselves for the purpose. Another category on which zakah funds could be spent is specified as "those whose hearts are to be reconciled." This was interpreted to cover that group whose hearts, due to weakness in their faith or weak financial position, needed to be reconciled or strengthened as also those whose hostility to Islam could be thus softened. Finally, a part of the zakah proceeds could also be used to remunerate those who were engaged in the collection and disbursement of this levy.

c. Budgetary practices

During the Prophet's time, there was no system of annual budgeting. The expenditure requirements related to protection and propagation of religion, defense of the state, and social justice (basic needs fulfillment) were so intense and pressing that revenues accruing from different sources were spent soon after these were received. In the event of special need, the Prophet used to call for voluntary donations which evoked instantaneous response due to strong faith and sense of obligation toward the community. The Prophet also took resort to borrowing on certain occasions to meet expenditure requirements.

2. The period of the first four caliphs

During this period, the rapid expansion of the territorial boundaries of the state and the changing socio-economic conditions necessitated new fiscal measures both on the revenue and expenditure

1/ For the purpose of distribution of zakah the "poor" and the "needy" were considered to be those individuals who did not own nisab of assets subject to zakah and were short of resources even to fulfil their basic needs. The jurists differ with regard to the line of distinction between the poor (fugara) and the needy (masakin). According to some jurists the fugara are those who are deserving of help but do not go out to seek help while masakin are those who seek help. According to some other jurists, fugara are those who are in utter destitution while masakin are those who have some resources but not enough to meet their basic needs.

sides. The expenditure requirements rose for a number of reasons. The Prophet's time was a period of great religious fervor and many public services were performed voluntarily without any regular remuneration. In course of time it was inevitable that administrative services be organized on professional lines and separate service cadres be established on functional basis. The streamlining of civil administration along these lines entailed substantial increase in expenditure. In the case of defense services also it was considered necessary that the system of voluntary enlistment in the army whenever need arose be replaced by the concept of a standing army, and a system of regular payments for those serving in the army be instituted. Besides, pensions were paid to a large number of reservists who could be called upon to render military services in times of need. Pensions were also provided to those who had rendered valuable services to Islam. The system of social security was strengthened to help the poor and the needy.

With the growth in population, income levels, and consumer demand, government had to assume a more active role in promoting economic growth. To facilitate private sector expansion of economic activity, the state became involved in infrastructural development and provision of public goods. Support for economic growth thus emerged as a new objective of state policy during this period. In addition, rudimentary economic stability issues emerged when the state felt it necessary to take steps to moderate price pressures.

To meet the demands of the new situation and to attain the newly emerging objectives, the state during the time of the first four Caliphs, introduced new revenue and expenditure measures and modified the existing ones. These, as also the budgetary practices in this period, are discussed below.

a. Revenue developments

Zakah continued to remain a prominent feature of the fiscal system in the time of the first four Caliphs. There was no significant change in the mode of assessment and collection of zakah except that in the time of the third Caliph, Othman, it was decided to limit collection of zakah under state auspices to amwal zahirah (apparent property) leaving individuals free to disburse zakah due on amwal batinah (nonapparent property) on their own to any of the specified categories of eligible recipients. 1/ The nisab of zakah and the rates of zakah as fixed by the Prophet were kept unchanged. There is evidence that in the time of Umar, some zakah was collected on horses also which were not subject to zakah in the time of the Prophet and the first Caliph Abu Bakr.

1/ Agricultural produce, livestock and minerals were treated as "apparent property" while gold, silver, and treasure trove were treated as "nonapparent" property. Merchandise, if stored at one place, was treated as "nonapparent" property but if it was moved from one area to another area, it was treated as "apparent property."

However, according to many jurists, zakah on horses in the time of Umar was collected only in certain specific instances on the initiative of owners of this animal, and this did not assume the form of a generalized levy.

The rules and regulations governing jizya remained more or less unchanged during the time of the first four Caliphs. However, as the territorial boundaries of the state expanded, the rates set for jizya varied from place to place in accordance with the economic conditions, and a degree of progressivity was also introduced using the ability to pay criterion.

A new tax that was imposed during the period of first four Caliphs was known as kharaj. Originally imposed by Umar on agricultural land of Iraq after its conquest by Muslims, kharaj was generalized to cover all agricultural land located outside the Arabian peninsula that came under the suzerainty of the Muslims. In some cases the tax was levied as a fixed annual payment per unit of land while in others it took the form of proportional levy related to the output of particular crops. The tax varied in accordance with the quality of the land, kinds of crops grown and method of irrigation of land. Lowest rates were applied to lands producing staple foodgrains like wheat and barley while higher rates were applied in the case of other crops. The tax on land irrigated with water carried on the backs of beasts or raised by water wheel was less than on land watered by running water or rain. The rates of kharaj varied between 20 and 50 percent of the output. If a piece of land could not be cultivated every year and was allowed to lie fallow for some time, this fact was taken into consideration while fixing the rate of the tax. However, if the land was kept unutilized without any genuine reason, it had to pay kharaj in full. No kharaj was charged if the entire crop was destroyed by factors beyond the control of the cultivators of land while concessional rates were applied in the case of substantial loss of crop on account of unavoidable factors.

Another new tax imposed during the period of first four Caliphs was known as ushoor. It started as a sort of retaliatory customs duty in the time of Umar who, on coming to know that Muslim traders were being charged an import duty of 10 percent on goods taken by them to non-Muslim lands, levied a similar duty on non-Muslim traders crossing into the Islamic state. Later, ushoor took the form of generalized customs duties. The rates of ushoor for Muslim and non-Muslim resident traders of the state were, however, kept lower compared to the rate applicable in the case of foreign traders. The Muslim traders were charged a duty of 2.5 percent while non-Muslims were charged a duty of 5 percent. The difference in the rates was aimed at ensuring equality of treatment because Muslim traders were also required to pay zakah at the rate of 2.5 percent of the value of merchandise.

b. Expenditure developments

The most notable development on the expenditure side during the period of the first four Caliphs was the substantial expansion in the social security and welfare system. With the increase in the resources of the state, the financial assistance extended to the poor and the needy was substantially augmented. In disbursing the proceeds of zakah, the requirements of the deserving people living in the same area from which the proceeds were raised continued to be given the first priority. The old, infirm, widows and orphans were provided regular maintenance. Those able to work were given the assistance needed by them to become self-supporting.

The rapid additions to territory and population necessitated the establishment of a larger and more formal governmental structure. A major expansion of the administrative structure occurred under Umar when the state was organized into geographical regions, and governors were appointed with instructions to establish an administrative system encompassing comprehensive records of property, welfare recipients, and tax assessments. In addition, local judges, police officials, tax collectors and market supervisors were appointed. A regular salary structure was established for the state functionaries.

Expenditure on a standing army emerged as another important head of expenditure in the time of the first four Caliphs. The salaries were so fixed as to satisfy the soldier's needs so that he may not have to look for other sources of income for a living. The size of the family, seniority and services to Islam and the cost of living were taken into consideration in the fixation of salaries.

A pension system providing for regular payments to veterans who had fought for the cause of Islam was established in the time of Umar. In the time of the first Caliph, Abu Bakr also, financial benefits were extended to veterans but these were on an ad hoc basis depending on the timing of resource inflow. In Umar's time, pensions were put on a regular footing. Apart from veterans, a good part of the population who could be enlisted for war services when needed was also covered by the system. Pensions were also provided to the relatives of the Prophet, and widows and children of those who fought and died for Islam.

The period of the first four Caliphs witnessed increasing involvement of the state in developmental activity. Sizable expenditure was incurred on reclamation and development of land to promote agriculture. Canals were dug and dams built to improve the availability of water for agriculture. Bridges were constructed and the transport system improved to provide stimulus to private sector economic activity.

c. Budgetary practices

Though the concept of a bayt al-mal or public treasury existed in the time of the Prophet and the first Caliph Abu Bakr also, it was in the time of Umar that an elaborate system of budgetary control on government revenue and expenditure was instituted. Receipts in the public treasury were disbursed with very little time lag in the earlier period but, with the growing responsibilities of the state, Umar organized the state finances in such a manner that the treasury should be able to meet all the anticipated recurrent expenditures without any difficulty. Administrative offices known as diwan were created for proper administrative and financial control of various types of state activities. The period of the first four Caliphs witnessed a sharp rise in revenue receipts so that the state did not find it necessary to resort to borrowing to finance its expenditures.

d. Fiscal policy and internal economic stability

In the simple society of the early Islamic period, the role of fiscal policy in economic stabilization was limited. However, fiscal policy adjustments were made occasionally in accordance with the requirements of particular situations. Thus, trade taxes, though initially introduced as a retaliatory measure, were used in Umar's time to stabilize the prices of essential goods. It is reported that trade tax on imports of grain and oil was first halved and then completely given up to halt the uptrend in the prices of these vital foodstuffs. 1/ In the macroeconomic context, during a period of severe drought, Umar decided that zakah not be collected. However, when conditions recovered in the second year, he ordered that arrears be recovered. 2/ It seems that despite this measure, the social welfare system was expanded as other revenue sources were buoyant. These fiscal policy actions thus appeared to have served a stabilization purpose without adversely affecting the poorer sections of society.

1/ Al-Sa'adi, A.J.S. Fiscal Policy in the Islamic State. Its Origin and Contemporary Relevance, U.K. Lyme Books, 1986, p. 124.

2/ Huwaydi, A., Mabada Al-Maliah Al-Amah Fi Al-Shariah Al-Islamiah, Cairo, Dar Al-Fikr Al-Arabi, 1983 p. 157.

Glossary

<u>Adl</u>	Justice
<u>Al masalih-al-mursalah</u>	Judgment on the basis of public interest
<u>Amr bil maruf wa-n-nahi anil munkar</u>	Propagation of good and suppression of evil
<u>Amwal batinah</u>	Non-apparent property
<u>Amwal zahirah</u>	Apparent property
<u>Aql</u>	Intellect
<u>Barakah</u>	God's blessing
<u>Bayt al-mal</u>	Treasury
<u>Daruri</u>	The necessary
<u>Deen</u>	Religion
<u>Dinar</u>	A round gold coin
<u>Dirham</u>	A round silver coin
<u>Diwan</u>	A government office where records are kept for administrative and financial control
<u>Fai</u>	Booty surrendered by the enemy without actual fighting
<u>Fard ain</u>	Duty devolving on all individuals
<u>Fard kifaya</u>	Duty devolving on the whole community
<u>Fasad</u>	Mischief
<u>Fiqh</u>	Jurisprudence
<u>Fuqara</u>	The poor
<u>Ghanima</u>	Spoils of war
<u>Haji</u>	The needed

<u>Hisba</u>	An institution for encouraging Islamic norms of behavior and checking unlawful practices
<u>Ibadah</u>	Worship
<u>Ihsan</u>	Benevolence
<u>Ijma</u>	Consensus of the jurists
<u>Ijtihad</u>	A jurist's use of his reasoning to find solutions to new problems keeping in full view the intent and spirit of Islam
<u>Infag</u>	Voluntary spending for the welfare of the poor
<u>Istihsan</u>	Preference of one <u>qiyas</u> over another or even abandonment of <u>qiyas</u> for some strong reason
<u>Istislah</u>	Taking the public interest into account
<u>Jizya</u>	Poll tax
<u>Kharaaj</u>	Tax on agricultural land
<u>Khums</u>	A duty of twenty percent
<u>Mal</u>	Property
<u>Mansus</u>	Prescribed or mentioned specifically in the <u>Qur'an</u> and the <u>Sunnah</u>
<u>Maqasid</u>	Objectives
<u>Masakin</u>	The needy
<u>Maslaha</u>	Items of public welfare
<u>Muhtasib</u>	Officer in charge of <u>Hisba</u>
<u>Musharakah</u>	Equity participation agreement
<u>Nafs</u>	Life
<u>Nasl</u>	Progeny

<u>Nisab</u>	The minimum quantity or amount of an asset which makes it liable to <u>zakah</u>
<u>Nusus</u>	Conclusive injunctions of the <u>Qur'an</u> and the <u>Sunnah</u> from which no departure is allowed in any age
<u>Qard hasna</u>	Interest-free loan
<u>Qiyas</u>	Analogical deduction
<u>Qur'an</u>	The Book consisting of revelations made by God to the Prophet Muhammad
<u>Shariah</u>	Divine guidance as given by the <u>Qur'an</u> and the <u>Sunnah</u>
<u>Sunnah</u>	The way of the Prophet comprising what he did or said or tacitly approved
<u>Tahsini</u>	Commendable
<u>Ushoor</u>	Trade taxes
<u>Ushr</u>	<u>Zakah</u> on agricultural produce
<u>Waqf</u>	Pious foundation
<u>Wasq</u>	A measure equivalent to 653 kg.
<u>Zakah</u>	Poor due

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