

B

*Islamic
Economics :
Theory
and
Practice*

M.A. Mannan

Contents

Foreword to the revised edition	xii
Introduction to the revised edition	xiii
Foreword to the first edition	xiv
Preface to the first edition	xv

PART I. THE CONCEPT OF ISLAMIC ECONOMICS

Chapter 1. Introduction	3
1.1 Aims and Assumptions of the book	4
1.2 Steps in the Development of Islamic Economic Science	5
1.3 The Methodology of Islamic Economics	9
1.4 Conclusion	15
1.5 Selected Further Readings	16
Chapter 2. Islamic Economics: A Comparative Review	17
2.1 Meaning, Nature and Scope of Islamic Economics	18
2.2 Origin of Islamic Economics	22
2.3 Selected Further Reading	24
Chapter 3. Islamic Economic Laws	25
3.1 Introduction	26
3.2 Nature of Economic Laws	26
3.3 Sources of Islamic Economic Laws	27
(a) The Holy <i>Qur'ān</i>	28
(b) <i>Sunnah</i>	31
(c) <i>Ijmā'</i>	32
(d) <i>Ijtihād</i>	33
(e) Other principles of law	36
3.4 The <i>Fiqh</i> Schools and their Contemporary Implications	37
3.5 Conclusion	38
3.6 Selected Further Reading	39

**PART II. ISLAMIC APPROACHES TO ECONOMIC
FUNCTIONS COMMON TO ALL SYSTEMS**

Chapter 4.	Consumption and Consumer Behaviour	43
	4.1 Introduction: An Overview	44
	4.2 The Principle of Consumption in Islam	44
	4.3 Islamic Injunctions on Food	45
	4.4 Wants and the Islamic Order of Priorities	47
	4.5 Nature of Consumer Behaviour	49
	4.6 Conclusion	50
	4.7 Selected Further Reading	50
Chapter 5.	Factors of Production and the Concept of Ownership	53
	5.1 Introduction: The Principle of Production	55
	5.2 Factors of Production: An Overview	56
	(a) Land	56
	(b) Labour	59
	(c) Capital	60
	(d) Organization	63
	5.3 The Concept of Private Ownership in Islam	64
	5.4 Conclusion	72
	5.5 Selected Further Reading	74
Chapter 6.	Some Problems and Issues in Factors of Production	75
	6.1 The Land Tenure System in Islam	77
	6.2 Population Policy in an Islamic State	81
	6.3 The Nature of Industrial Relations in Islam	87
	6.4 Collective Bargaining and the Right to Strike in Islam	92
	6.5 Conclusions	95
	6.6 Selected Further Reading	96
	Appendix: (A) The Land Tenure System during 'Umar's Caliphate	97
	(B) Some 'Fatwas' on Family Planning	102
Chapter 7.	Distribution of Income and Wealth in Islam	111
	7.1 Introduction	113
	7.2 Rent and Wages in Islam	113
	Rent	113
	Rent and Interest	114
	Wages in Islam	115
	Differences in Wages	117
	7.3 <i>Ribā</i> , Interest and Profit	118
	<i>Ribā</i> and Interest	118
	Why Interest is Paid	120
	Islamic Theory of Capital	123
	Distributive Measures	132
	7.4 The Islamic Law of Inheritance and its Economic Significance	133

	Basic Principle	136
	Economic Significance	138
	Inheritance Tax	140
	Participation of Women	140
	7.5 Summary and Conclusion	141
	7.6 Selected Further Reading	142
PART III. THE MICRO AND MACRO ECONOMIC SETTING OF AN ISLAMIC ECONOMY		
Chapter 8.	Towards a Price Theory in an Islamic State	145
	8.1 Introduction	146
	8.2 The Basis of the Islamic Price Theory	147
	8.3 The Islamic Market and Company Behaviour	148
	8.4 Prices in an Islamic State	150
	(a) Monopoly Prices	150
	(b) Real Rises in Prices	151
	(c) Artificial Rises in Price	153
	(d) Rises in Prices of the Necessities of life	155
	8.5 Suggestions and Conclusion	155
	8.6 Selected Further Reading	156
Chapter 9.	Towards a Theory of Interest-free Banking in Islam	157
	9.1 Introduction: The Concept of Money and Banking	159
	9.2 Usury, Interest and Islam	161
	9.3 Classical and Keynesian Views on Interest	162
	9.4 The Theory of <i>Zakāt</i>	164
	9.5 The Principles of <i>Mudārabah</i> , <i>Murabaha</i> , <i>Mushāraka</i>	164
	9.6 The Mechanism of Islamic Banking	165
	9.7 Short-term and Long-term Financing	165
	9.8 A System of Guarantee	166
	9.9 Islamic Banks and Consumption Loans	167
	9.10 Relations with Depositors	167
	9.11 Relations with Entrepreneurs	168
	9.12 The Practicability of Partnership between Business Men and Banks	168
	9.13 The Superiority of the Islamic Concept of Banking	170
	9.14 Islamic Banks and Non-Banking Services	173
	9.15 Islamic Banks and Extra-Banking Activities	173
	9.16 Islamic Banks and International Relations	174
	9.17 <i>Bait-ul-Māl</i> and Modern Central Banks	175
	9.18 Summary and Conclusions	178
	9.19 Selected Further Reading	180
	Appendix A: Case for the Establishment of a Muslim World Bank	181

Chapter 10. Islamic Banks and Investment Companies in Operation	187
10.1 Introduction	189
10.2 The Islamic Development Bank: An Overview and Appraisal	189
An Overview of the Operations (1975–1985)	190
Functional Targets and Sectoral Priorities	190
The I.D.B.'s Overall Contribution and the Least Developed Member Countries (L.D.M.C.)	191
10.3 Local Islamic Banks and Investment Companies: An Overview and Appraisal	200
Utilization of Investment Funds	201
Review of Operations	202
Summary	203
The Success of Local Islamic Banks	204
Areas of Co-operation	205
10.4 Dar Al-Maal Al-Islami (D.M.I.): A Brief Review	206
10.5 Selected Further Reading	208
Appendix (A) A Note on the Islamic International Monetary Fund (I.I.M.F.)	210
Appendix (B) Monetary Policy: An Overview	211
Chapter 11. Consumption and Non-Consumption Loans in Islam	213
11.1 Consumption Loans: Their Principles	214
11.2 The Mechanism of Consumption Loans	217
11.3 Financing the Purchase of Consumer Durables	220
11.4 Interest-free Housing Finance	222
11.5 Selected Further Reading	224
Chapter 12. Fiscal Policy and Budgeting in Islam	225
12.1 Fiscal Policy:	227
(a) Its Meaning	227
(b) Expenditure Policy	227
(c) Revenue Policy	229
(d) Revenue Policy towards Non-Muslims	230
12.2 Budgetary Policy:	231
(a) Budgeting in Early Islam	231
(b) What a Modern Budget Means	232
(c) The Islamic State and the Modern Budget	233
(d) Deficit Budgeting and Deficit Financing	233
(e) Internal revenue	234
12.3 Modern Trends in Budgeting – Concept of Programme and Performance Budgeting and Muslim Countries	235
12.4 Summary and Conclusion	237
12.5 Selected Further Reading	238
Appendix: Fiscal Functions and Policy: An Overview	239

Chapter 13. Some Aspects of Public Finance in Islam.	243
13.1 Tax Structure in Early Islam	245
(a) <i>Zakāt</i>	245
(b) <i>Jizyah</i>	246
(c) <i>Kharāj</i> or Land Tax	248
(d) Spoils of War	249
(e) Tax on Mines and Treasure-trove	251
(f) Custom Duties and Tolls	252
13.2 <i>Zakāt</i>	253
(a) Its Meaning for Modern Man	253
(b) <i>Zakāt</i> on Industrial Machinery, etc.	258
(c) <i>Zakāt</i> on Bank Notes, etc.	259
(d) <i>Zakāt</i> on Rent, Profits, etc.	259
(e) <i>Zakāt</i> and Inflation	260
(f) <i>Zakāt</i> and Principles of Public Finance	261
(g) <i>Zakāt</i> and Canons of Taxation	261
(h) <i>Zakāt</i> 's Advantages	263
(i) Social Advantages of <i>Zakāt</i>	265
(j) <i>Zakāt</i> and Modern Muslim States	266
13.3 Conclusion	266
13.4 Selected Further Reading	267
Appendix: <i>Zakāt</i> in Practice: <i>Zakāt</i> and Ushr Ordinance of Pakistan	269
Chapter 14. The Principles of Trade and Commerce in Islam	283
14.1 Basic Principles	285
14.2 Barter Trade	287
14.3 Monopoly Business	287
14.4 Speculative Business	289
14.5 International Trade and Dumping	290
14.6 Trade and Industry	292
14.7 Conclusion	293
14.8 Selected Further Reading	294
Appendix: A Note on an Islamic Common Market	294
Chapter 15. Islamic Co-operative Insurance: Theory and Practice	297
15.1 Insurance in Islam	298
15.2 Is Insurance Un-Islamic?	298
15.3 Differences between Modern Insurance and Islamic Insurance	300
15.4 Islamic Insurance in Practice	302
15.5 Conclusion	303
15.6 Selected Further Reading	304
 PART IV: COMPARATIVE ECONOMICS AND DEVELOPMENT	
Chapter 16. Islamic and Other Economic Systems	307
16.1 Introduction	309
16.2 Capitalism	309

16.3 Socialism	314
16.4 Communism	319
16.5 Fascism	326
16.6 Islam and other "Isms": A comparative analysis in terms of:	329
(a) Concept of History	330
(b) The Concept of Private Property	333
(c) The Concept of Brotherhood	335
(d) Co-existence	338
(e) Sovereignty	340
16.7 Selected Further Reading	343
Chapter 17. Islamic Social Order	345
17.1 Introduction: Family, Intra family and Collective Responsibility	346
17.2 Islamic Social Order: Its Salient Features	346
17.3 The Concept of Welfare State in Islam: Moral, Spiritual, Social, Political and Economic Values	353
17.4 Selected Further Reading	361
Chapter 18. Planning and Development in Islam	363
18.1 Economic Planning in Islam:	365
(a) Its Meaning	365
(b) Objectives	366
(c) Execution of Planning	367
(d) Method of Financing	368
(e) Necessity of Planning in an Islamic State	371
18.2 Economic Development in Islam:	373
(a) Its Meaning	373
(b) The Prerequisites for growth and Islam as a Factor of Development	375
18.3 Some Aspects of Economic Development in Muslim Countries:	380
(a) Development Experiences and the Scale of Poverty	380
(b) Minimum Provisioning For Living	382
(c) The Importance of Social Appropriateness in the Transfer of Technology	384
(d) The 'Ulamā' and Development	385
18.4 Summary and Conclusion.	387
Planning	387
Economic Development	388
18.5 Selected Further Reading	389
Appendices:	393
(A) Basic socio-economic indicators for member countries of the Islamic Development Bank. (I.D.B.)	394

