

# Principle to Practice ISLAMIC ECONOMICS GOVERNANCE

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Allah Subhanahu Wa Taala has provided us principles not rules and the divine principles are never redundant. The principle and practice of Islamic Economic Governance rests upon the concept that Government and Social responsibility run side by side because of its roots generated from Islamic Sociology.

Islam does not only provide the economic principles but the earlier Muslim Governments since Islamic Caliphate of Rashideen has also practiced the modern concepts of Accounting, Auditing, Management, Treasury, Budgets etc that can be assembled under the umbrella term of Islamic Economic Governance. Consequently, this article is an endeavor to highlight the key aspects of modern economic governance that are derived from Islamic Economics Governance principles.

## **Bayt al-Mal - Treasury**

Bayt al-mal is an Arabic term that is translated as “House of money” or “House of Wealth.” Historically, it was a financial institution responsible for the administration of taxes in Islamic states, particularly in the early Islamic Caliphate. It served as a royal treasury for the caliphs and sultans, managing personal finances and government expenditures. Further, it administered distributions of zakah revenues for public works.

As stated earlier, Bayt al-mal was the department that dealt with the revenues and all other economic matters of the state. In the time of Hazrat Muhammad PBUH till Hazrat Abu Bakr RA, there was no permanent Bait-al-Mal or public treasury. Abu Bakr RA earmarked a house where all money was kept on receipt. After consulting the Companions, Umar RA decided to establish the Central Treasury at Madinah.

Modern Islamic economists deem the institutional framework Bayt al-mal [Treasury] appropriate for contemporary Islamic societies and as a consequence, ministry of Finance is normally the part and parcel of every Islamic Countries’ ministerial portfolio. Currently, for better governance, the treasury’s two main functions are sub-divided and assigned to revenue authority being responsible for collection of taxes [DZIT in Kingdom of Saudi Arabia, FBR in Pakistan etc] while Central Bank or Monetary Agency is responsible for Balance of Payment.

## **Bayt al-Mal – Treasury Accounting**

Abdullah bin Arqam RA was appointed as the Treasury Officer. He was assisted by Abdur Rahman bin Awf RA and Muiqib RA. A separate Accounts Department was also set up and it was required to maintain record of all that was spent.

Currently, the accounting function is performed by respective Government Departments including revenue authorities, central bank and accountant general. PIFRA is computerizing all the records at the moment including revenue and expenditure. The accounting or recording of expenses and revenue is audited by auditor general of Pakistan.

## **Provincial and Federal Bayt al- Mal**

Later provincial treasuries were set up in the provinces. After meeting the local expenditure the provincial treasuries were required to remit the surplus amount to the central treasury at Madinah.

Abu Huraira RA who was the Governor of Bahrain sent revenue of five hundred thousand dirhams. Umar summoned a meeting of his Consultative Assembly and sought the opinion of the Companions about the disposal of the money. Syeddana Uthman ibn Affan RA advised that the amount should be kept for future needs. Walid bin Hisham suggested that like the Byzantines separate departments of Treasury and Accounts should be set up.

The above instance closely resemble our existing situation whereby concept of provinces and federation are present in the constitution. However, after 18th amendment a major deviation has occurred whereby though provinces are empowered for revenue generation but there is no concept of repatriation of surplus. This non-repatriation concept contains two evils – non-affiliation concept with federation, no budgetary limits resulting in immense discretion ending on corruption.

Secondly, according to several Ahadees, the ownership of revenue generating land like but not limited to mines, oil and gas wells cannot be sold because they ought to be used to for the betterment of all Muslims. Consequently, this need to be kept by the federation and the interest ought not be sold on mere royalty basis. The concept is practiced in Kingdom of Saudia Arabia also.

## **Welfare Economic State**

As stated earlier, principle and practice of Islamic Economic Governance rests upon the concept that Government and Social responsibility that run side by side because of its roots generated from Islamic Sociology. However, the Governmental responsibility is fulfilled through a welfare economic state which is the prime goal of Islamic Economic Governance. The indispensable tools of Islamic Economic Governance to achieve a welfare economic state are as follows though practiced nowadays also but without the spirit!



#### a. Taxes and Utilization

The taxes (including Zakat and Jizya) collected in the treasury of an Islamic government were used to provide income for the needy, including the poor, elderly, orphans, widows, and the disabled.

Umar RA also made sure that the public treasury was not wasted on “unnecessary luxuries” as he believed that “the money would be better spent if it went towards the welfare of the people rather than towards lifeless bricks.”

The current purposeless taxation embodying Income, Sales, Excise and Professional tax has never been popular among the masses as they can see how the revenue is utilized. Elimination of differences would raise the trust of people in the system and introducing a judicious taxation would make it more meaningful and transparent.

Moreover, there were and are many perceptions regarding the applicability of Tax being un-Islamic as people believe that zakat, khiraj, fai and Jazia are the only prescribed taxes. However, taxes are not limited to that but one may wonder import tax – octroi (chung) was first imposed during the period of first four Caliphs as this is a need of the society. The principles of taxation in Islam are based on purpose and are evident from following piece of history:

“At times, Syria (Sham) was attacked by Tatars, the King decided to take judicial decree from the Islamic Scholars for imposing a tax to meet the expenses. When the issue came before Imam Noovi [Rahmat ullah Alah], he opined The King lives a lavish life and has a lot of wealth, he also spends a lot of money but his wealth, income and perquisites are not taxable, let him start first by donating his wealth and then the treasury has the right to tax over the common people.”

I again refer to the Kingdom of Saudi Arabia model whereby Zakat is payable by GCC nationals while Income

Tax is payable by other than GCC nationals. Though I am in a bit disagreement with applicability of Zakat over GCC nationals because it is against the principle laid down by Last Prophet SAW during the Last Sermon whereby no Arab is superior to non-Arab and vice versa.

An effective model may make zakat applicable on all Muslims while non-Muslims would pay Income Tax. The concept is based on the decision of Umar RA who changed the name of Jazya when Christians requested him to collect it with another name. In implementing the concept, a problem would arise in corporate, partnership and other entities comprising of Muslims and Non-Muslims.

In such scenario the ratio of share holding by Muslims and Non-Muslims should be the ratio decided whereby the Income Tax should be payable on Non-Muslims share in business entity’s profit and on the other hand, business entity’s Muslims’ share would eligible for payment of zakat according to the principles of Quran and Sunnah deductible from their personal zakat payable.

Other purposeful taxes should be spent on the infrastructure of their purpose. For instance, motor vehicle tax for infrastructure of transportation including roads, stamp duty for legal infrastructure, Capital Gain Tax for legal infrastructure of purchasers and sellers while Income and Value Added Tax can be used for spending on military, police, education, healthcare, welfare benefits etc.

If the development expenditure is financed by Islamic Financial Instruments then the revenue generated from judicious taxation can effectively be used for very purpose it was collected for, that is, spending money on infrastructure, military, police, education, healthcare, welfare benefits etc. This policy would effectively erode the reliance over bizarre taxation, Seigniorage, fiscal deficit, sale of assets and issuing bonds.

#### b. Ethics for Tax Collectors

A revenue collector has received some gifts and this instance was brought into the knowledge of Last Prophet [PBUH] who immediately ordered him to deposit the same into Bayt al- mal. When he asked for the reason, the Last Prophet [PBUH] replied that you received these gifts owing to your position if you were not on this position then you would not have received it! This is the desired mentality of the tax collectors.

#### c. Food Stockpile

According to the Islamic jurist Al-Ghazali (1058–1111), the government was also expected to stockpile food supplies in every region in case a disaster or famine occurred. Umar RA introduced further reforms, such as the introduction of food rationing using coupons, which were given to those in needs and could be exchanged for wheat and flour.

#### d. Armed Forces Salaries

With the extension in conquests money came in larger quantities, Umar RA also allowed salaries to men fighting in the army.

#### e. Elimination of Class Distinction

In his time, equality was extended to all citizens, even to the caliph himself, as Umar RA believed that “no one, no matter how important, should live in a way that would distinguish him from the rest of the people.” Umar RA himself lived “a simple life and detached himself from any of the worldly luxuries,” like how he often wore “worn-out shoes and was usually clad in patched-up garments,” or how he would sleep “on the bare floor of the mosque.”

Limitations on wealth were also set for governors and officials, who would often be “dismissed if they showed any outward signs of pride or wealth which might distinguish them from the people.” This was an early attempt at erasing “class distinctions”.

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#### f. Social Security and Pension

During the Khilafat e Rashida, various welfare programs were introduced by Caliph Umar RA. Umar’s innovative welfare reforms during the Khilafat e Rashida included the introduction of social security. This included unemployment insurance, which did not appear in the Western world until the 19th century.

In the Khilafat e Rashida, whenever citizens were injured or lost their ability to work, it became the state’s responsibility to make sure that their minimum needs were met, with the unemployed and their families receiving an allowance from the public treasury.

Retirement pensions were provided to elderly people, who had retired and could “count on receiving a stipend from the public treasury.” The caliphs Al-Walid II and Umar ibn Abdul-Aziz RA supplied money and clothes to the blind and crippled, as well as servants for the latter.

This continued with the Abbasid caliph Al-Mahdi. Tahir ibn Husayn, governor of the Khurasan province of the Abbasid Caliphate, states in a letter to his son that pensions from the treasury should be provided to the blind, to look after the poor and destitute in general, to make sure not to overlook victims of oppression who are unable to complain and are ignorant of how to claim their rights, and that pensions should be assigned to victims of calamities and the widows and orphans they leave behind.

The “ideal city” described by the Islamic philosophers, Al-Farabi and Avicenna, also assigns funds to the disabled. The concept of Employees’ Social Security, Employees Old Age Benefit etc is present in our existing governance concept but the difference arises in its applicability and utilization of funds. The laws need to be aligned with concept in preceding paragraphs. Moreover, the private hospitals should subsidize the rates to registered persons. This would have many benefits as the revenue of such private hospitals including the rates would be surfaced that can also be used for tax collection point of view.

#### g. Poverty Measurement Threshold

Another innovative concept that was introduced was that of a poverty threshold, with efforts made to ensure a minimum standard of living, making sure that no citizen across the empire would suffer from hunger. In order to determine the poverty line, Umar ordered an experiment to test how many seers of flour would be required to feed a person for a month. He found that 25 seers of flour could feed 30 people, and so he concluded that 50 seers of flour would be sufficient to feed a person for a month. As a result, he ordered that the poor each receive a food ration of fifty seers of flour per month.

Nowadays, statistics department collects the data and State Bank of Pakistan computes the Sensitive and Consumer Price Index but do not suggest such measures. Mere collection of data would not serve any purpose unless and until the data is utilized.

#### h. Poverty Alleviation Measures

Further reforms later took place under the Umayyad Caliphate. Registered soldiers who were disabled in service received an invalidity pension, while similar provisions were made for the disabled and poor in general. Caliph Al-Walid assigned payments and services to the needy, which included money for the poor, guides for the blind, and servants for the crippled, and pensions for all disabled people so that they would never need to beg.

We have blind’s association and we normally spends millions on advertisements of eradicating polio but do we use the data of blinds for helping them or do we provide polio affected persons any citizens and Islamic Economic Governance duly contains this concept which is absent presently.

#### i. Anti-Poverty Avoidance Measures

In addition, the poor and disabled were guaranteed cash stipends. However, in order to avoid some citizens taking advantage of government services, “begging and laziness

were not tolerated” and “those who received government benefits were expected to be contributing members in the community.”

Currently, the people who are getting unemployment allowances sits at home and enjoy laziness and begging from others. The Islamic Economic Governance model does not tolerate this attitude and obliges such persons to serve for the community and implementers must devise a plan according to the capabilities of persons.

#### j. Orphanage

Babies who were abandoned were also taken care of, with one hundred dirhams spent annually on each orphan’s development.

#### k. Waqf or Charitable Trust

Umar RA also introduced the concept of public trusteeship and public ownership when he implemented the Waqf, or charitable trust, system, which transferred “wealth from the individual or the few to a social collective ownership,” in order to provide “services to the community at large.” For example, Umar RA brought land from the Banu Harithah and converted it into a charitable trust, which meant that “profit and produce from the land went towards benefiting the poor, slaves, and travelers.”

When communities were stricken by famine, rulers would often support them through measures such as the remission of taxes, importation of food, and charitable payments, ensuring that everyone had enough to eat. However, private charity through the Waqf trust institution often played a greater role in the alleviation of famines than government measures did. From the 9th century, funds from the treasury were also used towards the Waqf (charitable trusts) for the purpose of building and supporting public institutions, often Madrassah educational institutions and Bimaristan hospitals.

#### l. Treatment of conquered peoples

Caliph Umar was the first Caliph to provide Allowance to non-Muslims, or Dhimmi, after they reached old age. The very first Non-Muslim to receive pension from the Rashidun Administration was a Jew.

Once Caliph Umar RA was in the streets of Madina when he saw a man begging! He went to him and asked him; “why are you begging? Are you not receiving maintenance (allowance) from Bait al-mal”. The man replied; “I am a Jew and I am doing this so that I can pay the Jizya”. Hearing this Caliph Omar took him by his hand to Bayt al-mal and decreed “In the name of Allah you pay Jizya all your life and then you get betrayed when you reach old age.” He ordered to provide that man Pension and from that day it was so ordered for all Jews and Christians and others.

It is evident that the concept of Islamic Economics Governance could create an economic welfare society that can only be implemented by the ruler having fear of Allah SWT. The other prime concepts of Islamic Economics Governance are discussed below.

#### Price Setting and Subsidies

Narrated Ibn e Abbas[RA], Allah’s Messenger [PBUH] said, “Do not go to meet the caravans on the way (for buying their goods without letting them know the market price), a town dweller should not sell the goods on behalf of the latter.” Ibn Abbas was asked, “what does he mean by no selling the goods of a desert dweller by a town dweller?” He said, “He should not become his broker.” [3:367-O.B – Bukhari – The book of sales (bargain)]

The policy would create open competition among the new entrants and let the market forces determine the prices. Such healthy competition would eliminate the concept of subsidy. The policy of open competition should be adopted in all those areas where prices are regulated and consumers are subsidized.

Narrated Ibn Umer [RA], Allah’s Messenger [PBUH] said, “you should not try to cancel the purchases of one another (to get a benefit thereof), and do not go ahead to meet caravans (for buying the goods) [but wait] till it reaches the market.” [3:374 - O.B – Bukhari – The book of sales (bargain)]. For instance, if we take the example of IPPs, then the root cause was the initial contract of Government in 90s agreeing over the basic price of purchase of electricity.

#### Price Stability and Cost Audit

Price stability is chronic issue which wasn’t always tackled at the grass root level. Regulators never looked at the pros and cons of the issue, hence, it was never dealt at strategic level. Islamic Economics suggests the concept of fair profit.

The fairness in the concept of fair profit is left at the discretion of the businesses that are expected to act fairly in this regard. However, industry’s profit and general profit level could be used as benchmark in this regard. It is in accordance with the principles of shariah that the traditions and convention of each community are to be referred to for deducing a judgment in such matters as sales, renting, measuring and weighing where there is no fixed judgment.

Further, many writers suggest the elimination of the concept of deduction of Royalty, Technical and Management Fee by declaring it an inadmissible expense under the Income Tax Ordinance, 2001.

Consequently, one wonders about the dormant concept of cost audit embodied in Companies’ law. The concept of cost audit may be implemented fully fledged being a deterrent to unfair prices. At the moment there are fair number of professionals of accounting bodies [ICAP, ACCA and ICMAP] are available to effectively help the government in implementing the same.

#### Price Stability and Future Trading

Looking at west, creative accounting, off balance sheet transactions, complex financial derivatives and future trading are the root causes of price instability which result in erosion of prices, that is, inflation. These issues are creeping and are against the constitution principles of Quran and Sunnah.

It is pertinent to note that al gharar (the sale of what is not present) and Habal il Habala (the sale of what is in the womb of an animal) is prohibited. Narrated Abdullah bin Umer [RA], Allah's Messenger [PBUH] forbade the sale called Habal il Habala which is a kind of sale practiced in the Pre-Islamic Period of Ignorance. One would pay the price of she-camel which was not born yet and would be born by the immediate offspring of an extant she-camel. [3:353 - O.B – Bukhari – The book of sales (bargain)]

It is worthwhile to note that if somebody sells fruits before their benefit is evident and free from blights and then they get afflicted with some defects (they will be given back to seller). Narrated Anas bin Malik [RA], Allah's Messenger [PBUH] forbade the sale of fruits till they are almost ripe. He was asked what is meant by 'are almost ripe'. He replied, "till they become red", Allah's Messenger further said, "If Allah spoiled the fruits, what right would one have to take the money of one's brother (i.e. other people)?" [3:403 - O.B – Bukhari – The book of sales (bargain)]

It is strongly suggested that future markets and badla in stock exchange are strictly prohibited in Islam and will deteriorate the result of any efforts for price stability. The core reason is that it is normally done in raw materials through speculation meant to mint money from money.

#### Distribution not Concentration of Wealth

Excess capacity of an economy means that insufficient demand exists to warrant expansion of output while interest based economy bondholders view strong capacity utilization as a leading indicator of higher inflation which decreases bond prices. Consequently, tight monetary policies shrink the size of economy by reducing the level of economic activities.

Apart from above, the crowding out effect can only be extinguished through the effective implementation of Islamic Economics. Islamic economics, in contrast, advocates for generation of economic activities instead of limiting the same. This concept can easily be deduced from the concepts of Islamic Financial Instruments and conceptual framework of zakat and sadqa. This concept is duly adopted by Multinational Companies (MNCs) through expansion as many industries in the developed capitalist economies suffer from chronic excess capacity.

The critics of capitalism are in favor of very principles enunciated in Islamic Economics. However, the generation of economic activity should be aligned with development expenditure (instead of non-development expenditure) and Islamic Financial Instruments.

#### Islamic Financial Instruments for Development Expenditure

The alternate of auction of treasury bills and bond market is Islamic Financial Instruments. Development expenditures in developing or even developed economies are normally identified on the basis of its potential benefits which are then transformed in the shape of feasibility report. In the light of principles of Shariah, such development expenditures ought to be carried either on the basis of "Build, Operate and Transfer" or "Islamic Financial Instruments".

The most important aspect of BOT basis is an independent check over collection on the project of development project and audit by external professionals for the very purpose of transparency. The payment to the contractor on the basis of Islamic Finance ought to be correlated with rate of return on such development expenditure. Each project of development expenditure ought to be audited by external professionals. External professionals may include members of ICAP, ACCA and ICMAP.

This approach will have many folds like transparency in development expenditure, generation of economic activities, limiting non-development expenditure to the extent of tax revenue, reducing the pressure of financing on the development expenditure and elimination of fiscal deficit or reliance over treasury bills and increase in employment.

#### Foreign Currency Reserve/Gold Standard and Barter

Austrian economists advocate the return to genuine free market leading to abolition of the state-sponsored central bank that protects, supports and controls modern fractional reserve banking and advocate free banking or a return to a 100 percent gold standard which is practiced in Islamic Economic Governance.

In fact the recent statement of IMF is more surprising. Dominique Struass-Kahn, the ex-head of IMF suggested that the organization one day might be called upon to provide countries with a global reserve currency that would serve as an alternative to the US dollar. "That day has not yet come, but I think it is intellectually healthy to explore these kinds of ideas now." He said having other alternatives to dollar "would limit the extent to which the international monetary system as a whole depends on the policies and conditions of single, albeit dominant, country. Moreover, he said that we must build on this positive momentum: to reform the fund into an institution even better equipped to meet the challenges of the post crises era. Consequently, it is high time for strategic thinker to look at the pros and cons of the statement of ex-IMF chief in terms foreign currency reserves.

#### CONCLUSION

When you press the F1 button on your computer for help, it gives the solution of your problem you are riddled with. However, you will not get the answer from F1 if you hammer the computer because the solution of hammering the computer is known to the creator of computer not the computer itself.

Similarly, the solution of our economic problems is available in Islamic Economics prima facie Ahadees of Bukhari quoted above that provides a clear cut solution. On the other hand, the monetary and fiscal economists even do not agree on any remedial measure for inflation and ending recession. It is much more than adjusting interest and exchange rates apart from adjusting Government Expenditure and increasing tax to GDP ratio.