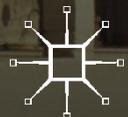


Seyed Kazem Sadr

POLITICAL
ECONOMY
OF ISLAM

THE ECONOMIC SYSTEM OF THE EARLY ISLAMIC PERIOD

Institutions and Policies



Political Economy of Islam

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All Middle Eastern countries, with the exception of two countries, profess Islam as their state religion. Islam, whether simply in words or in fact, is woven into the fabric of these societies, affecting everything from the political system, to the social, financial and economic system. Islam is a rules-based system, with the collection of rules constituting its institutions in the quest to establish societies that are just. Allah commands mankind to behave in a fair and just manner to protect the rights of others, to be fair and just with people, to be just in business dealings, to honor agreements and contracts, to help and be fair with the needy and orphans, and to be just even in dealing with enemies. Allah Commands humans to establish just societies, rulers to be just and people to stand up for the oppressed against their oppressors. It is for these reasons that it said that justice is at the heart of Islam. In the same vein, the state (policies) must step in to restore justice whenever and wherever individuals fail to comply with divine rules; government intervention must enhance justice. This series brings together scholarship from around the world focusing on global implications of the intersections between Islam, government, and the economy in Islamic countries.

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The Economic System of the Early Islamic Period

Institutions and Policies

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Dedicated to
Seyyed Riza Sadr, who illustrated the “Way of the Qur’an,” the “Way of
Mohammad,” and the “Way of Ali”;
Imam Musa Sadr who began to follow this Path in Jabal Amil and was
captured in Qadhafi’s trap;
Mohammad Baqir Sadr who built the foundation of the Islamic Economic
School, and tasted martyrdom in perfection of this Path;
All the Martyrs of the Way of Islam;
Shaheed Mustafa Chamran.

FOREWORD

It is indeed a pleasure to have this invaluable contribution as the first volume in the series *The Political Economy of Islam*. Professor Sadr's manuscript contains a unique and major piece of research that is sure to enhance our understanding of the inception and evolution of Islamic economic and social practice. This is especially important in today's troubled world, where we witness all manner of interpretations of the holy Quran from clerics, *Shariah* scholars, academics, rulers, military leaders and even terrorists. Many of those who provide interpretations of the fountainhead of Islam, the holy Quran, do so with agendas that invariably twist, pervert and hijack Allah's Words.

The Prophet Mohammad, Allah's Messenger, was the human being chosen to interpret and implement the foundational teachings of Islam during his few years in Medina. He did so with love for the Almighty and for His creation, and with justice as his moral compass. While the Prophet's interpretation is indispensable, unfortunately, there is a dearth of high quality research on the Prophet's days in Medina. Professor Sadr has made a major contribution by affording the world a rare glimpse into the birth of Islam in the Arabian Peninsula. To appreciate the development of Islam in context, Professor Sadr begins by giving an introduction to conditions in the Arabian Peninsula at the birth of Islam. He then delves into the practices of the Prophet in setting up the first Muslim government, its public treasury, financing and expenditures. He then describes how the Prophet established the Islamic economic system as a market-based system, where markets are recommended for their efficiency, requiring sound regulation, monitoring and supervision. This is followed

up with the Islamic views on consumption, production, exchange savings and investment. He then concludes by establishing justice as the driving force for the Muslim society envisaged in the holy Quran and established by the Prophet.

Sadly, for Muslims and non-Muslims, the brief period in the history of Islam explored by Professor Sadr is a distant and fuzzy episode in the development of the religion that is Islam. Soon after the Prophet's passing away, the religion was hijacked. Today, there is a total disconnect between the rules-based religion outlined in the holy Quran and implemented by Allah's Messenger and its practice by the secular and clerical leaderships in the Muslim World. The rediscovery of Muslim society established Medina and its resurrection in the context of the twenty-first century though hard, is not impossible. Muslims must take charge of their religion by studying the Quran and the life of the Prophet. They should question, debate and engage their teachers, but not necessarily accept their interpretation as the final word. In turn, this should help in developing what the religion indicates, in practical terms, for the political, social and economic characteristics of a successful Muslim society.

Allah gave humanity the freedom to choose and Muslims are free to choose and should exercise Allah's invaluable gift. At the same time, while Muslims should not leave their religion in the hands of their leaders, they should also note that the Quran requires Muslims to develop themselves and their societies. Each and every Muslim has a critical role and must do his or her part in creating just and flourishing communities. Professor Sadr's book offers much insight not only for all Muslims as they begin their journey, but also for non-Muslims to appreciate the Islamic system practiced in its purest form.

Hossein Askari
Dariush Zahedi

PREFACE

The objective of this book is to provide an authentic model of an Islamic economy. Such a model derives its authenticity and authority from the fact that it is based on the policies of the Messenger of Allah (ST), Prophet Muhammad (SAAS). To specify this model, the economy of the earliest Islamic society under the tutelage of the Messenger (SAWA) and his successors has been studied. Two institutions of great importance, the market and the public treasury (*Baitul mal*) and their impact as the development of the private and public sectors have been particularly emphasized in this study.

It is important to note that the economic policies of the Messenger cannot be well understood without detailed consideration of the conditions existing in the Arabian Peninsula at that time. Therefore, the first part of the book is devoted to the geographic, economic and cultural dimensions of life in the Arabian Peninsula before Islam, the challenges faced by the Messenger's mission and the economic policies of the Messenger after migration to *Madinah*.

The second part of the book is devoted to the analysis of the nature and functioning of the public treasury, its revenues and expenditures, and its financial and fiscal policies. Analysis of the institution of the market, its characteristics and functioning during the earliest Islamic period constitutes the material of the third part of the book. An analysis of exchange, consumers, producers, and investor behavior in an economy without an interest rate mechanism is addressed in this part. The final part investigates the fundamental objective of Islam for human societies; that is, justice within the context of discussions in earlier parts of the book.

It is worth noting that, in addition to the search for an authentic economic model, studying the history of the earliest period of Islam is important from the point of view of cultural value development. Before Islam, Arabian society lacked a level of cultural sophistication comparable to the two dominant cultures of the time: the Byzantine and Persian. Yet, following the conquests, Muslims were able to assimilate the best of both cultures within the economic, social, political and cultural framework provided by their understanding of Islam. Study and analysis of the history of the earliest Islamic period can shed light on the question of how Muslim society was able to avoid the dominance of its culture by the more advanced powers of the day and to develop its own unique and independent culture. Study of the economy of the earliest Muslim society and its social, political and economic institutions provides valuable insights.

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The idea for this book was formed in 1980 and become the main source of a syllabus for a course on the economy of the earliest Islamic period in Iranian economic schools. Since then, much effort has been devoted to the preparation of the present volume, for which the greatest debt of gratitude is due to the efforts of Dr. Hassan Ali Ghanbari of Shaheed Beheshti University of Iran. Without his contribution, this book could not be presented in English.

The book has also benefited immensely from the views and constructive criticism of university colleagues, religious scholars and students, for which the author is grateful. I am immensely grateful to Professor Abbas Mirakhor for all the support he has given in connection with the publication of this book. Thanks are also due to Mr. Ziyaat Isaacs and Ms. Alaa Al Abed for their valuable editorial assistance, to Dr. M.H. Hamzhepour, Mr. Hosain Bolboli, Mr. Ali Bahador and Mr. Ahmad Zainul Abidin for their assistance with the graphics incorporated in this volume. Finally, the assistance of Prof. Dr. Obiyatullah Ismath Bacha and Datuk Professor Dr. Syed Othman, given so generously, was of significance in regard to the completion of this project and is greatly appreciated.

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PART I

Arabian Peninsula in the Eve of the
Introduction of Islam

The Economic and Cultural Situation of the Arabian Peninsula prior to Islam

1 ECONOMIC GEOGRAPHY

The Arabian Peninsula, which was known as the *Jazirat-ul Arab* prior to the emergence of Islam, was located in the middle of three major continents; Asia, Europe and Africa. From the north, it had borders with *Sham* (Old Syria) and Iraq. It also had borders with the states under the influence of the emperors of Persia and Rome. The peninsula was connected to Asia and Europe through these states. The Red Sea, or “*Bahr ul-Qulzum*”, is located between this land and the African continent and countries such as Egypt and *Habasha* (Ethiopia), which were under the influence of the Romans. Through this waterway, the connection with this continent was established. Regions like Yemen, Adan and Oman were all located to the south of the peninsula and all had access to the Gulf of Aden, the Sea of Oman and the Indian Ocean. The navigable waterway to India was a route via Oman. In addition to the northern roads to Iraq and *Sham*, the Peninsula had sea routes with Asia via India. The geographic situation of Arabia, which is located between the three continents of Asia, Europe, and Africa, provided it with a special advantage, because the trade between Persia and Rome and their subordinate governments—that is, *Sham* (Greater Syria), Ethiopia and Yemen—took place through *Hijaz* before the rise of Islam (Fayyaz 1335/1956, 10–12). In addition, a section of the trade route between Rome and India passed through the south and east of Arabia for centuries, and was called the Southern Trade Route. The merchant caravans took advantage of the seasonal bazaars; these were set up in *Yemen*, *Hijaz* and

Sham, especially in *Sana* (Capital of Yemen), *Yathrib* and *Makkah*, and were able to trade commodities. Also, another trade route passed through the north of Arabia. This route became an important trade route, when the Southern Trade Route lost its importance. Since that time, the commodities sent from India were shipped to Oman and, from there, were carried on land through the north of Arabia and *Sham* to Rome. Along this route, seasonal bazaars were set up and states in the area depended on these trading activities. Their capitals were centers of commerce for the merchant caravans that were traveling this route. The capitals of the states of *Aal-Lakhm*, *Aal-Kindah* and *Aal-Ghassan* (i.e., *Hirah*, *DoumatulJandal* and *Bosra*, respectively) were located along the Northern Trade Route. Other than the Southern and Northern Trade Routes, there was a third route between *Sham* and Yemen which was developed when *Hashim*, the elder grandfather of the Prophet of Islam, took over the leadership of the *Quraysh* tribe. Trade through this route was the result of the efforts of *Hashim* who obtained agreements and permissions from the kings of Rome, Persia, Ethiopia and Yemen for *Quraysh*. Subsequently, trade through this route developed and *Quraysh* gained a great deal of wealth. *Makkah* once again found its importance as a trading -center because the House of *Ka'ba* was located there and the Arab tribes came once a year for pilgrimage at *Ka'ba*. Before the Pilgrimage ceremonies, the tribes had an opportunity to trade. Being a sanctuary, the House of *Ka'ba* created the necessary security for trade. War and bloodshed were forbidden during four months of every year, and the concurrence of the ceremonies during the same period ensured the safe movement of merchant caravans to *Makkah* and their return to their destinations. The treaty of *Hilful-Fodzul* was made between the Arab tribes and increased the trade security in *Makkah* more than ever. This treaty will be discussed in Chap. 2. For these reasons, trade was the most significant activity in the economy of Arabia.

Apart from this, the Peninsula was relatively deprived of other natural attributes. The only humid region of the Peninsula, where it was possible to have some agricultural activity, comprised the southern parts of the Peninsula, which were exposed to the westbound humid winds of the Indian Ocean. For this reason, cultivation, horticulture and animal husbandry had been established since the early years. With the sea as its border, the fishing industry was established, and trade relations with India allowed the re-export of commodities to Rome. This was a third opportunity that created the economic boom in the south of the Arabian Peninsula. In this regard, the Peninsula has always had larger settlements and been urbanized; it has

also seen the emergence of powerful nations and governments. To mention some of these states, we would refer to the *Hemyaris*, who ruled for several centuries in the south, and had confrontations and were in contest with the Persian and Roman rulers. However, there are two great phenomena in the history of south that caused the downfall of its dignity and glory. The first phenomenon was the great advances Romans achieved in developing vessels that could travel and pass through the strait of “*Bab-ul-Mandab*” and carry the Indian merchandise straight to Egypt, Palestine and *Sham* (Fayyaz 1335/1956, 11–12). This phenomenon caused the Southern Trade Route, along which the trade caravans used to go from the south to the west of the Peninsula, passing from the *Hijaz* region towards *Sham*, Palestine and Egypt, to become redundant. Consequently, people migrated from the south to the north. The second phenomenon, which occurred later on and was almost concurrent with the year of the birth of the Prophet Mohammad (SAAS), (569 or 570 AD), was the fall into disrepair of the *Ma’rib* Dam between 542 and 570 (Fayyaz 1335/1956, 26). This dam, which was very old and had been repaired several times, finally, due to a huge flood known as *Al-Eram*, which is also cited in the Qur’an (Saba, 34/16; Ibn and Muhammad ibn Ali 1352/1973, 6), was destroyed by a huge flood. The total destruction of this dam wiped out vast regions of Yemen and, consequently, people migrated to other places.

Unlike the south, the central regions of the Peninsula had a dry climate with little rain. It is probably that some regions had only a few rainy days in the course of a year. Very high temperatures and a lack of humidity turned the center of the Peninsula into a land of desert and sand, a practically non-habitable area. Only in some regions, for only a very short period each year, was the land green, at which time it was possible to engage in animal husbandry and the grazing of cattle. In a few other places, like *Yathrib*, *Taef* and *Khaybar*, there was a higher level of rainfall; thus, it was possible to maintain gardens and cultivate crops. Ultimately, the living conditions in the Peninsula were very harsh. Prior to Islam, the prevailing clans in this region used to move from one oasis to another until they could find suitable pasture for their cattle. This climatic condition, naturally, did not render the region suitable for settling and cultural interchange; hence, the formation and constitution of ideologies in the central parts of the Peninsula. Therefore, no state or government was formed in center of the Peninsula, and, from among the various clans of the pre-Islam era, only the *Quraysh* tribe in *Makkah* and the *Thaqif* tribe in *Taef* were settled; the remaining tribes were engaged in endless migration.

This way of life automatically led to the advent of superstition, isolationism and a struggle for individual and clan supremacy. Nevertheless, the hardship of life led to crimes such as robbery, looting from the other tribes, murder or taking revenge. In this way, murder and plundering were very common among these tribes. Accordingly, some of these tribes used to come to agreements with the commercial caravans to afford them security from other tribes, defending them against raids, and finally gaining revenue for providing these services. Similarly, because the land was arid and finding suitable places in which to camp was difficult, they used to provide guidance and also rented their pack animals (four-footed animals) to earn some income for their services.

On the verge of the emergence of Islam, there were three puppet governments ruling in the north of the Peninsula. These governments were no comparison with the governments of *Hemyaris* or the Persian and Roman Empire. But, compared with the central nomadic tribes, they had considerable power and dignity.

To north east of the Peninsula, the government of *Aal-Lakhm* prevailed from their capital, which was located in the city of *Hirah*. Lakhmies used to abide by Persian rule and, whenever there was a clash between Iran and Rome, they used to side with and fight for the Persians. During times of peace, they would strengthen and expand their positions (Fayyaz 1335/1956, 35–36). The main source of their income was commerce and their capital was located on the trade route towards the north. As the route to the south lost its importance and ceased to flourish, the Northern trade route was improved from Oman, where they basically used it for transshipment of the Indian imported merchandise. However, this time, movement of the caravans was from the north of the Peninsula by passing from *Hirah*, *Dummat-ul-Jandal*, *Bosra* and other places, heading for *Qazza*, *Tyre (Sur)* and *Iyleh*; that is, all the places connected to Rome, Egypt and Palestine (Fayyaz 1335/1956, 11). In the northwest was the government of *Aal-Ghassan*, which followed the Roman government and provided identical services to those of *Aal-Lakhm* to the Romans. *Bosra* was the capital of this state and it was located on the Northern Trade Route. Its inhabitants made their livings through trade and commerce. The third government was that of *Aal-Kendeh*. The capital was located in *Dummat-ul-Jandal* along the Northern Trade Route. Naturally, their source of income was also to be found in trade and commercial activities. *Aal-Kendeh* was under the influence of the governments located in the south.

Although the humidity and rainfall were more favorable in the north than those in the center of the Peninsula and even though the climate was better and there were some agricultural activities in the north, their main source of income was by way of trade. The principal reason for the extensive commercial activities in the Peninsula was due to its excellent geographical position and its comparative advantages in this field. The agricultural capacity of the Peninsula was by no way comparable with Persia and Rome, and, due to climatic conditions, it had major drawbacks. Because of the continual differences and conflicts between Iran and Rome, the Indian merchandise destined for Rome did not pass through Iran. The major proportion of merchandise was transported via the sea routes, the remainder being sent via the north and the south of the Peninsula. Therefore, passage through the Peninsula, besides being arduous and insecure, had certain advantages, too.

The inhabitants of the Peninsula in the south and north were born traders who had learnt trade and commerce from their ancestors, and used to organize local and seasonal bazaars on the trade routes. The caravans benefited from the transactions in these markets. As has been mentioned, *Hashim* once more resumed trade between *Sham* and Yemen, although on a very limited scale as compared with the past (Qur'an, Quraysh, 106/1–2; Yaqubi 1338/1959, 312; Fayyaz 1335/1956, 57; Ayati 1359/1980, 24 and 40). This action helped the South Trade Route to some extent. In fact, the Arab merchants, by establishing relationships with the neighboring governments, tried to expand their trading activities throughout the Peninsula. The governments of Iran and Rome were benefitting from this situation and sent their merchandise to *Makkah* and other parts of the Peninsula (Al-Afghani 1960). Subsequently, prior to Islam and after the birth of the noblest Prophet (SAAS), and before the migration of His Holiness, the market at *Okaz*, due to its proximity to *Makkah*, flourished because of the security and reverent nature of this city. Throughout the Peninsula, wars and clashes were forbidden during the months of taboo (*Haram*), including *Dhul-Qa'eda*, *Dhul-Hajja*, *Moharram* and *Rajab*. This facilitated both the safe passage of the caravans and the tribes to *Makkah*, either for the purposes of the *Hajj* pilgrimage or for the commercial reasons. Also, it further facilitated the development and betterment of trade along the commercial routes. For this reason, commercial activities were widespread in the north and south of the Peninsula, and also the tribes of the central regions in the Peninsula benefited considerably from this development.

2 CULTURE AND SOCIAL CUSTOMS

Concurrent with the emergence of Islam, the inhabitants of Arabia did not possess a rich culture. Despite its brilliant history, as indicated by its scripts and as is evidenced by the engravings left on the ruins of the *Ma'rib* Dam, for many decades the advancement of architecture and cultural matters prior to Islam was hindered by the raids of *Habashies* and Romans. Eventually, by the time of the prophetic mission (*Be'that*) of the noblest Prophet (SAAS), the south of Arabia had become influenced by Iran (Fayyaz 1335/1956, 18), having previously been its competitor. Consequently, its cultural background did not evolve; following the loss of trade and agriculture and the immigration of its human capital, the growth of civilization and the technical grandeur of the south had stalled. Nevertheless, the level of civilization in the south was still much better than in the other regions in the Peninsula. Because of the relationship with *Habasha* and Rome, Christianity had many followers; such that the town of *Najran* became a center for the Christians in the south (Ibn Hisham 1356L, 22; Fayyaz 1335/1956, 51; Ayati 1359/1960, 11). The number of Jews was also considerable. They grew in number to such an extent that they wished to take over the ruling power from the government (Ayati, 11; Fayyaz, 25; Ibn Hashim, 28). The Jews who migrated to *Madinah*, *Khaybar* and *Hijaz* were also from the south. In addition, there were heathens and pagans, too (Ibn Hishamsham, 57–59; Fayyaz, 51). Throughout its history, no independent and stable government was formed in the north of the Arabian Peninsula. On the threshold of the emergence of Islam, there were three puppet governments in the region. Obeying the superpower and dictating to subordinates was the obvious feature of these governments. Although most of the inhabitants of the north were Christian, the *Aal-Lakhm* rulers, following the Iranian kings, were *Zoroastrians* and did not convert to Christianity. On the other hand, the *Ghassani* rulers, following the Roman Caesars, were all Christians. Pertaining to the north, there are no records or evidence of scientific and industrial development. Due to their engagement in wars, when there was a clash between Iranians and Romans, and due to the widening of their empire in peacetime and an absence of war between the two superpowers, and finally being involved in the clashes with the tribes of the central regions to deter them from invading the territories of Iran and Rome, the northern population had no time for science and culture.

The social conditions of the central regions of the Peninsula and the standard of living were an indication of their civilization, morals and spirits. Living in the unsettled conditions of being constantly on the move and being persistently involved in wars and clashes increased the importance of looting and robbery in those regions. The men who were better suited for such purposes became more important and women became subordinate. In addition, the fact that the females were not useful companions during conflict and became a burden when fleeing from the enemy, together with the high probability of their captivity by the enemy, rendered them a hindrance rather than a benefit. Besides, captivity resulted in the impurity of the ancestry of the tribes. Consequently, the significance and the importance of women was so reduced that they attempted to kill off their newly born daughters (Qur'an, Anam, 6/151; Yaqubi, 363; Sobhani 1351/1972, 23). This custom was common and continued until the emergence of Islam.

The tribes of the central regions of the Peninsula were worshipers of idols, and each clan had a special idol. The idol of the *Bani Thaqif* clan was known as "*Laat*" and the idol of the *Quraysh* clan was known as *Ozza*. The idol of *Oas* and *Khazraj* in *Yathrib* was *Manat* (Yaqubi, 331–334; Fayyaz, 49). The most important of these idols, which was respected and worshiped by all the tribes, was known as *Hobal* and was placed in the house of *Ka'ba*.

Superstition was rife among the clans; brutality and cruelty were widespread. Several kinds of these versions of wickedness and outrageous acts and tribal beliefs will be discussed to better understand why the era of pre-Islam is known as the era of *Jahiliyyah*, or total ignorance.

3 THE ERA OF BARBARISM OR *JAHILIYYAH*

In the Islamic culture, the pre-Islam era is known as the period of total ignorance or *Jahiliyyah*. The primary reason for using this label was the system of beliefs and faith of the nomads. A secondary reason was their cultures, customs and behavior. Although the thoughts and the degree of intelligence in the central regions had degenerated in comparison with the northern and southern regions of the Arab Peninsula, the *Quraysh* and *Thaqif* clans were more intelligent and better informed than others; however, according to Islam, the thoughts and visions of all the Arabs were due to *Jahiliyyah* (ignorance). From the Qura'nic point of view, any

understanding of human beings and the universe which is based on their relationship with their Creator and which takes into account the change and evolution of these two phenomena by the Almighty is considered to be proper and original. Any vision that oversees this relationship and relates it to other creations of Allah (ST), like the sun, the moon and matter, is treated as polytheism and coming from total ignorance by the Qur'an. When Man—that is, Adam—was created, the Almighty bestowed upon him the capability of understanding himself and his Creator, and he was given the vocation of teaching this vision to other human beings. Then, by further advancement of thoughts and the way of life of human beings, many prophets were delegated to guide mankind towards the origin of Creation and the Almighty Allah (ST) himself. They had to advise mankind of their responsibilities towards God and the members of their family, and the global society of human beings.

As we are aware, Prophet Ibrahim (SA) guided the people to worship one god and proscribed the worship of the stars, moon and the sun. He started the battle against polytheism and idolatry, and also against *Namrood* who claimed to be the god on the earth (Yaqubi, 23). Finally, he was instructed to go from *Babil* to *Palastine* and from there to the Arabian Peninsula to build the *Ka'ba* with the help of his son, *Ismacil*. Prophet Ibrahim was successful in the fulfillment of his mission and, along with his son, began the *Hajj*, which has since become a tradition (Yaqubi, 275).

His Holiness *Ismacil* remained in *Makkah*, he married a match from one of the clans of *Makkah* and his children grew up in the Arabian Peninsula. Later, the leadership of the house of *Ka'ba* came into the hands of *Amr-Ibn-Lohaiy*. He gave up monotheism and converted the *Ka'ba* into a house of idols (Ayati, 7). The Arabs followed suit and, consequently, idolatry replaced monotheism in the Arabian Peninsula. The Arabian era of ignorance began right here. Although all the ancestors of the Messenger of Islam were monotheists and used to invite Arabs to believe in a single god, nevertheless, these calls had no significant impact on their inspirations.

Monotheism and idolatry became the basis for Arabian behavior and conduct, with paradigms observed in the ruling era of *Abdul-Mottalib*, the grandfather of the Prophet of Islam. The increase in rapes and prostitution drove *Abdul-Mottalib* to set corporal punishment for the crime of rape and to send a number of prostitutes into exile (Yaqubi, 363). Furthermore, he banned marriages with relatives. The widespread prevalence of robbery induced *Abdul-Mottalib* to introduce the punishment of hand-amputation

for thieves. One of the conditions that the *Quraysh* tribe set for the *Hajj* pilgrims of the *Ka'ba*, which was accepted by the Arabs, was that all the pilgrims had to purchase their *Hajj* robes from the *Quraysh* tribe, otherwise they had to perform their *Hajj* parade (*tawaf*) with no clothing (Fayyaz, 59; Yaqubi, 336). Although this condition set by *Quraysh* was to influence their superiority over the other Arabs, they performed the *Hajj* pilgrimage differently and made their tents completely distinct from those of the other Arabs. Nevertheless, all of these novelties were adopted and accepted by the Arabs without undue resistance to them. *Tawaf* (circling) around the *Ka'ba* in the nude became such a norm and habit among the Arabs that it compelled *Abdul-Mottalib* to abandon it.

Among the other works of *Abdul-Mottalib*, when he was the head of the *Quraysh* clan and had the charge of the *Ka'ba*, was his effort to rebuild the *Zam-Zam* water well inside the house of *Ka'ba*. The *Quraysh* tribe wanted to participate in this endeavor. *Abdul-Mottalib* had the intention of finally devoting the well to the public, but *Quraysh* participation was seen as a hindrance to the achievement of this goal. Monopolizing the *Zam-Zam* well would be easy for the *Quraysh* as they had done this with the other activities related to *Hajj* pilgrimage. The dispute between *Quraysh* and *Abdul-Mottalib* heated up until they agreed to take the matter to a monk and accept his judgment as the final solution to their dispute. The monk used to live some considerable distance from *Makkah*. During the journey, they faced a scarcity of water. Gradually, the people fell ill and could visualize their own death because of the lack of water and severe thirst. Some lay on the ground and were ready to die and others dug trenches to be used as their own graves (Yaqubi, 321). The Arabs, who were claiming to be the real heirs of *Ismaeil* and were of the opinion that they had the right to participate in the rebuilding of the *Zam-Zam* well, did not follow the action of *Ismaeil's* mother, *Hajar*, which was to try and find water (when *Ibrahim*, on the order of the Almighty, had left them alone between *Safa* and the *Marveh* mountains in *Makkah*); instead, they surrendered themselves to death. They had not benefited from the devotion of *Ibrahim* and had no faith in the capability of the Almighty Allah (ST), so that by adoration and expecting his graciousness they could strive to find water. The idols they worshiped could not do anything to save them. So, all of them surrendered to death.

In this situation, *Abdul-Mottalib*, by appealing to his god, showed indignation to the Arabs and scolded them for easily accepting death and humiliation. He asked them to rise and search for water; perhaps, by the

mercy of the Almighty, they would find some water. In good faith, his resort to Allah (ST) was well in-time and, after some effort, they came across a pond of water and all could quench their thirst.

Yet another improper act by the Arabs was the of burying their daughters alive, so that they could not be captured by other tribes who would make them their captive servants and the blood of the tribes would then mix (Ayati, 43; Sohani, 29–30). Perhaps there is no crime in the history that matches this brutal act of the Arabs. Although, these killings indicate the maximum atrocity and, by itself, is the best evidence of ignorance, the cruelty of Arabs to the women was not confined to this act. The men used to marry the widowed women with the intention of owning their belongings and later they would abandon them (Qur'an Nesa' 4/19; Tabatabaei 1348/1969, Vol. 8, 76).

A further sign of ignorance among the Arabs was that they could never resolve any disagreement among themselves by way of talk and dialogue; they would impose their opinion on others by way of wars and bloodshed. Consequently, hostile clashes among them never ended. The two tribes of *Oas* and *Khazraj* were involved in wars against each other for ages in *Madinah* (Yaqubi, 395). The emergence of Islam and migration of the most noble Prophet to *Madinah* put an end to all such ill-advised wars. Prior to the prophethood of His Holiness the *Ka'ba* was destroyed because of a flood and rebuilt later. At that time, the heads of the *Quraysh* tribe could not find a solution as to the method of returning the "*Hajar-ul-Aswad*" (the Holy Black Stone) to its location by the *Ka'ba* and they all pledged to fight and defend the honor of their tribe till the last drop of their blood (Fayyaz, 64).

The frequency and arrogance of these clashes were so high that sometimes they used to dishonor their own established traditions which had been observed by elder generations in the past. For example, war and hostilities were banned during four months of the year; on occasions the Arabs used to postpone these months either to begin a war, or to continue an ongoing clash between themselves, with the intention of reaching their objectives. This practice was known as "*Nassye*" and it is mentioned in the Holy Qur'an (Tabatabaei 1348/1969, Vol. 18, 126; Tabari 1362/1983, 838).

A sign of a civilized nation is that if an organization or a new tradition evolves in their way of life, resulting in facilitation of communication between them and that organization or tradition helps in attaining the fundamental values in their culture, they would not only try to maintain and preserve this phenomenon, but they would also try to further develop

and widen its scope. One of the innovations of *Qosay-bin-Kelab*, the fifth grandfather of the Prophet was that; as soon as he assumed the responsibility of the *Ka'ba* and brought glory and fame to the *Quraysh* clan, he constituted an assembly and public meeting house known as “*Dar-Al-Nadwa*”, in accordance with the idea that whenever they faced difficulty, or whenever they had an important public issue on hand, they could assemble and engage in settlement of such disputes. *Dar-Al-Nadwa* was like a parliamentary house and *Qosay*, by establishing it, aimed at developing the features of cooperation and group-thinking among the Arabs so that different families within the tribe could solve their disputes between themselves by way of discussion.

The spirit of cooperation and unity did not develop among the clans of *Quraysh* tribe. Similarly, internal disputes and differences of opinion between them did not calm down. In the later generations of *Qosay*, when they assumed the guardianship of the *Ka'ba*, disputes heated up, and *Bani-Abdul Dar* and *Bani-Abdul-Manaf* took an oath to fight to their last man standing in order to defend and retain their perceived rights (Ayati, 38). Again, when *Umaiye* defied his uncle *Hashim*, the dispute could never be resolved by discussion, and the *Dar-Al-Nadwa* did not facilitate the dispute (Fayyaz, 57). It was only at the time of the mission of prophethood (“*Be'that*”) of the most noble Prophet that the heads of the *Quraysh* clans gathered in the *Dar-Al-Nadwa* to take a united stance to eliminate the great Prophet Muhammad (SAAS) (Fayyaz, 78). Finally, they decided to appoint a member from each clan in the tribe to attack the house of the Prophet (SAAS) in the darkness of night to assassinate his sacred being. This way, the *Bani-Hashim*, a clan of *Quraysh* tribe to which the Prophet belonged, would not be in a position to take revenge against all the other clans of *Quraysh* and, inevitably, they would not want further bloodshed (Fayyaz, 78).

The annual *Hajj* pilgrimage attracted the Arabs who used to come from every corner of the Arabian Peninsula; however, their welfare and food-stuffs were the responsibilities of those who were in charge of the house of *Ka'ba*. To mention an example, we may recall that at the time of *Qosay*, *Refadat* (to feed the pilgrims) and *Seqayat* (to provide water for them) was among his responsibilities (Ayati, 39). When *Hashim* became the chief of the *Ka'ba*, he spent all of his wealth for this purpose and constantly urged the *Quraysh* members to follow suit (Ayati, 39). Even *Abdul-Mottalib*, after assuming the charge of the *Ka'ba*, followed exactly the same way. He catered so generously that even the birds and the quadruped animals benefited from his food offering during the *Hajj* pilgrimage period

(Ayati, 42). Despite all this motivation, the *Quraysh* not only ignored all of them, but also imposed a condition that all pilgrims must buy their food and clothing from them for their first pilgrimage, or else they had to perform their *Hajj* pilgrimage in the nude (Fayyaz, 49). Ladies were allowed to have only one shirt on them.

3.1 *The Traditions of Abdul-Mottalib*

Confronting the ignorance of the Arabs, *Abdul-Mottalib* set certain social traditions as a means to set the Arabs free from *Jabiliyyah*. Due to the fact that most of these traditions were brought into Islam only after the prophethood, it would be appropriate to become acquainted with them in order to understand the social and moral conduct of Arabs in that era. It was only due to such behavior that *Abdul-Mottalib* was forced to set these traditions. We will also try to study some of the rules and regulations enforced before Islam. These provisions are as follows:

- (a) Improvement of Social Behavior
 1. Loyalty to vow that has been made;
 2. No entrance to private premises or houses by climbing the wall or by using the backdoor.

Adherence to vows was made a social responsibility by *Abdul-Mottalib*, in order to confine the Arabs to their liabilities and to improve the level of their social responsibilities. Further, he intended to stop them from illegally entering one another's houses.

Sudden intrusion to one's house by other than conventional means creates social harassment and causes gracelessness in social and family relationships. This imprudence was continued until the time of the noblest Prophet (SAAS). We observe that *Samorat-Ibn-Jundab* had entered the house of an *Ansar* (a resident of *Madinah*) without the permission of the housekeeper to look after a palm tree belonging to him. It is evident he had put the *Ansar's* family in so much distress that they had taken their complaint to the Holy Prophet (Shehabi 1330/1951).

- (b) Safeguarding the Honor and Dignity of Society
 3. Putting a ban on marrying close relatives;
 4. Prohibition of adultery;
 5. Strict punishments for the adulterous;

6. Sending prostitute women into exile;
7. Abandoning the burial alive of female infants.

The necessity to impose such rules and regulations indicates the unrestrained way of life among the Arabs and the degeneracy of their civilization and social responsibility towards each other. A community that was ready to kill their own female children in order to prevent them from being captured by the enemy in the future had no reluctance about indulging in extramarital activities and prostitution. They considered themselves to be the decedents of *Ibrahim* (SA) and for this reason they used to differentiate themselves from the other Arabs, but used to marry their close relatives. These customs and habits had no roots other than *Jabiliyyah* and ignorance. Deviations from the monotheist religion of *Ibrahim* and the Arab tendency towards paganism changed the view of *Ibrahim* and his preaching, causing it to become a myth for the Arabs, and their behavior and conducts were all based on their pagan beliefs and ignorance.

(c) Safeguarding Social Security and the Legal System

8. Prohibition of alcoholism;
9. Hand-amputation to punish thieves;
10. Payment of one hundred camels as blood money in the event of unintentional killings.

It is easy to visualize the extent of social disorders that may arise because of drunkenness, robbery, plundering and manslaughter. The high frequency and the severity of these crimes in society caused *Abdul-Mottalib* to rise against them and fight to prevent such customs in society. It is worth mentioning the fact that; despite the magnificence and power of *Abdul-Mottalib* in the eyes of the Arabs, these unmannerly forms of conduct were not eradicated from their societies until the delegation of prophethood in Islam. Later, the great Prophet Muhammad (SAAS) had to take a very tough stance against such improper acts in order gradually to rescue the Muslims from the malaise of such customs.

(d) Stabilization of the *Hajj* Pilgrimage

11. To supply the water needed by *Hajj* pilgrims;
12. To make seven circuits in each *Tawaf* (circling the House of *Ka'ba*);
13. Abandonment of nude *Tawafs*;
14. Observing the sanctity of the months of *Haram*.

The most important social movement of the Arabs prior to Islam was to go to *Makkah* for the annual *Hajj* pilgrimage. On the way to *Makkah*, the caravans used to take part in the local and seasonal markets and barter in the *Okaz* market before the *Hajj* rituals. Hence, pilgrimage was not only a religious function but also an opportunity for commercial transactions. The supervision of the *Okaz* market was under the control of the *Quraysh* tribe and they used to sell their own merchandise imported from Yemen and *Sham*.

Therefore, maintaining the morals of the *Hajj* ceremonies and the security and safety of pilgrims had been of both moral and economic importance for the Arabs. The month of *Dhul-Hajja*, which is the month in which the obligations of the *Hajj* are performed, and the months of *Dhul-Qada* and *Muharram*, are three of the months of *Haram* (during which conflict and wars are forbidden).

The caravans could therefore travel the route to *Makkah* with complete confidence in the month of *Dhul-Qada*, and spend the whole month of *Dhul-Hajja* in *Makkah* for *Hajj* and barter, finally returning home during the month of *Muharram*. For these reasons, *Abdul-Mottalib* made it mandatory to keep the sanctity of the months of *Haram* because as stated earlier, some of the Arab tribes would often postpone the months of *Haram*. The protection and preservation of the *Hajj* functions and the prohibition of sinful activities socialized by *Quraysh* was among the other objectives of *Abdul-Mottalib*.

(e) An Economic Tradition

15. *Khums*—payment of one fifth of the value of treasure discovered.

The most important economic tradition established by *Abdul-Mottalib* was to levy *Khums* on the treasures unearthed by the Arabs. This initiative of the leader of the *Quraysh* tribe helped them to finance a proportion of the food and water to the pilgrims, and also helped to improve the living standard for the poorer sections of the society.

(f) Special Traditions

16. Winning by lottery;
17. *Mobahilah*—Leaving to God's Mercy.

It seems, to avoid social clashes between the Arabs, *Abdul-Mottalib* popularized the custom of "*Mobahilah*", in which the warring sides,

instead of engaging in battle and cursing each other, used to request the Almighty to impose his justice, punish the tyrant and safeguard the oppressed. In addition, to facilitate and break deadlocks in matters, *Abdul-Mottalib* introduced the custom of winning by lottery. One of the instances in which *Abdul-Mottalib* resorted to this lottery in connection with the heads of the *Quraysh* tribe was during the time of rebuilding the *Zam-Zam* water well, where two golden deer statues and few carbuncled swords were unearthed. Heads of the *Quraysh* tribe put their claims of ownership to them. To resolve the dispute, *Abdul-Mottalib* proposed division of the treasure among the *Quraysh*, himself and the *Ka'ba* by way of resorting to winning by lottery. The *Quraysh* accepted the proposal. As the result, the golden deer statues went to the *Ka'ba* and the carbuncled swords were won by *Abdul-Mottalib* himself (Yaqubi, 321). He sold the swords and procured a gate for the *Ka'ba* and, following installation of the gate, he placed the statues on top of it.

As stated earlier, *Abdul-Mottalib* used his power and influence to establish the customs among the Arabs to amend and improve their moral and social wellbeing. The atmosphere in which they were living was completely dominated by immoral and degenerate values that *Abdul-Mottalib* was forced to correct by such measures. Despite all his effort and determination and the commitment of other godly and orthodox people living among the Arabs (Ayati, 13–19), the Arabs would not put aside their bad behaviors and gradually, by gaining more wealth and earning more income, they indulged in progressively worse and more tyrannical activities.

Instead of doing business, they preferred to deal in money lending and they even went so far as to invent new methods for charging interest. *Riba* (interest on loans) was customary from the earlier periods and the *Quraysh* tried to develop and expand it further. A new form of *Riba* was set on transactions: if a buyer could not make the payment well in time, he was to pay double the amount, or even more (Ejtehadi, 91–92). Eventually, if he was unable to make the payment he was taken as a slave in lieu of the payment (Al-Afghani 1960).

3.2 *The Bilateral Trades of the Era of Jahiliyyah (Ignorance)*

In spite of the development of trade among the Arabs prior to Islam, and the formation of several perpetual and seasonal markets on the Southern–Northern Trade Route, we come across certain types of transactions. According to Saeed Afghani, these transactions are amazing because either

the seller or the buyer would be cheated and worse off. The prevalence of these types of transaction among the Arabs is yet another indication of the dominance of the *Jahiliyyah* culture over them. Consequently, all such transactions are prohibited and banned in Islam.

Here, we are going to introduce different types of such transactions (Al-Afghani 1960, 46–59).

3.2.1 *Grit Throwing* (Al Rami Bel Hesat)

This transaction appeared in many forms in the *Domat-ul-Jandal* market. In one form, the seller would tell the buyer to throw grit and whichever cloth was hit would be sold for one *Dirham* to the buyer. If the buyer throws the grit, then the transaction is final, or he would ask the buyer to throw the grit at a specified cloth and he would sell it to the buyer at a predetermined price on the condition that the grit hits the cloth. The third form was for the purchase of sheep, where, the buyer had to throw grit and hit a sheep before he could buy it for a predetermined price. Another mode of this transaction was that the seller was to accept that, if a piece of grit thrown by the buyer hit a good, then the good would be sold to the buyer. In another version, the sellers of land would ask the buyer to throw grit across the land to set the boundaries of the land purchased by him.

In other types of this transaction, the buyer used to take a handful of grit and ask the seller to give him a number of goods equal to the number of pieces of grit in his hand, or the seller would take a handful of grit and the buyer had to pay him money to the value of the number of pieces of grit in the seller's hand.

In other instances, the seller would tell the buyer that, if he dropped the grit, then, the deal was done and final. Ultimately, if several people wanted a commodity, they would hold grit in their hands and the one who dropped the grit first would show his desire to buy the good.

According to Saeed Afghani, these transactions were more like gambling than any economic deal, because all of them involved fraud, cheating and ignorance.

3.2.2 *Monabazah*

This transaction was done in three different ways. The seller and the buyer used to agree on the condition that, if one throws the cloth to the other, then the cloth is sold for a predetermined price and the transaction is done and final. Each one would throw a cloth (or grit) to the other party without having seen the cloth before, making the deal final.

3.2.3 Molamassah

This transaction was also done in three different ways. In the first model, the seller used to sell to the buyer a folded cloth without allowing the buyer to see the cloth; or he could sell the cloth in the darkness of night. In the second instance, the act of only touching the cloth would mean that the transaction was complete and final without uttering a word of acceptance for the purchase of the commodity. The third version was devised in such a way that, once you touched the cloth, then there was no way to go back on the deal, meaning that merely touching the cloth once would mean a completed trade and it was compulsory on the part of the purchaser to take the goods. Saeed Afghani stated that, in the *Mashqar* market, the same transaction was done by way of gestures, and the signs were sufficient enough to finalize the deal, or in some cases by just whispering with no sounds, in both cases, without talking to each other. It is interesting to note that they claimed this was done to avoid telling lies in the transactions.

3.2.4 Moavama

To sell fruits of the trees in the coming two or three years is known as *Moavama*. Due to the uncertainty involved in the quantity of the goods to be delivered, this transaction is also banned in Islam.

3.2.5 Mozabana

This transaction was meant for the sale of either ripe dates or raw dates on the palm tree, based on a known quantity of already plucked ripe or raw dates. Similarly, sales of any kind of fruit growing on trees based on the known quantity and quality of that good. The selling an unknown quantity of a crop of produce is also known as *Mozabana*.

3.2.6 Mohaqalah

This transaction is the same as *Mozabana* but is used in connection with cultivation. For example, the wheat crop of a farm was sold for a known quantity of wheat.

3.2.7 Hahl ol Hableh

The transaction of the fetus inside the womb of a camel or the future fetus of the present one was known as "*Hahl ol Hableh*". Naturally, the gender and the time of delivery of the camel for such a transaction is unknown.

3.2.8 Tasreyeh

When they wanted to sell a sheep or a camel, they did not milk them for few days before the sale to make them appear to have a very high milk yield.

3.2.9 Sorar

This transaction is described by Saeed Afghani quoting *Maqrezi* as follows: “The parties to a transaction would agree on the terms that the one who takes off his ring sooner, will set the price of the commodity for trade, or if they take off their rings simultaneously, they would do it again.”

3.2.10 Najsh

This is not a transaction but, rather, is a seller’s collusion with someone to appear to enter the transaction and try to heat up the bargaining process and jack up the price.

3.2.11 Maks

Maks was a kind of charge or tax levied on those parties taking part in the markets organized by the tribes or the promoters of the market. In effect, *Maks* was a sort of sales tax on the goods sold in these markets.

3.2.12 Talaqqi Rokban

When a commercial caravan was arriving in or approaching the township, some people would go out and receive them at the outskirts of the town to take the advantage of their ignorance and lack of information about the real value of their merchandise in the town; such people could buy the goods at very low prices. Later, they would take the goods to a city market and sell them at exorbitant prices. This brokerage creates no economic value and, hence, Islam looks down upon it.

4 CONCLUSION

In this chapter, we have tried to present a brief description of the ways of life and the culture and customs of Arabs prior to Islam in order that we can elaborate the difficulty of inviting them through the Holy Prophet (SAAS) to accept Islam. The ignorance (*Jahiliyyah*) before Islam, was a culture that not only influenced the livelihood and the economy of the Arabs, but also had a considerable effect on their visions and thoughts. The noblest Prophet (SAAS), after 23 years of endeavor, succeeded in

changing the beliefs of Arabs and in making them Muslims. At the same time, he changed their living styles and their social relationships to establish a completely new economy. The objective of the next chapters will be to explore the extent and nature of this new economic system.

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Invitation to Islam

1 INTRODUCTION

The Messenger of Islam, after moving to *Madinah*, formed an Islamic community and founded an Islamic social system. This objective could not be fulfilled during the years of stay in *Makkah* after his prophethood; nevertheless, the great Prophet (SAAS) began to present the crystal clear principles of the Islamic religion and its propagation. He attracted many groups to Islam and educated them for the implementation of its objectives. The details of the invitation to the up-Muslims and their education and training is addressed in Islamic history books and there would be no need to reiterate them here. In the meantime, the description and analysis of the economy oriented acts of the Messenger of Islam after his migration, with no reference to the background in *Makkah*, is not covered comprehensively.

In this chapter, initially, we shall offer a brief presentation of the reactions of the inhabitants of *Makkah* to the Messenger of Islam before and after his prophethood to show the degree of their opposition and resistance towards the invitation of the Holy Prophet (SAAS). Later, we will reiterate his doctrinal principles during the period in which the Qur'an was revealed. A comprehensive discussion on the subject may be found in the philosophical and ideological literature.

2 THE PRE-ISLAM SOCIAL POSITION OF PROPHET MUHAMMAD (SAAS)

Prior to the prophethood, despite having been an orphan with no significant wealth or assets—the two major characteristics that would make a person the least respectable in those days of *Makkah*—Muhammad (SAAS) was highly respected and honored by the *Quraysh* tribe. This was due to his own conduct, his moral characteristics and his ancestors. The fifth grandfather of the Prophet (SAAS), *Qosay-Bin Kelab*, due to his remarkable abilities and competences, became the governor of the *Ka'ba* and made his tribe the inheritors thereof. He brought the members of the *Quraysh* tribe together, in *Makkah*, before which they were scattered throughout *Hijaz* (Ayati 1359/1380, 34). From this date onwards, the fame and glory of the *Quraysh* tribe began in *Hijaz*; thus, they had a very high ranking and status among the other tribes. *Hashim*, the grandson of *Qosay*, while heading the administration of the *Ka'ba*, exerted great efforts to resume the trade route between Yemen and *Sham*, which had previously been between India and Rome via the south and west of the Peninsula. As discussed in Chap. 1, these routes had ceased to prosper. From that time, the *Quraysh* tribe had engaged in trade by moving to Yemen in the winter and *Sham* in the summer (Ayati 1359/1380, 40). Hence, the *Quraysh* tribe, besides gaining social and political position since the time of *Qusai*, could obtain the economic upper hand through monopolizing trade along that route. Inevitably, this turned the leaders of the tribe into great capitalists. In consideration of these advantages, the *Quraysh* added their ancestral origin and honor, since they were the grandchildren of *Ibrahim* who had built the *Ka'ba*. Therefore, from every standpoint, they were comparatively superior to all other tribes.

The most renowned leader of the *Quraysh* tribe prior to Islam was *Abul-Mottalib*. The incidents that took place in his era, like the invasion of the house of *Ka'ba* by *Abraha* (Ayati, 45), the policies adopted in that confrontation that saved *Quraysh* from total destruction, as well as the other encounters that took place between him and his tribe, some of which were described in Chap. 1, and, finally, due to the establishment of certain customs among the Arabs, brought the highest honor and status for him. Muhammad (SAAS) was under the guardianship of *Abdul-Mottalib* till the age of eight, (Ayati, 55). During his early years, he was also protected by *Abu-Talib*, chief of the *Bani Hashim* clan. Hence, compared with the *Quraysh*, who were a distinct and an outstanding tribe among the Arabs,

Muhammad (SAAS) was bestowed with more family honors than all others of the *Quraysh*. But the factor that made his characteristics the most beloved among the *Quraysh* was his own wisdom and moral conduct. In an atmosphere governed by the *Jahiliyyah* culture, Unitarian individuals were few and monotheist moral behaviors were rarely observed. But, if there were any, they would have a unique attraction of their own. The books on his way of life and the history are full of evidences and examples which show how the conduct of the Prophet Muhammad (SAAS) influenced his relatives, the inhabitants of *Makkah*, *Quraysh* and the other Arabs. Stating these evidences would consume much time and would run into enumerable pages to do justice to his exemplary existence. Since the aim of this book is to be brief and to be confined to economic events and affairs only, we must deprive ourselves of the scholarship and be content with stating a few important social events from the time before the prophethood era to evidence the position of Muhammad (SAAS) in those days.

The first incident was the decision making of the heads of *Quraysh* for reconstruction of the *Ka'ba*, which it is believed was demolished due to heavy floods (Fayyaz 1335/1956, 64; Tabari 1362/1983, 835). At the outset, the heads of *Quraysh* divided the work among them to rebuild different parts of the house and began reconstruction. Upon completion, dispute arose with regards to the placing of the *Hajjar-ul-Aswad* (the Black Stone). Each and every head of the different tribes wanted to have this honor for himself. The urge and insistence of the heads of tribes to gain this honor resulted in severe disputes between them to the extent that they were prepared to encounter and clash with each other (Reza Sadr 1370/1991, 144–146). On the brink of conflict, a wise person proposed to the heads of the tribes to hold their temper for a while and take advice from the first person who entered the house. They accepted the proposal and acted accordingly. Fortunately, Muhammad (SAAS) entered the house at that very moment and suggested that a big piece of cloth be brought. He placed the stone on that cloth and asked all the tribal heads to lift the cloth in unison and carry it towards the *Ka'ba*. Then he picked up the stone and placed it in its place (Tabari 1362/1983, 840). This acceptance by the heads of the *Quraysh* is an indication of their respect towards His Holiness due to his personal character that made them listen to his words despite his youth.

The other phenomenon was the stipulation of the “*Helaf ul Fodzu*” treaty (Reza Sadr 1370/1991, 142). An immigrant trader had brought his merchandize to *Makkah* to be sold at the time of trade in the markets in *Makkah*.

Having participated in the markets and sold his goods, the trader, despite his best endeavors, was unable to obtain payment from the buyer of the goods. He could not find protection or support from anyone as he had no contract. Feeling alone and poor, he became dejected and finally screamed aloud, seeking the assistance of the *Quraysh* ancestors, reiterating their behavior and social conducts. The complaints of this stranger became influential and the heads of the different tribes in the *Quraysh* tribe decided to sign an agreement that would protect and respect the assets and belongings of the people in *Makkah*, especially during the *Hajj* pilgrimage days. One of the signatories to this treaty was his honor Muhammad (SAAS). This participation and signing of the contract along with the heads of other tribes is an indication of the very high ranking profile of Muhammad (SAAS) during those days.

Yet another major incident was the matrimonial proposal of *Khadijeh* to His Holiness. She was one of the most respectable ladies in *Quraysh* and her parents had a highly significant social position. Among all of the *Quraysh*, there was no comparable match to marry his honor Muhammad (SAAS). *Khadijeh* was a widow and 15 years older than him. However, Muhammad (SAAS) accepted her proposal as he found her to be a worthwhile and faithful spouse (Ayati, 66). In their matchmaking ceremony, *Abu Talib*, his uncle made following remarks:

Truly speaking, Muhammad (SAAS) is by no way comparable with the other young men of *Quraysh*.

He is superior considering his ancestry, honorability, wisdom and intelligence, nonetheless, with little wealth and riches which are perishable like the shadow and returnable like safe keepings (Bin Nabi 1371/1992, 193).

3 THE POST-ISLAM CONFLICTS OF *QURAYSH* WITH THE HOLY PROPHET MUHAMMAD (SAAS)

The honesty, trusteeship, meekness and managerial talents of Muhammad (SAAS) were not sufficient enough to make the aforesaid heads of tribes accept his invitation to the religion of Islam after his prophethood. Right from the beginning of his public announcement of the invitation to Islam, His Holiness invited all the tribes and the chiefs of the tribes to adopt Islam and promised that whoever became a Muslim first could be his successor (Bin Nabi 1371/1992, 219; Tabari 1362/1983, 165). Among the many reasons the *Quraysh* found to oppose the message, they were

adamant in their position that succession to Muhammad (SAAS) had nothing to do with the prestige and privileges they held as the custodians of the *Ka'ba*. The *Quraysh* not only rejected that invitation of the great Messenger, but also began to oppose him, to create nuisance and hurt him, despite the fact that the truthfulness of the mission of his prophethood and the divine nature of the *Qur'an* had all been proved for them (Reza Sadr 1370/1991, 1365/1996, n.d.).

One of the significant evidences of this opposition was the disruption of all socio-economic relations with the Prophet (SAAS) and his followers, which resulted in their exile to the *Abu-Talib* Valley (Shahidi 1362/1983, 42). This decision was taken as a part of an agreement having several clauses that was kept in the *Ka'ba*. *Makkah* was a commercial city with no cultivation or agriculture. Boycotting trades with a group meant depriving them of having access to food and other supplies. These sanctions lasted for three years, during which the *Quraysh* repeatedly advised *Abu-Talib*, the principal supporter of the Messenger, that if he could make his nephew surrender, only then would they lift their sanctions. *Abu-Talib* never surrendered to their will and continued his support. Finally, after three years, the Prophet (SAAS) informed his uncle that all the clauses of the contract letter of *Quraysh* has been eaten off by the termites except for the word: “*Bismek Allahomma بسمك اللهم*”. *Abu-Talib* communicated this news to the *Quraysh* and added further that, after referring to the contract pact kept in the *Ka'ba*, if they found the news to be true, they should terminate the blockade and sanctions and, if the news turned out to be false, he would be ready to fetch and surrender his nephew. When *Quraysh* examined their pact, they found the letter torn and demolished as predicted by His Holiness (Ayati, 148). This prediction resulted in freedom of Bani Hashem from economic blockade.

After the demise of *Abu-Talib* and *Khadijeh*, his uncle and his wife, the pressure and degree of harassment and annoyance by the *Quraysh* continued to increase, to the extent that they decided to take his life. Staying in *Makkah* beyond this date was absolutely impossible for the Prophet (SAAS). Therefore, when delegates from *Madinah* had come to *Makkah* to invite him, he was delighted and relieved to receive them and decided to migrate to this city. As stated earlier, gradually the Muslims, and later on the honorable Prophet (SAAS) himself, migrated to *Madinah*. Before this migration, a different group of Muslims headed by *Jafar-BinAbitalib*, had migrated to *Habasha* in the sixth year after his prophethood (Fayaz, 70).

4 BEFORE *HIJRAH* TO *MADINAH*

Pre-Islam *Jahiliyyah* at *Yathrib*, which was called *Madinah-tun Nabi* after the migration, had numerous signs and indicators. The two tribes residing in this city, the *Ows* and the *Khazraj*, had engaged in wars and conflict in an attempt to eradicate each other and to expand their own dominance; this was years before the emergence of Islam (Sobhani 1351/1976, 23). After the arrival and settlement of a few Jewish tribes around *Yathrib*, such as the *Bani-Nazir*, *Bani-Qurayzeh* and *Bani-Qaynoqa*, the inhabitants of the city heard news from their newly arriving Jewish neighbors about the advent of a new Prophet (SAAS). However, the Jews had claimed that, since they were unitarian and monotheist, the Prophet (SAAS) would belong to them and not to the *Ows* and *Khazraj* tribes, who were pagans and polytheist (Ayati, 164; Ibn Hesham 1356L, 279).

The delegates who had come from *Madinah* to invite the great Prophet (SAAS) were from the *Khazraj* tribe. They had done this because, at that time, the majority of the inhabitants of *Yathrib* (*Madinah*) city were from the *Ows* tribe and they intended to seek the support of the *Quraysh* tribe, aiming to eliminate the other competing tribes. But, contrary to their expectations, they did not receive a positive response from the *Quraysh*, because they were stating that the nephew of *Abu-Talib* has claimed to be a Prophet (SAAS) and had attracted all the youths and the slaves to himself, changing the law and order of *Makkah* (Sobhani 1351/1976, 22).

News about the appearance of a new Prophet (SAAS), on the one hand, the correctness of Jewish predictions and, on the other hand, the exhaustion and penitence of the people of *Yathrib* as a result of the fratricide, killings and plundering, motivated them to seek emancipation from *Jahiliyyah* and to gravitate into a unitarian religion. These changes made the *Yathrib* delegates consider their meeting with the new Prophet (SAAS) as a monumental acquisition. Despite the recommendations of the *Quraysh* advising them to boycott the Prophet (SAAS), who could enchant the people like a magician, they visited him, invited him and listened whole-heartedly to the Qur'anic verses. They believed in his prophecy and his Allah (ST), and demanded his migration to *Yathrib* in the hope of liberating themselves from *Jahiliyyah* and misery. In response, the Messenger of Islam decided to migrate to *Yathrib*. The group of Muslims who migrated to this city were called the *Mohajerin* (the immigrants) and the inhabitants who hosted the Prophet (SAAS) and the *Mohajerin* were called the *Ansar* (the supporters).

5 PRECAUTIONS OF THE HOLY MESSENGER, BEFORE *HIJRAH*

From the time of the prophethood to the time of the Messenger's migration to *Madinah* lasted about 13 years. For three years, his invitations were not made public. The next three years, the Prophet (SAAS) and his followers spent in the *Abi-Talib* Valley in exile. The beloved Messenger had only seven years within which to propagate the principles of Islam before migrating to *Madinah*.

The belief-oriented verses of the Qur'an regarding monotheism, the prophecy of the Messenger and the Day of Judgment are commandments from this period. It is evident that monotheism, which is the basis of the Islamic worldview and which describes the relationship between the Almighty and his creatures, human beings and nature, was to be introduced during this very period so that the Muslims would become acquainted with them and be guided accordingly. Prophecy was the declaration of the new mission of the Prophet (SAAS) and the Qur'an introduced this mission as a complement to all other previous Heavenly religions and named the Messenger as "*Khatam-ul- Anbia*" (the last and final Prophet (SAAS)). Most of the verses regarding his prophecy and being the last prophet were all revealed during this period (Bazargan 1355/1976). The destiny of human beings and their state after death is envisaged by the principle of the Day of Judgment. Truly speaking, monotheism states how human beings have been created, directed, nourished and evolved, and the nature of the relationship between Mankind and Allah (ST) and nature. Prophecy states the mission and objectives of a human being during his lifetime in nature and eschatology is about his destiny and his regression to God after his death. These principles of Islam and the objectives in life, together with various values, were all presented in *Makkah*. Some parts of worship were also canonized in *Makkah*. They clarify values that prepare and educate human beings for evolution and self-development. Consequently, Prophet (SAAS) Muhammad (SAWAWS), despite being in an unfavorable situation and under intense pressure, took the opportunity to present the principles of his religion in *Makkah* and in this way educated and trained a group of committed believers about Islam. With this human capital, after migrating to *Madinah* he tried to form an Islamic community and an Islamic state.

The importance of faith-related principles to worshiping guidelines makes it incumbent on us to clarify the pre-migration acts which were

themselves based on these beliefs and this training. So, in what follows, we will offer a brief and classified presentation of them.

5.1 *Presentation of the Islamic Worldview and the Principles of Islamic Beliefs*

Since Muslims are characterized by their principle beliefs and their vision about the universe and their Creator, the great Messenger of Islam sets out his invitation based on the Islamic worldview and the applications of divine verdicts. For this purpose, Prophet (SAAS) used to continually spell out Qur'anic verses and only those prepared to read these verses were able to become familiar with Islam or to learn more about their newly adopted religion; by these means, he invited them to Islam.

The Qur'an invites human beings to obtain knowledge and perfection, and prime characteristics and views. The ultimate endeavor and efforts of human beings would be to approach a state of divinity. (*Hojorat*, 49/13; *Anfal*, 8/26; *Raad*, 13/28; *Mo'menoon*, 23/1–11; *Loqman*, 31/22; *Abzaab*, 33/21–23; *Ahqaf*, 46/12–14; *Ankaboot*, 29/5). The preaching of the Qur'an introduces the great values of a human being (*Baqareh*, 2/31–33). *Ma'ad* is introduced as a new stage in life and our death is merely a turning point in the type of life (*Saba*, 34/29–30; *Yasin*, 78–80). A human being will be confronted with the consequences of his deeds and actions during his life and *Ma'ad* (*Baqareh*, 2/277–281; *Aal- Emran*, 3/30; *Kahf*, 18/30; *Zokbrof*, 43/66–76).

In addition to developing the basis for fundamental thoughts and beliefs for Muslims, the great Messenger was also involved in guiding their deeds and behaviors, trying to introduce the most balanced mannerisms to them, at the same time asking them to refrain from improper conduct. Since economic activities constitute a very large part of every Muslim's overall conduct, the great Messenger paid special attention to them. He equated and termed most of the economic deeds as "worship", an act that is of interest to the Almighty Allah, and the performance of which makes one closer to him.

The great Messenger considers fasting, *Zakat*, *Khums* and *Hajj* as compulsory deeds for every Muslim. These deeds constitute about half of the total worship or by-laws of the religion. Further, for acts such as *Infaq*, *Qard Hassan*, *Waqf* and *Haqqul Maaloom*, the great Messenger placed very high values and blessings on these, and considered them as transactions with the Creator of the universe (*Baqareh*, 2/254, 261–262,

271–272; *Taghabon*, 64/17; *Hadid*, 57/11, 17; *Aal-Emran*, 3/19). On the other hand, behavior such as theft, confiscation, cheating, usury, hoarding, skimping and certain other transactions were considered as unlawful and equivalent to not observing the divine orders.

On the whole, acceptance of the principles of the Islamic faith and worldview were the basis for the evolution of new motives for economic and social activities in the emerging Islamic community. Trust in God, Prophecy and the Day of Judgment introduce a group of economic activities for Muslims which are basically intended for obtaining the approval of Allah (ST) (*Baqareh*, 2/207, 265; *Hashr*, 59/8; *Rome*, 30/38). Hence, the Prophet (SAAS), by preaching to his divine subjects, made great changes in the thoughts and visions of Muslims, and also reoriented their conduct and behavior. For this very reason, the Messenger of Allah put the greatest part of his efforts into acquainting those around him with the basic principles and rules of Islam.

5.2 Declaration of Islamic Verdicts

Taking into account the cultural background and the social state of Arabs in the *Jahiliyyah* era, we must place greater importance on the invitation of the great Prophet (SAAS) to Islam. Therefore, we need to undertake more research on the quality and the manner of this invitation in *Makkah*, especially about its timing. The sources of this inquiry are as follows:

- (a) *Makkah* Verses together with the verses from the Qur'an that were chanted and pronounced by the Prophet (SAAS) in the initial days of his arrival in *Madinah*;
- (b) The speeches of *Ja'afar Bin Abi Taleb*, the head of a group of Muslims who were advised to migrate from *Makkah* to *Habasha* in the sixth year of prophethood due to the harassment and pressure of the *Quraysh* (Fayyaz 1335/1956, 70). Later, two of the heads of the *Quraysh* tribe chased them, trying to convince the King of *Habasha*, *Najashi*, to hand them back to the *Quraysh* (Yaqubi 1338/1959, 386). *Najashi* tried to inquire about the messages of the new Prophet (SAAS). *Jafar* started to explain:

Your highness, we were a lot of people living in the Jahiliyyah state and worshipping the idols, we used to eat carrion and did all the immoral; we used to cut the wombs, we had very bad behavior with our neighbors and our business

counterparts, the mighty ones of us used to crush and demolish the weaker ones. This was our state of life since the Almighty selected a Prophet (SAAS) from among ourselves, with known family, integrity, trustworthiness, sanctity and sent him towards us to invite our people to Allah (ST), so that we will come to know his uniqueness and worship him and discard the stones and idols that were worshipped by our forefathers and ancestors. He guided us to veracity, trusteeship, loving our relatives, honoring our neighbors and our business counterparts, and at the same time ordered us to refrain from all the prohibited and bloodshed, immoral deeds, uttering false words, laying hands on the wealth of orphans, stating bad attributions on virtuous women. He has ordered us to pray and pay Zakat and observe Fasting. (Ayati 1359/1380, 134)

This statement by *Ja'afar* shows the type of Islamic principles and verdicts that were presented until the sixth year after prophethood.

(c) The inhabitants of *Madinah*, having come to know the new mission of the last Messenger, invited him to migrate to and reside in *Madinah*. Before his acceptance and departure to *Madinah* they signed two contracts with the great Prophet (SAAS) at the location of *Aqabeh*; these are known as the first and second *Aqabeh* contracts. The articles of the memorandums indicate the type of verdicts and Islamic principles presented during the final years of his stay in *Makkah*.

We now offer a brief description of these verdicts and acts of worship:

The Worshipping Commandments

1. To spell out the testimonies of entering into Islam;
2. Performance of ablution;
3. Performing the Prayers.

To enter into Islam, it suffices to have faith in and testify the uniqueness of the Almighty Allah (ST) and accept that Muhammad (SAAS) is the final and last Prophet (SAAS). These decrees, along with the worshipping habits required by the Almighty via prayers and ablution, which is a prerequisite for prayers, were among the initial commandments canonized in *Makkah*. These two testimonies indicate the changes in the new faiths and beliefs of Muslims and the evolution of their thoughts and intrinsic values, where performing prayer for the sake of devotion and one's relationship with the universal Creator, the Almighty, indicate the changes in their behavior and values system.

New Obligations

4. Incumbency of services to parents;
5. Incumbency of being loyal to promises.

These decrees caused the Muslims to become more punctual to and understand their responsibilities and new obligations. On the one hand, the reinforced importance of the household, which is considered to be the focal point and the basic unit of an Islamic society, and, on the other hand, the social and family liabilities are shown to be highly important, and adherence to their fulfilment is considered to be a duty for the Muslims.

Preservation of the Social Coherence

6. Incumbency of defense against heathens;
7. Prohibition of homicide;
8. Prohibition of killing offspring.

In *Makkah*, the Muslims were confronted with both external and internal enemies. To confront the external enemy, defense was made a compulsory duty so that their society was established on security and peace. To eradicate the internal enemy, the customs and the traditions remaining from the time of *Jahiliyyah*, new ordinances were enforced. The most prominent amongst them was safeguarding the honor and reputation of society and putting a ban on manslaughter and murder, which had been a tradition for a very long time for the Arabs, either for wars and civil unrest, or for taking revenge for a member of the family. Killing innocent daughters was yet another inhuman custom which was also banned by one of the new ordinances.

Prevention of Social Degeneration

9. The prohibition of prostitution;
10. The prohibition of oppression.

One of the major factors that leads to the ruin of human society is the presence of oppression, injustice and prostitution. Tyranny and inequality hinders achieving the realization of social justice. The spread of prostitution devastates the integrity of the family and leads to the expansion of corruption in the community. The over-expansion of these two dissonant acts in the *Jahiliyyah* era was the basic reason for the primary commandments

about denouncing these two dishonest acts and the necessity to struggle against them.

Establishment of Social Justice

11. Incumbency of justice;
12. Incumbency of keeping accurate weight and balance in when selling.

Perhaps, the most important mission of the great Messenger was the establishment of justice and equality in human society and the guidance of Muslims towards its achievement. In this way, the observance, practice and prevalence of justice for the Muslims were among the primary guidelines of Islam.

Economic Values

13. The proscription of laying hands on an orphan's property;
14. An obligation to provide for relatives;
15. *Zakat*—a payment made annually on certain kinds of property and used for charitable and religious purposes—is considered as a gracious practice.

The above economic ordinances were canonized in *Makkah*. Although observance of the rights of handling the assets of orphans and taking financial care of close relatives have many educational and divine aspects, we can classify them as the most desirable economic acts of Muslims, and these were notified to them at the beginning of their invitation to Islam.

6 SUMMARY

The objective of this chapter was to show the methods the great Messenger used to take advantage of the prevailing opportunities in *Makkah* when inviting the people into Islam. During this period, almost all the belief-oriented principles of Islamic religion were introduced, and major sections of its decrees and means of worship were taught. The study of this invitation from social, educational and moral angles is more significant than its economic aspects because these behaviors are considered to be the foundations for economic behaviors. The study of converting a *Jahiliyyah-dominated* culture into a theist culture is highly educative when viewed

from these perspectives. However, since the main objective of this book is the analysis of economic matters, we have not discussed the invitation by the Prophet (SAAS) in detail. Rather, we have tried to make the subject more obvious. Despite enormous difficulties, the Messenger attempted to present his mission by introducing its scope and by training a large number of Muslims accordingly. With the help of these trained companions, after migration to *Madinah*, he completed his invitation and laid down the foundations of an Islamic community. In the remainder of the book, we will study the economy of this foundation.

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Migration of the Holy Prophet (SAAS) to *Madinah* and the Formation of an Islamic State

I INTRODUCTION

The great Messenger gradually established the Islamic State and put in place the foundations of an Islamic system, following his migration to *Madinah*. Piecemeal, the dimensions of this system were spread all over the Arabian Peninsula. In this chapter, we will begin the analysis of the formation of this system. Initially, we will study the economic geography of the Peninsula after Islam, and analyze the population data, their income level, and the type of employment and businesses owned by Muslims, in an attempt to gauge the opportunities and difficulties encountered in establishing an Islamic system. Later, we shall study the economic rights and the rules announced or declared by the Holy Prophet (SAAS) in order to assess their effects on initial distribution and redistribution of income, as well as production, exchange and consumption, to find out what the shares of the owners of the factors of production are in relation to the total income generated in the economy. By studying the production and employment opportunities that were made available by the great Messenger for Muslims in *Madinah* and other places in the Islamic homeland, we shall obtain the necessary information for the analysis of economic policies imposed and implemented by His Holiness. The main objective of this chapter is to understand the context, atmosphere and economic possibilities for the Muslims on the basis of which the economic system was consolidated.

2 POST-ISLAM ECONOMY OF THE ARABIAN PENINSULA

2.1 Population

The chroniclers have not reported the numbers of the Muslim population either in the beginning of immigration or in the years that followed; hence, there is no reliable information about the exact number of Muslims that existed. Fortunately, historians have written the number of Muslim fighters in every war that took place. Using these statistics and taking into account the average size of a family, we may estimate the number of Muslims because taking part in the holy wars was mandatory for adult Muslim males and, consequently, all faithful and loyal men took part in the battles. Therefore, the number of men taking part in those encounters can tell us about the total number of Muslims during that time.

Table 3.1 shows the number of Muslim fighters who accompanied the Messenger of Allah (ST) in different battles that took place in the years after migration to *Madinah*. In this table, the number of forces taking part in the Battle of Badr is not a good basis for estimation of the Muslim population in *Madinah*, because the Prophet (SAAS) did not leave *Madinah* with holy war (*jihad*) in his mind and he prevented certain persons from taking part in this conflict (Waqedi 1361/1982, Vol. I, 17). However, the strength of the army in the Battle of *Obod* is a good index, as it was apparent for all the Muslims that the *Quraysh* has come out, heading towards *Madinah*, to take revenge for its defeat in the Battle of *Badr*. In this war, the hypocrites made excuses for not accompanying the Muslim fighters (Waqedi 1361/1982, Vol. I, 159). Their number is estimated to have been equal to the number of remaining Muslim fighters, about 1000 persons. With this in mind, we estimate the number of adults and due number of Muslim men or the number of Muslim households to be 2000 persons.

Table 3.1 Number of Muslim fighters in certain battles and estimates of their population

<i>Battle name</i>	<i>Date</i>	<i>Number of forces</i>	<i>Number of households</i>	<i>Muslim population estimates</i>	<i>Annual growth rate of population</i>
<i>Badr</i>	2nd Hijra	313	—	—	—
<i>Obod</i>	3rd Hijra	1000	2000	12,000	—
<i>Abzab</i> (<i>Khandaq</i>)	5th Hijra	3000	3000	18,000	25
<i>Makkah</i>	8th Hijra	10,000	10,000	60,000	78
<i>Tabook</i>	9th Hijra	30,000	50,000	300,000	200

Table 3.2 Comparative shares of the factors of production

<i>Input</i>	<i>Share</i>	
	<i>Pre-determined amount</i>	<i>Pre-determined share</i>
Labor force	Wages	Income
Management	Salaries	Income
Raw material	Price	Income
Land	Rent	Income (in <i>Mozara'h</i>)
Money capital	–	Income
Capital goods	Rent	–

Source: Seyed Musa Sadr (n.d.), 108–109.

What was the average number of people in a household at that time? Marriages took place at an early age in those days and, normally, boys and girls would be married at the time of their maturity. This fact made the number of smaller households comparatively higher in those days, as these households could have lived in a common shelter with their parents.

Due to the health conditions during those days, infant mortality was high; hence, the percentage of less populated households was comparatively higher. On the other hand, the prominent and wealthy men of a tribe or family had more than one spouse. In this way, there was no scarcity of highly populated families in those days. So, we can assume the average number of each family was between five and seven persons. If the mean of the two is assumed to be six, then the Muslim population in the third year after migration to *Madinah* is estimated to be 12,000 persons, which figure is obtained by multiplication of the mean of six by 2000, the number of men in the Muslim armed forces.

Perhaps, the best index for the population of *Madinah* could be the strength of the forces in the Battle of *Abzab*, which occurred in the fifth year of migration. In that year, almost all the enemies of Islam, including the Jews and the *Quraysh*, were united before taking part in a collective war aimed at invading *Madinah* to destroy the Muslims. The Muslims remained in *Madinah* and dug a big trench all around the city; they took shelter behind it and started to defend themselves (Ayati 1359/1980, 3–352). Due to the big threat facing *Madinah* probably most of the capable men must have taken part in this war. Their number has been estimated at 3000 (Tabari 1362/1983, Vol. 3, 1071). Based on our earlier assumption, the Muslim population must have been around 18,000 at that time. It is not far beyond our expectation that the population of *Madinah*

had a growth rate of 50% in just two years, as the Muslims continually migrated from *Makkah* and other places to *Madinah* after accepting Islam.

In the conquest of *Makkah*, 10,000 Muslim men were dispatched (Waqedi 1362/1983, Vol. 2, 629). Subsequently, in the Battle of *Honayn*, the total number of Muslim fighters, including the newly converted Muslims who migrated from *Makkah*, reached 12,000 men (Ibn-Hesham 1356L/1967, Vol. 2, 292). Therefore, the total number of Muslims from *Madinah* and *Makkah* could be estimated at 72,000 in the eighth year of the migration after the Battle of *Honayn*. Finally, in the ninth year after migration, at least 30,000 participated in the Battle of *Tabook*, although some other historians have reported their number as being as high as 70,000 (Ayati 1359/1980, 586). In this war, the hypocrites intended to cause severe harm to the Messenger of Islam; they deviated from the path at about the half-way point and did not accompany him further. Their numbers, as compared with the stable forces of Islam, is estimated to be considerably high. In this way, the differences in the numbers reported by different historians may be attributed to the differences between the initial participants and the final persons who actually fought in the battles. The number of Muslim households, based on the above assumptions and in accordance with the reports of several historians, was more than 30,000 and less than 70,000. If we take the average number between the two figures we arrive at 50,000 households; hence, we may infer that the Muslim population in the ninth year of the migration was 300,000 persons.

The above estimate, despite having several acute shortcomings, complies sufficiently well with the population estimates obtained from other sources. The number of the Holy Prophet's (SAAS) companions may be considered as one of these sources. *Ibn Hajjar Asqalani* in his book *Al-Esabh Fi Tamiyz es Sahabah*, 3-7¹ has reported the number of his companions to be more than 100,000 persons. By companions, he means the men and women who had faith in the Prophet (SAAS) of Islam and who had the opportunity to hear him, at least for a short period of time, before their death as Muslims.

Most of the tribes and clans residing in the Arabian Peninsula became Muslim after the defeat of the *Quraysh* and the *Makkah* victory. Due to the scattered locations of these tribes and the distance of their residence, or because of their nomadic nature, they customarily only sent the head or the chief of the tribe to visit the Holy Prophet (SAAS) to state their acceptance and faith in Islam, and not the whole tribe (Ayati 1359/1980, 609-642). Hence, one can estimate the number of men, women, young

children and even the slaves who reverted to Islam, but could not visit the Holy Prophet (SAAS), to be twice as many as all the companions. In this way, the total number of Muslims could have been approximately 300,000.

The other historical source is the aggregation of *Hajj* pilgrims at *GhadirKhom* following the performance of the *Hajjatul Wida'* rites; that is, the last *Hajj* pilgrimage that was performed by the Holy Prophet (SAAS). After concluding these *Hajj* rituals and on the way back with the other *Hajj* pilgrims in the eleventh year of migration, he gathered all of them in one place and reiterated the Islamic guidelines to them and reminded all the Muslims about the subrogation of His Holiness Imam Ali (Yaqubi 1338/1959, Vol. I, 508). The congregation of *Hajj* pilgrims in that year has been reported to have been approximately 120,000. In those days, almost all the inhabitants of the Arabian Peninsula had become Muslims, and it was not possible to accommodate more than one third to one half of the population in *Makkah*. The scattered population, the long distances to *Makkah* and the absence of transportation deterred a considerable number of Muslims from taking part in the *Hajj* pilgrimage every year. With these probabilities, the population of Muslims could have been somewhere between 240,000 and 360,000 at that time; the average of these figures equals 300,000 persons.

We have to keep in mind that the above estimate is not free from bias. In the early years of migration, most of the immigrants had left their families behind in *Makkah*; hence, the Muslim population of *Madinah* would be fewer than our estimates. During the final years of migration, especially after conquering *Makkah*, Islam was spreading and growing at an increasing rate all over the Arabian Peninsula. More than 70,000 participants in the Battle of *Tabook* is an indication of this fact. Therefore, the total Muslim population after the *Makkah* victory must have been above the estimates in Table 3.1. Based on the number of fighters in the Battle of *Tabook*, reported as having been 70,000, the Muslim population of that time could be estimated to have been about 420,000 persons. If we assume that the number of the Last Pilgrimage (*Hajjatul-Vida'*) was about one quarter of the Muslims, then their total population might have been 480,000 persons. So, the maximum number of Muslims does not exceed half a million persons.

Using Table 3.1, we can estimate the growth rate of the Muslim population. The percentage rate of growth between the third and fifth year is 50%, or roughly 25% per year. The average rate of population growth for

the years five through to year eight was 78% and, finally, this rate for the period from the eight to the ninth year was, on average, 200% per year. The rapid increase in the number of Muslims in the years was due to the propensity of Arabs towards Islam, and the speedy dissemination of Islam and the collapse of the *Jahiliyyah* system.

The information contained in Table 3.1 is significant from an economic point of view. The growth of the population would imply an increased demand for goods and services. This demand comprises not only basic goods, but also services, including cultural and guidance services—which is the basic objective of an Islamic system. Further, it shows the need for defense and national security requirements. A continuous increase in the population makes circumstances in which to offer work and employment opportunities indispensable. As a result, the supply of goods and services needed and the creation of work and employment opportunities assumed great importance; it is expected that the aggregate supply will offer adequate information about how well these demands were met. The importance of the economic policies of the early Islamic era may be better appreciated after obtaining such information.

Table 3.1 also facilitates the possibility of obtaining a good estimate of the national income during the life span of Muhammad (peace be upon him). Having the household income of those days, we can multiply the number of households by the income data to arrive at the national income estimates of that time.

2.2 *Occupations and Employment*

Madinah, *Tayef*, *Khaybar*, *Honayn*, *Wadi ul Qura* and Yemen were the regions in the Arabian Peninsula that could support agricultural activity due to adequate rainfall. For this reason, cultivation, planting trees and animal husbandry were among the particular activities of the inhabitants of *Madinah*. In other regions, due to high temperatures and sparse rainfall, cultivation did not take place; however, in other scattered valleys and low yielding pastures, it was possible for the other tribes to live nomadic lives and breed livestock.

The main agricultural products of *Madinah* were dates, grapes, figs, wheat and barley. Cultivation of perishable crops and vegetables was also customary here and there. Breeding cows, sheep, camel and horses was yet another economic activity prevailing in those days. However, camels were preferred to other livestock; this was due to the camel's diversified range

of by-products (such as milk, wool, meat) and its ability to feeding on low-grade pastures and tolerance to feed shortage. Furthermore, the camel has various uses in transportation, wars and animal breeding, and, finally, has the benefit of a longer life span compared with other animals. Horses were used mostly in wars for battle and for swift escapes. Sheep were very delicate and cows could not be transferred to mountainous and impassible pastures; also, they could not graze in low-grade meadows.

Commerce was yet another economic activity that was prevalent in *Madinah* before Islam. *Madinah*, being located on the trade route, had created a prime position for its inhabitants. Although, after the migration of Muslims from *Makkah* to *Madinah* and the beginning of hostilities and the *Quraysh* attacks, new obstacles were created to slow down the development of this activity, but there is evidence in hand that commerce continued even after the migration. *Zayd Ibn Haretheh* was one of the merchants who traded between *Sham* and *Madinah* in participation with other *Madani* inhabitants (Ayati 1359/1980, 418). According to *Masoudi*, the basic cause of the *Domatul Jandal* war was the Christian ruler of this region who was a puppet of *Hercul*, the King of Rome. He was a bandit and freebooter who used to stop travelers and merchants on the way to *Madinah* and exacted cruelty on them. Prophet (SAAS) moved to *Domatul Jandal* to get rid of him (Ayati 1359/1980, 348).

The other prevalent business that was important but less popular than commerce was craftsmanship. As reported by *Kattani* (n.d., Vol. II, 103), during the reign of the Messenger a number of people were employed in weaving, sewing, masonry, smithing, leather wear and the utilization of underground water sources.

2.3 *Income*

The income of Muslims in *Makkah*, prior to the migration of the Prophet (SAAS) to *Madinah*, was minimal due to the *Quraysh* hostilities and their economic sanctions. Muslims lived in *She'ib-Abu Talib* for two years under severe sanctions, having no access to external trade and economic relations (Ibn-Hesham 1356L/1937, Vol. I, 220). During the early years of migration to *Madinah*, no significant changes took place in their welfare conditions, because these migrations took place in a way so as not to attract the attention of the *Quraysh* and almost none of the Muslims could carry any valuable stuff with them. Many of the migrants could not bring their families and the new Muslims had to spend their nights

on stone benches built around the mosque, as they had no accommodation of their own (Shahidi 1362/1983, 50). Thanks to the measures adopted by the Holy Prophet (SAAS) for the migrants and all the Muslims of *Madinah* and other locations in the Arabian Peninsula, their living standard had improved remarkably to such an extent that, by the later years of migration, most of the migrants had their own accommodation and good employment, and enjoyed good welfare. This improvement had reached such levels that the payment of *Zakat* was made mandatory for all Muslims (Shehabi 1357/1978, Vol. I, 355). The per capita income of most of the Muslims had grown to such a degree that, in addition to gaining the basic needs for their families, they were able to earn additional income and could afford to pay a part of it as *Zakat*. The families and individuals whose income was below these levels were under the protection of the *Baitul-Mal*; the public treasury. It is apparent that the families having savings at the end of the year were enjoying welfare much above the minimum level. The individuals that had annual savings of more than 20 dinars must have had more income than they needed to fulfill the basic needs of a family, because annual savings above 20 dinars were classified in the groups capable of paying *Zakat*. The household that can save this amount in a year must have at least an average level of income. In fact, the families with an annual saving below 20 dinars must have been in a position to maintain the minimum standard of living, but were below the average income groups. Savings above this level belonged to the individuals or households that had above average income.

Before estimating the average, it must be clarified as to whether it refers to the per capita income, or to the income of a household. The payment of *Zakat* is applicable to any adult person, either a man or a woman. Therefore, the exemption of *Zakat* on coinage indicates the per capita savings level. On the other hand, all the mature and married men were responsible for gaining the basic needs of their families. Hence, their income and savings belonged to their families. As all the employed people were men and since the age of newlyweds was quite low, accordingly, the number of adult and individual persons with positive savings in relation to the number of married individuals was minimal. In this way, 20 dinars annual savings can be considered as the savings of a household.

Now, we have to estimate what level of annual income can result in that amount of savings in a year for a household. Knowing the rate of the average propensity to save, we can estimate the annual income of a household. In the long run, the average propensity to save equals the

marginal propensity to save. The rate of this propensity is normally higher in a developing country compared with a developed country because, in a developing country, the variations in the level of income are higher than a well-developed country and, comparatively, the income earners do face greater changes with respect to their earnings. Due to this risk in the flow of income, the households in an under developed situation save a greater portion of their income and consume a lower portion of it. On the contrary, in a developed economy, due to a lower level of variation, the flow of income is more stable and the people of these countries consume a greater portion of their income and save a lesser portion of it, as compared with the earlier groups (Friedman 1957). In accordance with empirical research, the long-run marginal propensity to consume in developed countries is estimated at around 0.9; this figure for less developed countries equals 0.7 (Branson and Litvack 1976, 314, Branson 1989, 257). Similarly, the marginal propensity to consume out of national income for developed countries is about 0.7, whereas this figure for less developed countries is around 0.5. Since, in the long run the average and marginal propensity to consume are equal, we can infer that the average and marginal propensity to save are also equal to 0.5 in a developing economy. This means that the households consume 50% of the national income and save the other half of it.

As *Zakat* is only applicable to the cash savings of a household and it does not include their gross earnings, the aggregate of the income of households is closer to the national income rather than to the national disposable income. Further, as the early Islamic economy, especially during the period concurrent with the life of the Prophet (SAAS), was a developing economy, we can assume the average rate of propensity to save to be equal to 0.50. With this presumption, the average income of a household is equal to 40 dinars or 400 dirhams.

Now, we have to look into historical evidence to cross-check the accuracy of the estimates. One of the judges appointed by the Prophet (SAAS) was *Attab Ibn Osayd*. His annual salary was set to be 360 dirhams according to one report; there is yet another report that says that his salary was 40 *Uqiyeh*, which was equal to 400 dirhams, provided we calculate the value of the *Uqiyeh* in accordance with the traditional practices, which is 10 dirhams to 1 *Uqiyeh*, and not according to *Shariah* measures, where 1 *Uqiyeh* equals 40 dirhams (Kattani n.d., Vol. I, 264). Ayati (1359/1980, 568) has reported his daily income to be 1 dirham; that is, 360 dirhams per year.

Another test would be to estimate the average income of a keeper of livestock by referring to the rules on *Zakat* for livestock. Such activity, as stated earlier, was one of the most common activities prevailing in the early Islamic era. In a nomadic and rural economy, the medium of exchange is normally in kind, rather than in monetary form, and most of the transactions take the form of barter exchanges. Consequently, the income and savings of the farmers are also in the form of commodities, rather than in cash. This way, we can note that *Zakat* is applicable on most of the agricultural production of fruit and livestock. The threshold for *Zakat* exemption on camels is five, meaning that if a camel owner is producing five camels on public pastures, he must pay *Zakat* on them at the end of the year. However, if he has fewer than five, or if they are fed on private farms or are used for transportation services, he is exempt from *Zakat* payments.

The price of each camel was equal to 10 dinars at the time of the Prophet (SAAS), because the blood money for murder was 1000 dinars or 100 camels (Yaquobi 1338/1959, Vol. I, 328). On the other hand, at the time of distributing the spoils of war, the great Messenger used to equate each camel to ten sheep (Ayati 1359/1980, 407). Therefore, the price of each sheep was equal to 1 dinar or 10 dirhams. Consequently, if the value of camels owned by a livestock keeper reached 500 dirhams, then he was eligible to pay the livestock *Zakat*; otherwise, he would have been exempt. The exemption threshold for *Zakat* for sheep was 40 head (Towzih al-Masael n.d.)². Therefore, if the value of all the sheep of a shepherd at the end of the year reached 400 dirhams, he was required to pay *Zakat*; if his sheep numbered fewer than 40 head, he was exempt from *Zakat*. If owning sheep or camels for a livestock owner were considered as his source of income or wealth, taking into account the types of transaction between livestock owners, no differences are present in the outcome. This is because, at the time of the Prophet (SAAS), if the annual income of a livestock owner was about 400–500 dirhams, then he was required to pay *Zakat*; if the income were less than that, he would have been exempt from livestock *Zakat* payments.

The exemption threshold for *Zakat* on cows was set at 30 head and the price of each cow at that time is estimated at 50 dirhams, if we assume that each cow was worth five sheep. On the contrary, the cost of keeping cows was high when compared with the cost of breeding sheep or camels. Sheep can graze in low-yielding and scattered pastures, whereas cows, due to the structure of their snout, can only graze on high-yielding pastures and, because of their slow movements, they have

to graze on adjacent pastures. For this reason, finding suitable pasture for cows would be comparatively more difficult and costlier than finding grazing for sheep. Camels can live on thorn and brushwood; the animal is also capable of preserving its feed. In this way, they are stronger than sheep and cows, especially at times when grazing is not possible; in addition, the cost of their feeding and nourishment is less than that of cows. Taking into account the production costs of the three different activities on the pastures of the Arabian Peninsula in the early Islamic era, we would observe that the net income of all the livestock keepers was almost equal.

As there are no proper estimates on the prices of wheat, barley, dates and raisins at the time of the Prophet (SAAS), we cannot use the exemption thresholds on *Zakat* payments of these to calculate the average income level of households. Using the information about the tax-levies on wheat fields at the time of the successors of the Prophet (SAAS), we may guess the price of wheat. But this valuation is, at best, an approximation.

The rations that were allotted for the people at the time of the caliphs may be considered as very useful information regarding the income level of the masses. For the Muslims in *Madinah*, *Omar Bin Khattab* allocated varying quotas for the people ranging from 300 to 400 dirhams per year during his caliphate.

Now that we have gathered an impression of the approximate level of per capita income at the time of the great Messenger's successors, it would be an appropriate time to offer some evidence on the purchasing power and the welfare status of consumers. Prices of sheep, cows and camels, as was stated earlier, were 10, 50 and 100 dirhams, respectively (Ayati 1359/1980, 407). It is said that the price of the land purchased for the mosque in *Madinah* was 10 dinars (Ayati 1359/1980, 210). The first group of Muslims migrating from *Makkah* to *Habasha* paid half a dinar as their fare for transportation by vessel (Ayati 1359/1980, 119). It is said that the Prophet (SAAS) sent somebody to purchase a shirt for him. The person went and bought a shirt for 12 dirhams, but the Prophet (SAAS) would not wear that shirt and the man was sent again to purchase a cheaper shirt for 4 dirhams. It is also quoted that Imam Ali (AS) had also bought a shirt for 4 dirhams (Tabarsi 1311/1894). While heading towards the Battle of *Khaybar*, *Abu Abbas*, who was one of the companions of the Prophet (SAAS), complained to him that he had no clothes, no outfit and no sons to bring along with him. The Prophet (SAAS) gave him a piece of clothing which was later on sold for 8 dirhams. *Abu Abbas*

spent 2 dirhams on the purchase of dates for himself and left 2 dirhams for the expenses of his family and bought a papyrus set of clothing for himself (Waqedi 1361/1982, 483).

On one occasion, one of the companions of the Prophet (SAAS) noticed that His Holiness was hungry. He approached a Jewish man and said: "I shall be ready to work for one full day, drawing water from the well, provided that you pay me one kilo of fresh dates" and the Jewish man accepted (Waqedi 1362/1983, 816). During the battle of *Sariyeh Khabt*, *Qays Ibn Saad Ibn Ibadah* purchased five fattened calves and goats, promising to pay two bushels of dates for each one at the end of the battle in *Madinah* (Waqedi 1362/1983, 591). The food provision of *Meqdad Bin Amr* from the Battle of *Khaybar* was 15 bushels of wheat, the sum of which was sold for 1000 dirhams (bid., 529). The food provision for feeding 100 persons was one full camel (Waqedi 1362/1983, 40; Ayati 1359/1980, 400).

The amount of dowry required to marry a Battle of *Badr* martyr's daughter was 200 dirhams (Waqedi, 593). The dowries of the wives and daughters of the Prophet (SAAS) was about 500 dirhams (Tabatabai 1362/1983, 52). The ransom money paid to free the prisoners of the *Quraysh* in the conflict of *Abdulah Bin Jahsh* was 40 *Uquieh* or 1600 *dirhams* (Waqedi, 40). The highest ransom paid to free the *Quraysh* prisoners of *Badr* War was 4000 dirhams (Tabatabai 1362/1983, 106). The ransom paid to free a woman with six children of her own in the conflict of *Bani-Mostalaq* was six camels (Ayati 1359/1980, 413). The Prophet (SAAS) paid six camels as ransom to free the prisoners of the Battle of *Hawazen* (Ayati 1359/1980, 725).

The above information shows that the daily income of a household was 1 dirham. A camel would suffice to feed 100 men, which used to cost 100 dirhams. Therefore, the daily feeding cost per person was 1 dirham, taking into account that the food made from camel meat was considered to be the best food. The daily wages of workers were equal to 1 kilo of fresh dates. Hence, the price of 1 kilo of fresh dates must have been equal to 1 dirham. The price of one shirt varied between 4 and 12 dirhams. One could buy a shirt only after four days of hard work. The price of a piece of land for a mosque was about the total wages of 100 days of work, and the dowry for marrying a spouse was equal to one year's income of the husband.

Yet, from the eighth year of migration, the economic welfare of the Muslims reached such a status that they could pay not only these levels of expenses, but in addition save 200 dirhams on average per annum.

3 FORMATION OF AN ISLAMIC COMMUNITY AND CODIFICATION OF THEIR BASIC RIGHTS

It is obvious that the major motivation for the migration of the Prophet Muhammad (SAAS) to *Madinah* was the establishment of an Islamic community and implementation of Islamic verdicts, rights, conduct and missions. Realization of this objective needed an atmosphere free from wars, killings and inter-tribal clashes. Accordingly, the Prophet (SAAS) utilized the willingness of the inhabitants of *Madinah* to set up a place with such an ethos, wherein he asked all the residents of *Madinah*, including Muslims and Jews, to sign an agreement to this effect.

The articles of this pact, which may be considered as the constitution of the Islamic state of that time, are as follows: (Shahidi 1362/1983, 50–55, author translation).

3.1 *The Basic Articles of an Islamic State Treaty*

3.1.1 *The Community (Ummah)*

1. This treaty is drafted by Mohammad (SAAS) among the believers in God and the Muslims from *Quraysh* and *Yathrib* and all those who follow them or join them and do *Jihad* along with them. They are a unique community, distinct and apart from other people.
2. All those who honor and are faithful to this agreement will be dealt with decently and with full respect. God is behind the one who is loyal to this agreement.
3. This agreement does not support tyrants and sinful persons.

3.1.2 *Dimension and the Limits of the Community*

1. Within the boundaries of *Yathrib* is considered as the homeland for the signatories of this agreement.
2. Those who travel out of *Yathrib* and/or remain therein, will be treated with mercy, provided that they are neither criminals nor tyrants.

3.1.3 *The Community Leadership*

1. Regarding all misunderstandings pertaining to the parties involved in this memorandum especially in situations wherein there are fears of corruption emerging, the judgment is left to God and his Messenger. God would always be closer to those who are most abstemious and virtuous with respect to this agreement.

2. Should there be a cause for differences of opinion and misunderstandings among Muslims, it would be referred to God and the judgment of Muhammad (SAAS).

3.1.4 *The Rights and Obligations of the Community Members*

1. The immigrants from *Quraysb*, in accordance with their customs, may divide blood-money between themselves and similarly they would participate in payments of liberation fees for their fellow tribe-mates who are to be freed.

The clans, the *Bani-Oof*, *Bani-Saedeh*, *Bani-Harethe*, *Bani-Jash*, *Bani-Al-Najjar*, *Bani-Amr-Ibn-e-Oof*, *Bani-Nabiyat*, *Bani-Ows*, and any other clans who have a unique custom among themselves, would pay the blood-money of those killed by them in equal shares and every clan must pay the liberation fee for their prisoners of war observing justice and equity among true believers.

2. They (Muslims and Jews) must fight with those who fight with the signatories of this agreement and be a friend with those who are obedient and well-wishers to this agreement. Honoring the commitments would prevent breaking the promises and agreements.
3. If any person attempts to kill a third party he has exposed himself and his family to death, unless he is oppressed.
4. The right of a neighbor who has not inflicted any losses and not committed any sins is equal to our own rights.

3.1.5 *The Rights of Non-Muslims*

1. Any one of the Jews who follows us without having to bear any oppression or any other person being helped to oppose him will deserve to receive our help and equal treatment.
2. The Jews accompanying the Muslims in the wars would receive alimony.
3. The Jews of the *Bani-Owf* clan are a community who are united with the believers. Jews may follow their own religion and the Muslims would follow their own religion, their mutual interests are left to themselves, unless a person commits a sin and indulges in cruelty that exposes his family and himself to doom. The Jews from the *Bani Al-Najjar* clan would be treated on a par with the Jews of the *Bani-Owf* clan in terms of social rights. The same would apply to the Jews from the *Bani-Haras*, *Bani-Saedeh*, *Bani-Jashm*, *Bani-Ows*, *Bani-Tha'laheh*, *Bani-Shotaibeh*,.... except for the tyrants and oppressors who would lead their people and themselves towards doom.

4. The livelihood of Jews is for the Jews and the livelihood of the Muslims is meant for the Muslims.

3.1.6 *The Rights of Muslims*

1. The believers are distinct from the people but are like unto one another.
2. No believer would kill another believer for the cause of the blood of a pagan, and he may not help a pagan against a believer.
3. Reconciliation with the believers is one for all; that is, peace with one believer must be accepted by all the other believers, and at times of war for the sake of God, it is not possible to be in peace with one of the believers and not with the others. Instead, justice based peace must be observed by all. Those who would fight along with us will be replaced by another group of fighters.
4. The conventions which are for the sake of God alone are acceptable and obeyed by all and if the least person among Muslims provides safety and shelter to some other person, then everybody would accept him.
5. The abstemious believers would be united against a person who intends to do cruelty or those who pursue tyranny, sinful deeds and corruption among the Muslims, even in cases where the oppressor or invader proves to be their children.
6. If any person kills an innocent believer and if this murder is positively proved, then a nemesis must be applied on him for this killing, except for cases where the consent of the parents is obtained. All the believers would be against this killer and no other action is recommended for them.
7. Any believer who agrees and abides by this convention and believes in God and the Day of Judgment would not help a person who commits an ugly act, neither should he be provided with a shelter and safety. The one who helps such a person or provides him with a shelter must bear the most severe curse and anger of God until the Day of Judgment. Such people who have committed the most obscene crimes shall not be allowed to make payments to the public treasury, either in kind or in money.

3.1.7 *Dealing with the Quraysh*

1. Neither the people of *Quraysh* nor the persons assisting the *Quraysh* would be given amnesty. We have to fight against those who suddenly march into *Yathrib* and, if they seek peace, we would reconcile with them; if they do so, the acceptance of peace becomes an

obligation for the true believers in God, except with a person who is determined to combat the religion.

2. No believer shall accept for safekeeping an asset or a human being from the *Quraysh*, as they cannot act as buffers between them and the believers.

This convention was the first of its kind to be signed after the migration of the Prophet (SAAS) at a time when most of the Islamic verdicts were not yet canonized. However, the Messenger took the opportunity to create the ethos needed to establish an Islamic society. In this convention, the first step is to define and specify the Islamic community which includes the Muslims, whether *Muhajirin* or *Ansar*, and the non-Muslims of *Madinah*. The Jews who signed this convention were considered as a part of the community along with the Muslims. They are one nation, apart and distinct from other people. Membership of this community made the generations of *Quraysh*, *Ows* and *Khazraj* come closer and leave aside the tribal discrimination among them.³ It also helped to enhance friendship and trust, and created the opportunity for cooperation and partnerships between them. The only area for disparity and discrimination among the Muslim community was that they would not support any wicked and oppressive person. Besides, pietism and virtue is the main cause of dignity and human values among the members of this community, where cruelty and abstinence from justice brings scorn and humility.

Later, the Prophet (SAAS) set the domain of this community, and declared as a sanctuary as has been the case in *Makkah* to prevent murder and massacre there, and bring in social and political security.

Ultimately, the leadership of this community was assumed by the Prophet (SAAS) himself, so that he could guide them towards the goals and ideals of Islam in order to replace the older beliefs from the *Jahiliyyah* era with Islamic values. In the meantime, the non-Muslims were free to follow and observe the verdicts and judicial rules of their own religion. Similarly, their own past customs and traditions, as well as the traditions of other Muslim clans that could reduce tensions and disparities and could help compensate for the decrements between them, were honored and were an applicable obligation in the society. The analysis of different articles under the headings of the rights and obligation of community, in addition to the clauses on the rights of Muslims and non-Muslims, are perfectly indicative of the fact that the Prophet (SAAS) of Islam was striving to transform the old *Jahiliyyah* culture into the Islamic value system. Despite all the prevailing difficulties in *Makkah*, the Prophet (SAAS) announced a large number of the principles

and Islamic attitudes, and trained many people based on the Islamic values and worldviews. Now, having trained the parties, and by approval of this convention, His Holiness built up an Islamic society. He started the development of this society with a community who were not unanimously Muslims, but who were freely determined to achieve emancipation from *Jabiliyyah*.

The necessary condition for formation of this system, as stated earlier, was the presence of political, social, judicial and defensive security. To strengthen the defensive power and to maintain security against the invasion and attacks of the *Quraysh*, one of the commitments of this convention was specified as defense against the *Quraysh* and implementation of a fully-fledged sanction against them by the Prophet (SAAS) himself. The *Quraysh* hazards and dangers threatening the new community were to be understood and it was necessary for the public to face them. Declaration of this danger helps understand its causes and makes it easier to believe the risks involved and become ready to make sacrifices when confronted with them. Acceptance of the convention prevents the Jews of *Madinah* from cooperating with the *Quraysh*. On the other hand, taking part in defense action makes them eligible to share the facilities on a par with Muslims. In the Battle of *Khaybar*, his honor set aside equal shares for Muslims and ten of his Jewish companions (Waqedi, 522).

3.2 *Economic Rights*

The basic Islamic thoughts were mostly presented in *Makkah*, and the civil and the judicial verdicts were imparted in *Madinah*. The verses and verdicts on the rights of ownership, utilization and transaction were issued gradually until the eleventh year after the migration of the Prophet Muhammad (SAAS) to *Madinah*. Since all of these verdicts are explained in great detail by the books on Islamic judiciary, we are going to address them here in brief and mostly concentrate on their effects on primary wealth distribution, the privileges of the owners of factors of production in sharing the output generated by them, and the priorities given to society as compared with individuals. The verdicts on transactions and their effect on exchanges are discussed with the subjects closely related to the markets, dealt with in Chap. 7.

3.2.1 *Ownership of Natural Resources*

In the early Islamic era, the rights of land ownership were primarily obtained through the acceptance of Islam. The ownership rights of people who went on research and analysis, having completed a careful study and

having obtained information about the Islamic religion and then accepted Islam, were recognized; whatever they owned, including movables and plots of land, became their own private property (Sadr 1969, 422). When a peace agreement was reached between non-Muslims and Muslims, without confrontation or after it, the ownership rights, privileges and obligations were determined by the peace contract. (Sadr 1969, 423). Normally, in these cases the land remained under the ownership of non-Muslims and their rights of ownership were recognized. In some cases, there used to be small surcharges levied on the land. However, the size of land ownership appropriated by these rules and the lands under private ownership of individuals was very small compared with the other types of ownership.

After the declaration of Islam, the pagans and non-believers of the Arabian Peninsula who did not accept Islam and tried to massacre the Muslims (such as during the Battles of *Ohod* and *Abzab*), or when they planned the assassination of the Prophet (SAAS) and the killing of the Muslims (such as in the Battle of *Bani-Nadzeer*, but where they were defeated in the battleground), their lands would be confiscated in the interest of all Muslims. These lands were called “*Maftuh ul Anwah*” or “*Faya*”. Most of the lands that were held by the Muslims, especially at the time of the rule of the caliphs, were of this type.

If during the uprising against the non-believers Muslims were victorious without fighting and killing (such as in the Battle of *Khaybar* in which the *Fadak* castle was handed over to the Muslim fighters by the Jews themselves), the land was handed over to the Prophet (SAAS) as the head of the Islamic state. The lands that were gained in this manner were called as “*Anfal*”. It may be added that *Anfal* included properties such as land with no identified owners and also barren land.

The ratio of total land under private ownership to other lands was minimal, because most of the people who had come and believed in Islam were the landless poor people with no wealth or assets. The only well-off group who became Muslims was the *Ansar*. The tribes who had become Muslims after the conquest of *Makkah* were mostly nomads and had no arable lands. It is clear that the ratio of valuable lands located in *Madinah* to all the lands of Arabian Peninsula was negligible.

The study of wars and clashes, some of which were headed by the Prophet (SAAS) himself, shows that a major part of war trophies obtained by the Muslims including the agricultural lands were governed by the verdict of “*Maftuh ul Anwah*”.⁴ In this regard, it is clear that the primary distribution of wealth in the form of land took place in favor of

the public sector during the early Islamic era; meaning that most of the agricultural land, gardens and barren land was either handed over to the Muslim communities or their proprietorship was given to the state. Only a small part of it was allocated for the private acquisition of the individuals, either directly or under the terms of a peace agreement.

The water supply for agricultural land, especially in the dry region, was of prime importance. In accordance with Islamic rulings, all the surface and underground water resources are considered as public property and as belonging to all members of society. Hence, the distribution of land and water has been in favor of society since the early Islamic times. Mines are included in the rule of *Anfal* and come under the ownership of the Islamic government (Sadr 1969, 421). Forests, pastures, fisheries and environmental resources are also either included in *Anfal* or are common property. Therefore, no individual, no group of people or corporation can monopolize them. Taking into account the rules on the ownership of natural resources in Islam, we can observe that the distribution of natural wealth which is the source of creating productive capital is legislated by Islamic laws in such a way that no single person or group of people receives any extraordinary privileges, and most of them remain under public ownership and are state-owned.

3.2.2 *Methods of Utilization*

Now, let us examine the legal privileges attached to the ownership or utilization rights of natural resources. The resources that are in the form of *Anfal* (i.e., unfertile and barren lands) plus the mines, if rehabilitated, shall be owned (Mohaqqiq Helli 1343/1964) or the right to use may be obtained (Sadr 1969) by the developer. By rehabilitation, we mean to upgrade and bring the quality of the land or mine into a condition where its yield would equal the average produce of the adjacent lands or mines. The difference between use and the right to ownership could be discerned in the event that the developer stops using the property. For someone who hold a use right, the rights dissipate and another party may take over the land to redevelop it. However, if the developer obtains ownership rights, then his rights may not be revoked. In the former case, as long as the user continues his production efforts, there is no significant difference between the two types of land tenure. Either right can be transferred or inherited.

The initial stages of rehabilitation are called "*Tahjeer*", which includes identifying the boundaries of the land and erecting boundaries around the plot plus tabulation, leveling, and so on. *Tahjeer* would only expedite

priorities for renovation (Sadr 1969, 657). In the event of leaving the land, the right of *Tahjeer* will be lost.

Another form of obtaining the right of access to renewable natural resources is by way of “*Hyazat*” (Sadr 1969, 663, 673). This right is accessed by: digging a well, draining water from a river through a stream, fishing, hunting; the extractor obtains the ownership rights to the water drained, fish caught and animals hunted. If, due to an increase in the population, there arises congestion and external cost among the users, the Islamic government would impose regulations to preserve the resource. It is apparent that, at the time of the Prophet (SAAS), due to the small number of Muslims, there was no overuse of resources and all were free to indulge in the reclamation of land and the tapping of natural resources.

The right that is secured by rehabilitation or accessibility is attributed to the labor force or managers who initiate the project. The owners of the capital instruments are eligible only to the rentals for their capital goods (Sadr 1969, 557). Therefore, the verdicts on the method of legal utilization of natural resources is set in such a way that the owners of the labor force are given special advantages compared with the owners of other factors of production. These advantages would result in the redistribution of natural resources as an outcome of reclamation and accession in favor of the labor force. In the early Islamic era, there were adequate opportunities and facilities for development of natural resources for the workers. Hence, whoever worked more and applied greater efforts would gain more development rights. These privileges would, besides maintaining the distribution of justice, induce greater efforts by the labor force which subsequently would generate more growth and development for society.

One of the main reasons for a rapid development of the Islamic community in the post-immigration period may have been this type of advantage and the evolution of the legal system in the Arabian Peninsula.

3.2.3 *The Shares of the Owners of Factors of Production*

There are several methods of redistribution of income generated in the process of production or exchange in addition to rehabilitation and accessing activities. Among them, we may refer to *Mozaraah*, *Mosaqat*, *Mudharabah* and sales and rental contracts. In the first three modes of participation, initially the revived land, garden and the cash capital are combined with labor in a participation contract for cultivation or joint ventures, respectively. The outcome is divided between the owners of the land, capital and labor force in accordance with the terms of the

participation contract. In the contract for a lease, the labor force and the capital goods are hired for a pre-determined wage or rental for a specific period of time (Table 3.2).

3.2.4 *The Rights of Muslims and Non-Muslims*

The ownership rights and methods of utilization, plus the ways in which owners of factors of production share their produce, as was discussed earlier, belong to all the individuals living in an Islamic society; they are not meant exclusively for the Muslims. Therefore, non-Muslims also have rights for “*Ibia*” or reclamation and “*Hyazat*” or access if they choose to be involved in such activities. They can reap the benefits of exchange and partnerships on a par with the Muslims. In other words, considering the aforesaid economic rights, there are no differences between the Muslims and the others. In the criminal penal cases, they shall be treated by the verdicts of their own religions. The convention that was reached in *Madinah* recognized this right and made it a convention.

3.2.5 *The Priority of the Social Benefits over Individual Benefits*

Besides the said rights, the Prophet (SAAS) introduced certain rules that would guarantee and safeguard the interests of the society, whenever there are conflicts between individual interests and those of the society. Some of these rules are as follows:

No Wastage

In Islam, all the rights obtained through the above-mentioned methods are respected and are considered as legal, and no entity has the authority to nullify them or put them into loss. Similarly, no one is allowed to use an instrument that causes a nuisance to others. If any person does so, he has to bear the losses and pay compensation for the costs incurred. These two principles, which are known as the principles of no-wastage and no causation of damage, can protect the economic interests of society and generate a firm foundation for the promotion of economic activities.

A commodity becomes spoiled and wasted if its marginal benefit for the owner declines to zero, whereas, it may have a positive benefit for society. For example, when someone disposes of his clothes, it is said that he has wasted them; because although wearing them may not be of any use to the owner, he could have given them to some needy person, or he could have used them for some other purpose. In this case, the marginal benefit

of the clothes has dropped to zero, whereas the marginal benefit for society is still positive; since that cloth is useable in some way or another. In this way, a production factor becomes spoiled and is wasted if its private marginal value declines to zero where the same value for society is greater than zero.

No Extravagance

Extravagance in an economic activity means an overreaction and passing from a median and normal behavior, either in consumption or in production activities. In over 25 verses of the Holy Qur'an, the act of extravagance and lavishness is denounced. The Holy Prophet (SAAS) and the Commander of the Believers also frowned on and prohibited people from becoming involved in extravagance.

Ahmad Naraqī (n.d.) has extensively dealt with the phenomenon of lavishness and takes into account all Qur'anic verses, and the quotations that are received from our reverend Imams. Furthermore, he touches on the definitions and practical examples of extravagance, the status of moderateness and having balanced behaviors, the quality of not being extravagant and of being benevolent and philanthropic

Extravagance takes place whenever the marginal benefit obtained from the consumption of a commodity for an individual is smaller when compared with that of society, or the value of the marginal product of an input is less than its value for society. As long as the difference between the private marginal benefit and the social benefit is widened, there is bound to be more extravagance occurring in society. The highest level of extravagance is wastage, wherein the marginal benefit of the goods or the marginal value of an input for an individual equals zero.

The prohibition of prodigality induces producers and consumers to consider the benefits and costs of their decisions to society, rather than their own benefits and costs.

No External Cost

Among the rules and verdicts that were introduced and imposed by the Prophet (SAAS) on ownership rights and methods of utilization was deterrence from misuse of these rights so that no third party would be forced to bear any losses. The date of issue of this verdict goes back to a

time when one of the *Ansars* made a complaint to the Prophet (SAAS) about a person known as “*Samorat ibn Jondab*” who used to enter the house of this *Ansar* without permission to do so. He possessed a palm tree located inside the house of this *Ansar* and used to enter the house with the justification that he wants to look after his tree. The house owner had requested him to notify him before entrance, but he declined and would not do so.

The Prophet (SAAS) summoned *Samora* and proposed the purchase his palm tree, but he refused to sell it. The Messenger then asked him to exchange his tree for ten other palm trees, which offer was again rejected by *Samora*. At last, the Prophet (SAAS) proposed exchanging his tree with another palm tree right inside Heaven, but *Samora* kept on rejecting all the proposals. Then the Prophet (SAAS) of Allah (ST) said to him: “*You are a loss inflicting man, and there shall be no losses in Islam nor any one imposing losses on others.*” Finally, he ordered the house-owner to uproot the tree and throw it in front of *Samora* to take it to any place of his choice for re-planting (Naraqī n.d., Sobhani i382L/1962, Vol. 3, 75; Shahabi 1330/1951).

The inferences made from this rule by most of the judicial scholars is that there should be no permission given to anybody to inflict losses in productive or any other legal activities on others. Possibly the loss inflicting unit or person must stop his activity, or transfer it to a place where no one will be disturbed. Otherwise, the losses must be compensated to the losing party.

By this rule, we can conclude that the marginal cost of an economic activity for an individual must be equal to the marginal cost of the same economic activity for society. Compliance with this principle prevents the forbearance of certain direct and indirect costs of certain economic activities by others. In other words, implementation of this principle internalizes all the direct and indirect costs, as well as the benefits, of an economic activity in a particular unit.

No Worthless Earnings⁵

Ownership rights must be obtained by the standards and values declared by Islamic verdicts. The activities which are oriented in this direction, which can create economic rights, are considered as “Decent Deeds” in the Holy Qur’an. Conversely, illegal income earned by indulging in usury,

theft, aggression and unlawful transactions is denounced and prohibited by the Holy Qur'an (*Baqara* 2/188).

The marginal benefit of committing these deeds is zero or negative for society, whereas their marginal cost is positive. Since these activities do not add up to the aggregate output in the economy, they cannot increase the welfare of society and, at the same time, they may lead to deterioration in the standard of living in the society; hence, they were denounced by the Prophet (SAAS) of Islam. We observe that this principle also places a higher priority on social interests as compared with individual benefits.

Prevention of System Distortions

The commission of or dissuading from a policy or any activity that causes major disturbances in maintaining law and order in society is considered as unlawful. This prohibition guarantees the maintenance of social independence and prevents weakening of the state. One evidence of system collapse may be seen by observing disturbances in society as a result of the application of a permitted activity that would lead to chaos and distress to the people. For example, the freedom for utilization of common property resources is a permitted right for all individuals of an Islamic community. However, with an increasing population, implementing this rule may lead to the total destruction of these resources, such as pastures and fisheries, due to over utilization.

Since freedom of use may lead to disturbances and the final collapse of the economy, this freedom becomes limited until the utilization of such resources becomes optimal. In the words of the judicial thinkers, we have to create a secondary title for a primary right, the enforcement of which may result in the collapse and total bankruptcy in the economy.

4 PROVISIONS OF PRODUCTION FACILITIES AND EMPLOYMENT OPPORTUNITIES

Allocation of ownership and utilization rights to economic activities must be supported by the supply of means and the working tools for the labor force or the human capital of Muslims. The Prophet's (SAAS) measures and deeds were totally oriented towards procurement of production facilities for them. To this effect, His Holiness, on one the hand, tried to increase the level of income generation and production possibilities of the

workers, and on the other hand tried to prevent the possible monopolies and trusts in economic activities.

Eight months after having arrived in *Madinah*, the Prophet (SAAS) convened brotherhood and guardianship contracts among 90–100 persons from the *Ansar* and *Muhajerin* (Ayati 1359/1980, 216). This contract, as with the other agreements that include certain liabilities for the signatories of the contract, contained rights and liabilities for the two brothers (Faiz Kashani 1340/1951, 318–333). Each of the *Ansar* men was obliged to accept partnership with his *Muhajer* brother in his assets and belongings, and they had to look after the materialization of their needs as a duty. The two brothers had inheritance rights from each other until after the Battle of *Badr* (Ayati 1359/1980, 219) and through the revelation of a Qur'anic verse (*Abzab* 33/6), that verdict was discontinued (Waqedi, Vol. I, 103). The other rights and duties of the two brothers were to stay loyal to each other, be sincere and to overlook the misdeeds of one another. At the same time, since the *Muhajerin* were better acquainted with Islam, they were to teach the Islamic values to the *Ansars*.

The first step taken by the Prophet (SAAS) in the field of production and employment in *Madinah* was to encourage the *Ansars* and *Muhajer* to enter into *Mozara'b* and *Mosaqat* contracts with each other. At the beginning of the migration, the *Ansars* were owners of the farms and gardens in *Madinah* and they had the intention of donating half of their properties and belongings to the *Muhajerin*. The Prophet (SAAS) advised, instead, that they make crop sharing arrangements with them (Ahmadi 1361/1982, Vol. 2, 105). This advice of the Prophet (SAAS) helped the expansion of productive activities, the employment of *Muhajerin* labor forces and enhancement of the productivity of *Ansar* lands.

Further, this policy improved the willingness for cooperation among the *Ansar* and *Muhajerin* groups; it strengthened the sense of security and stability regarding ownership rights, and increased the national income in the Muslim community. It has been reported that the sharing of the output of *Mozarah* and *Mosaqat* contracts was half-and-half. Considering the fact that there was an abundant *Muhajerin* labor force in relation to the land under cultivation, and a lack of skills available from the latter workers in agricultural activities, the share of the landlords must have been much higher than the share of the workers. Still, the *Ansar* group let the *Muhajerin* have equal shares in the crops. Due to this fact, not only was the national income increased, but also the income of society was optimally distributed.

As a bonus of this policy, the *Muhajerin* gradually gained agricultural knowledge and acquired better skills in the fields besides their own commercial capabilities.

In the fourth year of the migration, because of such training, the fields and gardens that were taken as booty from the *Bani-Nazir* tribe were divided among the *Muhajerin* and two poor persons from the *Ansar* (Yaqoubi 1338/1959, 409). The said tribe, in that year, had broken their contract with the Prophet (SAAS) and plotted a conspiracy to kill His Holiness. Fortunately, their insidious plan came to light and, since they were unable to resist, they preferred to surrender and go into exile instead of having a confrontation with the Muslims. The remaining land and fields were divided, according to a proposal by the *Ansar*, between the *Muhajerin* and two poor *Ansar* persons. (Waqedi 1361/1982, Vol. I, 281). This action also helped increase the level of employment and aggregate supply in the Muslim community, enhanced the overall social welfare and resulted in a better redistribution of national product.

Yet another action of the Prophet (SAAS) which was implemented after migration to *Madinah* was the allotment of land among the *Muhajerin* for building their houses. This land allotment⁶ accelerated the momentum for development among the Muslims; at the same time, it provided a housing service for the *Muhajerin* as one of their basic needs (Kattani n.d., Vol. I, 281–282).

The production of tools and equipment for agricultural activities, construction and even for the manufacturing of weapons created demand for raw material and the related technical know-how. The required raw material was excavated from the natural resources which were known as “*Anfal*”. The skills for the production of tools and equipment were known by the craftsmen because, first, these technologies were unknown at the time in *Madinah*. Second, the Prophet (SAAS) and the four caliphs continually invited craftsmen to *Madinah* to give training in new technologies and the application of their latest advancements. This subject will be dealt with in great detail when we take on the subject of the public treasury, and it will be shown that, due to policies adopted by the Prophet (SAAS) and his successors, the technologies and the know-how were never monopolized by a particular person or group of people. Hence, almost all the potential obstacles that could have created hindrances to production by way of monopolization of technologies or the factors of production were removed by the Prophet (SAAS).

The traders used to import certain merchandise, including working tools and weaponry for war. This trade was under the monopoly of the

Quraysh clan at the time of the migration of Muslims to *Madinah*. To break this monopoly, the Prophet (SAAS) initially tried to destabilize the trade route used by the *Quraysh*. Later on, the Battle of *Badr* was started with this objective. When the *Quraysh* became aware of this fact, they selected an alternative trade route that used to pass through Iraq. The Prophet (SAAS) sent another group to encounter them. Almost all the heads of the *Quraysh* escaped and only one or two men were captured. They brought the caravan to the Prophet (SAAS) and he took its *Khums* (one-fifth), which was about 20,000 dirhams and divided the rest among the members of the army (Waqedi 1361/1982, 143–144). Waqedi, in a description of the Battle of *Qordeh*, which was headed by *Zaid Bin Haretheb* and took place in the 28th month after the migration, writes: “The *Quraysh* clan who were traders, were afraid of crossing the *Sham* route, because they were scared of the Messenger of God and his followers. *Saffwan ibn Omaiyeh*, one of the *Quraysh* traders, had been quoted as saying: “Mohammad (SAAS) and his followers have blocked our way and we do not know what to do with them. They are not leaving the seaside road. In addition, all the inhabitants of the seacoast region have joined hands with them, leaving no option for us. If we are to stay in *Makkah* and use our capital, there is no scope for our business over there, we have to use our capital in commerce and trade, having summer time business in trades with *Sham* and winter time business with *Habasha*” (Waqedi 1361/1982, 143).

Normally, the *Quraysh* had a return of 1 dinar over a single dinar brought into trade. The marketplace of their trade in *Sham* was the city of *Ghazzah* (Waqedi 1361/1982, 145). It is said that their trade caravan had capital of over 50,000 dinars at the time of the Battle of *Badr* (Waqedi 1361/1982, 143).

The Prophet (SAAS) facilitated the required capital for trade by way of a *Mudharebah* contract for the Muslims and provided the means of transportation, which was camels. By dividing the camels obtained in different wars, their number had kept on increasing; in the Battle of *Honain* alone 24,000 camels were taken as booty from enemies. As a bonus result of the adopted policies—such as the encouragement of business and trade, and the uplifting of the financial power of the Muslims)—the Prophet (SAAS) succeeded in breaking the trade monopoly of the *Quraysh*, and concurrently paved the way for the procurement of tools and equipment for craftsmen and peasants, rendering them self-sufficient and self-reliant.

The booty obtained during several wars was one of the major sources of the supply of income and earnings for the Muslims. From the second

year after migration and the Battle of *Badr*, when the verses on *Khums* and war booty were written, the Messenger used to set aside the *Khums* of war booty and divide the remainder between the fighting members of the army at each war (Shehabi 1357/1978, 218–235). The booty gained was one of the main sources with which to provide weaponry for the Muslims, and also one of the most important sources of supplies for the requirements of their livelihoods, especially during the initial period of immigration to *Madinah*. From the bonus of war booty gained at *Badr* and *Bani Nadzir* the standard of living of the Muslims improved considerably (Waqedi 1361/1982, 19, 281). The importance of war booty was such that the verses on *Khums* were received in the second year after migration, whereas, *Zakat* and *Jazieh*, two other sources of public treasury, were canonized in the eighth year after immigration (Shehabi 1357/1978; Bazargan 1355/1976). According to Ayati (1359/1980, 272) the assets and belongings of *Bani-Qinoga* were divided after taking away its *Khums* in the second year after immigration.

The income received by way of *Khums*, *Zakat*, *Kharaj*, and so on had reached such levels that the Prophet (SAAS) could make the payments from these sources not only for the salaries of all the personnel of the public treasury, but also the persons and missions sent elsewhere. A detailed description of the sources of the public treasury will be given in Chap. 5. The point that may be concluded from the abundance of the sources of these receipts is the enhanced level of income earned by the Muslims during the later years of immigration and the improvement of their standard of living and welfare thanks to the fruitful policies adopted by the Prophet (SAAS) Muhammad (SAAS).

5 SUMMARY

This chapter started by investigating how the Prophet (SAAS) of Islam built an Islamic community and a flourishing economy in a very short period of time in the Arabian Peninsula in the absence of a favorable natural environment and resources. To this end, first, the chapter surveyed the economic geography of the region at the time and estimated the size and growth rate of the population, the employment opportunities, and household and national income levels. The formation of an Islamic community in Arabia was reviewed, next, by discussing citizenship's rules and rights that were legislated for the members of the community, with special focus on the rights of Muslims versus non-Muslims, and private and

social rights. The result was a nation free to follow its religious beliefs and practices, and one that granted equality in terms of economic rights, privileges and obligations. While natural wealth belonged to the public and the state initially, entrepreneurs from all religions, races and genders had the opportunity to develop alternative available renewable and non-renewable natural resources. The income generated was distributed among participating production factors with labor having priority in ownership and usufruct rights. The right of society and the environment were secured and preserved by rules against waste, extravagance, external cost and congestion. Finally, the chapter assessed the effects of the Prophet (SAAS)'s innovative policies and measures, and their impact on the growth of the economy and welfare of the individuals and the community.

The legal, social and economic institutions that coordinated public affairs in the new Islamic state established social justice, and provided political freedom and equal economic opportunities for all members. In addition to the reviewed distribution and redistribution rights which ensured economic justice in the early Islamic economy, the institution of the *Baitul Mal* treasury and the amendment of market transactions had favorable impacts. The rest of the chapters of this book will describe the role and performance of these important economic institutions.

NOTES

1. الاصابه فى تمييز الصحابه.
2. All the applied religious rituals and practices in this book are in accordance with the last verdicts by the religious leaders and authorities.
3. The *Quraysh* were decedents of *Adnan* and inhabitants of *Yathrib* were that of *Qabtan*. This racial difference was a source of pride and dispute among them.
4. مفتوح العنوه.
5. عدم اكل المال بالباطل.
6. اقطاع الدور.

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PART II

Public Treasury and Public Finance

The Public Treasury (*Baitul Mal*) and the Governing System

1 INTRODUCTION

Having described the constitution of the early Islamic community and the rights of citizens in Chap. 3, it is important to present the social and economic institutions in both the public and private sectors of the economy that were crucial to the realization of these rights and to the achievement of felicity and equity. In this regard, the *Baitul Mal* (or public treasury) was the most important economic institution innovated by the Holy Prophet Muhammad (SAWAWS) and further developed by his successors. This chapter reports the process of the establishment of the *Baitul Mal* and its organizational change. The characteristics of the institution's revenues and expenditures will be discussed in subsequent chapters. What is most important for an Islamic economy is the form of the government and the type of leadership exercised by the Governor of the *Baitul Mal*, in order to achieve the objectives set by the Holy Qur'an and the Messenger of Allah (ST). Therefore, this chapter aims to deduce and present the mission and duties of public authorities in the fulfillment of these ideals. The orders, directives and guidelines that the Commander of the Believers iterated to *Malik Ashtar*, as part of his mandate as the Governor of Egypt, offer the most comprehensive available source, which has deliberated over the aims and the duties of Governors in Islam and their interaction with different groups in the community. Thus, a major part of this chapter is devoted to its analysis. Furthermore, this chapter, it is hoped, will present a model

of Islamic government and its interaction with citizens by examining the institution of the *Baitul Mal* and the structural changes it underwent after the demise of the Prophet (SAAS) for the purpose of the efficient provision of public services and better interaction with the private sector.

2 ESTABLISHMENT AND ORGANIZATION OF THE *BAITUL MAL*

The *Baitul Mal* is an outlet for the placement of funds where the revenues collected by an Islamic government are accumulated to be spent later on specific expenditures. The revenues collected by the Islamic government in the early Islamic era were mostly by way of tax collections, including *Khums*, *Zakat*, *Kharaj* and *Jizyah*. The magnitude and basis for the imposition of these taxes, which will be explained in detail later in this chapter, were determined by the revelations or by the Holy Prophet himself. The disbursements of these taxes were also set either by the Holy Qur'an or by order of his Holiness, the Messenger of God. The first type of Islamic tax was *Khums*, which was canonized in the second year after immigration. In the seventh year after the migration, *Kharaj* was introduced, and in the eighth year, payment of *Zakat* became obligatory which prior to that date had been optional. Finally, *Jizyah* was introduced in the seventh or eighth year after the migration (Shehabi 1357/1976, Vol. I; Ejtehadi 1350/1971, 187).

The center for collection and disbursement of taxes was a mosque which was built by His Holiness after the migration to *Madinah*; it was meant for worship and the assembly of the people, and as a place for consultations with the masses.

At the beginning of the migration, the collection of revenues was undertaken by some of the followers of the Prophet who had also been deputized for the propagation of Islam. But, as the territorial dominance of the Islamic state was expanding, these responsibilities were separated and the number of financial commissioners continued to increase. *Abmmadi Miyanaji* (1339/1960, 1362/1983), in several sources, cites many pieces of evidence concerning the fact that the Messenger had specially designated collectors for the collection of *Khums* and *Zakat*. We will name some of these collectors in the following discussions. Similarly, some of the cultural and reformist envoys of the Prophet will also be named.

The salaries of these envoys and the salary of *Attab Bin Osaid*, who had also been nominated as a Judge by His Holiness, as mentioned earlier, was paid out of the *Baitul Mal*.

In addition to the commissioners, the Prophet, for the efficient administration of his state, appointed several clerks and secretaries during the period in which he headed the Islamic state. The number of these officers is quoted as being 26 people and they were divided into four different groups:

- (a) Registrars for the registration of Qur'anic;
- (b) Registrars for the registration of letters and envoys;
- (c) Registrars for the registration of peace and agreement contracts; and
- (d) Registrars for the registration of members of the army.

(Al-Kattani *n.d.*, Vol. I, 114–123, 220–241; Tabari 1362/1983, Vol. IV, 1303; Baladzori 1978, 382–385; Halabi 1980, 423). *Balal* was appointed by the Messenger of God to look after the well-being and livelihood of the poorer classes and the wretched, and to procure foodstuffs and clothes for the needy approaching His Holiness. *Balal* had prior instructions to borrow in the event of having insufficient budget to resolve the difficulties of the poorer groups (Al-Kattani *n.d.*, Vol. I, 441–442). Many years after the migration, quite a large number of Arabian tribes had accepted Islam and sent special envoys to His Holiness on their behalf. The great Messenger gifted many of them with valuable presents and grants. This responsibility was also left to *Balal* (Ayati 1359/1980, 609–642). The above information indicates that the *Baitul Mal* was established by the Holy Prophet. The organization of the *Baitul Mal*, as with the organization of other sectors, was highly flexible with no bureaucracy, and it was located in *Masji-un-Nabi*. All the payments and disbursements of the treasury were undertaken by the Prophet almost daily and no funds were retained undivided in the *Baitul Mal* (Abu Obaid 1388L/1968, 373–376).

At the time of *Abu Bakr*, no changes were made to the organization of the *Baitul Mal* but, at the time of *Omar*, because of the enormous conquests of the Muslims and increasing revenues received as *Kharaj* (land levies) on those conquered lands, the fiscal structure underwent considerable change. *Omar* appointed a number of Iranian managers and book-keepers to devise the official structure of the *Baitul-Mal*. As has been narrated by *Ali ibn Toqtoqa* (1360/1981, 112–114), these changes were made by *Omar* on the basis of consultations received from *Hormozan*, who was an Iranian border security officer. Captured by the Muslims, *Hormozan* later converted to Islam and opted to settle down in *Madinah*, as he was well acquainted with the administration of the divine Iranian kings.

The general census of Muslims, which had started during the later years of the great Prophet's lifetime, was discontinued after the registration of 1500 persons due to the departure of the great Messenger. It was resumed and completed at the time of *Omar*, when the revenues of the *Baitul Mal* were apportioned differently between the *Muhajirin*, *Ansars* and other groups of Muslims, as well as for the commanders and collectors of the *Baitul Mal* (Sanei' 1358/1979).

Due to the vast expansion of Islam during the reign of *Omar*, a regional *Baitul Mal* was established in every state and sovereign land. From this time onwards, evolution took place in Muslim bureaucracy and the Muslim government possessed a central *Baitul Mal* plus many other regional *Baitul Mal*.

When the leadership of the Islamic government was handed over to the Commander of the Believers, Ali (AS), the capital of Islamic government was transferred to *Kufa* from *Madinah* and, hence, the central *Baitul Mal* was also transferred to that place (Yaqubi 1343/1964, Vol. II, 82). This shift of location, due to the socio-political situation of those days, provided a geographically better and more central and logistical position for the capital and the location of the *Baitul Mal* subsequent to the conquest of Iraq, Iran and other places, having faster and better relations and communications with the centers of other states and the regional *Baitul Mal* of every state that had been created after these conquests.

3 THE OBJECTIVES, OBLIGATIONS AND CHARACTERISTICS OF *BAITUL MAL* ATTENDANTS

The objectives, obligations, personal characteristics and behavioral patterns of a governor with the public are illustrated in the ordinances and letters written by *Ali ibn Abitalib*, the Commander of the Believers, to heads of provinces during the few years of his caliphate. These communications reveal the objectives, plans and policies that were to be implemented by a governor. The important point to be noted is that His Holiness Ali (AS) became a caliph following the assassination of *Uthman*. Many of the Muslims had objections to interventions in the public treasury by *Uthman* and his commanders, and had revolted several times against him (Askari 1362/1983, Vol. I, 45). Therefore, His Holiness Ali (AS), after assuming power as caliph, spent a great deal of time and effort to clarify the missions of a governor, his status and obligations, the methods for tax collection and their disbursements. Hence, the objectives and fiscal policies of the *Baitul Mal* may be deduced by studying the directives of His Holiness to

his commanders, and his traditions in this regard, and also such actions as had been taken by previous caliphs that were compliant with the legacy of the Prophet.

3.1 *Missions and Objectives of a Waaly (Governor)*

Imam Ali (AS), in his issued ordinances, described the objectives of a *Waaly* as “achievement and implementation of justice among the Muslim community”. The mission pursued by a *Waaly* is to reach equity and justice (*Nahjul balgeh* 1945, 1967, letter 53, 998). Now, we shall have a look at some parts of the order issued by His Holiness to *Malik Ashtar* while appointing him as the *Waaly* of Egypt to observe the advice on the implementation of justice and fairness.

You must love being moderate in observing social rights, expansion of justice and indulging in the deeds that enlighten the public more than any other thing. To be deprived of the benevolences of God and getting into relentless huffs of the Almighty, nothing is as effective as insisting on injustice.

Whoever does injustice to the public, God will shed his anger on him instead of his other creatures and whoever confronts with the God and does not accept his contentions and remains defiant continuing with tyranny with no penitence, is considered to be at war with the Almighty God.

You have to be fair with respect to the divine rights, public rights, your own self, your family and your beloved ones; else you are a cruel person.

You must not equate the oppressive persons with the beneficent people, as this will discourage the public-spirited people from being good philanthropists and encourage the wicked ones to be evildoers. You must rather recompense everybody in proportion to his deeds.

In some parts of this ordinance, the Commander of the Believers enumerates and describes different guilds and categories of people in an Islamic community and the services provided by each class to the other sections of society; similarly, the services and produce demanded by each part of the community, before prescribing their assignments.

Every person's share is described by the God, either in his divine book or by the traditions of his Holy Messenger, the dimensions of which are known to us.

The kindness of God is spread all over the categories of masses and covers everybody and the Governor is responsible to reward each of them according to their competences. You have to care for the rights of each and every one, and nobody must be left unattended. You have to take care that when people have equal rights in a subject, you should not be the privileged one.

His Holiness Ali (AS) reiterates observance of justice to *Malik Ashtar* in every instance, such as imposition of *Kharaj*, transactions among people and payment of the rights of the poorer and indebted masses, and prays for his success in achieving and maintaining justice, obtaining the satisfaction of God and reaching the status of Martyrdom. He concludes his ordinance as follows:

I pray to the God, to his endless mercy, and to his colossal powers, so that he may bestow upon us the success in achievement and maintenance of justice in such a way that our needs become visible to the God and his masses, who shall remember us for excellence and quality. May he leave better impressions of us in the townships and give his full blessings and best favors to us, and finally lead and terminate our lives in felicity and martyrdom.

3.2 *The Functions of a Waaly*

The Commander of the Believers enumerates the functions of a governor to *Malik Ashtar* as follows:

1. *Kharaj* collection;
2. Confrontation of enemies;
3. Coordination of the affairs of the masses; and
4. Development of the townships (and the economy).

Each of these functions is a prerequisite for fulfillment of the other services; for example, confronting enemies becomes impossible without financing the cost of such confrontation by the imposition of *Kharaj* levies.

Coordination of public affairs and the need for implementation of law and order, subsequent to the elimination and eradication of disturbances caused by enemies, is a must which would not materialize in the absence of social security. Ultimately, the revenues collected by way of taxes would provide the basic conditions for the provision of planning, investments, social and defense security, and the organization and management for better renovation and economic development.

These functions, in the meantime, explain the necessity for the establishment of a *Baitul Mal* and installing a *Waaly* in every community. In another speech, His Holiness Ali explicitly states that “people must have a ruler, whether benign or a tyrant. A ruler who would collect the taxes,

fight enemies, bring security and safety to the roads, withdraw the rights of the oppressed from the tyrants; in order to bring more welfare to the benefactors and safeguard them from the damages of evil and wicked persons” (1370/1991, Speech 40). Under the governance of a good ruler, the righteous benefit from good opportunities to work but, under the reign of dissolute and licentious rulers, the wicked and sinful are gratified (*ibid.*).

3.3 *The Behavioral Model of a Governor (Waal)*

How should a *Waal* interact with the public in order to achieve justice through the implementation of the above mentioned functions, and what could be his expectations from the public? His Holiness presents a model to *Malik Ashtar* which can be observed and verified by him. His Holiness says to *Malik*: “People will look into your deeds exactly in the same manner you used to look into the actions and behavior of your predecessors. They will say the same things that you used to utter about them.” So, if *Malik* wants to know the ways in which he will be judged by the people, he must recollect his own past, the times during which he was under the command of other rulers and recollect how he used to judge them. The past relationships of the governors and his opinion about their performances would provide an experience in which he can visualize the reactions of the masses to his own measures and policies. Therefore, the behavioral pattern of *Malik* with the public would be exactly the same as his behavior and that of other people with the ruler of their era.

But, at present, *Malik* is the ruler with the upper hand. His Holiness reiterates that there is another upper hand above him and that is the Almighty God. Therefore, those who expect that the Almighty must forgive them, they must also, in turn, overlook the mistakes and misconducts of others. The Commander of the Believers is quoted as saying that: “*people may be divided into two groups: one group includes those who are equal with us in their religion and beliefs and the other group consists of those who are equal with us in their creation. But, they are prone to make mistakes and some of them may suffer from mental disease such that they may willingly or unwillingly attempt to do something mischievous.*” Therefore, in the same manner that you expect to be pardoned by the God, you must also overlook the mistakes of the people. Now that he has the upper hand over the masses, he must keep in mind that there is the upper hand of God overlooking him. In this way, the God of the entire universe has exposed him for an examination in which he has to prove himself.

In short, *Malik* can assess the interaction of people to his ruling by recalling his own attitudes towards previous rulers and his judgment by the Almighty by his interaction with the people.

The Commander of the Believers applies the same principles to himself. In the 175th Sermon of *Nahjul Balaghah* he says: “O’ people I swear to God that I did not hold you responsible for any obedience to God or any deed of worship except that I proceeded you and I did not prevent you from any disobedience or sin except that I dissuaded myself prior to you” (Seyed Alavi 1369/1990). On another occasion *Imam* (AS) states that: “Whoever places himself as a leader of the people should commence with educating his own self before the education of others and his teaching should be by his own conduct before teaching by the tongue” (Seyed Alavi 1369/1990). In another letter, *Imam* (AS) stresses the importance of governors sharing general public hardship and striving to resolve it.

3.4 *Characteristics of a Waaly (Governor)*

In the 164th sermon of *Nahjul Balaghah*, His Holiness Ali (AS) states that the most virtuous person before God is a just leader who is himself a guided person and who leads others to a right path of life. He keeps up valuable norms and repudiates ugly heretics. Nevertheless, the traditions are very well-known and have certain indicators; similarly, the heretics also have well-known indicators. The worst people to God are rulers who are aberrant themselves and who make the people deviant; they demolish the accepted and well-settled values and rehabilitate the reddened heretics (Seyed Alavi 1369/1990, 26).

In Speech 131, His Holiness Ali (AS) describes the characteristics of a *Waaly* (Governor), in greater detail:

The one who rules over the honor, blood and belongings of people and issues orders and decrees holding the role of leadership in his hand may not be a parsimonious and a narrow-minded person as he may become greedy and acquisitive of their wealth. Similarly, it is not wise for the Muslims to have an ignorant and stupid leader, because his ignorance may lead the community into aberration. He must not be an unfaithful person as he may be deserted by the masses. In division of the wealth, he must not be unjust giving more shares to some and depriving the others. Equally, he must not indulge in misappropriation of the public treasury as he may unnecessarily prefer a clan or a community to other groups. A grafter may not also assume the leadership of a Muslim community, as the rights in the society may be downtrodden by him and the divine limits may

be crossed. Finally, the one who becomes a leader of an Islamic community shall not stop and discontinue the decent traditions the result of which would be the ruination and destruction of the community. (Seyed Alavi 1369/1990, 27)

In the commandment to *Malik Ashtar*, His Holiness enumerates the characteristics of a *Waal* that may lead him to success in the achievement of his goals and the fulfillment of his responsibilities, as follows: (1) Obeying God, (2) Observing sanctity and virtues, (3) Following the instructions of and traditions of the Holy Qur'an, (4) Serving God by all means, (5) Resisting passions, (6) Abstaining from sin, (7) Not regretting being generous, (8) Not being proud of imposing penalties, (9) Resolving anger and abstinence from being irate, and (10) Observing the powers and glory of God in order to avoid tyranny, anger, selfishness and arrogance. In this commandment, he points out the issues which help the governor to become closer to God and the issues which may lead him away from God.

3.5 *The Significance of Public Relations*

In the commandment in the previous paragraph, the Commander of the Believers—along with the statement of objectives, obligations and peculiarities of governors, and a description of the methods of relationship with the masses—gives special orders on the way a governor should address the public and gives him special advice on the achievement of his objectives and the fulfillment of his duties. These pieces of advice help the *Waal* in the implementation of the model and expedite the achievement of his mission. These orders are noticeable in several places in the commandment.

1. The maintaining of justice and equity in the townships and love for the masses could bring extreme enlightenment to their commanders. The masses would support their rulers if, and only if, they feel at peace with him and feel no burden from his government on their shoulders, and have no longing for the termination of his term in power. Hence, open up the doors for their dreams, state aloud their affairs in order to become closer to them and, if you speak more of their good deeds, you will notice many brave actions and the meticulous, sheepish ones will be encouraged not to fear the war.
2. Nothing makes the masses like their rulers as much as the beneficences rendered by the ruler, decreasing the burdens of life on them and not forcing them to do something which they cannot.

3. By doing more favors for the masses, try to decrease hatred and cut off the roots of enmities.
4. People have certain traits, and the leader is the most suitable person to overlook their misconduct. Thus, try your best to cover the errors and misdeeds of the people so that the Almighty would keep secret the crimes which you would prefer remain unrevealed.
5. Since the masses are the pillars of our religion and all the Muslims are suppliers of all the equipment and always ready to fight the enemies of the land and the nation, then your kind attentions must always be directed to them.
6. It is not all expected that you do not show your face to the masses; because keeping away from the masses is nothing but an indication of impatience and lack of information about their affairs; and if the ruler does not keep company with the masses, he cannot have knowledge of the issues that are kept out of his notice. In this way, the great jobs look very insignificant in the eyes of masses, and the trivial and insignificant issues are exaggerated. Goodness is presented as indecency and awkwardness is shown as kindness. Rights have no proper indices to differentiate them from the lies.

In any case your way of life is either one of these two: either you are a man of the right path and have a generous hand; then, why should you, despite giving away the rights of people and by having a very generous and kind conduct with the masses, shy away and keep distant from them. Or you do not belong to the category of beneficent people; in this case, when people become discouraged about your free-handedness, they will soon give up their hopes about your generosity.

7. Besides, most of the demands of the masses are regarding trivial things, like an injustice imposed or non-observance of fairness in transactions; and none of these matters would impose heavy burdens on you.
8. Do not break up the decent traditions and values of the heads of communities to which the masses are well-accustomed. You shall not dream up traditions which would spoil the earlier decent cultures of masses. The blessings will be given to the one who has set up these fine traditions and you will be the one cursed should you try to eradicate these kind traditions.

9. Keep away from the issues that are unknown to you. Do not hurry in accepting the words of backbiters, as the talebearers are deceptive in nature, even if thought to be born in the society of well-wishers.
10. None of the people from the masses may be compared with the classes of the elite in society. They become a heavy burden on the shoulders of the *Waal* during the easy times, and during the difficult days they are the ones least helpful, and they never like to be on a par with others. They insist on receiving their own claims and are ungrateful when being bestowed upon; not listening to reason when no grants are available, impatient in times of misery.
11. Try your best with what we have told you; so that you find a comfortable feeling about the masses, as this will remove heavy pains from your heart.

In the other parts of this commandment, His Holiness describes business categories and different groups of society, and guides *Malik Ashtar* in the methods of having relationships with people in order to fulfill his duties and achieve his missions. Hence, depending on the subject under discussion, we will quote from the commandment in the following section (Najul Balaghah 1975, letter 53).

3.6 *Different Groups in Masses*

Note that there are different groups in the masses, and there is no one which has nothing to do with the other classes of the society and no crowd is totally self-contained. Some groups are God's army and some others are trustworthy secretaries. There are groups who are arbiters and have to maintain justice and equity in society; yet others are administrators who have to look after public affairs impartially; besides, there are categories who are always indebted misers from among the Muslim community needing special attention.

Some groups are traders and businessmen, others are non-Muslims who pay Kharaj together with Muslims. Besides, there are categories who are always indebted misers from among the Muslim community needing special attention. Allah (ST) has determined the income share of each group and has set the limits and dimensions of it in his Book and in the traditions of his Holy Messenger (SAAS), by rules and regulations which

we are aware of them and are supposed to maintain them. The soldiers, God willing, are the forts of masses, the glory of rulers, the dignity of religion and means of security, without whom society will have no comforts and conveniences.

Efforts of the military will not come true except for the *Kharaj* imposed by the God's verdicts to be paid from the belongings of the masses. The soldiers obtain energy from those supplies when fighting with the enemies of the masses and they rely on it to sort out all of their needs.

The global system will not be organized unless the three groups of judges, executives and secretaries are also taken into account. The judges will judge the agreements, transactions and other affairs under their jurisdiction, while the executives will generate profits and the secretaries will sort out the other general and typical affairs of the masses to enhance their comforts.

The works and businesses of all the groups would remain incomplete were there no traders and merchants, who come together to make profits; they set up markets for transactions and businesses, and no other group would be capable of performing this job, except for this group.

Finally, there is a group of indebted, poor and miserable people who are needy and require to be helped. The mercy of Allah (ST) is shed and spread all over these groups. Each group has a right on the shoulders of a *Waaly* in proportion to their competences.

3.7 *The Relationship of the Waaly with His Troops*

From among your troops, select and appoint a person to the post of a commander, someone who is an outstanding well-wisher and a God-fearing believer who would accept the advice of his leader above that of others; he must be cool-minded, forgiving and kind to the poorer and helpless people. He should be a person with dominance over the forceful ones proceeding with superiority. Violence should not raise his temper and weakness should not keep him sitting.

The dearest one among the commanders of your troops must be the one who has the most sympathy with the troops. He must spend so much on them out of his own pocket, so that they receive sufficient income and are left with peace of mind when being posted to distant places on duty leaving behind their wives and dependents in comfort. They need this peace of mind to pull all their efforts together; as your kindness with them will make them more attracted to you.

3.8 *The Relationship of the Waaly with the Judges*

To undertake judiciary affairs for the people, select a broad-minded person who remains cool and does not become involved in the queries of the parties; and does not become obstinate; he must not lapse into mistakes and as soon as he realizes his mistakes, he should not be unable to return back to the truth and confess to it; he may not become helpless and let greediness overcome his soul, and unless he has understood the real truth he must not be contented with shallow and trivial proofs.

They shall be the kind of person who would persist more than others in the event of ambiguous cases until the truth and reality of the issue is made clear, they would pay adequate attention to the evidence and proofs. Not become upset because of continual approaches by the parties to the dispute and be the most patient and tolerant in unearthing the mysteries and finally they are those who would give strong verdicts after clarification of the truth. They would not be deceived if they were over-glorified and fawning cannot move them and they will not be swindled and lured to any side. These kinds of people are very few and highly rare. When you appoint such a person for judgments, keep an eye on his judgments and be very open-handed and generous with him so that he may not become financially weak in leading his livelihood, and he should be needless and independent of others. Provide him a very safe and stable placement with yourself so that your close friends will not feel jealous of him and he remains safeguarded from charges and defamation. In these affairs you should have an eye which can see the distant future, since this religion was in the clutches of wicked and untoward persons who pursued their own lust and they had converted the religion into a means of hedonistic living.

3.9 *The Behavior of the Waaly (Governor) with His Executives*

Appoint your executives for a trial period and keep a vigilant eye on them, not by way of donation or arrogance as this may turn out to be cruelty and betrayal. The executives must be modest and highly experienced, coming from decent families and from pioneers in Islam; as these groups are merciful in their conduct, honorable and of good reputation, avoiding avidity and farsighted in their intuition. When you select them in this manner, you must set aside abundant means for their livelihood, as this will help make them extremely powerful in their self-adjustment and needless of consuming the properties at their disposal; and finally, when they do not follow your orders and instructions or become unfaithful, they must

have been reminded of the consequences well in advance. So keep constant vigilance and inspection on their conduct and make them sincere and faithful, as the final check on their acts could compel them to be soft and trustworthy with the masses.

With utmost consciousness, beware of your agents. If any one of them becomes involved in corruption and betrayal, of which you have all the testimonials, you must be contented with those proofs and immediately penalize the untruly representative on his misdeeds; and let him plunge into ignominy and place the stamp of betrayal on his forehead making him wear the ring of shame and stigma around his neck.

3.10 *The Importance of Tax Payment and Collection*

Take care of your tax (*Kharaj*) payers so that the quality of their lives continues to improve. As the improvements in the affairs of tax-payers and tax-collectors will bring comfort to the others and the optimum state is not achieved except in the case of perfect tax payment and tax-collections, because all are benefitted from taxes and tax-payers.

Your efforts in land development must be greater than your motives for the collection of taxes, as the taxes may not be collected except from cultivated lands. The one who tries to collect taxes without proper attention being paid to land development will end up ruining the regions and townships while disturbing and destroying the creatures of God. Under this kind of ruling the communities will not last long. So if the people complain from heavy taxes levied on them or from the diseases affecting their crops, or from the drop in water levels taken from the rivers, or for not receiving rains and dew in case of dry-farming, or by spoilage of seeds due to flooding, or in the event of droughts, you must reduce and amend the previously declared levels of taxes so that they are at ease; and you must be contented by reducing the burden on their shoulders, as you will be rewarded by having prosperous and neat regions in your territory; at the same time you are attracting their well-wishes towards you and you will be delighted to observe the spread of justice over them.

Having improved the welfare and comfort of the masses and good coverage of justice over them and by your own kindness to which they have become accustomed and empowered, you may rely on them with full confidence. Subsequently they will perform whatever you expect from them and they will carry the entire burden that you have laid on them. Take it for granted that the townships may be ruined through the misery of the masses and the needs of the public, and the people become poorer as

their governments continue to accumulate wealth, and think of their own future and do not learn from the past, as is expected.

3.11 *The Conduct of the Registrars*

Have a good overview of the performance of your registrars and choose the most efficient to take care of your own matters and leave the most confidential letters containing your orders and secret issues only with those who are of the best their moral characteristics, far above the others. He must be of the type who would not become rebellious by receiving little praise as he may be encouraged to disregard your dignity in front of the eyes of elders and the grandees; and his negligence may lead to your overlooking the letters of your representatives. He may return inadvisable responses and replies on your behalf and may not keep you informed about what he receives and whatever he disposes of, acting in lieu of you; but unable to resolve your problems. He may not be aware of his own status and prestige; however, if a person does not understand his own status, how will he be able to gauge the character of others.

In the selection of registrars, do not rely on guessing or mere optimism, as there are people who by false and affable manners try to deceive their rulers; however, there is no faithfulness and sincerity behind those pretty masks of trustworthiness and benevolence.

In every department, appoint one such registrar who can manage the scope of his workload in a way that the workload must not exert extra pressure on him leaving the assignments incomplete. If your registrars have certain shortcomings and you are not aware of that, then you shall be questionable for their faults.

3.12 *The Characteristics of Advisors*

Do not employ parsimonious advisers, as they would create hindrances to your benevolent activities and they would dissuade you of humbleness; also do not rely on cowardly advisers who would make you impotent in your works; and avoid taking the advice of greedy advisers; else, having covetous and aggressive nature will be justified in your mind. Nonetheless, fear, greed and niggardliness are different pillars leading to cynical thoughts about God.

The worst minister for you is the one who has been a minister to bandits and has participated in their sinful acts, because they are abettors of sinners and brothers of oppressor. You can find good substitutes for them

who would be like them in their views and influence, while they would not be like them in sins and vices. These types of people have few expectations and offer much more sincere friendships; they have friendly interactions with you and pay less attentions and show less affection to your enemies. Hence, take the companionship of these sincere people.

The most elite person to you must be the person who dominates your heart whenever he so wishes; is the one who utters before anyone else the most bitter truth and would help you the least in the affairs that are disliked by God, despite your intentions to perform such acts.

Associate with the abstinent and trustful people and nourish them in such a way that they would not cross the limits in praising you, associating you with a great job which has not been performed by you, with the intention to make you happy. It is possible that excessive praise may increase selfishness and lead you to greater arrogance.

It is not fair that you equate a nefarious and wicked person with a benefactor, as this may discourage the beneficent person from their kindly actions and encourage the wicked to continue with their wrong deeds. You must reward everyone according to his performance.

Do have consultations and discussions with the knowledgeable and the intellectuals of the community who have been handling the affairs of masses, taking into account the interests of the nation.

The most eminent person in your eyes would be the one for whom you have had the opportunity to do many favors, and the most unwise person in your eyes would be the one who has never been favored by you.

Further, join hands with the lords of mercy and the heads of benevolence and the people from decent clans with excellent past achievements and personal performance; also with the generous, the immovable, the courageous and the ambitious among them would make an association of benefactors and a source of merit. Look after their problems with the utmost delicacy and take care of them in the way that a father would look after his children.

When you give them encouragement by offering a favour, it should not be considered an important issue, it must not represent more than they deserve; your small gestures of affection and kindness to them must not be ignored or considered as trivial and unimportant, as this may stop you from doing such a good deed. Alms make them sympathetic and optimistic about you. Do not be under the impression that you would do some great favor for them in the future, leaving the opportunities to do small favors and trivial kindnesses to them, as your small favor may be of some value and help to them; whereas, your great favors in the future may come in a time when they really do not need it.

3.13 *The Importance of Merchants and Craftsmen*

Take my advice on the traders and merchants and ask the others to follow suit in paying their utmost respect to them. This group of people, whether from cities or those who are always travelling between the cities along with their belongings; some of them are workers trying to earn their bread with their physical efforts, they are the causes of profits and provide people with a variety of new valuable items.

To make profit they travel near and far by road, or over the seas and oceans, plains and mountainous routes requiring great effort and encountering difficulties to bring the bundle of goods and merchandizes that would be of interest to the people. Traders and merchants are straightforward and decent people, not being a source of fear and risk to others. They are cool people posing no rebellious threats to society. In your own city and the cities around your territories ask after their health and wellbeing and be kind to them.

But with all these you have to be alert that many of them are strict and tight-fisted in their transactions; the intention of seeking more profits may force them to hide and hoard their goods in order to sell them at very high prices. This action will impose heavy losses on the people and it is a source of shame and disgrace for rulers.

Therefore, you have to prevent hoarding as it has been banned by the Holy Prophet of Islam. Trade must be fair and comfortable based on unbiased scales at prices leaving no loss to the buyers or the sellers.

Hence, if you prevented someone from hoarding goods and later by defying your orders this person has tried repeatedly to indulge in hoarding, you ought to punish the criminal but not crossing the limits and the penalties must be in proportion to the crimes committed.

3.14 *The Importance of Looking After the Weak and Poor People*

Keep God in mind while thinking of the poor and miserable classes. Some of them are shameless beggars but others do not dare to go begging. Thus, the rights of these people which are retained by God are expected to be released by you and you should give them some share from the *Baitul Mal* which is governed by you. They may even be allotted some pieces of land conquered by Muslim hands. The remote and separated of these people also have certain rights which are expected to be observed by you. You ought to look after the rights of everyone, leaving no single person unattended.

Unlimited endowments should not make you disobedient, remaining unaware of the well-being of poor masses. You may not be excused if you pay no attention to their affairs on the basis of being busy with more important things, and so on. You shall not consider their affairs as insignificant, allowing yourself to ignore them. You ought to go on seeking knowledge about the well-being of the people who are unable to reach you, being discarded and humiliated by rest of the society. From among your trustees, select some God-fearing and humble persons to investigate their affairs and report back to you. So, your deeds regarding this group of people should be such that you can defend your behavior when you go to visit the Almighty God. It is clear that these people need fairness and justice more than any other group.

Be kind to the orphans and the helpless poor, old and aged people who are unable to ask for anything, so that you could defend and bring acceptable excuses while in front of the Almighty Allah.

Rulers may find these words that I have told you a bit heavy and strong. Yes, the truth is always strong; but the Almighty turns this heaviness into ease and comfort for the people who seek an auspicious and blessed ending, being patient and confident of the divine promises coming true.

3.15 *The Wizards of Kinsfolk and Relatives of the Governor*

A *Waaly* would have kinsfolk and relatives who have an eye on the belongings of others and continue to invade or conduct unfair transactions. Therefore, you ought to eradicate the means of their invasions, so that the roots of corruption are dried out and their plundering is terminated. Do not grant a piece of land to any one of your kinsfolk or relatives; as nobody must expect to receive a plot of land from you planning to share the water sources of neighbors or avoid working and taking part in common tasks imposing losses on others and leaving his own responsibilities to be performed by them. The scolding and sins of their acts will be held as your responsibilities either in this world or in the eternal world. Remain unbiased and fair with regard to your family and the close relatives and be patient in this, seeking blessings for your patience from Almighty God. In the implementation of justice to your kinsfolk and intimates, be brave and active letting them receive whatever they deserve. This act may be too heavy and unbearable for you; but have an eye on the completion of your task, which is a blessed and most auspicious one.

3.16 *Affairs that Must be Attended to by the Waaly Personally*

Finally, His Holiness in his commandment describes the functions that are to be performed under the direct inspection and command of the *Waaly* himself:

1. Attending to the well-being of the poor and those seeking justice;
2. Holding public meetings with no security guards present, so that the poor people can speak freely;
3. Avoiding arrogance and ferocity;
4. Showing pleasant generosity and being sympathetic with soft benevolence and apology;
5. Replying to the executives and agents whenever the registrars are unable to reply;
6. Performing the responsibilities of each day during that day;
7. To perform prayers “Every time, during your prayers you may have goodwill and divine intentions to bring comfort and enhance welfare of the masses; all those moments are considered as being spent for the sake of God”;
8. Holding group prayers in a very modest and equable manner;
9. If by mistake, he becomes dubious and distrustful in the eyes of masses, he must have a frank talk with the public and request their pardon.

Imam Ali (AS) quotes from the great Messenger: “The people among whom the right of the weak is not secured from the strong without fear would never achieve purity.”

4 SUMMARY

The public sector plays a profound role in the economy of an Islamic state. In Chap. 3, the rights of citizens of all religions, races and genders in the early Islamic community were described. This chapter analyzes the role of public sector leaders in realizing those rights. The *Baitul Mal* symbolizes the functions that the public sector should perform in the economy. Objectives, obligations and the behavioral characteristics of governors are delineated on the basis of the mandate, the principles and the roadmap that Imam Ali (AS) dictated to *Malik Ashtar* when he appointed him as the Governor of Egypt. The major mission of a governor is to develop the economy and establish justice. This requires coordination between various groups of the community, where each supplies a service or good and demands alternative

services from other participants in the economy. Coordination is feasible only when the economy is secure and stable. Maintenance of security, law and order requires public funds and spending. This is why Imam Ali (AS) enumerates the duties of *Malik* to be tax collection, maintenance of security, coordination of social affairs and development of the economy. The *Baitul Mal* was established at the rise of Islam specifically to carry out these functions. The organization and the development of this institution were reported, too. The characteristics of revenues and expenditures, and the public treasury budget are discussed in the following chapters.

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Fiscal Policies in Early Islam

1 INTRODUCTION

The object of this chapter is to become acquainted with the *Baitul Mal* sources of revenue and the nature of its expenditures from the beginning of the emigration of the most noble Prophet to *Madinah* to the end of the caliphate of Imam Ali (AS). This will be followed by an exposition of the nature of each source of the public treasury's income and its influence on production and distribution of income. Also set forth will be the balance between revenues and state expenditure. Then, an exposition will be made of the kinds of expenditures or economic activities that took place through the agency of the *Baitul Mal* and the difference between them and the activities that were carried out by the private sector. In discussing these matters, an effort is made to explain early Islamic fiscal policies; that is, policies which use government expenditures and revenues to change the level of production, employment and income.

2 THE REVENUES OF THE PUBLIC TREASURY

The revenues of the public treasury can be divided into *Kharaj*, *Zakat*, *Khums* and *Jizyah*.

2.1 Kharaj

The *Kharaj* refers to the revenue that, like rent, is collected on agricultural lands and groves owned by all Muslims and to levies on cultivated lands

and orchards. Cultivated lands and orchards belonging to non-Muslims, if they fell as booty under the control of the Muslims in battle or in *jihad*, became part of the public property of the Muslims. Therefore, if any person, whether Muslim or non-Muslim, wished to cultivate such lands he had to pay rent for them in the form of *Kharaj*. For example, some of the lands in *Khaybar* that were taken as booty by the Muslims were considered to be part of the lands taken by fighting and to belong to all Muslims (Ibn Hisham 1356L/1937, 231).

If a confrontation between Muslims and unbelievers ended peacefully by virtue of a peace pact, the cultivated lands either remained in the possession of the unbelievers or passed into the possession of the Islamic state. In the first case, the unbelievers, in order to retain their ownership, usually were prepared to pay *Kharaj*, which was a tax, not a rent, because the land remained in the possession of its previous owners. If the land covered by the pact fell under Muslim ownership, the land tax collected was considered to be rent for the land (*Al-Mawardi* 1402/1981, 167).

If a plot of land or an orchard fell into the hands of Muslim troops without battle or conflict, as did the lands and property of *Banu Qaynuqa'* and *Banu Nadzir*, which at the time of the government of the Messenger of Allah (ST) had fallen to the lot of the Muslims, it was treated as *Anfal* (spoils) and fell under the ownership of Allah's Messenger, (Qur'an 8:1 and 59:6-7). This is how the lands in *Fadak* came into the possession of the Prophet in the battle of *Khaybar*; when the owners of those lands witnessed the defeat of the other Jews, they too gave up without a fight, and were prepared to leave their native soil. Later, like the other Jews of *Khaybar*, they petitioned the Prophet to let them remain in their native land and agreed that every year they would give the most noble Prophet half of the produce of their orchards (Ayati 1359/1980, 471). The latter revenue, which belonged to the Prophet and not to Muslims as a whole, was again regarded as rent for the aforesaid lands and not as a tax on them.

From the perspective of Islamic law, the tax on lands covered by a peace pact is different from the tax on lands conquered by force. The latter lands came to be owned by the Muslims, but lands covered by a peace pact usually remained in the possession of their non-Muslim owners. When the latter individuals became Muslims, they were relieved from having to pay the land tax (*Al-Mawardi* 1402L/1981, 167; Ejtehadi 1350/1971, 224).

Despite the instances referred to, whenever land subject to the land tax is discussed in works on history and religious jurisprudence (*Fiqh*), the

reference is to land that came under Muslim control through *jihad*. An outstanding example of land subject to the land tax is the land in Iraq and Iran; after the defeat of the *Sasanids*, this land fell under the control of the Muslims. Irrespective of whether the term *Kharaj* in Islamic jurisprudence (*Fiqh*) refers to rent or tax, the difference, in reality, has no economic significance. Any fixed revenue that comes from such land on an annual basis embraces the *Kharaj*, whether such revenue is in the form of rent or in the form of tax. There is evidence at hand that the amount of land tax that was levied in early Islam was not fixed. Rather, it was dependent on the type of crop and the fertility of the soil. There are indications that the most noble Prophet took more land tax from each acre of vineyards and date palm groves than from a field of wheat. The land tax on cultivated fields in *Khaybar* equaled half of the crop produced, which had been fixed in accordance with the proposal of the inhabitants. Every year, the Prophet used to send an officer to *Khaybar* to assess the crop of that region (Ayati 1359/1980, 471, 481). Historical evidence shows that, from the time of *Umar*, the *Kharaj* on conquered lands depended on the degree of fertility, the location and the environment of each piece of land and that it was identical with the rent on such land. Following the conquest of the lands of lower Mesopotamia, *Umar ibn Al-Khattab* sent to that region a mission composed of *Ammar bin Yasir* to establish prayer, *Ibn Mas'ud* to exercise judgeship and look after the public treasury, and *Uthman bin Honaif* make a cadastral survey (Al-Muhaqqiq At-Thani 1402L/1981; Moqaddas Ardebili 1402/1981). *Uthman* had the land there surveyed, which came to 150 million *jaribs*.

According to *Mujahid bin Said*, it amounted to 36 million *jaribs*, while another account puts it at 33 million *jaribs*. Those lands that were cultivated or cultivable he made taxable in accordance with the characteristics given by *Al-Mawardi* (1402L/1981) and summarized below. The remainder, which represented uncultivable lands and people's dwelling places and housing plots he exempted from the *Kharaj*.

The characteristics *Al-Mawardi* attributed to land consisted of:

1. Characteristics of the land, such as good or bad soil condition from the standpoint of whether or not it was cultivable;
2. Characteristics of the crop from the standpoint of its quantity and marketability;
3. Characteristics of the type of irrigation, which are divided into four categories:

First, lands that are irrigated by a river or a spring;

Second, lands that are irrigated by hand, such as by bucket, water skin, and so on;

Third, lands that are watered by rain or produce crops without irrigation;

Fourth, lands that do not need water and that are rendered fertile by natural moisture (Ejtehadi 1350/1971, 42–43).

From the time of *Umar* onwards, the amount of the land tax, as a general rule, was set in consultation with the Persian farmers and surveyors, especially in the region of lower Mesopotamia (Dennett, 22). Owing to the fact that these lands had been surveyed previously in the time of *Khosraw Anushirvan* and the amount of the tax on them calculated on the basis of their distance from or proximity to the city, river, or road, this information, the methods of surveying and the method of levying the land tax were adopted by the Muslims and, thus, *Uthman bin Honaif* was able to survey 150 million *jaribs* of land over a period of one year.

Naturally, the amount of the land tax in lower Mesopotamia in the time of *Umar* varied from region to region and from place to place. Thus, the sources that have reports on the amount of land tax at that time have given varying amounts for it. According to one source, *Umar* levied on each *jarib* of cultivated land of (wheat) a tax of 1 dirham plus one *qafiz*, on fruits 10 dirhams, and on alfalfa 5 dirhams. Another source says that he levied a tax of 8 dirhams on each *jarib* of date palms, 6 dirhams on each *jarib* of sugar cane, 10 dirhams on each *jarib* of fruit, 4 dirhams on each *jarib* of wheat and 2 dirhams on each *jarib* of barley (*Abu Yusuf* 1299L/1882, 36). Yet another source states that *Umar* levied a tax of 10 dirhams on fruit and 5 dirhams on alfalfa; on each piece of land irrigated with water, whether cultivated or not, a tax of 1 dirham and *sa'* (approximately 3 kilograms), on each unirrigated grove of date palms, one tenth (of its crop) and on each grove of date palms irrigated by water bucket, one twentieth (of its crop) (Ejtehadi 1350/1971, 37). On the basis of yet another source, *Umar* first asked the people of lower Mesopotamia: "How much land tax did you pay?" They said: "27 dirhams." But *Umar* did not approve this (for he thought the tax on each *jarib* was too much), so he gave instructions that a land tax of one *qafiz* of wheat or barley plus 1 dirham should be levied on each *jarib* of cultivated or uncultivated land to which water was brought (Ejtehadi 1350/1971, 38). The same source also says that *Umar* levied a land tax of 1 dirham plus one *qafiz* on each *jarib* of land that was irrigated by hand, whether it was under cultivation or not (Ejtehadi 1350/1971, 38). From the examination of the

above reports, it appears that the amount of the land tax on each *jarib* was 10 dirhams for vineyards, 8 dirhams for date palm groves, 6 dirhams for sugar cane, 5 dirhams for alfalfa, 4 dirhams for wheat and 2 dirhams for barley, assuming that each *qafiz* of wheat and barley was worth 3 dirhams and 1 dirham, respectively (Ejtehadi 1350/1971, 235–236, with citations from *Al-Mawardi*).

As an example of *Kharaj* levied by Imam Ali (AS), we can cite the following. Of the lands which were irrigated by the River Euphrates, on each *jarib* of very fertile wheat lands one-and-a-half dirhams and one *s'a*, on moderately fertile lands, 1 dirham, and on land of poor fertility land one third of a dirham *Kharaj* was levied. Similarly, on each *jarib* of land under barley one half the *Kharaj* of wheat, on each *jarib* of date palm grove 10 dirhams, and on each *jarib* of productive vineyard 10 dirhams of *Kharaj* was levied. All other agricultural produce was exempt from *Kharaj* levies (Ejtehadi 1350/1971, 235–236, with citation from *Al-Baladari*).

Sources show that, despite variations in land tax in various regions and between the time of *Umar* and that of the caliphate of the Imam Ali (AS), the land tax was proportionate to the type of crop and the fertility of the soil. According to a report cited by *Al-Balagari*, *Yahya bin Adam* asked *Hasan bin Salih* about the reason for this difference in the amounts of land tax between various places. *Hasan bin Salih* replied that it was due to the land's proximity to, or distance from, the markets (Ejtehadi 1350/1971, 236 with citations from *Al-Baladari*). This shows that the amount of the land tax was thus the same as that of the rent on a piece of land of equal status. As has been previously noted, both the productivity and the fertility of the land and its proximity to the market were causes for an increased rent.

From the above, we learn that the amount of the land tax in early Islam was levied differently on different lands and was in proportion to the rent on them. One of the factors that caused an increase in the rent was the fertility and productivity of the land. Another factor was the location and the location of the land; that is, on the one hand, its proximity to a canal or river or, on the other, its closeness to a town or market. A third factor was the production of crops whose income elasticity of demand was greater than 1. There are indications that the levying of the land tax in early Islam was dependent on factors that caused an increase in the tax on land. The evidence cited thus shows that the amount of the land tax was not based on the quantity of the production or on expenditure. For this reason, the collection of the land tax did not diminish the incentive to increase

production or investment; neither did it have an undesirable impact on the efficiency of production. On the contrary, it improved the net income of cultivators who worked the lands on which they paid different rents.

2.2 Zakat

One of the important sources of revenue for the public treasury in early Islam was *Zakat*, which was collected in cash (dinar and dirham coins) and certain agricultural and livestock products. *Zakat* was levied on all important sources of income in early Islam. For, as has been observed, the important economic activities of that era were trade, crafts, agriculture, horticulture and the rearing of livestock. The income from the first two activities usually was in cash and was capable of being evaluated in terms of dinars and dirhams. The coinage in question represented the monetary units of the economy in early Islam. Therefore, the levying of *Zakat* on coins was, in effect, collecting the *Zakat* from income resulting from commercial activities as well as handicrafts, whereas the revenue from agricultural activities was more often in kind, not in cash, so that *Zakat* was collected from the agricultural crops themselves. At the time when the most noble Prophet was residing in *Makkah* and at the beginning of the emigration, when the Muslims had no income whatsoever from economic activity, the payment of *Zakat* was only recommended. But gradually, thanks to the politico-economic measures taken by the Prophet, their per capita income increased. The opportunity to collect the *Zakat* increased considerably, so eight years after emigration the collection of *Zakat* was legislated.

2.2.1 Zakat on Dinars and Dirhams

The *Nisab* (minimum income) for *Zakat* in dinars and dirhams was 20 dinars and 200 dirhams, respectively, meaning that net incomes below these amounts at the end of the financial year were exempt from it. The *Zakat* on the aforesaid minimum was one fortieth or 2.5% of the sum referred to. The second *Zakat* level for dinars involved an increase of 4 dinars or a multiple thereof over the previous sum. That is to say, if the income was 24, 28, or 32 dinars, the owner of the income paid 2.5% of it as *Zakat*. But if his income was not a multiple of 4 dinars—for example, if it was 23 *dinars*—he paid the *Zakat* on the lesser multiple; that is, 20 dinars. In other words, if the amount of income in dinars came to $20 + 4k$, where k equals zero, 1, 2, 3, ... and so forth, the amount of the *Zakat* on it was one fortieth ($20 + 4k$). Thus, the *Zakat* on 28 dinars is 0.7 dinar or 7 dirhams,

and the *Zakat* on amounts greater than 28 dinars and less than 32 dinars would be of the same magnitude. In this way, if we express the amount of the income in dinars as y and the amount of the *Zakat* on it as z , the following would be the *Zakat* on dinars:

$$Z_1 = 1/40 (20 + 4k): \text{ if } 20 + 4k \leq Y < 20 + 4(k + 1) \text{ and } k = 0, 1, 2, 3, \dots$$

The *nisab* (minimum level of income) for *Zakat* on silver was 200 dirhams or 140 legal *mithqals* of silver (105 ordinary *mithqals*), and the amount of the *Zakat* thereon was equal to 2.5% or one fortieth of the amount in question. The second level of the *Zakat* on silver was 40 dirhams or 28 statute *mithqals* of silver (21 commonly used *mithqals*). That is to say, with the increase of each 40 dirhams over the first 200 dirhams, the amount of the *Zakat* also increased and was affected by the later sums. But if the amount of the increase was less than 40 dirhams, it had no effect on the *Zakat*. But, in any case, the percentage of the *Zakat* was the same and was equal to 2.5% or one fortieth. Therefore, if we assume that the income of each Muslim is x dirhams and that z is the amount of the *Zakat* thereon, it would be expressed as:

$$Z_2 = 1/40 (200 + 40k): \text{ if } 200 + 40k \leq x < 200 + 40(k + 1); \text{ where } k = 0, 1, 2, 3, \dots$$

2.2.2 *Zakat on Agricultural Crops and their Characteristics*

Among the agricultural crops to which *Zakat* applied were wheat, barley, raisins and dates. The *Zakat* applied also to sheep, cattle and camels, but not in the same ratio and amount. The specifics of the *Zakat* on each of the aforementioned items are briefly stated as follows:

1. If the amount of the production of the above crops comes to less than five *wasags*, which is about 847 kilograms, the *Zakat* does not apply to it. Thus, cultivators who did not possess the capability to expand production were exempt from the *Zakat* on it.
2. The *Zakat* did not apply to the gross production of crops. The variable costs of production were all deductible from the total amount of production, and the *Zakat* applied to the remainder of the crop that was the net production (quasi rent) and was collected in a manner similar to rent. Therefore, the *Zakat* did not decrease the incentive to produce.

3. The *Zakat* on the above crops was 10% if they were produced on land watered by rain. But if the cultivator had dug a well to irrigate his field, the percentage of the *Zakat* was reduced to 5%. It is clear that *Zakat* did not diminish the incentive to utilize underground water and investment in agriculture.
4. In early Islam, *Zakat* was collected only on the four crops mentioned above: wheat, barley, raisins and dates. In other cases, the cost of collecting the *Zakat* was greater than the amount received. That was because other crops did not constitute the basic sustenance of the people of Arabia and they were cultivated in a scattered fashion in various regions. As a result, the cost of sending officials to estimate the amount of *Zakat* on the other products and collect it was greater than revenues.
5. The four crops on which the *Zakat* was collected constituted, as indicated, the basic sustenance of the people of *Hijaz*. The collection of *Zakat* at the rate of 10 % and 5%, according to the type of crop irrigation, had another objective in addition to providing income for the public treasury; it was to provide food to assure sustenance for the needy. The above percentage of the *Zakat* on the aforementioned crops in proportion to the percentage of the *Zakat* on the dinar and the dirham as well as the *Zakat* on livestock, which will be given below, indicates the importance of providing and assuring the daily bread and basic sustenance for people in all seasons of the year, whether in ordinary years or in years of drought.

2.2.3 *Zakat on Livestock*

Before discussing the characteristics of the *Zakat* on livestock, which applies only to sheep, cattle and camels, it is appropriate to explain the way in which the *Zakat* on each is calculated.

Zakat on Sheep

The amount of *Zakat* on sheep, according to the number of sheep and the percentage, is shown in Table 5.1. If the number of sheep possessed by a livestock breeder is less than 40, the sheep are exempt from the *Zakat*. If the number is more than 40, and less than 121, the *Zakat* on them is equal to one sheep.

The *Zakat* on more than this number is shown in Table 5.1. It is noted that after a flock exceeds 400 head, for each additional 100 head 1 sheep is

Table 5.1 *Zakat* on sheep

Number or <i>Nisab</i> of sheep	<i>Zakat</i> quantity in terms of sheep	Percentage of <i>Zakat</i>	
		Minimum	Maximum
1–39	0	0	0
40–120	1	0.83	2.5
121–200	2	1	1.65
201–300	3	1	1.50
301–399	4	1	1.33
400–499	4	0.80	1
500–599	5	0.83	1
600–699	6	0.85	1
700–799	7	0.87	1
800–899	8	0.88	1
900–999	9	0.99	1
1000–1099	10	0.91	1
10,000–10,100	100	0.99	1

Source *Touzihiul Masaal* directory (The views and *Fatwas* of all eminent *Shariah* authorities and *Foqaha* concerning religious ritual practices are given in this directory.).

added to the amount of the *Zakat*. The percentage of the *Zakat* on sheep depends on the minimum and maximum of exemption of the number of sheep. For example, the percentage of the *Zakat* on 40 sheep is one fortieth or 2.5%, and the *Zakat* on 200 head is one twentieth or 0.99%. For this reason, the maximum and the minimum percentage of the *Zakat* have been calculated. But it is noted that the two ratios gradually converge, so that for 1000 head of sheep the maximum is 1% and the minimum is 0.91%.

It follows from this table that the percentage of the *Zakat* on sheep changes with the increase in their production and stabilizes at about 1%. Therefore, the application of the *Zakat* to sheep is made in such a way as not to weaken the livestock breeder's incentive to increase the production of sheep.

Zakat on Cattle

The amount of the *Zakat* on cattle measured per head of cattle unit, the unit for sheep, and the percentage is given in Table 5.2. The number of head of cattle from 1 to 29 is exempt from the *Zakat*. On 30–39 head of cattle, one 2-year-old male calf is to be given as *Zakat*. The value of this calf has been assumed to be unit *a* of cattle in Table 5.2. On 40–59, there

Table 5.2 *Zakat on cattle*

Number or the Nisab of cattle	Zakat quantity in: a = one male calf, 2 years old b = one female calf, 3 years old	Zakat quantity in terms of cattle units	Zakat quantity in terms of sheep units	Zakat percentage	
				Minimum	Maximum
1	2	3	4	5	6
1–29	0	0	0	0	0
30–39	a	0.45	2.25	1.15	1.5
40–59	b	0.60	3.0	1.02	1.5
60–69	$2a$	0.90	4.5	1.30	1.5
70–79	$a + b$	1.05	5.25	1.32	1.5
80–89	$2b$	1.20	6.0	1.35	1.5
90–99	$3a$	1.35	6.75	1.36	1.5
100–109	$2a + b$	1.50	7.50	1.37	1.5
110–119	$a + 2b$	1.65	8.25	1.38	1.5
120–129	$4a = 3b$	1.80	9.0	1.39	1.5
130–139	$3a + b$	1.95	9.75	1.40	1.5
140–149	$2a + 2b$	2.1	10.50	1.40	1.5
150–159	$5a$	2.25	11.25	1.41	1.5
160–169	$4b$	2.40	12.0	1.43	1.5
170–179	$3a + 2b$	2.55	12.75	1.42	1.5
180–189	$6a$	2.70	13.5	1.43	1.5
190–199	$4a + 2b$	2.85	14.25	1.43	1.5
200–209	$5b$	3.0	15.0	1.43	1.5
4000–4010	$10b$	6	30	1.496	1.5

Source *Touzihiul Masa'el* directory.

Assumptions:

1: Each cow is worth five sheep.

2: The value of one 3-year-old female cow is equal to three fifths of an adult cow.

3: $a = (3/4)b$, because the *Zakat* for 120 cows is $4a$ or $3b$, which means four 2-year-old male calves or three 3-year-- old female calves.

must be given as *Zakat* one 3-year-old female calf, the value of which is assumed in the table to be cattle unit b . From this point of view, the amount of the *Zakat* is given in Table 5.2 as a and b .

In order to calculate the percentage of the *Zakat* on cattle, it is necessary to determine the ratio between the value of one 3-year-old female calf, or b , and the value of one head of cattle. This ratio in Table 5.2 is assumed to be $3/5 = 0.6$. From some of the information found in the table, it follows that: $a = (3/4)b$, because the *Zakat* on 120 heads of cattle equals $4a$ or $3b$.

From this equation it follows that a is equal to $9/20 = 0.45$ unit of cattle. Once we find a and b (that is, the *Nisab* at different levels), the

percentage of the *Zakat* thereon can be calculated. On the basis of the minimum exemption for each number of cattle entered in column 1 of the table, this percentage equals 1.5%, and it appears in column 5 of Table 5.2. For example, the *Zakat* on 30 heads of cattle is a or 0.45 unit of cattle, which equals 1.5%. Thus, the *Zakat* on 200 head of cattle is equal to $5b$ or 3 cattle units or 1.5%. It is clear that the percentage of the *Zakat* collected and shown in column 5 of Table 5.2 is the maximum percentage of the *Zakat* on cattle. For, if in the above examples we take the basis as being 39 and 209 head, respectively, instead of 30 and 200 heads, the relevant *Zakat* would be calculated according to the previous amount, but the percentages would be 1.5 for 39 head and 1.43 for 209 head, which are lower than the previous ratios. The latter ratio, which is the minimum percentage of the *Zakat* on cattle, has been given in column 5 of Table 5.2. The two ratios of the maximum and the minimum *Zakat* do not differ much from each other, and this difference gradually diminishes when the number of cattle increases. What can be concluded from this table is that the percentage of the *Zakat* on cattle is constant, or that the minimum does not increase with an increase in the production of cattle. It should also be noted that the percentage of the *Zakat* on cattle is more than that on sheep.

Zakat on Camels

The amount of the *Zakat* on camels is given in Table 5.3 on the basis of the *Touzihiul Masa'el* directory. According to the Table 5.3, if the number of camels belonging to a livestock breeder is less than 4, the *Zakat* does not apply. However, if the number reaches 5 camels, 1 sheep must be paid as *Zakat*. Similarly, on 10, 15, 20, or 25 camels a *Zakat* of 2, 3, 4, or 5 sheep, respectively, is to be paid. If the number of camels reaches 26, one 2-year-old camel must be paid as *Zakat*. From that point on, the *Zakat* on camels is determined in terms of 2-year-old, 3-year-old, 4-year-old, and 5-year-old camels, the value of which is assumed to equal, respectively, x , y , z and w camel units. Since the *Zakat* on camels is determined in terms of both sheep and camels, in order to calculate the percentage of the *Zakat* on them and compare it with the percentage of the *Zakat* on other livestock, one must state the value of the camel in terms of the sheep unit or vice versa. From historical evidence, it appears that when booty was being divided up, the most noble Prophet established that each camel was worth 10 sheep (Ayati, 386 and 407). This equivalence is assumed here also. Now one must make an assumption

Table 5.3 *Zakat* on camels

No.	Number or the Nisab of camels	Zakat quantity	Zakat quantity (based on Assumption 1)		Zakat quantity (based on Assumption 2)	
			In terms of sheep units	Percentage	In terms of sheep units	Percentage
1	1–4	0	0	0	0	0
2	5	1 sheep	1	2	1	2
3	10	2 sheep	2	2	2	2
4	15	3 sheep	3	2	3	2
5	20	4 sheep	4	2	4	2
6	25	5 sheep	5	2	5	2
7	26	x =one 2-year-old camel	5.2	2	5.2	2
8	36	x =one 3-year-old camel	7.2	2	7.2	2
9	46	z =one 4-year-old camel	9.2	2	9	1.95
10	61	w =one 5-year-old camel	12.2	2	12.3	2
11	76	$2y$	15.2	2	14.4	1.89
12	91	$2z$	18.2	2	18	1.97
13	121	$3y$	24.2	2	21.6	1.78
14	140	$2z+y$	28	2	25.2	1.80
15	150	$3z$	30	2	27	1.80
16	160	$4y$	32	2	28.8	1.80
17	170	$3y+z$	34	2	30.6	1.80
18	180	$2z+2y$	36	2	32.4	1.80
19	190	$3z+y$	38	2	34.2	1.80
20	200	$5y=4z$	40	2	36	1.80

Source *Tonzihul Masaal* directory.

Assumptions:

Note that each camel is worth ten sheep.

1: Every 2-year-old, 3-year-old, 4-year-old and 5-year-old camel is worth 5.2, 7.2, 9.2 and 12.2 sheep units, respectively.

2: The aforesaid camels (i.e., x , y , z and w) are equal to 5.2, 7.2, 9.2 and 12.2 sheep units, respectively.

3: The quantities x , y , z , and w have been assumed to equal 6, 8, 10 and 12 sheep units, respectively, in order that the relationship $5y=4z$ is established and each 4-year-old camel equals ten sheep units.

as to the value of each 2-year-old, 3-year-old, 4-year-old and 5-year-old camel also in terms of a sheep unit. For this calculation, there are three assumptions:

Assumption 1. The value of x , y , z and w have been assumed to be 5.2, 7.2, 9.2 and 12.2 sheep units, respectively. This assumption is based on the fact that there is evidence in Table 5.3 in rows 3–6 that for each 5-camel increase, 1 sheep is added to the amount of the *Zakat*. Another point is

that the *Zakat* on 25 camels, which is 5 sheep, should be approximately equal to the amount of the *Zakat* on 26 camels, which is one 2-year-old camel, or x .

From lines 7–9, for each increase of every 10 camels, one year is added to the age of the young camel that is to be paid as *Zakat*. In view of the connection in lines 3–6, we learn that for the one year that is added to the age of the young camel, the equivalent of two sheep units is added to its value. Thus, when $x=5.2$ is assumed, as a consequence, two other variables ($y=7.3$ and $z=9.2$) are assumed.

On the basis of these assumptions, the *Zakat* on camels is collected in terms of sheep units. As previously stated, it has been assumed that each camel is worth 10 sheep. Thus, one can calculate the percentage of the *Zakat* on camels and it becomes apparent that the *Zakat* on all quantities of camels is 2%, as can be seen from Table 5.3.

Assumption 1 has only one difficulty. On the basis of Table 5.3, the *Zakat* on 200 camels is $4z$ or $5y$, and must be equal. In Assumption 1, $4z=36.8$ and $5y=36$. That is, they differ to the extent of 0.8 sheep units. In order that such a discrepancy might not occur, in Assumption 2, x , y , z , and w have been assumed to be, respectively, 5.2, 7.2, 9, and 12.2 sheep units and, on this basis, the *Zakat* on sheep has been calculated in terms of sheep units and percentages are shown in Table 5.3. It is noted that when the number of camels increases from 5 to 25, the percentage of the *Zakat* thereon is 2%. At more than 140, this percentage is 1.8. For quantities of between 46 and 140 camels, the percentage changes, but it does not exceed 2%. Based on Assumption 3, the *Zakat* on camels comes to 2% except in rows 7–13, where the number of camels changes from 26 to 121.

Two attributes of *Zakat* on animals are depicted in Table 5.3 under all assumptions: first, the percentage of the *Zakat* on camels is greater than that on cattle; second, this percentage is constant except in a particular limited area, just as the percentages of the *Zakat* on sheep and cattle are also constant, except in a particular limited area.

2.2.4 Characteristics of the *Zakat* on Sheep, Cattle and Camels

1. If the sheep, cattle and camels were used as factors of production in an activity (for example, bulls were used for plowing, or camels were used to transport merchandise), they would be exempt from *Zakat* (*Towzihul Masa'el* directory n.d.). Therefore, the *Zakat* neither diminished the effort and efficiency invested in animal production nor increased the cost of activities in which they were used.

2. If sheep, cattle and camels were raised on private fields and not fed from public pastures, again the *Zakat* did not apply to them (ibid.). Therefore, the *Zakat* was not a hindrance to the expansion of live-stock breeding activities.
3. If the number of sheep, cattle, and camels was less than 40, 30, and 5 head, respectively, the *Zakat* did not apply to them (ibid.). For this reason, small livestock production units were exempt from the payment of *Zakat*.
4. The *Zakat* on sheep has been calculated and shown in Table 5.1. The percentage of the *Zakat* gradually decreases as the production of sheep increases and remains stable at a rate of about 1%. It is noted that the levying of *Zakat* on sheep is done in such a way as not to weaken the sheep breeder's incentive to increase production.
5. The ratio of the *Zakat* on cattle has been calculated in Table 5.2. It does not exceed 1.5 % and remains stable at that percentage as the number of cattle increases. But the percentage of *Zakat* on cattle is greater than the percentage of *Zakat* on sheep.
6. The percentage of *Zakat* on camels is greater than the percentage of *Zakat* on cattle. This ratio has been calculated in Table 5.3. Although the percentage of *Zakat* calculated is related to the kind of assumption, nevertheless, under all assumptions it is greater than the *Zakat* on cattle.
7. Along with the increase in the value of the livestock unit, as we proceed from sheep to cattle and then to camels, the percentage of the *Zakat* on livestock likewise shows an increase. The latter are subject to a larger *Zakat* because they are hardier and produce a greater variety of products. Considering the income elasticity of demand for these products, the greater income for livestock keepers came from the latter category.

2.2.5 *Zakat ul Fitr*

In addition to the types of *Zakat* mentioned above, the most noble Prophet legislated a per-capita *Zakat* that technically is called *Zakat ul-fitr* or "soul *Zakat*". It is incumbent on every adult person to pay the needy on the day of 'Eld-*ul-Fitr* (feast of the breaking of the fast at the end of *Ramadhan*) 3 kilos of wheat or some crop that constitutes his staple food. The poor are exempt from paying this *Zakat*.

Zakat ul-fitr makes clear that the use of *Zakat* guarantees the availability of food and ensures a better livelihood for the poor. It is possible that,

for this reason, the percentage of the *Zakat* on agricultural items is greater than that on other items.

2.3 *Khums*

Another source of revenue for the public treasury was *Khums*, which was legislated with the revelation of the verse: “*and know that of anything that you acquire, a fifth is to Allah and to the Messenger, the Kins, the orphans, the poor, and the wayfarer*” (Qur’an 8:40).

The interpretation of the phrase “you acquire (Ahmadi Mianaji, Ali 1362/1983) غنمتم” by the *Imamieh Ulama* is different from that arrived at by the general jurists: The *Imamieh Ulama* argue that on the basis of its literal meaning and what was related by the most noble Prophet (SAAS) and the sacred Imams, this phrase includes everything of economic value that is earned, especially since it is accompanied by the phrase “شي من” of anything; therefore, everything is subject to the *Khums*. On the other hand, the general *Ulama* either confine the meaning of this phrase to refer to the booty taken in battle, or additionally extend it to include treasure and, sometimes, mines (*Abu Obaid* 1388L/1968, 467–553). *Ayatollah Ahmadi* carried out an extensive research concerning the word *Khums* (1362/1983) and concluded that “The word ‘you acquire’, ‘غنمتم’ in that blessed verse refers to any wealth that one acquires, whether with or without effort, whether he invests any capital in it or not, or whether he acquires it in battle with the unbelievers or through trade, agriculture, or industry.... Therefore, it is the duty of every Muslim to pay from all property that he acquires lawfully one fifth as the *Khums* to Allah, the Messenger, and the Kins (family members), whether it be little or much. In the text of the verse there is no mention of any restriction or condition that it should be a ‘booty’ or to not.

Ayatollah Ahmadi, in quoting the text of many written directives of the most noble Prophet (SAAS) to his officers in various regions as well as to Arab tribes, shows that the Messenger of Allah issued instructions that the *Khums* be collected from new Muslims in relation to everything that they had obtained through various economic means and not just as spoils of war. In view of the importance of this matter in making clear to what the *khums* applies and the way in which the most noble Prophet (SAAS) collected it, some of the evidence referred to above is presented here:

- (a) The most noble Prophet (SAAS) sent letters to tribes scattered throughout Arabia, Oman, Bahrain, Yemen and Syria ordering them

to pay *Khums* even though many of these tribes were small and possessed insignificant warring capability to confront the unbelievers. Consequently, the order of the Messenger of Allah (ST) to these tribes to pay *Khums* cannot refer to war booty.

- (b) If the meaning of *ghana'im* غنائم (pl. of *ghanima* غنيمه) in the most noble Prophet's letters refers to booty taken in battle, the meaning of the order is that everyone is permitted to fight the unbelievers at any time and in any place. This permission would lead to chaos. It is contrary to the conduct of the most noble Prophet (SAAS) and has no precedent in the history of Islam.
- (c) In an order that the great Prophet (SAAS) wrote to *Omar bin Hazm*, he instructed him to collect the *Khums* in Yemen just as he was responsible for collecting *Zakat* as prescribed, "and he ordered him to take Allah's *Khums* from *ghana'im* and the alms (*sadaqat*) prescribed for the believers". This instruction was given at a time when the chroniclers are aware that no fighting had taken place in Yemen to make it possible for the *Khums* to apply to the spoils of war.
- (d) In a letter that the Prophet of Allah (ST) had sent to *Sa'd* and *Juzlam* tribes, he instructed them to send their *Zakat* and *Khums* to two emissaries of the Messenger (SAAS), *Ubayy* and *Anbasah*, or to their representatives. This instruction was issued to the aforementioned two tribes when they were new Muslims and had not acquired booty through fighting for Islam.
- (e) In many of the letters that the Messenger (SAAS) sent as letters of security for Arab tribes, he bound them to pay the *Khums* and laid other obligations on them. The assumption of this commitment is an indication that it was a duty laid upon the individuals of the tribe to pay *Khums* on their wealth.

Abmadi cites other evidence showing that the *Khums* funds increased to such an extent that the revered Prophet (SAAS) had special officers to collect them, just as he had special officers to collect the *Zakat*. As we have said, *Khums* is a tax that is collected on various kinds of *ghana'im* and perhaps the most important things to which it applies are the savings of consumers and the profits of producers. Of these funds, 20 % is collectable annually in the form of *Khums*. An important characteristic of *Khums* as a tax instrument is the fact that it is proportional. This characteristic brings about the stabilization of economic affairs. On the one hand, it

prevents the worsening of inflation when total demand outstrips total supply. On the other hand, it prevents stagnation when the opposite situation prevails.

In addition to guaranteeing revenue for the public sector and stabilizing the economy, another distinction of the *Khums* is that the collection of it did not diminish the producer's incentive to increase production. This is so because *Khums* is payable from the net profit or the value added of the producers.

2.4 *The Jizyah (Poll Tax)*

Another tax source in early Islam was the *Jizyah* (poll tax). This was collected from non-Muslims who lived under the protection of the Islamic government but did not wish to become Muslims. The tax was levied on them in return for economic, social and welfare services provided to them and for guaranteeing the security of their lives and property. This tax was very similar to the *Zakat ul-fitra* that every Muslim paid annually.

The first group that agreed to pay the *Jizyah* to the Prophet (SAAS) was the Christians of *Najran*. Then the Prophet (SAAS) also collected the *Jizyah* from the people of Bahrain who were *Zoroastrians*. Among the persons who seem to have been put in charge of collecting the *Jizyah* were *Abu' Obaid ibn Al-Jarrah* and *Muazib bin Jabal* (*Katani* n.d., Vol. I, 392; *Abu Obaid* 1388L/1968, 39).

The amount of the *Jizyah* in the days of the Prophet (SAAS) was 1 dinar, which was collected annually from the men. Women, persons under the age of 15, the infirm, slaves, the clergy and religious monks were exempt from the payment of the *Jizyah* (*Abu Obaid* 1388L/1968, 38–52 and *Jaj*). The *Jizyah* was not the only per capita tax that was collected in early Islam. A tax similar to it was *Zakat ul-fitra*, which was collected from the Muslims. The adult or the guardian is required to pay *Zakat ul fitra* on behalf of his spouse, children and dependents.

The amount of the *Jizyah* was equal to the minimum *Zakat* that every Muslim paid, because the minimum taxable income at that time was set at about 400 dirhams or 40 dinars and the *Zakat* on it was 10 dirhams or 1 dinar. In addition, non-Muslims paid no other tax except for those who were engaged in cultivating land. They, like the Muslims, paid the land tax. Those who paid the *Jizyah*, unlike the Muslims, were not required to take part in any war.

2.5 *Other Revenues*

Another source of public treasury revenue was the *kaffarah*, a fine in cash or in kind that Muslims had to pay for committing certain transgressions. For example, a person who failed to fast on one of the days of *Ramadan* had to feed 60 poor people for a specified period of time as expiation for his sins. Other kinds of *kaffarah* are mentioned in books on jurisprudence.

3 METHODS OF COLLECTING TAXES

After having considered the sources of the public treasury's revenue, it is appropriate to look into the manner in which the tax revenue was collected and made available. Some of the letters that the holy Prophet (SAAS) had sent to newly conquered regions about the collection of the *Zakat* and the *sadaqat* still exist and have been collected by *Ayatollah Ahmadi* in a book called *Letters of the Messenger*. In view of the fact that the *Zakat* was something new and the new Muslims were unfamiliar with it, the Messenger in these letters specified the sources of the *Zakat* and the amount of it. In the days of *Umar's* rule and after victory had been won over lands conquered in battles and the land tax had been collected from them, the revenue of the Muslims' public treasury increased enormously and is reported to have reached 160 million dirhams. Consequently, the method of collecting and the nature of the attitude of the tax officials toward the taxpayers became very delicate matters. An example of this attitude and the manner of collecting tax is the instructions of the Commander of the Believers, Imam Ali (AS), to one of his officials at the time of his caliphate. He advises his officer to approach the taxpayers with caution and with fear of the One and Unique Allah (ST) and "not frighten a Muslim, and do not trespass upon his (garden or field) if he is averse and disagreeable. And do not take from him more than Allah's due." Then the Imam advises him to alight at the source of water, when he reaches a tribe, without entering their tents. He should approach them calmly until he stands among them with greetings and praises. Following that he should say: "O, servants of Allah, the friend and caliph of Allah has sent me to you to collect Allah's due and share of your property; Is there any due or share of your property that belongs to Allah and that you are to pay to His trustee?" If someone says there is not, he should not challenge him. But if someone says "There is," then he should go with him without making him afraid, alarming

him, being harsh or causing him hardship. Then he takes whatever gold or silver is paid out.

“If he has cattle, sheep, or camels do not approach them without his permission, for most of them are his property.” When he is near the animals, he must not look at them like a person who has power over their owner, or like someone who is being severe with him. The Imam goes on to emphasize: “Do not frighten the animals and do not vex their owner over them.” After reaching the herd, “Divide the property into two parts and let him choose the part he wants, and when he has made his choice do not oppose it. Then divide the remaining ones into two parts and let him choose (which one he wants). Then whenever he makes a choice do not oppose it. Keep on dividing the property up in this way until the quantity remaining represents what is due to Allah from his property. Then collect Allah’s due from him.” Imam Ali further recommends that, if the herd owner wants to cancel the division, he must accept and mix the animals up again, following the same procedure for a second time until what is due to Allah from his property is collected.

The Commander of the Believers also instructs his officer that an old camel that is unfit for work, worn out, or has defects should not be taken. Neither should he appoint an agent to people unless he is confident of his religious sincerity: “so that he will deal honestly with the property of the Muslims and sends them forth to their rulers and he divides property up when he is among them”. The Commander further dictates his officer not to appoint as the custodian of the property anyone but a person who is honest and of good disposition, who has not exhibited harshness and severity, and who has not vexed and wearied the people. Then the collected tax must be sent to the Commander quickly in order to be employed “for the purposes ordered by Allah”.

The Imam also notifies his agent to take care of the animals: “not to separate a camel from its suckling calf and not to milk the camel too much so as not to deprive the calf and cause it to become tired and fatigued when it is driven. In the matter of milking and driving, he should treat that camel and the others in an equal way....Of the camels that have been collected, the ailing ones should be rested. Drive at an easy and leisurely pace and let rest any one that has an abraded foot and has become worn out from walking. Lead them to pools and watering places frequented by camels and do not take them from routes where there is no grazing. You should let them rest and relax for a few hours. They should be allowed respite at places where there is water and grassy pasture. With the permis-

sion and by the decree of Allah, they should reach us in a fat and robust state and full of pith, not worn out and exhausted, so that we can divide them up and allot them as decreed by Allah's scripture and the practice of the Prophet."

Finally, the Imam concludes his letter by mentioning the reward that the officer will gain: "that which Allah has set aside for you will be most fitting as your reward and most suitable for your right guidance and your salvation, Allah so willing" (Nahj ul Balaghah 1365/1945, Letter 25).

4 EXPENDITURE ACCOUNTS OF THE *BAITUL MAL*

The measures taken in early Islam by the great Prophet (SAAS) and the first four caliphs to develop the economy and increase employment and production were of two kinds. The first included guiding the people to begin new economic activities, either on their own or in cooperation with other groups, without the direct expenditure of any public treasury funds for this purpose. Outstanding examples of this sort of policy adopted by the most noble Prophet (SAAS) at the beginning of the *Hijrah* era are seen in *Madinah*, some of which have been explained previously. The second kind of measure consists of policies and actions that were carried out by the Messenger and the caliphs who followed him with the use of funds from the public treasury. In both cases, the policy in question was enunciated and implemented either by the leader of the Muslims or at the suggestion and instigation of one or more of the Muslims. These two kinds of policy are explained in the next two sections and give a picture of the role played by each of them in the economic growth of the community in early Islam.

4.1 *The Propagation of Islam*

Since the basis for every Muslim's belief and conduct has been set forth in the Holy Qur'an, the noblest Prophet (SAAS), after commencing his mission in *Makkah*, continued to recite the verses of the Holy Qur'an and in this way attracted the people of *Makkah* to Islam. Also, after the emigration to *Madinah* he, on one hand, encouraged the new Muslims to teach the Qur'an and ordered them to spend money in the cause of Islam, while on the other hand he instructed "the people of *Suffah*", among whom were *Aban bin Saied ibn al Asi* and *Abu Obaid ibn al-Jarrah*, to devote themselves to teaching the Qur'an (*Kattani*, Vol. 1, 40-41). In AH (After

Hijrah) 10, the Prophet (SAAS) sent *Umr bin Hazm* to *Najran* to teach the Qur'an and collect *Zakat*. Other persons whom the Prophet (SAAS) sent abroad to teach the Qur'an and give instruction in the religion of Islam were *Abu Obaid ibn al-Jarrah*, *Rafe' ibn Malik al-Ansari*, *Usayd ibn Hazair* and *Khalid ibn Sa'id bin al-Asi* (*Kattani*, Vol. 1, 42–44).

Whenever the Prophet of Allah (ST) was victorious in a campaign, he appointed an officer to carry on the teaching of Islam in the region that had been conquered. For example, after the conquest of *Makkah*, he appointed *Attab ibn Osayd* governor of *Makkah* and named *Ma'aze ibn Jabal* to teach religious precepts and jurisprudence (Ayati, 545). Following the *Tabuk* campaign and the capitulation of *Al-Ta'ief*, the influence of Islam spread to all parts of the Arabian Peninsula and the representatives of the tribes and the leaders of the Arabs kept coming to *Madinah* to embrace Islam. When they returned home, the most noble Prophet (SAAS) usually sent someone along with them to teach the religion and the Qur'an and another person to collect *Zakat* (Fayyaz 1335/1956, 119–120).

The noblest Prophet (SAAS) employed various means of propagating Islam. Since poetry and literature were highly esteemed early in Islam, the Prophet (SAAS) made use of poets and orators to spread the teachings of Islam. Among the poets who declaimed poetry in defense of the Muslims and the rites of Islam were *Hassa'n ibn Thabit*, *chah*, and *Ka'ab ibn Malik*. In addition to them, certain other orators were also in the service of the Messenger (SAAS) in early Islam (*Kattani*, Vol. I, 210, 218).

During the time he governed, the Messenger of Allah (ST) sent many missionaries to various lands to call the leaders and inhabitants of those countries to Islam. For example, on one occasion the Prophet (SAAS) had sent 70 young men of the *Ansar* to proselytize the people of *Najd*, at the request of one of them, when the incident of *Bar Ma'unah* occurred (*Al-Waqedi*, Vol. 1, 255). Likewise, one day in the month of *Muharram*, AH7, he dispatched six ambassadors with six letters to six countries to call their leaders and inhabitants to Islam. The number of the Prophet's ambassadors is reported to have been 26 in all. They were successful in all of their missions except in their attempt to convert to Islam the Emperor of Byzantium, the King of Persia, and two or three other persons (Ayati, 448). Sometimes these officers sometimes went on their missions at their own expense, and sometimes at the expense of the public treasury. In later *Hijrah* years, when the capabilities of the public treasury had improved and missions were sent to distant destinations, the cost of and provisions for the journey and the salaries and emoluments were paid

from the public treasury. One of the expenses paid from *Baitul Mal* funds was that for proselytization and the propagation of the Faith. At the same time, an expense paid for out of the *Khums* and the *Zakat* was the preaching and propagation of Islam.

4.2 Cultural Measures

The noblest Prophet (SAAS) also had great concern for the instruction and education of the Muslims and made use of every opportunity to make them literate. For example, he instructed *Zayd bin Thabet* who, after the battle of *Badr*, had been taught to read and write by one of the captives, to learn the Hebrew script also (Ayati, 347). The Prophet (SAAS) told 10 literate prisoners taken in the same battle that, if each one taught 10 youngsters to read and write, they would be freed (Ayati, 259). In this way, the number of the Prophet's literate companions increased so that the number of the Prophet's clerks and scribes has been recorded as being 42 (*Kattani*, Vol. I, 40–48). It is noteworthy that, before the noblest Messenger's mission, the number of literate persons in the tribe of the *Quraysh* was 17. Likewise, in *Madinah*, apart from the Jews, the number of individuals who knew how to read and write was very low (*Al-Baladzari*, 382–384). *Al-Waqedi* says that they amounted to 11 persons.

The movement to teach reading and writing in *Madinah* spread to such an extent that the place became distinguished by the epithet of *Dar-ul-Qurra'* (the abode of literates). It has been related that after *Abdullah ibn Maktum* returned to *Madinah* from the battle of *Badr* accompanied by *Musa'ab ibn Umayr*, he took up quarters in the *Dar-ul-Qurra'* (*Kattani*, Vol. I, 56). *Al-Waqedi*, too, says that a certain place in a corner of *Madinah* was set aside for the youth of *Ansar* purely for prayer and study (Vol. I, 225).

The Messenger himself also undertook to appoint judges for the Muslims. Among the persons who exercised judgeship were *Ali ibn Abi Talib*, *Muhammad ibn Maslamah* and *Attab ibn Osaid* (*Kattani*, Vol. 2, 313).

In addition to sending forth teams to propagate Islam and appointing judges and teachers, the most noble Prophet (SAAS) was very concerned with the building of *masjids* and using them as centers for communal prayer and as places to assemble, consult, and make decisions, as well as to distribute funds from the public treasury. The Prophet (SAAS) also, at one time, used his *masjid* to house homeless companions. As previously mentioned, a number of early *Muhajirin* to *Madinah* were given living quar-

ters in the *masjid* and the Messenger housed some in a dwelling belonging to the *Ansar*. After the conquest of *Makkah*, many groups from various parts of *Hijaz* came to the Prophet (SAAS) to embrace Islam. The noblest Prophet (SAAS) had them quartered in the dwelling of the companions or in a tent that was set up in the *masjid* (*Kattani*, Vol. I, 447–450).

Although the greatest Messenger made use of the Muslims' resources to build *masjids* and teach the Muslims, his concern for these matters tells us that his guidance system and government paid attention to educational matters and to meeting the costs thereof as far as it was possible.

4.3 Promotion of Science and Technologies

During the rule of the noblest Messenger and the first four caliphs, scholars, physicians and men of letters who already were at hand were held in respect and were employed in the diffusion of science and knowledge. Likewise, in *Madinah* use was made of the services of physicians who had been occupied in teaching and practicing medicine at the *Jundi-shapur* university and, despite the fact that they were not Muslims, efforts were made to have them settle there and practice medicine.

One of the famous physicians and a contemporary of the Prophet (SAAS) was *Al-Harith ibn Kaldah*, who had completed his education at the *Juday Shapur* university in Persia and had also practiced medicine there for a time. When he returned to his homeland, the Messenger welcomed his arrival. The Prophet's considerate treatment of this physician is evident from the visits he paid to him. When *Sa'd ibn Abi Waqqas* fell ill, the Prophet (SAAS) went to visit him and recommended that they bring *Al-Harith ibn Kaldah* to treat him (*Kattani*, Vol. I, 455–457).

Among other physicians of that era were *Al-Nazr ibn Al-Harith*, the son of *Al-Harith ibn Kaldah*; *Dzamad ibn Thalabah Al-Azdi*, who also was a devoted friend of the most noble Prophet (SAAS); and *Ibn Abi Ramtah At-Tamimi*. The last-named was a surgeon, and reports about operations performed by him have come down to us (*Kattani*, Vol. I, 456–461).

At the time of the caliphate of Imam Ali (AS), several physicians were residents of *Kufa*, Imam Ali's capital. The best-known of them was named *Atheer ibn Amr ibn Hani As-Sakuni*. This physician was called on to treat the Imam after the terrorist attack by *Ibn Moljam* which led to the Imam's martyrdom (*Yadegari*, 180). The physicians named were *Zoroastrians*.

The fact that they were called on to treat and save the life of the caliph of the Muslims shows the closeness of the ties of mutual trust and respect.

In history, the names of a small number of Muslim women who were known as midwives have been recorded. Among them was *Salma*, the wife of *Abu Rafe'*, who assisted at the birth of the most noble Prophet's son *Ibrahim* (*Kattani*, Vol. 2, 118). One of the women who practiced nursing was *Rofaidah tel-Ansari*, who tended those who were wounded in the battle of *Khandaq* (*Kattani*, Vol. 1, 453–454).

The great Prophet (SAAS) was also much concerned with the matter of sanitation. A well-known tradition of his, "*cleanliness (comes) from the faith,*" refers to that subject. It has been related that the Prophet (SAAS) said: "If it were not for the fact that Muslims would be under stress, I would have made brushing their teeth an obligatory duty" (*Kattani*, Vol. I, 97). Likewise, it has been said that in order to preclude the spread of disease, he ordered something resembling quarantine to be established (*Kattani*, Vol. I, 466). On the basis of 40 traditions of the Messenger containing medical and sanitation instructions and injunctions, *Ibn Tarkhan* composed a book called *The Prophet's Precepts on the Art of Medicine* in 10 chapters (*Kattani*, Vol. 2, 339–340).

The above are all indications of the Messenger's concern for the science of medicine and sanitation, and his mustering the resources for the health of Muslims and their learning. In this way, Muslims quickly began to acquire this science, and prominent Muslim physicians became recognized in this field. The superiority of Muslims in the sciences of medicine and, chemistry, and other experimental sciences in the time of seventh and eighth Imams *Jafar es Sadiq* and *Ali Ar-Riza* (AS) earned well-deserved fame.

Another art that was very important in the time of the rule of Allah's (ST) Messenger was that of the production of arms. It is said that one of the companions of the most noble Prophet (SAAS), with the latter's permission, went to Persia and brought back to *Madinah* four experts in the production of swords, shields, helmets, lances, arrows and bows, together with the necessary raw materials: iron ore and *Badameshk* wood. With the construction of a smelting furnace, he made the aforementioned weapons from iron ore, and arrows and bows from the *Badameshk* wood (*Hasan Ibrahim Hasan* 1356/1977).

In the battle of *Khaybar*, the Muslims faced two new weapons: the mangonel and the testudo, which the Jews had constructed. Thanks to measures that Allah's (ST) Messenger had implemented, the Muslims also

learned to make these weapons and they used them in their subsequent battles, including that of *Al-Tae'f* (*Kattani*, Vol. I, 375).

Finally, it should be mentioned that the attention of the great Prophet (SAAS) was not confined merely to making the Muslims acquainted with the aforementioned matters. Rather, he showed a concern that the Muslims should learn all the techniques and professions that were available. Under this encouragement the arts of weaving, needlework, ironworking, construction, leatherworking, well-digging and the use of underground water flourished among the Prophet's followers in the days of his rule, and artisans were engaged in these activities (*Kattani*, Vol. 2, 103).

One of the arts that reached the Islamic world when *Umar ibn Al-Khattab* was ruling was the art of managing the fiscal and accounting affairs of the public treasury. The Muslims' acquaintance with this art and its application was the reason why the public sector employed the most advanced methods of its time in preparing its budget and its accounting of revenue and expenditure. The conquest of Syria and Egypt, also in the time of *Umar*, acquainted the Muslims with new technologies. Among these arts were architecture and urban planning, with the result that, at the order of *Umar*, the two cities of *Kufa* and *Basrah* were built. Likewise, by his leave a canal was constructed between *Al-Fustat*, Egypt's capital at the time, and *Bahr al-Qulzum* (The Red Sea). The importance of these measures will be explained later in the chapter.

In the era of Imam Ali's caliphate, and as a consequence of his concern for the diffusion of knowledge, *Basrah* and *Kufa* became two centers of science and literature. *Abu ul-Aswad Ad-Du'ali*, who is recognized as the compiler of the science of Arabic grammar, was living in *Basrah* at that time according to one narration. *Abu ul-Aswad*, who was one of the close companions of Imam Ali (AS), was instructed by the Imam in the science of grammar and its compilation (*Kattani*, Vol. 2, 272–275). The science of interpreting the Qur'an, the traditions of the Prophet (SAAS), poetry and literature, biography, narration of the Prophet's acts, and certain other fields also matured in that era (*Yadegari*, 179–180).

Among the other important steps taken by Imam Ali (AS) during his caliphate was the striking of coinage in the name of the Islamic state (*Jafar Murtaza*, 127–137). Up to that time, Persian and Byzantine coins had been used. On one side of the coins that have come down from that time was the inscription: "Allah is the Eternal (One); He does not beget and He is not begotten, and there is no one like unto Him." The other side is inscribed: "There is no god but Allah alone; there is no one

associated with Him.” Along the outer edge on one side are the words: “Muhammad is the Messenger of Allah. He sent him with the guidance and the true religion that he might make it manifest over all other religions, even though the polytheists might resist it.” Along the outer edge on the other side is the legend. This dirham was struck in *Basrah* in the year 40 (*Kattani*, Vol. I, 413–428). This shows that, at the time of Imam Ali’s caliphate, the Muslims had completely mastered the technology of smelting and casting metal and minting coins and had become skilled in it.

4.4 *Infrastructure Investments*

Along with encouraging private activities, the Messenger of Allah (ST) devoted particular attention to investment in infrastructure. While carrying out the program of division of land for dwelling lots, a place was set aside for a public bath (*Kattani*, Vol. I, 281–282). Also, at the suggestion of one of the people, he had a suitable place chosen for the establishment of a market in the city of *Madinah* (*Kattani*, Vol. 2, 163). The noblest Messenger paid particular attention to expanding communications networks between inhabited areas; so that narrow roads and highway obstructions were eliminated—even on the battlefield (*Kattani*, Vol. I, 282). The Prophet (SAAS) was also very concerned with the postal service and issued instructions for improving it (*Kattani*, Vol. I, 246).

Umar ibn al-Khattab also had a praiseworthy interest in investment in infrastructure. The two cities of *Kufa* and *Basrah* were constructed at his order. Furthermore, when these two cities were being constructed, he paid much attention to the layout of the avenues, the width of the streets, and the centrality of the mosque in both cities. After he received a report on the geographical situation of Egypt, he wrote to *Umr ibn el-Aas*, who was governing Egypt on his behalf, ordering him to spend one third of the public revenue of Egypt to build bridges and canals and to repair the water supply networks. He also obliged Christian and Jewish experts to maintain and repair roads and bridges (*Kattani*, Vol. I, 282–283). The most famous act of *Umar ibn al-Khattab* in that land was his permitting *Umar ibn al-Aas*, to dig a canal between *al-Fustat*—which, at that time, was the capital of Egypt and was located near *Cairo*, the present capital—and the port of *Suez*. This canal facilitated navigation between *Hijaz* and Egypt, and made it easier and quicker to transport provisions and foodstuffs from Egypt to *Madinah*. In view of the importance of the subject, this matter is translated fully from *Kattani’s* work *Book of Administrative Procedures*, Vol. 2, pp. 53 and 54:

The digging of the canal refers to a channel that was opened after the conquest of Egypt. This canal extended from *al-Fustat* to *Suez*. The person in charge of it was *Umr ibn el-Aas* in the caliphate of our lord *Umar*. This canal was called the Channel of the Commander of the Believers and became the greatest communication route between Egypt and the Red Sea and India. The reason why it was dug, according to *AI-Magrizi's Book of Districts*, was the appearance of a famine in *Madinah*. *Umar ibn el-Aas* first started sending provisions to *Madinah* overland. Then *Umar*, in order to facilitate the matter, gave instructions to open a canal and do the transporting by sea. The canal was finished before the end of the year and ships used it to transport provisions to *Makkah* and *Madinah*. This route remained open up to the end of the *Umayyad* rule, when it gradually became filled up with sand.

4.5 *Development of Defense and Security Establishments*

During the 11 years of his rule, the Prophet (SAAS) was involved in many great battles. These battles were the result of attacks by the enemies of Islam and their attempts to overthrow the religion and its Prophet. The number of battles in which the most noble Prophet (SAAS) took part was 26 or 27 *Ghazwah*,¹ and the number of times he sent troops to repel attacks by the enemies of Islam has been reported to have been from 36 to 66 *sariyas* (Ayati, 219–266). According to some reports, these campaigns began a few months after the Prophet's emigration to *Madinah*, while others say that they began in AH2. If we assume the number of these combats to consist of 26 *Ghazwahs* and 36 *sariyas*—the minimum number reported by historians—the total comes to 62 engagements. Therefore, the Prophet (SAAS) and the Muslims engaged in fighting on an average of once every two months, or six times per year. These were battles in many of which the existence and the fate of Islam and the Prophet (SAAS) were in danger.

The large number of these battles, the difficulties of providing weaponry and supplying provisions cost the Muslims dearly. Meeting these expenditures, especially in the first years of the *Hijrah* when the Muslims were under stress and facing economic sanctions, was very difficult and grievous. Perusal of the Prophet's conduct in the *gazawat*, whether for guidance, devising military policy, or taking care of the costs of war, has been a great guide to the clarification of this matter, and it reveals the fiscal policies that were adopted on these occasions.

Because defence (*jibiid*) is one of the religious duties of Muslims, they willingly took part in all the *Ghazwabs* and *sariyas*, and only their commander was appointed by the Prophet (SAAS). The fighters (*mujabidin*) usually provided their own weapons and mounts. In the *Ghazwah* of *Badr*, which was the first *Ghazwah* of the Muslims, 313 Muslims took part; even though the Prophet (SAAS) had not made participation in this battle compulsory. The Muslims had only two or three horses, and each two to four of them made use of one camel (*Al-Waqedi*, Vol. I, 17).

One of the important sources for the supply of arms to the Muslims was the arms that were taken as booty in battle. In that same *Ghazwah* of *Badr*, all of the Muslims returned mounted on animals. Each man had received a camel, or two. Every man who had been naked was clothed and was provided with the provisions and food of the *Quraysh* that had fallen into their hands. When they received the ransom for the captives, "it made every poor man rich" (*Al-Waqedi*, Vol. I, 19). That which was left over from the booty from the battle of *Badr*, which consisted of camels, leather, cloth and various goods, was divided equally among the fighters plus eight other persons who were engaged in tasks delegated to them by the Prophet (SAAS). In the same battle, many of the members of *Quraysh* fled after the defeat and, in order to disencumber themselves, they threw their suits of armor on the ground. This armor was also divided up among the fighters. One of the prisoners taken in this battle was *Nufel*, who was freed in return for 1000 lances that he had in *Jidda* (Ayati, 258). One month after *Badr*, a Muslim *Ghazwah* against *Banu Qaynuqa* took place. This tribe was among those inhabitants of *Madinah* who broke their pact with the Messenger of Allah (Ibn Hisham, 75). In this later battle, which ended in the expulsion of *Banu Qaynuqa* from *Madinah*, fresh booty and weapons fell to the lot of the Muslims. In the *Ghazwah* of *Uhud*, the Muslims made use of the weapons acquired in the two latter *Ghazwabs*. As a result, all of the 1000 men who took part in this battle were armed and about 100 of them were wearing suits of armor (*Al-Waqedi*, Vol. I, 156).

Following the battle of *Badr*, the verse relating to the *Khums* was revealed, according to which the Prophet (SAAS) set aside one fifth of the booty from each battle. By dividing it up among the Muslims or selling some of it and buying necessary arms, he increased preparedness and provision for coming conflicts. From the booty taken from *Banu Nadzir*, he (SAAS) set aside enough to provide for his subsistence for a year, and ordered that the rest be spent for purchasing horses and weapons (*Kattani*, Vol. I, 330, 343). After the battle with *Banu Quraidzeh*, the

Prophet (SAAS) sent a number of prisoners to *Najd* and, in exchange, bought horses and arms for the Muslims (Ayati, 386). The person in charge of this operation was *Sa'id ibn Zayd*, who bought horses and all kinds of weapons found in *Najd*, of which there were nine types of swords (*Kallani*, Vol. I, 330, 343).

Occasionally, the Prophet (SAAS) would borrow weapons, even from non-Muslims. When he set out to do battle with the *Hawazin*, borrowed 100 suits of armor, along with their accessories, from *Safwan ibn Umayyah*, who had found refuge in *Makkah* but who was still a polytheist. The Prophet (SAAS) guaranteed that, when the battle was over, he would return these suits to him in good condition. He also borrowed camels from the *Safwan* to transport them (*Ibn Hisham*, Vol. 2, 292). Thus, in a pact with the people of *Najran* the Prophet (SAAS) made it a condition that if war should break out in Yemen, the people of *Najran* would put suits of armor at the disposal of the Muslims as a guaranteed loan (Yaqoubi 1338/1959, Vol. I, 452).

The Prophet (SAAS) continually strove to increase the defense capability of the Muslims by making use of new tools. As previously mentioned, in the battle of *Khaybar* the Muslims faced two new weapons: the mangonel and the testudo.. Through a policy that his greatness put into operation in this battle, the acquisition of these weapons was made possible.

Another method used by the revered Prophet (SAAS) to pay for the costs of war was to ask for help from the people themselves. In each *Ghazwah* in which the holy Prophet (SAAS) intended to participate, he informed the people and asked them to take part. The battle of *Tabuk* was the Messenger of Allah's last and greatest *Ghazwah*. News had come that the Byzantine Emperor Heraclius with 100,000 troops had come from Byzantium to overthrow the state of Islam and en route had arrived in Syria. The Prophet (SAAS) had to prepare a well-equipped army. In order to ready the army and the supplies for this battle, he frequently asked the people for help. The result was that, despite the hot weather and the length of the journey, 30,000 Muslims heeded their Prophet's call and set forth in his service to fight for Allah's cause. In this *Ghazwah* they had 10,000 horses and 12,000 camels with them. Some have recorded the troops of Islam as numbering up to 70,000. There was a number who were unable to join the army because they had no mounts. Because of the distance to the objective and the fact that the Prophet (SAAS) was in a hurry to reach it, they could not accompany the army on foot. These men asked the Messenger of Allah (ST) for mounts and provisions for

the road so that they could take part in the *jihad*. When the Messenger said, “I have nothing for you in the way of mounts, they left his presence weeping, dejected, and in distress. Verse 92 of *Sura* of Repentance [Qur’an 9:93] was revealed with respect to them (Ayati, 580–581).

In order to cover the expense of the battle of *Tabuk*, it was necessary for rich Muslims to provide financial aid. This they did with the greatest pleasure and devotion. Likewise, many Muslim women sent their jewelry to the Messenger for use in equipping the army of Islam for action. The poor, too, contributed what goods they could to help pay the expense of this battle. One person brought a measure of dates and said: “O Messenger of Allah! I labored in a palm grove and received two measures of dates as my wage. I have kept one for my family and have brought one for the expenses of the battle” (Ayati, 582).

Apart from obtaining and providing arms, the Prophet (SAAS) made adequate efforts to prepare military plans and establish military institutions. An example of this planning and preparation is seen in the battle with *Al-Ahzab* (the confederates) and the plan for the defense of *Madinah*. The cause of this battle was that news had reached the most noble Prophet (SAAS) that all of his enemies, both the *Quraysb* and the Jews, had conspired to attack *Madinah* and root out his holy movement. The Prophet (SAAS) at first tried to dissuade the various attacking groups, but with no success. Then he laid the matter before his companions and, at the suggestion of *Salman al-Farsi*, he decided to dig a moat around *Madinah* to protect it from the enemy. In order to carry out the project, the most noble Prophet (SAAS) divided up the work among the Muslims and assigned each section of the moat to a team, making each 10 Muslims responsible for digging 40 cubits (Ayati, 352–353). According to some writers, the length of the moat was more than 5.5 kilometers, and they have estimated that it was about 10 meters wide and 5 meters deep (Ayati, 353).

During the battle of *Badr*, Muslim troops selected a camp that was close to water wells. In the *Ohod* battle, however, they were stationed under the shade of the *Ohod* mountains while the enemy faced the sun.

The great Messenger observed secrecy, not disclosing his destination before war expeditions (Tabatabaei 1362/1983). His foreign and military policy in dealing with the enemy can be understood from the report that follows.

Whenever the Messenger of Allah (ST) dispatched an army, he ordained its commander in chief specifically and the troops generally to be pious and conscious of God. He would ask them to fight the pagans in the name

and for the sake of Allah. He forbade them from deluding, betraying, mutilating the dead, killing infants and hermits, burning date trees and drowning them with water, cutting any fruit trees and setting cultivations afire. He also asked them not to hunt beasts of lawful meat except for consumption. The great Messenger encouraged troops to invite the enemy to three options: either to accept Islam, to pay *Jizyah*, or to desist from fighting. If they agreed to any option, the Muslims were to accept it and relinquish the fight (Tabatabaei 1362/1983, Waqedi 1366/1987, Vol. III, 577–578). When *Bani Quraidzib* captives were distributed, the Messenger forbade separating children from captivated mothers (ibid., 396). Also his Greatness awarded some gifts to women who had participated in this warfare (ibid., 395).

4.6 *The Provision of Social Welfare*

Part of the public treasury's revenue was allotted by the Prophet (SAAS) to alleviate the poverty of low-income persons. This revenue, as we shall see, consisted of *gana'im*, *Khums*, *Zakat*, *Kharaj* and *Jizyah*. Each person was paid enough to guarantee him a livelihood for one year; in other words, his income came to the level of *Nisab* (the basic tax-free amount). This limit has been dealt with previously in the discussion of the income of cultivators, livestock breeders, merchants and artisans.

The way in which *Zakat* was applied to these activities has already been described. Here, the object is only to show the figures and indicators of the minimum taxable amount of income in early Islam in order to demonstrate that, if an individual's income did not reach this level, the difference was made up for him from the public treasury.

Each of the public treasury's sources of income was spent for its own specific purpose. For example, the purposes for which the *Zakat* revenue was spent were (Qur'an *Toubah*, 9/40):

1. Aid to the poor;
2. And the indigent;
3. Support to nomads;
4. Payment of the salaries of the officials who collected the *Zakat*;
5. The paying off of loans made to debtors who were unable to repay their debt;
6. Attracting non-Muslims to Islam;
7. Freeing slaves;
8. Carrying out public works activities.

The *Khums*, too, was used for specified expenditures similar to those of the *Zakat*. The Prophet (SAAS) and his successors allocated *Khums* to *Bani Hashim's* orphans, the poor and the nomadic (*Waqedi*, 274). The tax on conquered land taken as spoils was spent for any purpose that the most noble Prophet (SAAS) deemed appropriate. But the tax on land conquered by force that had fallen into Muslim hands in a *jihad* was spent only to care for the needs of the Muslims themselves. For the same reason, the most noble Prophet (SAAS) divided up the revenues of the public treasury on a daily basis according to specific expenditures. When the division was made, the Messenger paid each entitled person an equal share. *Waqedi* (305) has registered the distribution of *Fai'e* (booty obtained without conflict), *Khums* and *Sadaqat* (alms). During the initial AH years, while *Baitul Mal* revenues were not considerable, the main source of alms was the wealth that the Messenger had inherited from *Mokhairiq*, a wealthy Jewish scholar who embraced Islam after His Holiness emigrated to *Madinah*. He participated with Muslims in wars against the heathens and appointed the Prophet (SAAS) as his heir prior to his martyrdom (*Ayati*, 217).

In many cases, gifts were awarded to members of delegations that came to embrace Islam. Some instances of the presentation of such gifts are the following:

1. To each of the 13 members of the delegation from *Banu Murrab*, he gave 10 ounces of silver with the exception of *Al-Harit ibn Awf*, to whom he gave 12 ounces;
2. To each member of the delegation from the *Ta'labah*, he gave 5 ounces of silver;
3. To *Be'sr ibn Mu'awiya ibn Thowr* of the *Banu Buka'* tribe, he gave several ewes;
4. To each member of the delegation from *Banu Hanifa* (13–19 persons), he awarded 5 ounces of silver;
5. Each of the 16 members of the delegation from *Tajib* was favored with more than that given to other delegations (*Ayati*, 642–609).

These gifts were handed out by *Bilal*, who had been delegated by the Prophet (SAAS) to carry out this task. He was also in charge of poor relief. Needy persons who came to the Prophet (SAAS) were referred to *Bilal* to be supplied with clothing and food. *Bilal* even had instructions that, if the budget was exhausted, he was to take out a loan and obtain food for those who were without it. It has been related that after the most noble

Prophet's death, our Lady *Fatima* (AS) looked after *Bilal*, and that the Imam al-Hasan (AS) did so later on (*Kattani*, Vol. I, 441–442). As previously mentioned, in the time of *Umar ibn al-Khattab*'s rule, a census of the Muslims was taken and, on the basis of this, he designated a share of the tax on conquered lands to be allotted to all of the *Muhajirin*, *Ansar*, members of the Prophet's family, and other persons as follows: To the Prophet's spouses and his paternal uncle *Abbas*, he allotted 10,000 dirhams per year except for *Ayisha*, who was assigned 12,000 dirhams (and *Juwayriya* and *Safiya*, each of whom received 6000 dirhams).

To those who fought at *Badr* and to *Ali*'s sons *Hasan* and *Husayn*, 5000 dirhams; to those who were early converts to Islam but who were not present at *Badr*, 4000 dirhams; to *Abdullah ibn Umar* and certain children of the *Muhajirin* and *Ansar*, 3000 dirhams; to other children of the *Muhajirin* and *Ansar* 2000 dirhams; to the *Makkahis* 800 dirhams; to other people sums of from 300 to 400 dirhams; to the wives of the *Muhajirin* and *Ansar*, 200, 300, 400, 600 (and 1000) dirhams as the case may be (*Hasan* 1356/1977, 473–474). The aforesaid manner of distribution is also reported by *Abu Obaid* (1388L/1968, 318–324), with minor variations.

This division was revoked when Imam *Ali* (AS) became the caliph. The share from the public treasury was divided equally among everybody, using the same categorization according to which the share had been divided up in the days of the Prophet's rule (*Abu Obaid*, 373–376). But the manner of the apportioning and the question of its fairness caused many of the companions to object and to abandon their allegiance to Imam *Ali* (AS) and join *Mu'awiya*. In reply to the objections of some of them, the Commander of the Believers (AS) said: "*Do you expect me to treat unjustly and oppress those whose leader I have become? I swear by Allah that I am doing no such thing. Even if the public treasury belonged to me personally, I should divide it up equally among all the Muslims. ... But since it belongs to Allah ... you should know that the handing-out of money to those who do not deserve it is inadmissible and extravagant. The dispensing of wealth without proper due brings the giver high status in this world, but in the next world it abases him. It brings him prestige among men, but it lowers him in the sight of Allah*" (*Nahj ul Balaghah* 1365/1945, Speech 126). It should be mentioned that during his caliphate, Imam *Ali* (AS) never allotted himself any funds from the public treasury (*Abu Obaid*, 383–385).

Imam *Ali* (AS) made allotments from the public treasury to the poor and humble who were not Muslims, as well as to Muslims who were

without means. One day “the Commander of Believers, Imam Ali (AS), encountered an old blind beggar and asked his aides about the man’s situation. In reply they said that he was a Christian. The Commander of the Believers (AS) said: ‘You made use of this man’s services, and now that he has become old and feeble you give him nothing’. Then he gave instructions that his livelihood should be taken care of by the public treasury” (*Al-Hur al Ameli* 1403/1982, Book of *Jihad*).

The above exposition shows that a *Nisab* (minimum income) was guaranteed to all citizens, Muslims and non-Muslims alike, in the early days of Islam. This level of income was achieved primarily by bringing together the capabilities for production and employment. If such capability was lacking, it was provided from funds derived from *Khums*, *Zakat*, and *Kharaj*, each on that basis the funds were expended. The *Khums* was spent for the propagation of Islam and for provisions for *Ghazwaks*, in addition to being used to ensure the basic non-taxable income. The salaries of the agents and collectors were paid from the *Zakat* funds. After having met the expenses of the public treasury, the *Kharaj* was divided up among the Muslims. Nevertheless, the basic and chief expenditure of the aforementioned revenues was for the alleviation of poverty, the ensuring of social welfare, and the provision of public services.

5 THE DOMAIN OF THE PUBLIC TREASURY’S ACTIVITIES

An analysis of the expenditures of the public treasury shows that the public sector played an active part in the economy of early Islam. These activities included the promotion of education and morals, proselytization for Islam, paving the way for familiarizing the Muslims with new sciences and arts, and importing and assimilating new techniques. Investment was also made in urbanization, the creation of irrigation channels and canals, the establishing of markets and sanitation facilities by the public sector. In addition, defense policies, the creation of institutions required in times of necessity, and the provision of arms and military expenditures were the responsibility of the public sector. In the time of the Prophet (SAAS), the latter responsibility was carried out with the help of the people themselves, by borrowing arms from allies, and by dividing up war booty and selling one fifth thereof for buying arms. Finally, among the missions of the public treasury was that of ensuring a minimum subsistence level of income and social welfare for all persons, Muslims and non-Muslims, who lived under the banner of Islam.

On the other hand, the activities of agriculture, trade and artisanship were also in full swing in early Islam. The contracts covering agricultural land, short-term share-cropping and limited partnerships that were concluded among the Muslims tell of the expansion of the aforementioned activities that were carried out by the private sector. In other words, the private sector also played an active part in the early Islamic economy in increasing, developing, and expanding employment. The composition and harmonious nature of the activities of the two sectors—the private and the public—gave rise to dynamic growth and development, an increase in well-being and a desirable distribution of income in the economy. That is to say, not all the economic activities were carried out by the public sector in early Islam, and not all of these activities were concentrated in the private sector. Rather, both the public and the private sector played crucial roles in the economic system of early Islam.

A study of the activities of the public treasury shows that activities that had positive externality or had been in the nature of a public utility were provided and operated by the public sector. The fact that these activities were not left to the private sector is the reason why their availability did not decrease relative to the needs of the community, which resulted in a guaranteed desirable level of well-being for the Muslims. On the other hand, private activities that embraced no positive or negative externalities for other producers or consumers and for which there was a balance of supply and demand in the Muslim market were left to the private sector itself, so that the Muslims could carry out the activities in question on the basis of information available in the market. Therefore, the scope of the public sector's activities in the early Islamic economy was not confined to monitoring, enacting and implementing regulations and decrees. Furthermore, all of the public utilities activities and the major part of the public goods activities were also the responsibility of this sector.

6 FISCAL POLICIES

Now, we can discuss and analyze the fiscal policies of *Baitul-Mal* and their modus operandi from the macroeconomic point of view.

6.1 *The Expenditures of the Baitul Mal*

Public expenditure may be divided into two parts: transfer payments and capital investments. Transfer payments would include expenditure for the

maintenance of a minimum subsistence level for the poor and the needy. In addition to that, it would include the bonuses and gifts given by the Prophet (SAAS) to the newly converted Muslims. These types of outlay have the nature of consumption expenses. Nevertheless, some scholars believe that providing for the social security of the poorer classes and the maintenance of their labor force is, in effect, an investment outlay. Except for these two cases, the remaining government expenditures are considered to be investments.

The first category of the expenditures was allotted to education, cultural enhancements and the promotion of Islam. Teaching Qur'an and the verdicts of Islam, dispatch of propagators within and outside the Arabian Peninsula, and even the appointments of judges may be classified under this category of expenditure. The mere expenditure on education and literacy may be considered as an investment in human capital for the enhancement of its productivity, as the attainment of science and technical skills would become impossible in the absence of literacy and education. On the other hand, development of Islamic culture and values brings about a social unity and closes the gaps between the individual choices of that society providing for the cooperation and collective activities among them. This participation paves the path for the division of social and economic works based on individual skills and enhances labor productivity. The appointment of judges results in enactments of legal standards and value judgments, prevents disparities and misunderstandings between individuals and attains resolution should there arise a need for it. In this way, the rights of the owners of factors of production are clarified and economic and social contracts are enforced at no cost and with no wastage of time and effort.

The second category of expenditures is the costs incurred for investments in the development of science and technology, and the provisions made for infrastructure. The evidences on these activities were discussed earlier to make it evident that the *Baitul Mal* in the early Islamic era was meant not only for providing a livelihood for the poorer masses and for various wars and conflicts. During the lifetime of the Holy Prophet (SAAS), a completely different type of technology was developed by way of increasing the skills of workers, and the utilization of an optimal organization and suitable hierarchy to increase the productivity and division of labor between them. The investment in development of these technologies is not objective, because it increases the stock of human capital and not tangible capital such as plants, roads and dams. The latter investment

was very important at the initial stages of the arrival of *Muhajerin* into *Madinah*; hence, we shall discuss this subject along with the concept of the income shares of productive factors in the chapter on “exchange”. Therefore, the advancement of embodied technology must be classified as a public sector investment.

The measures adopted to increase the defense capabilities and overall security of Muslims must also be considered as public sector investments, because economic and trade activities cannot be perceived in the absence of certainty and security. Almost all the economic activities, including production of goods and provision for services, are time-consuming and if for any reason the farmers, cattle breeders, traders and craftsmen are not assured of being able to reap the outcome of their activities, they would never enter into the field of producing goods and services. Therefore, the transfer payments were made on the basis of social justice, and the bonuses given to newly converted Muslims in order to attract their skills and create the sense of hope and solidarity were effectively promotional in nature and savings in the expenses on prevention of bad behavior. Apart from these, the rest of the *Baitul Mal* expenditure was in the form of capital accounts to boost aggregate production and increase the production capacity in the economy.

6.2 *The Methods of Financing Government Outlays*

As far as the allocation of government outlays to the investment activities in the economy is of high importance, the methods of financing these activities are also crucial. If these funds are not financed in a legitimate manner, there arise the risk of inflation, wastage of resources and inappropriate allocation of resources. The annual budget deficit of the government may be one of the problems of inadequate measures to finance government expenditure. In this way, the quality of procuring funding for government outlays and their sources are of prime importance in fiscal policies.

The most important source of government expenditure is provided by the tax income of the government. *Kharaj*, *Khums*, *Zakat* and other sources which were cited earlier were the main modes of financing for the *Baitul Mal*. In addition, sometimes the government opts for public debt where borrowing ammunition and debt capital are of the same nature. Borrowing armaments reduces the heavy cost of their procurement. According to a narrative: the Prophet borrowed 40,000 dirhams

(another quotation is 130,000 dirhams) to be paid to the newly converted Muslims of *Makkah* (*Waqedi*, 661). However, three months later, after returning from the *Honain* Battle, he made the repayments. This meant that there were no debts outstanding during the same year and hence could not be accounted for as a part of the budget deficit of the government. The third source of financing government outlays, especially during the wars and conflict, were public voluntary contributions. Hence, there was always a balance between the revenues and expenditures of the government and, at times, using special methods the unforeseen needs of *Baitul Mal* were financed.

6.3 *No Budget Deficit in the Annual Budget*

As explained, the early Islamic state had no budget deficit. During the life of the most noble Prophet (SAAS), the budget was balanced, and during the caliphate of his successors, especially during the reign of *Umar*, the *Baitul Mal* had surpluses. This is one of the features of early Islamic era fiscal policies, where, despite having repeated wars and a developing economy, especially during the reign of the Holy Messenger, the government did not overspend beyond its resources. It is clear that, the interests and mutual confidence between the state and the public had created such an advantage; if the state were to declare its deficiencies, the public would have helped as much as they could. In this way, the heavy cost of tax estimates, determinations and collections plus the side-effects of collecting these taxes were considerably reduced.

7 TAXES

Each and every kind of early Islamic era taxes has been clearly discussed so far. At this point, we shall discuss their common and unique feature with regards to fiscal policies.

7.1 *Automatic Stabilizers*

Khums and *Zakat*, as we have seen, are proportional taxes and *Kharaj* is also collected in proportion to the rent of land. Proportional taxes, through their proportionalities, greatly help in the stabilization of the economy. During boom times, they prevent inflation, by way of reducing the effects of increased aggregate demand on the total income; during the

times of economic recession and reduced aggregate demand, they would help prevent abrupt declines in national income. From the fiscal policy point of view, making use of proportional taxes is preferable to lump sum constant taxes.

7.2 *Contractionary and Expansionary Fiscal Policies*

In the early Islamic era, *Kharaj* was used for the implementation of these policies. The most straightforward of these policies is the order of Imam Ali (AS) to *Malik Ashtar*; where he advised that, at the time of drought and recession, the amount of *Kharaj* must be reduced with no reluctance and worries as this would itself bring about a rise in the income of people and a flourish economy. After the improvements in the economic situation, the *Waaly* (governor) may attempt to increase the *Kharaj*. Several pieces of evidence are indicative of the fact that *Kharaj* has never been fixed, but that it has been variable in accordance with the economic situations. At the same time, the *Kharaj* has been proportional to the rent on land, which was determined after inspections and land measurements.

7.3 *Specific Uses of Different Taxes*

Each tax had a predetermined use of its own and the payers of *Khums*, *Zakat* and *Kharaj* were very well aware of the allocation of these taxes to the uses that have been explained earlier. Therefore, they used to pay willingly with the utmost zest, and they had faith in the methods of their expenditure.

The funds of the *Baitul Mal* were basically allocated to: (1) propagation and expansion of Islam, (2) improvement of the knowledge and culture of Muslims, (3) advancement of science and technologies, (4) infrastructure investment, (5) defense and internal security, and (6) social security. On the other hand, the uses of *Zakat* included eight different items which were discussed earlier. These items may be summarized in social security and the expansion of Islam. The special uses of the *Khums* fund would encompass defense, promotion of Islam and social security. Taking into account several disbursement cases of *Kharaj*, we may say that it was utilized for infrastructure investments, social security and defense.

Hence, each tax had a specific and predetermined use, and the tax payers of each category knew the objectives and final uses of their funds.

7.4 *The Regional Priorities of Spending Tax Revenues*

The fourth property of the early Islamic taxes was that the fund collected from each and every township or village was primarily allocated for the financing of the needs of that very region and the excess funds were sent to the provincial centers or to the capital of the Islamic state (Tabatabaei 1362/1983, 80). It is clear that spending the funds of each region in it—based on the specific uses of each tax—increases the enthusiasm and trust of the individuals towards payments and reduces the costs of collections.

7.5 *Allocation of Resources and Income Distribution*

Perhaps the most important features of taxes is the allocation of the productive resources to economic activities and the distribution of income among the owners of these resources. Since *Kharaj*, *Khums* and *Zakat* are levied on rent, profits or savings, and quasi-rent respectively, they would have no negative effect on the efficiency of resource use. In addition, these taxes are non-transferable. Furthermore, levying these taxes on profits and rents would result in the redistribution of income among the owners of production. This income adjustment is yet another positive property of these taxes.

7.6 *Tax Collection Method*

In recognition of human dignity and the sacredness of *Khums*, *Zakat* and other monetary rights, *Baitul Mal* delegates had to follow certain collection etiquette. Imam Ali (AS) used to instruct his tax officers to trust the tax payer and accept his word, and to encourage due and timely reporting of the tax basis.

8 FISCAL STIMULUS

Fiscal policy objectives can partly be achieved by forging cooperation between the people and the state without the need for new tax legislation and bearing the costs of levying, implementing and collecting taxes. Public financing of the *Tabuk* war is one of the most prominent examples of this public-private relationship. The economic policies and measures of the most beloved Prophet (SAAS) were in conformity with his ethical and promotional directives. Muslims were encouraged to engage in economic

activities and help with the *Baitul Mal's* economic initiatives in the same way that they were inspired to embrace Islam, to do *jihad* for the sake of Allah (ST) and to perform righteous acts. The domain of such voluntary cooperation at the time of the Messenger of Islam is so vast that one can hardly find obligatory rules. A number of these initiatives were elaborated earlier, depending on the subject matter under discussion. We shall summarize them as follows; leaving greater discussion of the subjects as they have been handled before.

1. The brotherhood agreement between the *Ansar* and *Muhajerin*;
2. Encouraging *Muhajerin* and *Ansar* to participate in economic activities;
3. Encouraging literacy;
4. Praising employment;
5. Denouncing unemployment;
6. Involvement of the companions of the Holy Prophet (SAAS) in economic activities;
7. Encouraging people to give alms (*Infaq*) and benevolence (*Ihsan*) and determining divine rewards for them;
8. Encouraging people to endow their property (*Waqf*) and determining divine rewards for this;
9. Incentivizing people to pay *Qard Hasan*;
10. Priority of kinfolk for *Infaq* and taking care of the neighbors;
11. Attracting non-Muslim traders to make barter exchanges with the Muslims and to participate actively in the Islamic markets;
12. Encouraging physicians, engineers, industrialists, accountants, financial managers and other non-Muslim specialists to work and dwell in the Islamic community.

9 THE OUTCOME OF FISCAL POLICIES

9.1 *The Equilibrium of Aggregate Demand and Supply*

The first outcome of the implementation of early Islamic fiscal policies was the equilibrium between aggregate demand and aggregate supply. In the early days of Islam, its economy was continuously growing and the numerous battles and conflicts had severe internal and external effects on it, so the attainment of reaching equilibrium was of great importance. The population of Muslims was growing fast and the groups of newly

converted Muslims kept on increasing. The wars concurrent with the life of the great Prophet (SAAS) and the repeated wars during the reign of the four caliphs created anxiety and uncertainty in different economic activities, especially during the reign of Imam Ali (AS). For the first time in the history of Islam, some of the Muslims staged a war against their own caliph and wars took the shape of Muslims versus Muslims, whereas, until that date the wars had been against non-believers. Most of the production factors were allocated to war and economic activities came to a standstill. Nevertheless, the early Islamic economy used to enjoy the equilibrium between supply and demand. The exceptions were a few cases in *Madinah* and some parts of *Hijaz* which suffered from drought and famine and had to face high prices and scarcity, which later were adjusted by imports from Egypt and other places. Other than these cases, the early Islamic economy enjoyed stable prices, sustained improvements in production and employment, and increases in the income shares of owners of factors of production. Population growth was met with employment opportunities and an adequate income level. Education and health services were provided and measures to bring in security and defense were taken following a prudent fiscal policy. Therefore, the maintenance of equilibrium between aggregate demand and aggregate supply may be considered as an important achievement of the economy of the early Islamic era.

9.2 *Growth and Development*

One of the consequences of the *Baitul Mal* fiscal policies was a flourishing economy and its development. The only reports indicating the misery of people goes back to the initial years of immigration after the arrival of *Muhajirin* to *Madinah*. After the *Hodaybiyah* peace accord, the economic situation of Muslims continued to improve and it flourished considerably after the conquest of *Makkah*. During the reigns of the caliphs, this growth continued; the increases in infrastructural investments of the state and the formation of surpluses in the annual budgets are all clear evidence of improvements in income and their tax-paying capacity. Although the conquests that took place after the Prophet (SAAS) had a remarkable role in increasing the revenues of the *Baitul Mal* and financing its activities, the continued growth of the conquered regions and advancement of technology, inventions, innovations and several initiatives together with the development of the Islamic culture and education are all indicators of the post-conquest growth and development of those regions. The human

sciences were developed in Iran as well as Ancient Rome after conquest, and there was no region that suffered from recession and poverty.

In the meanwhile, the most effective economic development policies of this period were the measures taken by the Holy Prophet (SAAS) himself. Economic recession, lack of financial and human capital plus the necessity of confronting the attacks staged by enemies were among the great economic challenges of those days. Nevertheless, the messenger of Islam could, with the divine grace of the measures elaborated earlier, save the Muslims from that unpleasant economic situation and, by providing agricultural, industrial and commercial facilities along with specialized and experienced manpower, formation of organizations and efficient establishments, paved the way for increased output, advancement of science and technology, and increased employment of the factors of production. As a result of these fiscal policies and the financial policies to be discussed in [Chap. 6](#), he developed the economy of the Islam's *Ummah*.

9.3 Social Justice

The main objective of an Islamic system—and, hence, the fiscal policies of the *Baitul Mal*—is the provision for justice. The definition of justice and its compliance under different cases will be discussed in detail in [Chap. 12](#) of this book. Therein, justice is defined in three ways: (1) the observation of proportionality and coordination between activities, measures and decision making; (2) an absence of discrimination and the observance of equality at times of equal rights, capabilities and participations; (3) observation of the rights of participants in economic and social activities and paying rewards to them.

The first evidence of the provision of justice may be observed in the government outlays, which are allocated to the varying needs of the economy in the early days of formation. The government does not take over private sector activities such as cultivation and trade; rather, it assumes activities which entail positive externalities and are not supplied by the private sector. Second, it is apparent that the role of the *Baitul Mal* is not limited to the supply of minimal livelihoods and defense expenses; rather, it is also involved in the advancement of science and technologies, and infrastructure and township planning investments. Finally, the *Baitul Mal* is seen to complement the market rather than replace it, in order to create harmony between the public sector economic activities with that of the private sector.

The evidences of an absence of discrimination in the distribution of the *Baitul Mal's* excess funds between the Muslims may be observed during the reigns of the great Prophet (SAAS) and his successors. Equal economic rights were given to Muslims and non-Muslims regarding the ownership and utilization of economic resources. The freedom provided to the non-Muslim masses in barter and other economic activities on a par with Muslims and the allocation of financial and livelihood aids from the *Baitul Mal* to the poor non-Muslim classes are measures of the achievement of justice in the economy.

The application of the third type of justice is observable in the implementation of fiscal policies in many ways. The provision of sustenance for poor and needy people is another evidence of the implementation of this justice. In Islam, every individual in society should have access to an adequate livelihood. If, due to loss, illness, agedness of a family's breadwinner or any other legitimate reason, they cannot meet the required expenses of the family, the government is obliged to provide for their expenses. Muslim and non-Muslim equally share this right. The other evidence is the priority of all taxes to be spent in the region where they were collected. Distribution of all moveable booty between the participants in a war and that of immoveable booty between the state and the public are other examples of achieving justice. Conversely, exemption of low-income households from tax payments and the freedom of non-Muslims to abstain from participating in wars are other features of privileges and exemptions from social obligation that were provided.

The subject of justice will be discussed in Chap. 12 and the methods of its realization in the public and private sectors will be elaborated. As mentioned, the primary and principal objective of the early Islamic economic system was the realization of social equity and all governmental fiscal and economic policies were after the attainment of this objective. Balanced economic growth and the pertaining equilibriums were all to meet this requirement. The brilliant and most clear evidence of this is the advice and orders of Imam Ali (AS) to *Malik Ashtar* by which he is guided towards the implementation of justice and the materialization of social equity.

NOTE

1. *Ghazwah* is the battle that the Prophet (SAAS) participated in it and *Sariyah* is the one that his greatness did not participate.

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Money and Finance in the Early Islamic Era

1 INTRODUCTION

The medium of exchange, in the early Islamic era, and the factors that were effective in the stability of the general level of prices are important issues that require careful study. Another vital issue in that economy is the financial services that were provided by private intermediaries for directing private savings into investment activities. A study of these issues is helpful in attaining knowledge regarding the financial policies in the early Islamic era, and their role in the economic development of the embryonic Islamic society. In order to reach these goals in this chapter, first, a short account will be given of the definition of money, types of money, and the first coins that were struck in the early Islamic era. Next, factors which are effective in the determination of demand for and supply of money and its rate of circulation are discussed. Then, the rules and regulative measures for the stable and smooth performance of the financial sector are reported. This is followed by a discussion on the performance of the financial markets and the services of the intermediaries for financing trade and productive enterprises. Finally, the chapter will be summarized and concluded by demonstrating how the financial policies put in place by the public sector and the innovations made by the private sector contributed to the growth of the real sector and stability of the financial sector of the economy.

2 DEFINITION OF MONEY

Money is a man-made social convention to facilitate and expedite transactions in the economy. Without it, for a transaction to be completed the supplier of a product has to search for someone who desires it and who himself offers another product which is in demand by the supplier. Transactions would not be enacted unless the demand and supply of two goods were matched. As *Demashqi* observed in the year 570/1175:

If such a convention was not adopted, then it would not be possible for the exchange of one thing for another to take place, as in the case of a person who has something such as olive oil ..., wheat ... or other similar products, whereas his counterpart has other goods such that the need of each party for what the other possesses does not concur at the same time. (To solve such a problem) They looked into all the things in the possession of man, whether plants, animals or minerals.... [Finally] all people are agreed on the preferment ... of gold ... and silver ...due to their being readily suited ... for casting ...forging ... combining ... separating ... and shaping ... into any form required. (Setia 2014).

Such gold and silver money which over the centuries transformed into fiat and electronic money carries out three important functions in the economy: it serves as medium of exchange, a unit of account and a store of value. Further, it is a perfectly liquid asset and because of this attribute has no perfect substitute. Savings deposits and other financial assets are not perfectly liquid, since their exchange with other goods involves time and expenses; they are called “quasi money”.

3 MONEY VERSUS CAPITAL

From the *Fuqaha* point of view, money and financial capital are both property, (*mal*); their difference is in their attributes in respect of jurisprudence. Money is an asset that is required for transactions and for precautionary purposes. Its liquidity generates utility for the owner. However, as long as it is not used for trade or investment activities, it does not generate any income. In an Islamic contract, the money or the financial asset that is paid in a sale contract can no longer be used for exchange with other commodities or assets. The financial asset paid loses its liquidity and its legal status changes from money to capital. The money holder enjoys the liquidity of his financial asset (i.e. money) prior to the transaction and is able to allocate it to any promising earning opportunity. After allocation, he loses

the utility of his liquid asset. In return, he obtains a claim to the revenues that will be generated from a specific selected venture. Therefore, the financial asset that he holds is money prior to the transaction. After exchange takes place, the financial asset is capital, which will be combined with other factors of production to produce an output. What transforms the status of the asset through transaction is the legal attributes associated with the asset. In *Shari'ah* compliant property rights system, ownership of money does not create any right to any source of income. When the money is invested and transformed into capital input, the owner obtains an undeniable right to revenues from that venture.

This legal distinction is not discernible in the *Ribawi* system. There, the money holder has the right to loan his asset and gain interest or a property premium, and continue to maintain property rights to his money without participating in any revenue-generating activity. The lender does not share the profit or loss that may be generated from that activity. Interest and the principal are payable regardless of the outcome of the activity undertaken by the borrower. Both money and capital assets earn income, in the form of interest and profit, respectively. Consequently, both money and capital have identifiable distinctive markets whereas, in the Islamic property rights system, money which cannot be loaned or lent does not have a market.

In the early stages of Islam, the rudimentary financial markets provided savings, payment and investment services for the real sector. The financial markets were depended on the real sector. As will become evident shortly, there were different financial asset markets in the early days of Islam, but there was no money market because of the prohibition of lending and borrowing with interest.

4 CAPITAL AND DEBT

Capital goods and assets could be sold on spot or on credit. When sold on credit, the buyer obtains the ownership right while the seller obtains a claim over the price of the transferred capital, which is a debt on against the buyer. That is to say, in the Islamic property rights system, debts are backed by real assets. The only legitimate type of debt that is not necessarily backed by any real asset is *Qard Hasan* contracts. Therefore, the debt creation process in an Islamic economy does not create a market. Debt financing can only be settled at par—the price of the asset.

In non-sale contracts such as *Ijarah*, where the ownership right is not transferred to the lessee, the owner can sell his claim at a higher price. The

same right is preserved for partners in *Musharaka* contracts. Thus, equity financing lays the ground for the creation of financial markets, as it preserves the proprietor's claim to a capital good, a stream of benefits or a share in a venture. In so doing, equity financing levels the field for asset-based derivatives and capital market development. On the other hand, and despite the legitimacy of debt financing, it does not lead to secondary markets. It can further be concluded that both equity and debt financing in the Islamic financial system are backed by real assets. Even in debt-creating sale contracts, unless “*Mata'* متاع” (i.e. the commodity or the service) is exchanged with the “*Thaman* ثمن” (i.e. the price of the good) or “*Ra's ul Māl* رأس المال” (which is capital), the contract is not complete. In other words, unless a value added is created in the real sector by production, trade or a marketing service, an equivalent monetary income cannot be transferred in the financial sector. This intimate relationship between the nominal and real sectors, mandated by Islamic contracts, guarantees coordination between the two sectors and the stability of the economy.

In short, Islamic financial markets are equity capital-based markets and not debt-based markets. Debt creation does not lead to the formation of a financial market. Money which is the debt of the central bank to the public will not have a market in an Islamic property system.

5 MONEY IN THE EARLY ISLAMIC ERA

It is evident that trade was the basis of economy in Arabia before Islam. A prerequisite for any transaction is a reliable medium of exchange. As mentioned in Chap. 2, Arabia and its neighboring regions were either directly in the realm of governments of Persia and Rome, or under their influence. The units of money in these states were the *Dinar* and the *Dirham*. These two denominations of money were also generally accepted in the Arabian economy. In addition to the political power of the Persia and Rome, which made their mediums of exchange reliable in the territories under their influence, the trading partners of the Arabs were ultimately the Persians and the Romans, who performed their buying and selling transactions by *Dirham* or *Dinar*. However, as will be described, it was the *Dinar* and *Dirham* weights and their gold and silver content that formed the standard of values.

As reported in Chap. 2, there were two main south and north trade routes for the merchants prior to Islam and between *Sham* and Yemen long before the rise of Islam and relatively close to it. In both periods, in

addition to merchants trading in their final destinations, trade was common in local markets en route. In the northern part of Arabia, *Aal Lakhm* and *Aal Ghassan* were followers of Iran and Rome, trading in the *Dirham* and *Dinar* and *Ale Kendeh* had a connection with Yemen. In this southern region, alternative currencies may have been common, since some may have been left from the *Hemyari* period; having been a powerful government in its time; it may have stipulated a legal tender and currency of its own. Close to the advent of Islam, Yemen was under the influence of Ethiopia. Naturally, the prescribed currency in this country should have been acceptable in Yemen, too. To facilitate trade with prolific scattered partners, more than the two currencies of the *Dinar* and the *Dirham* were probably exchanged by merchants prior to Islam. Further historical facts suggest that not only the weight of pure gold and silver in the *Dinar* and *Dirham* was the standard of value; in many other transactions, gold bullion was paid for the commodities purchased (Heck 2004, xxii). The existence and operation of gold mines in Arabia facilitated the use of gold as an alternative medium of exchange (ibid., xxi). In sum, it seems reasonable for Arab traders to benefit from every opportunity and means of exchange to enhance their commerce and to use mediums for their transactions that would be trusted by and acceptable to their multilateral partners. This universal medium of exchange was gold and silver. Even the *Dinar* and *Dirham* were exchanged on the basis of their gold and silver content.

The standards and measures of weight varied in different regions even between the *Rumi* and Persian empires. Enforcing a single standard would have made merchants in other local and international markets unwilling to carry out their transactions, because they were used to their own local standards. Therefore, Arabs found it rational to use a form of quasi money (i.e. gold and silver) in their transactions; and exchange different currencies based on their weight rather than the number of coins, since the value of precious metals was almost constant across borders and regions.

Being very precious, it was natural to put in place a wide range of measures to weigh gold and silver in different regions (*Hosaini*, 35–360). In fact, the Prophet of Islam (SAAS) sanctioned all the weights and measures that were fixed by the merchants of *Makkah* for the prevailing Byzantine and *Sassanid* currencies and also other local measures of weight. Accordingly, the currency denominations that prevailed remained the *ratl*, *Dinar*, *Mithqal*, *uqiah*, *nash*, *Dirham*, *daniq* and *qirat* (Heck 2004, 13). The ratios between them are as follows (ibid., and *Hosaini*, 36).

In Table 6.1, the *Dirham* weight is equal to 1 *Mithqal* or 20 *Qirat*. However, there were three types of *Dirham* in circulation: 10 *Dirhams* could be equal to 10 *Mithqals*, 6 *Mithqals* or 5 *Mithqals*.

The sum of the 30 *Dirhams* equals 21 *Mithqals*. After Islam, they set the canonical *Dirham* as the average of the three; that is, the new *Dirham* was set equal to 0.7 *Mithqals* or, equivalently, every 10 *Dirhams* was equal to 7 *Mithqals* (Hossaini, 78). Likewise, the three types of *Dirham* in circulation weighed 20, 12 and 10 *qirats* or the equivalent of 8, 6 and 4 *daniq*, respectively. The average new *Dirham* was set equal to 14 *qirats* or 6 *daniq*. Considering 1 *Mithqal* to be equal to 20 *qirats*, then 1 *Dinar* was set as 7 *Mithqals*. It is reported that the dowry of *Fatemeb* (AS), the Prophet's (SAAS) daughter, in her marriage with Ali (AS) was set at 480 *Dirhams* by the Prophet (SAAS), where each *Dirham* was 6 *daniq* (Hossaini, 38; Heck 2004, 16). Hossaini (207) states that there is unanimous agreement among jurists in all Islamic schools that this *Mithqal* is the one prescribed for the payment of *Zakat*.

The first gold *Nisab* for *Zakat* is 20 *Mithqals*, equal to 100/7 *Dirhams*. The first silver *Nisab* is 200 *Dirhams* equal to 140 *Mithqals*. Further, *Al-Bukhari* states that “nothing is to be collected on gold until it reaches 20 *Dinars* in value, after which a half *Dinar* is levied; whereas for the ‘*waraq*’ [silver currency] nothing is to be levied on it until its value reaches 200 *Dirhams*, after which 5 *Dirhams* are to be collected” (Heck 2004, 7). In like manner, *Umar ibn el Khattab* levied *Jizyah* on non-Muslims at 40 *Dirhams* on those who made their commercial transactions in *Dirhams* and 4 *Dinars* on those who commonly used gold in their business transactions (ibid., 7). From the above standards for the *Zakat* and *Jizyah*, it can be inferred that the value of each *Dinar* was equal to 10 *Dirhams*.

Another form of money in the early Islamic period was credit. The expansion of trade in Arabia, even from centuries before Islam, required the use of credit. In spite of all the advantages which the *Dirham* and

Table 6.1 Weight measures during early Islam

<i>Mithqal</i>	20 <i>qirat</i>
<i>Dirham</i>	20 <i>qirat</i>
<i>Uqiab (ounce)</i>	40 <i>Dirham</i>
<i>Nash</i>	20 <i>Dirham</i> = 1/2 <i>uqiab</i>
<i>Nawah</i>	5 <i>Dirham</i> = 1/8 <i>uqiab</i>
<i>Ratl</i>	480 <i>Dirham</i> NNNN 12 <i>uqiab</i>
<i>Dinar</i>	1 <i>Mithqal</i>

Dinar had as mediums of exchange, they lacked the advantages of credit. If the value of a transaction was substantial, it required a great number of coins to be exchanged. Both the weight and the volume of the coins reduced their desirability as a medium of exchange. In addition, it was likely that one of the transacting parties could not provide the required amounts of *Dinar* and *Dirham* easily and with sufficient speed for the transaction. However, if the party was a well-known and reputable merchant, his drafts or his promissory notes would be accepted by other merchants. Increased trade between *Sham* and Yemen, which took place at least twice a year before the mission of the Prophet (SAAS), created a possibility for the issuance and acceptance of drafts, checks or promissory notes between the merchants of *Quraysh* and Yemen. *Saeed Afghani* (1960, 42) reports the exchange of *Hawalab*, a money order, in the *Ukaz* market of *Makkah* prior to Islam

On the other hand, it is unlikely that all the commercial transactions, in the early Islamic period were carried out in cash. The acceptance of credit transactions before Islam, and the fact that they were declared permissible, with some modifications, after Islam, is an indication of the use of this kind of transaction. In the latter case, as a rule, a receipt was exchanged between the two parties to a transaction. If this receipt was also acceptable to other traders, it could serve as a medium of exchange and was tantamount to money.

These promissory notes were so common that *Umar Ibn Khattab* issued checks during his caliphate, and these checks were accepted by the public. According to *Al-Ya'qubi* (1343/1964, Vol. II, 413–428), during the caliphate of *Umar*, and by his order, great quantities of commodities were sent from Egypt to *Madinah*. The large volume of the imported goods prevented its rapid distribution. Therefore, *Umar* issued checks to the entitled people and households so that, gradually, everybody was able to go to the Muslim treasury and collect his share. The use of checks by *Umar* and the acceptance of this by the people indicate the permissible use of this medium of exchange in the early Islamic period.

Another method of transaction used in Arabia which also was accepted by Islam, with some modifications, was the purchase of one person's debt or obligation by another. In these transactions, usually a promissory note was exchanged. Legitimacy of these transactions in Islam indicates their use in the early Islamic period, and is further evidence for the use of credit in that period.

At the same time, it must not be assumed that the volume of credit, in comparison with the volume of money in circulation, was considerable.

The extent of the use of credit instruments was limited to a number of well-known merchants. The existence of a large number of tribes and the continuous disputes between them, the long distances between the northern, central and southern regions of Arabia, and the travel problems which required considerable preparation all indicate that there was an atmosphere of uncertainty in that area and, as a result, reluctance to accept mediums of exchange other than *Dinar* and *Dirham*.

6 THE FIRST COIN STRUCK IN ISLAM

As has been stated, people in Arabia were trading for centuries before Islam and, during the period that the *Quraysh* tribe took over the management of the house of *Ka'abah*, all the trading caravans paid and received *Dinars* and *Dirhams* when making their foreign transactions. Thus, these coins of known weight were their prime currency and were circulated throughout the Arabian Peninsula, and continued to be so even after Islam.

After a comprehensive literature review, *Hosaini* (1382/1962, 3–7) concludes that *Dinar* and *Dirham* are Greek words which entered into other languages long before Islam. He contends that many chroniclers think they are Persian; others believe they are of Roman or Latin origin. According to his review, *Omar ibn Khattab* struck coins in the 18th *Hijrah* in *Basrah* with the same inscription as the *Kasrawi* Iranian coins (*ibid.*, 40). *Uthman* and *Moawiah* followed him and kept the Persian or Roman inscription, except that some Islamic sacred words—such as “*Al Hamd o li Allah* الحمد لله”, “*Mohammad Rasullah* محمد رسول الله”, and “*La ilaha illa Allah* لا اله الا الله”—were added. He quotes *Jodat Pasha* reporting in his history book that the oldest coin that he has seen and inspected is one struck in the 28th *Hijrah* in *Hartik, Tabarestan*. On one circular side of it, written in *Kufi* script, was “*Bism e la Allah Rabbi* بسم الله ربي”. He had also noticed another coin struck in the *Khelafah* period of *Ali* (AS) in the 37th *Hijrah* with “*Waleyy ul Allah* ولي الله” written on one of its circular sides. Further, *Jodat Basha* states that he has found among old coins collected by *Sobhi Afandi* one which had written on one face in *Kufi* script “*Allah os Samad Lam yalid wa lam Yulad Wa lam Yakon lthoo Kofwan Abaha* الله الصمد لم يلد و لم يولد و لم يكن له كفوا احد”. On the other face was written “*la ilaha illah wahdahoo la sharika lah* لا اله الا الله وحده لا شريك له”. On the circular side of the coin was written “*Muhammad Rasul ul Allah, Arsalahoo bil Hoda wa din il al Haq lydz herahoo ala addin Kolleh* محمد رسوله ارسله بالهدى محمد رسول الله ارسله بالهدى”. Finally, on the other circular side of it was

engraved “This *Dirham* was struck in *Basrah* in the 40th *Hijrah* ضرب هذا الدرهم بالبصرة سنة 40”. The first coin struck by the *Baitul Mal* bearing the legend of the Islamic state to serve as the legal tender was that struck by Imam Ali (AS) (Hasan-uz-Zaman 1981). However, because of the events and tensions which existed throughout his caliphate, the coins minted by the Commander of the Believers Ali (AS) did not become widespread currency; rather, the old *Sassanid* and Byzantine coins served as the prime currency. It was after the 76th year *Hijrah* and due to crucial and fateful events that occurred then that *Abd ul Malik Ibn Marwan*, the *Omawi* ruler decided to strike coins with the same words and styles of those at Imam Ali’s *Khelafah* to serve as legal tender for the Islamic state.

Bayhaqui and other historians reported that the reason for *Abdul Malik*’s initiative to strike coins as the legal tender for the Islamic state was that he noticed the papyruses that are made and imported from Egypt, which previously had been under the Roman Rule, were styled with the Christian trinity motto in Latin. He thus ordered his governor in Egypt to bring together the experts and change the legend on the coin to Islamic *Towhid* (monolithic) words. When the Roman Emperor was informed of his order, he tried to induce *Abdul Malik* to leave the Christian slogan on the imported material by offering gifts, which *Abdul Malik* refused to accept. Then, the Emperor threatened him that if he did not follow his suit, he would order *Dinars* and *Dirhams* to be struck with curses on the Prophet of Islam (SAAS). *Abdul Malik* became disturbed and started seeking the advice of scholars and experts for a way out, until he was advised by *Imam Muhammad Baqir* (AS) to make new coins domestically with the Islamic inscription and make it the legal tender all over the Islamic state (*Hosaini*, 70–74). He followed the Imam’s guidance and ruled that only transactions made with the new currency would be permissible and that the old *Dinar* and *Dirham* coinage would have to be abandoned for use in transactions (*Hasan uz Zaman*, 335; *Zarra-Nezhad* 2004).

The reported historical incidence shows how prevalent the circulation of the Byzantine coins in the Islamic state was, even 76 years after *Hijrah*. It can be safely concluded from the reported facts that “the money” during the early stages of Islam was *Dinar* and *Dirham*, and that gold and silver bullion was “quasi money”. In other words, the financial assets were *Dinar* and *Dirham* coins, and also precious metal bullion, the former being the most liquid asset one of the two. Thus, we do not lose insight while analyzing the demand for and supply of money if we consider the *Dinar* or *Dirham* as that money, since the value of 1 *Dinar* coin was equal

to 10 *Dirham* coins, both being in their standard stated weights, precious bullion being the next most liquid financial asset or quasi money.

7 MONEY SUPPLY AND DEMAND IN THE EARLY ISLAMIC ERA

The Dinar and *Dirham* not only had intrinsic value equal to their gold and silver content, but their exchange rates were determined exogenously by the Roman and Iranian economies, due to the small size of Arabia's economy relative to that of those countries. Therefore, the supply of money was perfectly elastic with respect to the exchange rate between money and other assets, as well as exportable goods. The only factors that could shift the money supply function were wars, droughts, or any other natural disruption. Discovery of new gold mines and increased production of gold bullion could also affect the supply function. However, this shift could only take place in the long run. Therefore, the equilibrium stock of money was determined by the demand function for it. The increase in national income and population, due to the conversion of Arabia's inhabitants to Islam, particularly at the time of Prophet (SAAS), increased the demand for transactions and money. When the merchants observed excess demand for money and an abundance of goods in the domestic market, which led to a decrease in their price and an increase in the gold price, they would import money to balance both trade and their portfolio of financial assets. Conversely, when money was in excess supply and the gold price dropped, they would transfer the money over the borders to purchase and import new goods. Because there were no barriers to trade and money transfer, the stock of money adjusted soon to its equilibrium value. Due to this fact, any conceivable shock to the economy that could affect the financial sector and the equilibrium of money was from the real sector, not the nominal sector.

The rise in commercial transactions and services creates the demand for money. Naturally, the primary demand for money, in that period, was for transactions. Moreover, unfavorable natural conditions, the enmity of the *Quraysh* towards Muslims and engagement of Muslims in, at least, 66 *Ghazwabs* and *Sariya* —which means that, on average, six wars were imposed on Muslims in each year after the *Hijrah* of the Holy Prophet (SAAS) —created a precautionary demand for money for the provision of unexpected and unforeseen expenses. Consequently, demand for money during this period was mostly for transactions and precautionary demand. Apart from the cases mentioned above, there was no other demand for money.

Now that the supply and demand for money in the early Islamic period has been described, we can investigate how the purchasing power of money was determined. When the inhabitants of Arabia embraced Islam, the population of Muslims increased greatly. In addition, war bounty gained as a result of various wars was divided among Muslims, which raised their wealth and, subsequently, their income. Furthermore the Prophet (SAAS), through his growth policies, consistently promoted production opportunities and the employment of Muslims, as was described in Chap. 3. All these factors increased the transactions demand for money in the economy of the early Islamic era. In addition, money supply was elastic with respect to the exchange rate. Consequently, there was no excess supply or demand for gold and silver coins, and their market remained in equilibrium. Hence, the purchasing value of money always retained the equilibrium value.

8 CIRCULATION AND VELOCITY OF MONEY

Another factor, which has an effect on the stability of value of money is the rate of its circulation. After Islam, the governing legal system, and especially the law and regulations prescribed for trade and use of money, had a significant effect on raising the rate of circulation of money. The prohibition of *Kanz* (the hoarding of coins) tended to prevent *Dinar* and *Dirham* coins falling out of circulation. Also, restrictions on earning income from money prevented a demand for the holding of cash, which helped the rate of money circulation to rise significantly. Moreover, measures for encouraging people to enter into partnership contracts and urging them to give interest-free loans (*Qard-Hasan*) strengthened the rate at which money circulated. Therefore, the policies and prescribed regulations, which will be described in greater detail, had a significant effect on the circulation rate of money.

Even so, the market structure had the greatest impact on the rate of circulation of money. Trade, a monopoly of the *Quraysh* before the mission of the most noble Prophet (SA) and during his residence in *Makkah*, was gradually stamped out. After the Islamic conquest of *Makkah*, the last monopolistic privileges of the *Quraysh* were taken away from them; these privileges were administrating the *Ka'ba* and forming and organizing *ukaz* and *Dul-Majaz* bazaars (Ayati 1359/1980, 23). So, it is possible that the eradication of the monopolistic structure of the trade market had raised exchange efficiency and had led to better distribution of income.

Therefore, the effective demand could have increased in the market and, with it, the transactions demand for money. Hence, the rate of circulation may have increased as well.

In the agricultural and nomadic economy of the early Islamic period, commodities were exchanged through barter. Therefore, *Dinars* and *Dirhams* were not utilized in trade. Even when commodities were exchanged for money, the process of trade was slow, and this had an effect on the rate of circulation in the whole economy. It is possible to conceive that, after *Hijrah*, the rate of circulation of money tended to increase gradually. Muslim victories in the wars strengthened a feeling of security and optimism for a better future for the Muslim masses. After the Peace of *Hudaybiya*, this certainty increased considerably. And, after the conquest of *Makkah*, the Islamic system was established throughout the entirety of Arabia. Therefore, it is probable that, in addition to the increase of the volume of economic activities, the rate of circulation of money increased as well. However, due to the elastic supply of money and arbitrage of goods by the private sector, the excess demand or supply of money did not last long and its equilibrium was shortly restored.

9 EFFECTS OF ISLAMIC FISCAL POLICIES ON THE VALUE OF MONEY

With the exception of the last few years during the government of the most noble Prophet (SAAS), the economy suffered from a shortage of effective demand. The migration of Muslims from *Makkah* to *Madinah*, at which time they had neither wealth or savings, nor the farming skills that would be demanded in *Madinah*, had created low economic equilibrium. Numerous wars consumed a great deal of the labor force which could have been utilized for productive work. Therefore, it was necessary that appropriate policies be adopted in order to increase overall demand. The adopted policies, which were usually accompanied with an increase in total demand, also raised production opportunities and employment, and positively affected the demand for money. The most important problem during the period of the government of the Prophet (SAAS) from the point of view of fiscal policies was the provision of expenditure for numerous wars, which occurred on an average once in every two months. Provisions of weaponry, means of transportation and other necessities imposed a heavy cost on the Muslim treasury. Also, the necessities of providing a minimum livelihood for every Muslim increased the burden of the financial

obligations of the treasury. Apart from these, salaries of judges, officials to propagate Islam, treasury accountants and clerks, and tax collectors were also paid by the treasury. In spite of all these expenditures, the treasury never experienced a budget deficit during the early Islamic era. However, during the period of *Umar Ibn Khattab's* government, due to the collection of *Kharaj* from newly occupied territories, the Muslim treasury had a considerable budget surplus. Considering all the expenditures incumbent on the Islamic government in the early years of *Hijrah*, it is remarkable that the treasury had no budget deficit. Only on one occasion did the Prophet (SAAS) resort to borrowing; this was following the conquest of *Makkah* and was for payment to the residents who had newly embraced Islam. However, this loan was repaid in less than one year after returning from the battle of *Hunayn*.

Other policies implemented by the Prophet (SAAS) increased Muslim opportunities for productive activities and employment. They include, as it was reported in Chap. 3, the brotherhood pact, sharecropping, the *Mudzarabah* contact between the *Muhajirin* and *Ansar*, the distribution of the conquered land between the *Muhajirin* and two men from *Ansar*, the distribution of land for housing, and booty divided between the troops. These policies promoted both the level of Muslim welfare and the level of employment. Further, these activities raised the level of production and services in the economy, leading to higher equilibrium in the level of aggregate supply and demand. The stimulation policies for the enhancement of growth and the optimism created by victories in war helped the economy to exit from recession and become a dynamic growing economy. Consequently, all those holding excess funds found promising opportunities for investment. Money circulated in tandem with values created in the real sector and, thus, purchasing power remained stable.

Through increases in revenues of the Muslim treasury, in the period immediately after the Prophet (SAAS), infrastructure investment had to be expanded, which required substantial resources. Channels and irrigation networks were repaired and developed in Egypt. In order to accelerate the marine transportation of commodities from Egypt to *Madinah*, a channel was built from *Fustat* (Egypt's capital) to the Red Sea. To facilitate the process of development, two cities, *Basrah* and *Kufa* were built. All these measures allowed the accumulation of wealth and capital in the economy of the early Islamic period. For this reason, aggregate supply increased in tandem with aggregate demand; consequently, the value of money and price levels remained stable, except in a few years of drought. Therefore,

fiscal policies, even though expansionary, had no undesirable effects on the value of money.

10 FINANCIAL SERVICES AND INSTRUMENTS

The extensive domestic and foreign trade relationship, prior and after Islam, could not be maintained without being accommodated by financial services. The two southern and northern trade routes prior to Islam, the *Quraysh* summer and winter seasonal trade with *Sham* and Yemen, local temporary markets along these routes and the global annual trade fair at *Ukaz*, all of which were described in Chap. 3, are indications of the prolific commercial activities prior to Islam. After the rise of Islam, and in particular during the *Kholafa* period, trade activity became almost global. Such extensive trade activities could not be sustained without being supported and facilitated by financial intermediaries. Prior to Islam, although interest-based lending and borrowing was common and many of the wealthy *Quraysh* merchants, including *Abbas* the Prophet's uncle, were supplying this service, it was not the only means of finance in *Hijaz*. In addition, many trade shipments were financed by *Mudzaraba* and *Musharaka* contracts, the attributes of which will be discussed later. The fact that the Prophet of Islam (SAAS) could abandon interest-based finance and that the resistance of the commercial and financial community of *Hijaz* to this rule gradually subsided and finally submitted to the rule was due to *Mudzaraba* financing, which had become more secure for and accommodative to trade under Islamic rule. In the post-*Khulafa* period, the *Mudzaraba* contractual package had become so versatile and applicable for commercial business that European partners had adopted it and used it extensively in their own commercial dealings (Cizaka 2011).

The services of financial intermediaries after Islam could be categorized as savings, payment and financing.

10.1 Saving Deposits

Prior to Islam, some agents in *Hijaz* provided safeguarding and depositing facilities from which asset owners benefitted and so deposited their assets and savings with them. It was natural for an exchange economy to offer deposit services to merchants who had to leave home and go abroad for trade. The Prophet of Islam (SAAS) was given the title of "honest" before his prophethood because he offered this service. Depositors were sure that

their assets would be held in the most secure way with him. He seems to have continued offering this service after the mission of his prophethood, or at least for a long time, since he asked Ali (AS) his cousin to stay in *Makkah* and give back to their owners the assets entrusted to him when he himself migrated to *Madinah*. The second person who is reported as offering this service is *Zubair Ibn Anwwam*, who used to accept precious metals and coins as ‘*Wadiyah*’ or trust in *Makkah*. However, he is reported to have later changed the contractual arrangement for deposits into *Qard Hasan* so that, additionally, he could offer financial services, applying a type of reserve ratio banking (Basri & Azman 2011; Siregar 2014). It can be conjectured that the service of holding assets securely was in great demand in the commercial economy of early Islam and many agents were offering it, among whom the names of only the Messenger and his companion have been reported.

10.2 Payment System

As previously stated, the trade-based economy of early Islam could not solely depend on the spot and cash payment system. Enhancing trade activities made it incumbent on trading partners to resort to a credit payment system. Money orders were common prior to Islam. The payment order that was issued by trading partners in the *Ukaz* market has already been mentioned (Al-Afghani 1960, 42), implying that this type of payment order was applied by well-known merchants. The other evidence is the checks that were issued by the *Baitul Mal* during the ruling period of *Omar Ibn Khattab*, when large quantity of goods had been imported from Egypt and their distribution to eligible receivers took time. He issued checks to eligible receivers to obtain their allotment from the *Baitul Mal* in due course (Yaqubi 1343/1964, Vol. 2, 413–428). Further, the second caliph is also reported by *Ibn Abdel-Hakim* to have paid “the governmental wages by checks which were written on papyrus and certified on their reverse sides by Seal” (Heck 2006). According to Heck (2006), a banking business developed during the formative year of the Islamic economy because of consistent demands for credit associated with rapid commercial expansion. He further comments that the function of money changers (i.e. *Sarrafs*) would, over time, evolve into that of full-fledged bankers (ibid.). In the post-*Kholafa* period, over the centuries, banks rapidly proliferated throughout the economy in a variety of forms.¹

10.3 *Financial Services*

Concurrent with abolition of *Ribawi* practices, either finance methods had to be enhanced or alternative efficient modes of finance had to be introduced in order to boost commercial activities during early Islam. As mentioned, money changers, *Sarrafs* and holders of deposited assets gradually performed certain rudimentary financing services, such as financing trading transactions using their personal capital and also the deposits at their disposal. They also issued letters of credit to underwrite commercial activities. In addition, they arbitrated precious metals and other valuable commodities (Heck, Islam Inc. 2004, 216).

Another fiduciary instrument was the “*Saftajah*”, a letter of credit. It was a secure and flexible credit instrument, and was signed and stamped by the issuing party. *Ibn Zubayr* and *Abdallah ibn Abbas* are reported to have been frequent users of this secure means of financing (Heck, Islam Inc. 2004, 114–115). It appears that merchants of the nascent *Riba*-free economy had at their disposal a multitude of financial instruments which lubricated and enhanced their business operations.

As important as the reported financial instruments were, the most impressive modes of finance for productive activity and large-scale trades were the *Musharaka* and *Mudzaraba* modes of finance, which were a complete substitute for *Riba*-based financial arrangements. As is now well-known, it was foreign trade that generated prolific profits for the merchants, both prior to and after Islam. The pursuit of this activity required both financial and human capital. Financial capital could be obtained through the various instruments that have been discussed in the short run, but trading that took place over long distance and on a large-scale required expertise in business activity, financial transactions and marketing, in addition to transportation skills and managerial leadership. Only those who had participated in trade missions and had undertaken business with merchants in *Sham* and *Yemen* could lead caravans and obtain credit or financial capital. Further, expertise had to be accompanied by trust between all trading and financing partners, since no one risked trading with untrustworthy partners. Consequently, experts in trade who also were trusted by the business community enjoyed a favourable position among the business elite and could demand a relatively high share for their conduct of commerce. *Mudzarabah* contracts suited this market very well. The excessive care and strenuous efforts that were associated with long-distance trade missions through the deserts in hot summers and cold winters meant that capital owners preferred to participate in contracts,

not only to relieve themselves from the necessary hard work and vigilant supervision, but also because they had the opportunity to stay at home and be involved in local business. *Mudzarabah* contracts also provided an excellent opportunity for capable and talented men to become a trading partner and obtain a significant portion of the profit earned.

The greatest deterrent to being a party in a participation contract is the asymmetric information of the partners about the business enterprise and their own motivations. Strong family and tribal associations precluded any member from deceiving another member. In addition, the performance of any potential business partner was easily verified by his past and present conduct. Thus, the selection of partners in the inter-connected community of early Islam was an easy decision. For the same reasons and in order to retain the trust of his partners and his future record, the *Mudharib* (the agent in the said contract) remained faithful to the contract and put all his efforts into maximizing the expected trading profit, which, in turn, achieves the same for his share. Thus, there was no room for negligence or fraud. Although the Islamic codes of ethics will preclude any such misbehavior, evidence of cheating or negligence between trading partners even prior to Islam is not reported.²

Participation contracts were so beneficial and well-suited to the business community of early Islam that they persisted for centuries after the advent of Islam and are major instruments of finance in Islamic banks today. Further, the efficiency and applicability of the *Mudzarabah* financing arrangement, particularly for trading activities, was so effective that when these arrangements were introduced by Muslim merchants to Europe, they were adopted by the other businessmen and used for trading between themselves. They called it “Commenda” (Mirakhor 1989; Udovitch 1970).

11 REGULATIONS

The Legislator of Islam prescribed a series of policies for transforming money into capital; that is, directing savings into the process of investment, and, at the same time, specified certain restrictions for preventing the diversion of savings from this course and for use in activities which are considered undesirable and vain. A few examples of these restrictions are as follows:

11.1 *Prohibition of Tatif, or Skimping*

In three different verses of the Qur’an, market participants are banned from skimping; that is, delivering goods weighing less than the actual weight agreed. In *Surah Shoara* (26/181–183), Allah (ST) several times

warns against this behavior, repeating that the weights must be correct, balances must be accurate and the goods transferred must not be less than their specified weight. The same prohibition is repeated in *Soura Hood* (11/85) and in *Soura Motaffefin* (83/1–3) where, in this latter *Sourah*, those that indulge in skimping are harshly threatened and identified as those who insist on getting the precise quantity when they purchase goods but deliver less than the agreed weight when they sell to others.

The importance of this Qur’anic rule is better understood when we recall that all currencies were exchanged by weight. It is reported that participants in the *Madinah* market had this notorious habit of skimping. One of the reasons that the Prophet (SAAS) sought to standardize weights and measures was to enforce the abandonment of this behavior (*Al-Arusi*, Vol. 5, 527). If it is possible to defraud when using money which is purported to be of a standard, it is clear that no transaction will be accurate or trusted in the market. One of the applications of justice in other verses of Qur’an is, in fact, to ensure transactions of the correct weights (*Ar Rahman*, 55/7–9).

11.2 Kanz

Kanz means the hoarding of *Dirham* and *Dinar* coins. Hoarding reduces circulation, thus causing speculative demand for money. This act is emphatically prohibited and condemned by the Holy Qur’an (Touba/9, 34–35). It is obvious that the prohibition of *Kanz* has an effect on the stability of currency circulation and market transactions. As a result of this measure, the value of money is preserved, its purchasing power is maintained and financial resources are channeled to investment projects in the real sector.

11.3 Prohibition of Riba

A customary use of savings before Islam was *Riba*, a usury loan, either for trade or for consumption. At the time of lending, the lender would make it a condition that the loan be repaid with interest. In a second type of usury, called “transaction usury”, a usurer exchanged or sold his commodity over time for an amount of the same commodity more than its original amount. From the point of view of the wealthy people of *Quraysh*, usury was the best way for gaining secured profit from their savings. A usurer could easily gain income from interest without undertaking any toil and without the painstaking work of travel and transportation of the commodity, which

is a part of trading. Since savings were limited among the ordinary inhabitants of *Hijaz*, who generally were nomads, and because trade had created substantial demand for capital, large profits were to be made from usury. In addition to these, the usurers did not have to share in the risks which accompanied trading activities.

The long distances in the unsafe deserts created numerous dangers for the merchant caravans, yet the capital, as well as the accumulated interest, of the usurers was immune from every risk, because if a borrower was unable to repay his usury loan, he became a slave of the lender (*Shehabi* 1357/1976, Vol. 1364; *Ejtehadi* 1350/1071, 91). So, apart from these advantages, a usurer did not have to worry about the success of trade, and had nothing to do with managing the undertaking of the borrower. Also, he had nothing to do with auditing the accounts of expenditures and revenues in order to calculate the profit and his own share, as would be necessary in case of a partnership. Finally, he had no need to bother himself with market location, or to train the borrower in acquiring commodities, or their marketing. Consequently, owners of substantial savings may have preferred usury loans to trading partnerships.

The Prophet (SAAS) condemned usury from the beginning of his mission (Qur'a'n, *Rum*, 30/39; *Baqarah*, 2/276), and always forbade Muslims from commission of this action. While teaching economic ethics and condemning usury, gradually he limited the scope of usury. After a while, he prohibited compound usury (Qur'an, *Aale Emran*, 3/130); then, in the last years of *Hijrah*, simple usury, or even commodity transactions which were deemed usurious, were prohibited, and the commission of usury was declared to be among the greatest sins (*Baqarah*, 2/278–279). Eventually, this practice was eliminated from the domain of economic activities of the early Islamic period. Savings could only be used for Islamic and legitimate purposes, such as have already been mentioned. The prohibition of usury, to a large extent, limited the scope for the usage of savings. Except through partnerships and the creation of value-added, there was no other way for the owners of savings to make a profit. In effect, the prohibition of *Riba* led owners of savings to become dependent on investors in order to obtain an income from their savings. This, and other changes which were brought about merely as the result of alterations of economic rights and legal privileges in the economy of the early Islamic period, along with other incentives provided for producers and investors, created new legal privileges and prestige for them which, in itself, increased participation in contractual partnerships.

These changes, on the whole, increased demand for investment in the early Islamic period and thus created coordination and balance between the circulation of monetary income and the production of commodities.

11.4 *Prohibition of the Kali-bi-Kali Transactions*

The changes stated above and expansion in trade and economic activities necessitated modifications in market structure so that production and service activities could be carried out with greater speed and efficiency. The changes and amendments which were brought about by Islam are discussed in Chap. 7, where the structure and performance of early Islamic markets are discussed. Therefore, we concentrate here on one of those changes to illustrate how it affected savings and the investment process.

In Islamic law, both cash and credit sale transactions are allowed. In a cash transaction, a commodity and money are exchanged simultaneously; in a credit transaction, a commodity is delivered at the time of the transaction, and the money is paid after a specific period of time has passed. Alternatively, money is paid in cash and the commodity is delivered after a specific period of time. Now, if neither money nor commodity is delivered at the time of the contract, the transaction is called *Kali-bi-Kali*. This latter kind of sale transaction is prohibited by Islamic law.

If this kind of transaction was not prohibited, various future markets for gold, silver and other valuable assets could have developed and a portion of savings could have been allocated for speculation in these markets. In that event, without creating a real value-added in the economy, an income would be gained by the owners of savings, thus creating an imbalance in the flow of circulation of money and commodities.

Prohibition of this type of transaction prevented savings from being diverted from the production of real commodities and services, as well as preventing the creation of future markets in the same way that the prohibition of usury prevented the creation of loan markets.

12 PECUNIARY INCENTIVES

One of the objectives of financial policy is to preserve the purchasing power of money by maintaining a balance between the flow of money income and its value in the real sector. One of the methods used to achieve this objective in Islam is to prohibit activities that may lead to the deviation of savings from investment activities. Some of these rules are the

prohibition of *Kanz* and *Riba*, which were discussed earlier. The second method that brings about the realization of this objective is the promotion and encouragement provided for certain economic activities by considering them on a par with worship. Three such activities that have great blessings and rewards in the Holy Qur'an and were encouraged by the great Prophet of Islam and the Commander of Believers, Ali (AS), are *Qard Hasan* (*Baqarah*, 2/245; *Hadid*, 57/11, 17; *Taghabon*, 64/17), *Infaq* (*Baqarah*, 2/195, 215, 254, 261–267, 271–274) and *Waqf*. The outcome of these activities helped to mobilize savings and convert them into investment activities and, consequently, maintained the balance between the flows of money income and goods in the economy of early Islamic era. From this point of view, these measures may be considered as financial promotional policies.

During the early Islamic era, Prophet (SAAS) was committed to encouraging the act of *Qard Hasan* (interest-free lending). The rewards that are allocated for this worship in the Holy Qur'an (*Baqarah*, 245; *Hadid*, 11, 17; *Taghabon*, 17) create immense motivation for savers who would lend their wealth or savings to producers or consumers, raising their return and satisfaction. Although, from an economic point of view, this type of lending may be considered as a transfer payment, from the view point of the Holy Qur'an this deed is considered to be a productive activity which may have returns many times greater than the original amount (*ibid.*). Hence, in the calculus of the early Islamic era Muslims, bona fide lending is equated with an investment activity that yields spiritual returns.

At the macro level, *Qard Hasan* loans facilitate the giving and repayment of productive and consumption loans at no cost in time, due to the two partners' perfect knowledge of each other. Similarly, there would be no costs incurred for legal and bureaucratic follow-ups for the timely return of extended loans. *Qard Hasan* loans therefore contribute to the balance of money and to real income flows and maintenance of the purchasing power of money.

The other instruments with which to channel savings towards economic activities are *Infaq* and *Waqf*. Due to the enormous rewards and blessing foreseen for these activities by the Islamic *Sharia'h*, Muslims show an overwhelming interest in giving away a part of their income as *Infaq* and by devoting parts of their wealth as *Waqf*. Enthusiastic desire among the Muslims for *Infaq* was such that some of them were ready to adapt their consumption needs to those of the (*Hashr*, 59/9). The Holy Qur'an, besides upholding and putting great value on such deeds, declares *Infaq* to

be a kind of investment for the Muslims which may have returns up to 700 times over (*Baqareh*, 261). For this reason, the followers and comrades of the Messenger of Allah (ST) not only used to give away a part of their income as *Infdaq*, but also used to devote some portions of their wealth in the form of *Waqf*. The *Waqfs* made by His Holiness Ali (AS), Her Holiness Fatima and other comrades of the Messenger have been recorded (*Ahmadi Mianaji* 1361/1982, 74–93).³ *Infdaq* normally comprises cash and non-cash savings, because every Muslim is, in the first place, required to earn and provide for his own basic requirements and those of his family, and then give for *Infdaq*. On the other hand *Waqf* is made out of assets like houses, farms, gardens or investments in public goods like schools, mosques, hospitals, water reservoirs, guesthouses and the like. The desire of Muslims towards these two activities which began in the early Islamic era and which continue even now has been to obtain the satisfaction of God; this has resulted in the formation of huge stocks of *Waqf* capital and assets in every Islamic country, fulfilling alternative communal demands.⁴

13 SUMMARY

Prosperity and the development of trade in the Arabian Peninsula for centuries prior to Islam had made the use of a strong medium of exchange inevitable. So, the *Dinar* and *Dirham* the currencies of Iran and Rome were used as the medium of exchange in the economy of the Arabian Peninsula. Since the trading counterparts of the Arabs were Iranians and the Romans, or the regions under their rule and influence, the circulation of the high-powered currencies of Iran and Rome throughout the *Hijaz* seems quite natural and logical. In addition to this gold money, there is evidence indicating that credit also was used; however, credit was used with a very limited scope, allowing us to conclude that the principal mode of exchange was based on gold money. During the life of the Prophet Mohammad (SAAS), the *Dinar* and *Dirham* used to be imported by the private sector from Iran and Rome. There were no limits imposed on the import of these currencies and their import was dictated by local demand. For this reason, the supply of money was perfectly elastic to the exchange rate in the economy of the early Islamic era. The total demand for money, which consisted of the transaction and precaution demand, was also a function of national income. Due to the limited scope of the economy of the Arabian Peninsula compared with the economies of Iran and Rome, the value of money, which was endogenously determined in Iran and Rome, was exogenously determined for *Hijaz*. Therefore, the

only action taken by the *Baitul Mal* for maintaining the value of money was to control the purity of the *Dinar* and *Dirham* coins, as this was the only way to keep the face value and the intrinsic value of the gold money coins intact.

During the reigns of the successors of the Messenger of Islam; many regions were conquered, and the Iranian economy together with some parts of the Roman Empire were merged into the early Islamic economy. The financial policies of *Baitul Mal* evolved during the caliphate of Ali (AS). For the first time, coins were minted in the name of the Islamic state and the determination of money supply was left to the *Baitul Mal*. For the better functioning of the financial market, certain other measures were adopted by the public treasury. These included regulation and the imposition of rules and measures which prohibited the hoarding of money, exchanges of *Riba*-based loans and *Kali-bi-Kali* transactions. The adoption of promotional policies for the expansion of *Qard Hasan*, *Infaq* and *Waqf* helped to channel the savings in society towards investments and hold a balance between the circulation of money and that of products, subsequently maintaining the value of money. Further, financial services for the collection of savings, provision of payment services and financing investment projects were extensively provided. With this description, we may observe that, with the expansion of the Islamic economy from *Hijaz* to greater parts of Asia, Europe and Africa, and with the expansion of financial markets, public sector measures and policies experienced revolutionary changes and developments in this economy.

The scope of these measures includes: controlling the quality of coin money, having full command on the supply of money, eradication of the *Riba*-based loan markets, prohibition of money hoarding, speculative activities and, finally, direct intervention for regulation of foreign exchange services. Further, the philanthropic acts of *Qard Hasan*, *Waqf* and *Infaq* were encouraged. These acts transfer the cash and non-cash savings of society into productive and public-oriented activities. The set of these rules and regulations, promotions and the control over the money supply describe the state of money in the early Islamic era.

NOTES

1. According to Nasir Khusraw, in the year 444 (after Hijrah), there were over 200 banks then engaged in both under-writing commercial activities and trading in precious metal bullion in Isfahan alone (Heck, 2006, 112–113).

2. The practice of meeting arriving commercial caravans at the outskirts of the city, purchasing their merchandize cheap and selling it dear in the city market, due to asymmetric information between the sellers and buyers, was not found in parties to participation contracts between fellow citizens; rather, it was a sales activity practiced by alien tribes.
3. The contribution of this philanthropic activity to the development of the Muslim' economy in the post-Islamic periods is reported by Murat Cizaka (2000).
4. *Waqf* properties belonging to *Imam Redza* (AS) in *Mashhad*, *Hazrat Fateme Maasumeh* (SA) in *Qum*, *Hazrat Shah Cheragh* in *Shiraz* and *Hazrat Abdul Azim* in *Ray*, in addition to all Mosques, hospitals, schools, water stores, Hossainiahs, roads and bridges that have been built by various benefactors, are examples of the founded capital stock in Iran. For more information, see Murat Cizakca, *The History of Philanthropic Foundations*.

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PART III

Market and the Private Sector

The Markets in the Early Islamic Era

1 INTRODUCTION

The economic system of early Islamic state was supported by free markets and the public treasury. The latter's economic activities have already been briefly described and a point was made that the government used to perform an active role in the fields of infrastructural investments, public services and the introduction of science and technology, besides its responsibility to maintain law and economic order. In this chapter, the domain of private sector activities is introduced to show its equally important and complimentary role in the economy of the early years of Islam. Coordination between the public and private sectors is one of the main features of the economy of the early Islamic era.

The importance of the private sector in the economy of the Arabian Peninsula is illustrative in the history of this region before and after the emergence of Islam. The Peninsula's unique geographical position at the crossroads of Asia, Europe and Africa, and its periphery to the Persian and Roman empires, gave it a distinct commercial advantage. For the very same reason, trade was in place for centuries prior to Islam. When trading activities became stagnant, for the reasons given in Chap. 1, *Hashim* tried to revive it once again. As a result, the *Ukaz* market gained fame throughout the Peninsula and beyond in Persia and Rome. Besides *Ukaz*, a number of other markets were active during specific seasons of the year, such as: *Dhul Majaz*, *Majannah*, *Shaqar*, *San'a*, *Dhumatul Jandal* and many others (Al-Afghani 1960; Razavi 1367/1988). *Ukaz* market's

prominence saw cultural functions and ceremonies taking place besides trade, accompanied by assemblies in which Arab poets delivered their poems (*ibid.*). The noblest Prophet (SAAS) utilized these congregations to announce his prophecy and invite the people to Islam, during the initial years of his prophethood mission.

2 MARKETS IN EARLY ISLAM

After Islam and his migration to *Madinah*, the Prophet (SAAS) of Islam made use of the comparative advantages involved in the Peninsula and the commercial expertise of the businessmen of *Madinah* to promote trade and business by inviting the immigrants and the Christians to participate in the businesses (Chap. 3). One of the Muslims trade and doing business at that time was *Zayd ibn Haretheb*, who utilized the capital of the followers to trade with *Sham* (*Ayati*, 419). While dividing the land for housing purposes in *Madinah* (*Al-iqta Ad door*), the Prophet (SAAS) allotted a special plot for setting up a market. It is reported that he visited and measured several places that were proposed for the marketplace by his followers before he finally selected one for this purpose (Mortadhza 1988; Setia 2014).

The Prophet (SAAS) encouraged the non-Muslim traders to promote trade and business and, in turn, used to undertake that if they lost something, it would be compensated and, as long as they were in *Madinah*, they were considered to be the guests of Prophet (SAAS) himself¹ (Mortadhza 1988, 93–95).

These provisions, on the whole, resulted in the promotion and betterment of trade between Muslims and non-Muslims. We have several citations of the fact that non-Muslims were active in the bilateral trade that took place in the time of the Holy Prophet (SAAS) (*ibid.*); for example, the *Nabtian* traders brought oil and flour to *Madinah* (*Ayati*, 578). As the trade route was becoming more unsafe for the *Quraysh* tribe during the *Badr* War, as described in earlier chapters, the Prophet (SAAS) tried to destabilize the monopolistic trade power of the *Quraysh*, until the holy city of *Makkah* was conquered and their monopoly was totally abandoned. The Commander of the Believers (AS), too, paid special attention and had a unique outlook towards the private sector and the men of commerce. In his directives to *Malik Ashtar*, he described in full the valuable services of this group, and advised him to take special care of them and facilitate their activities (Chap. 4). Further, His Holiness used to place great emphasis on

the security of the market transactions. In addition, he denounced any kind of invasion in the common areas in the market and any kind of disruption in the process of trade. By surveying the literature on the activities of the Holy Prophet (SAAS) and the Commander of the Believers, in this regard, *Ja'afar Mortadha* (1988, 23–25) has concluded the following:

1. The land and the buildings and any construction needed for the markets were supplied by the public sector.
2. There were no rentals as such for the use of the land and facilities provided by the markets.
3. Some of the marketplaces had buildings and some others had no facilities at all. They did not allow the stall-holders to intrude into the common spaces of the markets or into the spaces allotted to others.
4. It was prohibited to build any construction or occupy the non-permitted places in the market. Once the great Messenger of Islam ordered the burning of the tent of a date seller who had erected his tent in a non-permitted area and, once, Imam Ali (AS) ordered the destruction of the shops that has been built in the forbidden areas.
5. In places having no construction, priority was granted on a first-come-first-served basis and the permission was valid only for the current day.

These measures show how much the leaders of the nascent Islamic state strived for the development of the markets and economy, using all the opportunities that were available at the time. A more comprehensive account of the characteristics of the markets and the process of price determination will be presented in the following sections. However, prior to this account, the place of market activities in the Islamic value system and the importance of business men, entrepreneurs, farmers, workers and other economic agents should be recognized. Accordingly, the next part of this chapter is devoted to this subject to illuminate the ethical status of the market, economic activity and work in Islam's economic system.

3 WORK AND BUSINESS ETHICS IN ISLAM

Islam upholds work. The earning of legitimate income is both an obligation on every adult individual and his most valuable contribution. In the holy Qur'an, Allah (ST) states that he has created Man from the earth

and has prescribed the mission of developing the land for him (*Hood*, 11/61). Elsewhere, Allah (ST) states that he has made the earth a place for Man's settlement and has created ways and means for his earning (*Zokhrof*, 213/10). Further, the Almighty reveals that all the blessings in the world have been created for Mankind's sake (*Baqarah*, 2/29). Mankind is encouraged to seek Allah's bounty, to obtain his blessing, and to remember him whenever they finish praying (*Joma'ib*, 62/10). Similarly, the Prophet of Islam (SAAS) has praised earning permissible income and considered it the best of acts (Mottaqi al-Hindi 1401/1980, Vol. 4, 8), so much so that he (SAAS) regarded it as the most valuable manifestation of worship (*Al-Hur al Ameli* 1403/1982, Vol. 12, 11). It is reported that His Holiness once encountered a seller in the market who was offering goods at relatively lower prices. His holiness asked if his contentment with lower profits was in the pursuit of Allah's (ST) happiness. When the seller replied positively, the Prophet (SAAS) commended him and said that market suppliers are the same as those who struggle in the cause of Allah (ST), while the hoarder of goods is as heathen in the book of Allah (ST) (*Al-Hakim al-Naishaburi*, n.d., Vol. 2, 12). Equating the marketplace to the battlefield and market participants to those who struggle for the sake of God indicates great reward and recompense. The same analogy has been given by several members of the Prophet's (SAAS) progeny. *Imam Ja'afar Ibn Muhammad* (AS) likened a man who works hard for his family's livelihood to one who struggles in the way of Allah (Koleini, n.d., Vol. 5, 88). It is also reported from his son, *Imam Musa Ibn Ja'afar*, that whoever seeks his living and that of his family in a lawful manner is like a struggler in Allah's (ST) cause (*Al-Hur al Ameli* 1403/1982, Vol. 12, 11). Imam Ali (AS) has stated that a Muslim market is the same as their Mosque (ibid., 300). Thus, the Holy Qur'an and the prophetic *Sunnah* not only encourage people to strive for a decent living, but also grant the highest conceivable value to this effort. In fact, all prophets and messengers of Allah (ST) worked to earn a living. *Adam* (AS) was a farmer, *Idris* (AS) was a tailor, *Noah* (AS) was a carpenter, *Hud* (AS) was a merchant, *Abraham* (AS) was a shepherd, *David* (AS) was an armour maker, *Solomon* (AS) was a mat weaver, *Moses* (AS) was a laborer, *Jesus* (AS) was a globetrotter and the Prophet Muhammad (SAAS) was brave and made a living with his spear² (*Majlesi* 1403/1982, Vol. 103, 56)

Revered in the value system of Islam, economic activities are defined and categorized by the leaders of the Islamic state. When asked about the most virtuous profession, the Prophet (SAAS) responded "Man's work

with his hands and every sanctioned sale” (Noori Tabarsi 1408/1988, Vol. 2, 417). On another occasion, His Holiness stated that whoever earns a legitimate living with his “hand’s effort” will have Heaven’s gates opened for him, so he could choose whichever he wishes to go through (ibid., Vol. 2, 417). In addition, expenditure on oneself, family, children and servitors is equated to giving alms (Mottaqi al-Hindi 1401/1980, Vol. 4, 9). *Imam Sadiq* (AS) has narrated, on the authority of Imam Ali (AS), that Allah (ST) revealed to *David* (AS) that he is the best worshipper, except that he lived off the *Baitul Mal* and did not earn a living with his hands. *David* (AS) cried and supplicated for 40 days, until he learned iron smelting by the grace of Allah (ST). From then on, he sold armour for a living and gained independence from the *Baitul Mal* (Saduq 1404/1984, Vol. 3, 98).

Earning a living with one’s hands requires explanation. The holy Prophet had staff, judges and instructors of the Qur’an and Islam who were paid from the *Baitul Mal*. Islam condemns living off others while being able to work (Sanatkar, 38). It also condemns unemployment when there are employment opportunities (ibid.). A fellow traveller was once praised for committing all his time to practices of worship. The Prophet (SAAS) inquired about his food and expenditures and was told that his fellow travellers were paying them willingly. His Holiness commented, “You are all more pious than him. The best of you is he who does not burden others with his living expenses. Whoever does burden others with his livelihood is cursed by Allah” (*Al-Hur al Ameli* 1403/1982, Vol. 12, 18). Thus, earning a living by hand implies seeking jobs and providing services either as an employee or employer. Having assigned so much value and pride to participation in the market and in business conduct, the Islamic value system denounces negligence in this regard. *Imam Musa Ibn Ja’afar* advised one of his companions to “seek your honor early morning i.e. the market” (*Al-Hur al Ameli* 1403/1982, Vol. 12, 4). Thus, usefulness and value-creating should be the aim of every member of the Islamic community.

Islamic teaching does not award consideration to issues of superficial prestige in society. A job is decent, by Islamic standards, as long as it creates value. The Prophet (SAAS) is reported to have said that mean work is better than begging (Mottaqi al-Hindi 1401/1980, Vol. 4, 122). *Imam Sadiq* (AS) advised a poor person to “work, even by carrying freight on your head, [in order to be] self-sufficient and independent from people” (*Al-Hur al Ameli* 1403/1982, Vol. 12, 22).

In addition to self-sufficiency, Islam highly recommends productive investments and business enterprises. *Imam Sadiq* (AS) advised *Ma'az*, a successful fabric trader, not to leave his business because it would hurt his intellect and makes him vulnerable to others (ibid., 7). In the same incident, the *Imam* (AS) opined that leaving the business is the Devil's temptation. In his command to the governor of Egypt, *Malik Ibn Ashtar*, Imam Ali (AS) highly praised the services of the business and industry community and advised him to adopt supporting measures and accommodating policies to enhance their services (Chap. 4). On the other hand, Imam Ali deprecated excessive risk-taking by some entrepreneurs. On the other hand, intermediations that do not create any value added are greatly condemned.

Recommended business merits

A review of business instructions, recommendations and work ethics stated by the Holy Prophet (SAAS) and his progeny (AS) provides the following guidelines:

1. To remember God;
2. To seek Allah's (ST) grace and his protection from evil when entering marketplace;
3. Not to oppress or be oppressed;
4. To give priority to the contracting customer over an intruding buyer;
5. To inspect the merchandize fully before its purchase;
6. To trade in good commodities;
7. To be lenient in sale;
8. To deliver goods in excess of the quantity purchased by the buyer;
9. To inform the buyer of any deficiency in the merchandize;
10. To avoid business with transgressors;
11. Not to inflate the prices of auctioned goods;
12. To observe prayer times;
13. To accept annulment of the deal for a regretful customer;
14. Finally, businessmen should avoid five practices, or not do business at all in:
 - (a) *Riba*;
 - (b) Taking oath for business transactions;
 - (c) Hiding product defects;
 - (d) Praising the goods in sales;
 - (e) Deploring a good at the time of purchase.

We may conclude this section by reporting the business instructions that are laid down by the Holy Qur'an in *Sourah Baqarah, Ayah 282*:

1. To register credit transactions;
2. To specify the period of the deal;
3. The registrar must be a third party;
4. The registrar shall document the facts and details of the contract duly;
5. The registrar should not refuse to document the contract;
6. The indebted party should state the terms of the contract and the registrar should write it down;
7. The party in debt should be conscious of God and not understate his obligations;
8. If the indebted party is disabled and/or not mindful, his guardian should dictate the details of the agreement;
9. The guardian should observe justice while dictating the terms of the contract;
10. Two witnesses should sign the contract;
11. The witnesses should be mature and Muslim;
12. Certification suffices by the witness of two men or a man and two women;
13. The witness should be trusted by the contracting partners;
14. If witnesses are called to court, they should not refuse to testify;
15. The amount of debt should be written down, whether small or large;
16. If the deal is concluded on spot, documentation is still recommended to preclude any future skepticism;
17. Attendance of a witness is required for unwritten spot deals;
18. The witnesses and the registrar shall never be harmed for the service they are providing.

Complying with the Qur'anic instructions will clearly create transparency in market dealings and uphold trust in the business community. It is the application of these instructions and those of the Prophet Muhammad (SAAS) and his progeny that sanctifies the market and renders it as holy as a Mosque for the Islamic community.

4 THE CHARACTERISTICS OF MARKETS IN THE EARLY ISLAMIC ERA

Having elaborated the importance of private sector barter and activities, we now further analyze the features of early Islamic markets. Acquaintance with these characteristics will be helpful in deriving of a model for Islamic markets.

The term “market” refers to the space in which the buyers and sellers indulge in transactions. This space may include a village, a township, a country or the whole world. In each space, it is possible to have several localities allocated for the said activities, and, in different places in a region, there could be several local sub-markets.

By market we do not mean the transaction that take place in a specific locality but, rather, all the exchanges in the whole space. For example, some places in the north, center and south of the township may be allocated for trade. Each one of these points would act as a local market. The market of a city would include all the transactions performed in all the markets located in the suburbs of that city. Therefore, the *Makkah* market included the *Ukaz* and the *Dhul Majaz* markets. In the beginning of the migration, the *Madinah* market included the marketplace utilized by the Muslims and the market place of the *Bani Nainogha* tribe. However, after *Al Abzab* clashes in the fifth year of *Hijrah*, almost all the inhabitants of *Madinah* were Muslims and, for the later periods, we can refer to the *Madinah* market as an Islamic market.

The city of *Makkah* was conquered in the eighth year of *Hijrah*. Thereafter, within three years’ time, *Hijaz* and almost all the regions in the Arabian Peninsula accepted Islam. Therefore, we may call the market of the Arabian Peninsula as the market of Muslims of the early Islamic era. Taking into account the importance of the *Makkah* and *Madinah* markets in the economy of the era that was contemporary with the holy Prophet (SAAS), we analyze their features with more intensive care. The peculiarities of the other markets will also be analyzed as we progress.

Now that we have defined the market, let us go on elaborating the characteristics of the early Islamic markets.

4.1 Large Number of Market Participants

There were a large number of buyers and sellers participating in each market. Prior to Islam, the *Quraysh* clan had a monopolistic position in the

field of foreign trade but, through the measures applied by the Prophet (SAAS) of Islam, this monopoly did not last after Islam. Hence, the buyers and the sellers in the early Islamic markets had no monopolistic position. It is relative in nature, when we judge the number of the participants in a market to be large or small. Normally, the judgment is made with respect to the magnitude of the transactions performed in each market. In other words, the analysis is based on the scope and dimensions of the markets. Due to this fact, the number of buyers and sellers in the *Madinah* and *Makkah* markets were innumerable and the share of each participant in the supply of all the commodities was negligible. Hence, imposition of a monopoly either by the buyers or sellers did not prevail and price determination of the commodities was not influenced by any participant in the market.

4.2 *No Trade Barriers*

There were no trade barriers on imports and exports of commodities into and out of the Peninsula and transferring of commodities within the markets could be achieved very easily. Further, it was very convenient to enter a market and start trading activities with no prior permissions and licenses. Before Islam, it was a precondition to obtain the permission of the head of the tribe organizing the market and to pay taxes to him (Al-Afghani 1960, 56), entry to and exit from certain markets and businesses required no permission from any public or private organization. Hence, inter-market transferring of goods and factors of production was very convenient and the efficiency of this activity was very high.

4.3 *Private Goods*

The goods transacted were all private goods. Food stuff, clothing, house ware, jewelry are all private goods, meaning that their consumption by a purchaser does not have any positive or negative impact on other consumers or neighbors. Their supply can be divisible and exclusive, in the sense that the seller would provide the commodities only to those who pay for them and deprive the others who are unable or unwilling to pay for them. Public goods, especially pure public goods, do not have these features. For example, if someone has installed a lamp on the top of the entrance of his house, lighting the lane, he has provided a pure public good, because the housekeeper cannot stop others benefiting from the light of his lamp to

find their way at night. The secondary benefits to others are equal to that obtained by the house owner who has installed the lamp. Health services and public education are both public goods and have considerable external effects on others in the society. But this benefit is higher to the consumer himself or herself, rather than providing lateral benefits to others.

We noticed in the discussions about the public treasury that social security, national defense, the development of science and technology, and social insurance are all pure public goods; not only these, but also cultural and educational services were all financed by the public treasury. On the other hand, consumable goods and produce were supplied either by the peasants or the craftsmen and the merchants. Therefore, almost all the commodities traded in the early Islamic markets were private goods. In contrast, the public and pure public goods were all supplied by the public sector.³

4.4 *Codes of Conduct for Transactions*

Transactions were performed in accordance with the rules and regulations of Islamic *Shariah*. Therefore, all the juridical obligations of the transactions were enforced and observed. In every transaction, the quantity, quality, sale price, mode and duration of payment, especially for credit and forward sales, must be known and clearly stated. Ambiguity about any one of these topics would result in the nullification of the transaction.

Full knowledge of the features of their transactions by both the parties would result in the expedition of trade and avoidance of future disputes. Compliance with these rules and regulations in the economy would increase the efficiency and credibility of the trades.

4.5 *Maturity*

Yet another necessary condition for a legitimate transaction is that both parties must be mature and rational, or, in the terms of *Shariah* definitions, they must be responsible persons (*Mokallaf*). Those who have no capability to manage their own livelihood, including children, mentally retarded or sick persons, do not qualify for legally acceptable transactions.

4.6 *Rules of Compliance with Shariah*

Besides all the conditions already mentioned, many other regulations were set forth by the Islamic *Shariah* advisers so that traders could perform their transactions accordingly. These regulations included: revocability

and irrevocability, options, different kinds of contracts and agreements, several versions of partnerships and methods of profit distribution among the partners, and almost all civil and ownership rights. In other words, the ownership and rights of utilization were clear and free from any ambiguity, so the Muslims could indulge in business and trade with full confidence and have complete legal coverage of their rights and privileges.

4.7 *Prohibition of Hoarding*

One of the activities which has been severely criticized and banned by the Islamic *Shariah* is that of hoarding. If, with an intention to make greater profits, a seller, on realizing the comparative shortage of a commodity and expecting higher prices by the time he brings the goods for sale at the market, tries to hoard and store goods by not selling them at that particular time, he is said to have committed a sin by being involved in an unlawful (*Haram*) act. The conditions that lead to hoarding and the decrees and verdicts pertaining to that are discussed in full elsewhere (Sadr 1362/1983).

In the present context, because of the ill nature of this activity in Muslim markets and its evil effect on the process of pricing goods and services, we shall merely refer to the term. It is clear that a ban on hoarding will increase the efficiency of market transactions and reduce the influence of the distributors on distortion of the prices, if they were unequitable.

4.8 *No Price Setting*

One of the very important topics discussed in Islamic juridical theories is the concept of price setting by the public authorities for private goods. During the lifetime of our Holy Prophet (SAAS), a trader had hoarded wheat flour. His Holiness personally intervened and prevented him from such an act and forced him to sell his stock of flour. When other Muslims asked the Prophet (SAAS) to set price on the goods; he refrained and did not declare any price for it (ibid.). But, in the instructions of the Commander of the Believers to *Malik Ashtar*, it was made clear that the prices of services and commodities must be fair in the Egyptian markets and he was given permission to set prices if they were unstable and unfair.

By referring to the literature on juridical theories, one can infer that governments are allowed to intervene and set the prices under the conditions where markets are not in equilibrium and when there are severe economic fluctuations. But this authority is limited to exceptional situations only; otherwise, price setting by the state is not permitted (ibid.).

4.9 *No Transaction Tax*

Among the other distinct characteristics of early Islamic markets is the absence of any sort of tax on transactions. Despite the fact that, prior to Islam, traders were made to pay taxes to the chief of the tribe organizing the market, after Islam this tax was abolished. At the time of the great Prophet (SAAS) and the Commander of the Believers, even the place and the stall was provided free of charge to sellers and they paid no rents (Mortadhza 1988).

4.10 *No External Harm*

Neither the producers nor consumers were given the right of imposing losses on others because of their productive or consumption activities. This verdict was set by the most noble Prophet (SAAS) in the Islamic *Shariah* and according to his order.⁴ Putting others in loss, either directly or indirectly, was prohibited or banned (Shehabi 1330/1951).

4.11 *Prohibition of Creating No Value Added⁵*

Any economic activity that does not create an economic value is considered to be illegal and prohibited. Income earned by these activities—such as the confiscation of the rights of others, fraudulent activities, stealing and theft, or gambling—are all the same and fall under the same juridical verdict. Earnings are considered as pure value-added if, and only if, they result in real social welfare for the community and comply with the standards of the Islamic school of thought. Earnings that are gained by way of money lending, unlawful intermediations, gambling, and illicit and illegal activities are worthless from the Islamic *Shariah* point of view; hence, they are not permitted to enter the Muslim markets. In the early Islamic markets, no one used to earn income by committing illegal activities.

4.12 *Forbiddance of No Value Creating Intermediation*

One of the incidences of “no value creation” prior to Islam was discussed earlier. When a commercial caravan used to approach a city, some people used to go out to receive them and purchase at cheap prices the merchandise the caravan carried for which there would be the greatest demand. This was done with the intention of supply those goods later in the city at exorbitant prices. This intermediation was achieved by virtue of the

ignorance and lack of information of the trading caravans about the city market, and was called “*Tallaqi Rokban*”. This practice was prohibited by the Prophet (SAAS) of Islam.

4.13 *No Demolition and Damage*

Sellers and buyers are not allowed to destroy and waste the commodities under their disposal, or be the cause of wastage of the goods belonging to others. This implies no destruction and there are frequent references for that in the juridical books. If a public or private institution, in the process of its development programs, excavates a public pathway and does not place a signal or a mark indicating presence of a ditch, and if, by chance, a trespasser falls into the ditch and is injured, the institute is taken as the demolishing party and is supposed to compensate for the losses incurred. Sales of medicines and raw materials with no indication of their ingredients fall into this category. Perhaps it was due to this very reason that the great Messenger has prohibited path blockades (*Kattani*, n.d., Vol. I, 282).

4.14 *Prohibition of Extravagance*

Another improper conduct which is prohibited in Islam is that of extravagance. A person who is lavish in his consumption does not completely destroy the goods, so he does not come under the rules of wastage and destruction; however, he makes a non-optimal and extraordinary use of it. Lavish consumption or usage of an input in the production process, especially when it becomes a social habit, results in scarcity of that good and a subsequent increase in its cost and a reduction of public welfare in society. Therefore, in the holy Qur’an as well as in the quotations from the holy Prophet (SAAS) and sacred Imams, extravagance and dissipation is banned (*Naraqi*, n.d., *vaed ul Ayyam*). From the economic point of view, as stated in Chap. 3, wastage takes place at times when the marginal benefit of a good is positive to the public whereas the marginal private benefit is zero. At the time of extravagance, the private benefit does not become zero; however, it is less than the marginal social benefit.

4.15 *Prohibition of Najsh*

It was stated in Chap. 1 that, when two parties are busy negotiating for a deal, if another party interrupts to propose a price lower than that stated

by the seller or higher than the buyer, with intention of breaking the deal favoring one of the parties involved, this act is called *Najsh* and it is prohibited in Islamic *Shariah*. This prohibition improves optimism and confidence among the market participants.

4.16 *Prohibition of Riba*

Prior to Islam, it was customary to take interest on loans and transactions. The lender of the loan made it compulsory that the person taking the loan must repay the principal sum plus an additional amount to him. *Riba* in transactions takes place when the seller offers the goods on the condition that the buyer must return the same quantity of that good plus an additional quantity. Both kinds of these *Riba* were prohibited in Islamic *Shariah* and, in commercial or investment activities, no interest was charged. The effects of elimination of *Riba* will be discussed in Chap. 11.

4.17 *Not to Skimp* (Tatfif)

Tatfif means to skim on the quantity while selling a commodity and the holy Qur'an has denounced it (Chap. 6). To prevent this action will improve the mutual confidence among the traders and will increase the speed and efficiency of the transactions. It has been recommended by the great Prophet (SAAS) that, when weighing the commodity, the seller should deliver more than the amount demanded by the buyer (*Kattani*, n.d., Vol. I, 412).

4.18 *Abandonment of Prohibited Deals*

Most of the transactions of the *Jahiliyyah* era lacked the principal components of a deal; that is, quantity, quality, price and a payment period were banned. The description of these transactions was given in Chap. 1. In this category, we may refer to *Kali-bi-Kali* (Futures) transactions in which neither the commodity nor the price of that good is delivered at the time of finalizing a deal. Transactions with the enemies of Islam, deals intending to perform prohibited activities, and ceremonially unclean transactions involving illegal and *non-halal* goods are of these types. Other characteristics of these transactions were stated earlier because of their importance in the pricing mechanism in the market. On the whole, prohibition of such transactions, besides improving the efficiency of the markets, resulted

in leading the economic activities towards the goals and missions of the Islamic school of thought.

4.19 *Appointing a Market Superintendent*

One of the prominent features of the early Islamic markets was the appointment of a person as the market superintendent by the holy Prophet (SAAS) of Islam or the Commander of the Believers. This step was taken to control the market performance. It is said that the great Prophet (SAAS) of Islam had appointed *Saeid Ibn Al Aas* as the supervisor of *Makkah* market and *Omar Ibn Alkhattab* to supervise the *Madinah* market (Halabi 1980, 424; Mortadhza 1988). The Commander of the Believers commissioned *Ibn Abbas* to *Basrah* for Inspection and court Judgment and *Ali Ibn Asmaa'* was appointed as the inspector of the agricultural market yards of that city. Also, he asked the Supreme Judge of *Abwaz* to replace the market inspector of *Abwaz* (ibid.). His Holiness also used to patrol and keep a vigilant eye on the *Kufeh* market and analyzed different commodities brought in for sales in the market (ibid.).

4.20 *Options*

Buyers and sellers had the option to revoke their transactions under certain conditions. These cases are as follows:

- (a) Meeting Option: When the two parties are busy negotiating in a meeting convened for the trade, they can revoke the transaction before leaving the meeting and parting from each other.
- (b) Inspection Option: If the customer has not seen the commodity at the time of the transaction and, on seeing the goods, he finds them different than he had conceived in his mind at the time of placing the order, he can revoke the deal.
- (c) Defect Option: If, at the time of delivery, the commodity is defective, the customer can reject acceptance of those goods.
- (d) Deceit Option: If one of the parties to the transaction is cheated—for instance, because of lack of information he has purchased the goods at very high price, or he has sold them at very low price—then, the transaction becomes revocable.
- (e) Cheating Option: If the goods are contaminated and/or the goods are made of low-grade material, then the deal is revocable.

- (f) Condition Fulfilment Option: If it is stated that the transaction is valid based on fulfilment of certain pre-conditions—for example, delivery in a pre-determined time and/or together with certain services or accessories, the transaction becomes revocable if these conditions are not met.
- (g) Time Period Option: If a specified time period is defined for the delivery of the goods and the payment of its price, the transaction becomes void and either of the parties can retreat and desist from taking part in it if the good is not delivered within that period.
- (h) Animal inspection Option: If the object of the transaction is an animal, the buyer can keep the animal for three days and return it to the seller if it does not suit his needs.

The above-mentioned options mean that no one can take advantage of an uninformed trading counterpart. To have an effective, transparent and legal transaction, the parties are compelled to provide full information about the commodity to each other. This fact increases the satisfaction and mutual understanding of both parties and dissemination of information between all the buyers and sellers. Increased information is a significant merit in a market; it improves market efficiency and increases the satisfaction and welfare of the tradesmen.

5 EVALUATION OF THE PERFORMANCE OF EARLY ISLAMIC MARKETS

Now, taking into account the above-mentioned characteristics, what sort of a structure may be conceived for the early Islamic markets? Because of the presence of a state-appointed market watchdog and selective price controls, we cannot classify them under the category of perfect competition. Because, by definition; one of the conditions of such a market is non-interference by the government. On the other hand, it is clear that they are not classified under a monopoly market structure.

As there are only four different market structures defined in economic literature and the real world markets have many different and diversified structures, it becomes almost impossible to define and classify all markets into these four idealistic forms. Hence, economists, instead of determining of the market structure, try to analyze their performances, because the goal of these four models of a market is to enlighten dimensions such as price determination and market efficiency. Herein, we have also used

similar criteria to assess the performance of the market with respect to the degree of competition, the pricing processes, profit margin for the sellers and the satisfaction of the customers. In what follows, we will discuss these criteria and, by using the characteristics of the early Islamic markets, we will analyze their performances.

5.1 *The Market Share*

The first criterion to evaluate the efficiency of a market is to find out the market shares of each of the sellers and buyers out of all the goods transacted in that market. It is evident that, as this share becomes progressively smaller, the structure of the market tends to be perfectly competitive and, if the shares are comparatively larger, the structure of the market approaches the perfect monopoly market structure.

A negligible market share ends up in a market where the supplier and the buyer cannot have any appreciable impact on the price determination process of the market. Conversely, if his share is large, a party becomes more powerful in influencing the pricing mechanism in the market. In the early stages of Islam, the number of market participants was very large; besides this, there were no barriers to entry and exit by individuals. If there were opportunities to gain extra profits in particular markets, others could easily enter and do business in those markets. The only group who had discriminatory advantages in *Makkah's* market were the heads of the *Quraysh* tribe; later, they lost their monopoly thanks to the measures adopted by the great Messenger of Islam. Hence, the market share of buyers and sellers in each market compared with the volume of goods traded was negligible and, therefore, they had no role to play in the pricing mechanism of the market.

5.2 *Information*

One of the criteria with which to judge the performance of a market is the availability and abundance of information about prices, technologies and production processes, sources of raw material, and the quality of transportation and the distribution network. If accessing such information is easier, the degree of competition in the market of that commodity is said to be higher. However, if having access becomes less convenient, entry to this market and competing with other suppliers becomes more difficult. The factor that helps increase the flow of information in Islamic markets is

the number of options at their disposal with which to revoke their transactions, as was stated earlier. In this way, no one in Islamic markets would intend to cheat and act fraudulently as he has to bear the losses of this deed himself, based on the defect option. If a person intends to sell a defective commodity, he is obliged to disclose the fault in his good so that the buyer will complete the transaction with full information and have no right to revoke the transaction. Therefore, as far as the quality, price and application of the commodity is concerned, the required information will be supplied by the relative parties; but, for the technologies involved, the following explanations may be useful.

Sometimes, it is possible that two partners in an economic activity do not have equal or symmetric information. For example, in the *Mozaraah* partnership contract, which is intended exclusively for agricultural activities, the peasant has full information about the process of cultivation, its timing and the activities related to sowing, cropping and harvesting, whereas the land owner does not have such information. If he stays away from the farm, he will not be aware of the disasters caused by rain or by drought. In other words, if the partnership ends up in losses, the land owner cannot easily judge whether the damages are caused by the negligence of the cultivator, or because of natural and external calamities. Asymmetric or unequal information, especially in the case of partnership contracts, would cause mutual mistrust, suspicion and revocation of contracts. This might happen in the case of contracts between workers and their employers.

In the Islamic *Shariah*, guidelines on partnerships and rules on transactions are applied to prevent the occurrence of such events to some extent. Generally, partnerships are revocable agreements, meaning that the parties involved have the right of cancelling the contract whenever they intend to do so. Consequently, fulfillment or avoidance of any action which creates doubt in the mind of one of the parties will cause him to use the right to revoke the transaction, which, by itself, is not in the interest of the other party. The other factor is the principle of non-destruction, which implies that, if one's action imposes certain losses on the other party, he will be considered responsible and he has to compensate for the losses incurred. Similarly, expropriation and seizure of the rights of others involves legal responsibility and payment of compensation.

But, if we look at the subject from the view point of Islamic values, which are presented at the outset of this chapter, we find a different perception. The sheer performance of economic activity, whether production

of goods or services, is valuable, and, if it is for the livelihood of the family or for the sake of the society, would gain the greatest requitals. The cooperation and efforts made for the improvement of social welfare without consideration of its profitability has a great utility for every Muslim. The indicator of this feeling is the declaration of social cooperation in early Islam and proposals of philanthropy; for example, *Qard Hasan*, and the devotion of assets. Therefore, the foundations of Islamic morals, which deter Muslims from committing fraudulent acts and falsification, also prevent them from imposing invisible losses in the cases of mutual contracts. Hence, partnership agreements were concluded on perfect reliability and optimism. The large number of Islamic contracts convened during the early Islamic era are all indicative of this fact and include: *Mudharabah*, *Mozaraah* and *Mosaghat*.

5.3 Efficiency

Another criterion for the analysis of market performance is the evaluation of trading efficiency in that market. When transactions take place with minimal time and effort, then the level of efficiency is higher in that market. In the early Islamic era, several factors induced increased trade efficiency. Free entry and exit of individuals, transfer of goods and production inputs, and the absence of monopoly were some of the causes for enhanced efficiency. Prohibition of hoarding and *Kanz* expedited free movement of commodities and transactions. Imposing no taxes on transactions ensured no increase in the cost of their enactment. Denouncing *Talaqi Rokban* prevented an increased number of unwanted intermediations and circulation of money without creation of added values. The right of price setting by the state resulted in stable prices and greater confidence in the trend of prices; hence, more trading took place. Also, prohibition of *Najsh* prevented unnecessary cancelation of transactions.

Perhaps, one of the most effective factors regarding transaction efficiency is the availability of and convenience of access to information in the market. These options would increase the stock of information in the market leading to better fulfillment of transactions. Other important factors are the avoidance of extravagance and wastage. To prevent the destruction of goods and non-optimal usage of them would halt the variations in their prices and supply. This reduces the problem of accessing the goods by the other consumers and/or producers. Non-lavish consumption and low wastage results in the better distribution of goods in the economy, because

the wealthy individuals observing the sanctities involved would transfer the goods to the needy. Because of the availability of information in the market, this transfer is performed faster at lower costs.

5.4 *Certainty and Security*

One of the criteria for evaluating if a market is performing well is whether sellers and buyers feel confident and secure in transactions. Uncertainty and vulnerability reduces the motives for doing transactions and increases the spirit of reluctance and over-cautiousness in a market.

The most important factors which gifted the Muslims with trade security were the ownership rights and the rules of contracts and donations, plus the clarifications pertaining to privileges of the trading parties and partners involved. The revocability of transaction contracts was one of the most effective factors in creating trade security. The presence of options and the prohibition of short-selling increased the level of mutual understanding and belief in the market participants and, finally, the presence of a market superintendent meant that the fulfillment of liabilities could be enforced. One of the principles which is stated in the holy Qur'an for the better functioning of economic and social relations is the principle of "Be faithful to your promises."⁶ In accordance with this divine order, all the Muslims are obliged to fulfill their commitments either in trading or in any other activity. The great Qur'an orders us to prepare written agreements with at least two witnesses at the time of taking a loan or undertaking a liability (*Baqareh*, 282). Compliance with this principle and the above-mentioned *Shariah* regulations resulted in an atmosphere of confidence and security in the early Islamic markets.

5.5 *Transaction Cost*

The markets in which contracts are agreed and signed with minimum cost and effort are known for their optimal performance; because of the extra-convenient exchanges taking place in such markets, the degree of competitiveness in those markets is considered to be high. One of the factors that reduced the transaction costs in the early Islamic markets was the elimination of taxes on transactions. Yet another factor was the abundance of information which clarified the features and characteristics of each commodity, and facilitated the decision making regarding transactions. Transparent rules and regulations within a safe and secure market atmosphere increased

motivation for doing trade. Consequently, contracts were concluded with minimum time and effort, and the transactions did not incur excess costs either in the form of taxes or in the form of opportunity cost.

5.6 *Technological Advancement*

Technical progress and the use of more advanced know-how by market operators can be considered as one of the indicators of the better performance of a market because it leads to higher efficiency in transactions.

In the discussion of the *Baitul Mal*, the role of the state in the advancement of heavy and large-scale industries was described. The information related to these technologies was handed over to all interested firms. The financial and fiscal policies in conjunction with the market conditions, especially the absence of monopoly combined with the small-scale private ownership nature of the businesses, provided all Muslims with the opportunity of being able to benefit from these technologies. Further, free entry to and exit from the markets gave them the necessary opportunity to utilize the available know-how and technological information. Consequently, together with increased aggregate demand, the incentive for the advancement of these technologies for the private sector were supported.

5.7 *Initiatives and Innovations*

In addition to the advancement of technologies, the initiatives for the division of labor, enhancement of the production organization and processes, increased returns and improved quality of the goods traded are all indicators of an advanced and developed market. Due to the availability of facilities, transaction opportunities and the countless number of tradesmen, the only way to develop and make use of the favourable market conditions was the innovation of new methods for the distribution of goods. Having these incentives in the market, together with the government support given by means of stimulating financial and fiscal policies, paved the way for initiation and innovation in early Islamic markets.

5.8 *Returns to Scale*

An important factor that leads to a monopoly structure in a market is the increasing returns to scale in the production process of goods. If the scale of activities for production or distribution is enhanced, it would imply

that, if all the factors of production employed (including land, machinery, labor, and so on) are increased in a given proportion, but the quantity of goods or services produced increases more than proportionately, then there arises the risk of a monopoly position emerging in that market. If a firm can be proactive and increase the scale of its activities before other competitors, its output increases more than proportionately and, hence, the average cost to the firm declines, enabling it to offer production at lower prices and beat its rivals.

This characteristic is especially noticed in heavy industries and public utility sectors, such as electricity, water supply and telecommunications. But, in the case of small-scale industries, agricultural activities and other private goods as defined earlier, this characteristic is not observed. In the early Islamic period, as we noted above, infrastructural investments were developed by the state and small-scale industries, and the production of private goods was promoted by the market and the private sector.

5.9 *Excess Capacity*

By this concept, we mean underutilized production capacity, which is the difference between the nominal or installed capacity and the level of actual capacity under practical utilization. It is natural that, as the excess capacity of firms declines, the efficiency of that industry increases. On the contrary, if the firms enjoy higher monopoly power, their ability to sustain lower levels of production at higher prices is greater. The level of excess capacity in such markets is normally very high.

There were no excess capacities in the early Islamic markets. This was due to the absence of monopoly power; free entry and exit of the buyers and sellers; the prohibition of hoarding, extravagance and wastage; and active government inspection.

5.10 *Stable and Continuous Supply*

One of the indicators of optimum market performance is a stable supply flow of goods and services. Scarcity of goods worries buyers and decreases the level of consumer welfare. Most of the market services and utilities, such as transportation and warehousing, are needed for the uninterrupted supply of goods.

The factors stated earlier—abundant efficiency, innovations and breakthroughs in new technologies, availability of information and security of

the markets, absence of monopoly power and hoarding—all contribute to the uninterrupted and steady supply of goods and services in those markets.

5.11 *State of Competition*

The features of early Islamic markets that have been discussed are all indicative of very high competitive performance. Freedom to initiate a business or leave it; the large number of businessmen and customers in each market; the availability of technical and marketing information; the high level of efficiency accompanied with no excess capacity and no power to influence the quantities and prices of commodities; the absence of taxes on transactions and avoidance of useless mediation with the boycotting of hoarding, *Najsh*, wastage and extravagance; illegal transactions together with government inspections; and transactions of private goods are all indicative of a large degree of competition in the early Islamic markets among the suppliers of goods and services.

5.12 *Profit Level*

It is a feature of competitive markets that levels of profit are not permanently high. If firms earn high profits in the long run, there should be a very low level of competition among them, with high barriers for entry for into their market. Conversely, free entry and exit with high competition makes it almost impossible for every seller to make a high level of profit.

From the description of early Islamic markets, especially the considerable competition between the participants, it is perfectly apparent that the long-run profit was quite negligible. However, thanks to innovations and new techniques, any firm could gain considerable profits in the short run. But, due to the convenience in obtaining information and the ease of its utilization, other suppliers could quickly adopt those innovations and avail themselves of the related benefits. This acceptance and application either increased the quantity supplied or reduced the related production costs. In the long run, prices of goods would decline and the opportunities to make profits would vanish.

5.13 *Customer Satisfaction*

Customer satisfaction serves as an indication of the state of market competition. It is perhaps the most pre-eminent feature of any market; as it arises

from increased efficiency coupled with the application of new techniques and methods of supply. The above-mentioned characteristics clearly indicate how consumer satisfaction was taken care of in early Islamic markets. Fair competition, availability of information, government supervision and the other features discussed are all indications of consumers' optimal demand satisfaction and welfare.

6 SUMMARY

This chapter discussed the market structure and performance of the early Islamic state. Although the market cannot be categorized as perfectly competitive due to government supervision and surveillance, the resultant performance can be categorized as such. Market characteristics facilitated an efficient process of price determination. Further, the business ethics and the eminent values envisaged by the holy Qur'an, the noble Prophet (SAAS) and great Imams gave the market and the pursuit of livelihood a status that was unprecedented in other economic systems. Markets performed a complimentary role to the *Baitul Mal* during the early Islamic state. Together, they constituted the two basic pillars of the early Islamic economic system.

Chapters 8, 9 and 10 will analyze the decision making of consumers, producers and traders, and how it contributed to the efficient process of market price determination. The final chapter shows how distribution and allocation not only maximized efficiency, but also satisfied the principles of justice and social equality.

NOTES

1. "من حمل الينا طعاما فهو في ضيافتنا حتى يخرج, ومن ضاع له شيء, فإنا له ضامن".
2. Prior to prophethood, His Holiness was involved in trade. After his mission, when he had no time and opportunity for commerce in *Makkah*, he depended on the wealth bestowed on him by his wife *Khadijah* and, in *Madinah*, on *Mokhairiq's* gifts initially, and later on his share from war bounties.
3. In economic theory, it is proved that the most efficient supply of private goods expected in markets that are perfectly competitive, but markets are unable to determine the optimum quantities of public goods and pure public goods because of the external effects on consumers. In the early Islamic era, private goods were supplied by the markets and public goods were supplied by the public treasury.

4. لا ضرر و لا اضرار في الاسلام
5. اكل مال بالباطل
6. اوقاف اليهود

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Consumption Theory

1 INTRODUCTION

Having discussed the characteristics of Islamic markets in Chap. 7, we now turn to analysis of the conduct of consumers, producers and traders in the early Islamic markets. In this chapter, we will study consumer behavior and Chap. 9 is devoted to the analysis of the behavior of producers and Chap. 10 discusses the behavior of traders.

Muslims, in accordance with their education and beliefs, have a typical consumption behavior of their own. Generosity, giving out *Qard Hasan*, payment of *Khums*, *Zakat* and charity, and devotion of wealth to public affairs are but a few to mention. At the same time, Muslims try to refrain from wastage, extravagance, acceptance of usury and being the cause of losses to others. The behavioral models for Muslims must be capable of explaining these behaviors.

In this chapter, first, we review the structure of scientific theories and apply them later to explain the Muslim consumption pattern. Prior to this analysis, we study the information gathered from the living pattern of the Messenger of Islam and his followers to present an ideal type for our consumption theory. We conclude the chapter by deriving the Muslims' supply of work function.

2 THE PARTS OF A SCIENTIFIC THEORY

Every theory in economic science is composed of three parts: first, there is an axiom which states the motives and the objective of the scientific

construct. This postulate explains and clarifies the causes of specific behaviors of consumers, producers and procurers. Normally, economists adopt the axioms from their own culture and beliefs; though they may not be observable in the marketplace. For example, the most commonly accepted axiom for explaining consumer behavior is rationality. This implies that the consumer will select the bundle of goods and services that would maximize total utility obtained from their consumption.

The second part of any theory is a set of observable assumptions or test conditions under which the presumed behavior occurs. For example, these assumptions in consumer demand theory is the constancy of consumer (real) income, prices of other goods, and the governing market rules and regulations. Only under these conditions can the theory make predictions, and if any one of the stated assumptions would not remain invariable, the theory's prediction would not take place. On the other hand, if the assumptions hold, the prediction of the theory can be tested against observable facts and can then be verified or refuted.

The third part of any theory, as stated above, is the prediction of an observable event. Consumer theory, for example, predicts that, if the stated assumptions hold, then if the relative price of the good in question decreases the quantity demanded will increase. This observable and testable proposition, which is called a hypothesis, implies that this prediction is in accordance with actual consumer behavior in the marketplace. If we observe that individuals do purchase more quantities of a good the price of which has declined while other factors remained constant, then the hypothesis is verified and the constructed model has the power to explain and forecast consumer behavior. Otherwise, the model has no explanatory or forecasting power. This weakness may be due to ignoring certain other factors that have an effect on consumer demand and the model must be corrected. But it does not nullify the axioms, and, similarly, verification is not a proof for the truth of the axiom of the model, because empirical verification does not confirm or invalidate a subject which is non-experimental in nature (*Soroush* 1366/1987; *Silberberg* 1990, 3–23).

2.1 *The Axiom of Consumption Theory*

The utility function that was elaborated in the earlier section states that the utility obtained from the consumption of goods is a function of their quantities. This function does not measure the quantity of utility obtained because measurement of utility requires the definition of a measuring unit

for its assessment and there is no such unit that can measure the happiness or sadness of different individuals. For this reason and following considerable advancements in the presentation of the utility theory, it has been defined as a preference theory where the order of consumer preference for alternative bundles of goods needs to be known. For this purpose, the consumer is assumed to have the following attributes:

1. Cognizance;
2. Transitivity and ranking of preferences;
3. Non-satiation;
4. Diminishing marginal rate of substitution between goods.

The first assumption implies that when an individual selects a bundle of goods and services, he is fully cognizant of the degree of preference for those items. This information helps him understand which basket is preferable to another. From a set of three baskets—A, B and C— if he prefers Basket A to Basket B and he prefers Basket B to Basket C, then he would naturally prefer Basket A to Basket C. This is the second assumption about the transitivity of preferences. The opposite of this state must equally hold true. If Basket C is inferior to Basket B and Basket B is inferior to Basket A, then Basket C must be inferior to Basket A. Therefore, if different commodities could be ranked according to the degree of preference for them, then Basket A must be preferable to the remaining set of goods and services and Basket C must be the most unwanted basket of all. The second assumption also states that if Basket A is equally preferred to Basket B, and this preference equals that for Basket C, then the preference for baskets A and C must be equal.

If a commodity is desirable to an individual, does he always prefer more quantities of this commodity to lesser amounts of it? The third assumption has a positive answer to this question, because anything that has a positive utility may be identified as a commodity. In this case, as the amount of that commodity is increased, the utility obtained also increases. If a commodity has negative or no utility at all, then it will not be selected for consumption by any individual. All the goods entering the demand function of a consumer must have positive utilities. Otherwise, the selected items are not considered as commodities and do not enter into the utility function of a consumer. This assumption portrays the consumer as a greedy person with respect to the commodities he likes. However, utility is not defined as a sensual feeling but, rather, a rational concept. Medicine is

desirable despite being bitter in taste as it improves health. More medicine is preferred to less of it provided that it brings better health.

The essence of the above assumption would imply that consumers are rational. A rational individual would have a discriminative capability to make the best choices and would prefer more of commodities to lesser amounts of them.

It must be noted that consumer behavior is analyzed over a period of time. The utility of goods also depends on the selected time horizon. For example, if we limit this time to a single hour, food will be a satiable commodity; when a hungry person becomes full, he will not prefer more food to less. But if we select a time horizon of one year, then the assumption of non-satiation would be true, because having more food security is always preferable to less of it. However, if we extend the time period to 10 years, then there may be changes in consumer preferences. Therefore, we must select a time period that would be neither too short nor too long.

The fourth assumption is about the ways in which a consumer would be able to substitute goods and services towards which he is indifferent. Consider two different sets of goods about which the consumer is indifferent; selection of either one would make no difference. In Basket A, for example, there are fewer of Commodity X and more of Commodity Y. Now, consider Basket B, which has one more of Commodity X and one less of Commodity Y. If we are going to construct a third basket (Basket C) of these two commodities which would still have one more of Commodity X in it, then we must reduce Commodity Y by more than one unit so that the consumer remains indifferent between Basket C and Baskets A and B. The fourth assumption states that Commodity X is going to be substituted for Commodity Y every time a lesser quantity of Commodity Y is chosen for the trade-off between Baskets A and B, so that the process of substitution can maintain the consumer in a state of indifference. The marginal rate of substitution (MRS) between Commodity X and Commodity Y was equal to 1 in the first set because one unit of Commodity X was substituted for only one unit of Commodity Y. However, in the second set, one unit of Commodity X is exchanged with a lesser amount of Commodity Y. Therefore, the ratio of changed quantity of Commodity Y to a quantity of Commodity X is less than 1 because the numerator has decreased. In the third case, as the quantity of Commodity Y decreases in comparison with the second state, to be substituted for a single unit of Commodity X, the rate of substitution between them further declines. Hence, it is said that, the MRS keeps on

decreasing for different quantities of the two commodities, provided that the consumer remains indifferent.

The reason for calling the rate of substitution the marginal rate is that the ratio comprises the changes in the quantity of Commodity Y divided by the changes in the quantity of Commodity X. If Commodity X is increased by one unit at a time, the denominator would be equal to 1 and the numerator would be equal to the change in Commodity Y. As we keep on increasing Commodity X, the quantity of Commodity Y substituted is reduced. Therefore, it is not the substitution between the total quantities of Commodities X and Y; rather, it is the marginal changes between them. According to the above assumption, this rate would decrease between any two goods.

This assumption is necessary for the attainment of the equilibrium of the consumer; a point which shows what quantities of the Commodities X and Y the consumer would purchase, taking into account his income and the relative prices of the commodities, in order to maximize the utilities obtained. It is natural that if the price of Commodity X increases, he would purchase less of it and substitute Commodity Y. If the rate of substitution remains constant for Commodity X, the consumer will end up spending all of his income on Commodity X or Y. This phenomenon—that is, purchasing only one of the commodities when there is a change in the relative prices—can rarely be observed in the real world behavior of consumers. Hence, to make the models more compatible with the actual behavior of the consumers, it is assumed that for consumption of a unit of each commodity every time a greater amount of the other commodity must be sacrificed to keep him indifferent on the varying sets of commodities so that the process of substitution continues to decrease.

2.2 *The Justification for the Assumptions*

Now, we shall analyze the assumptions of consumer preference from the view point of Islamic values. The first two assumptions do not have any value judgments. However, the third assumption, which is about non-satiation, may at first seem incompatible with the principle of non-extravagance in Islam. Extravagance means a behavior of excessive consumption, which is an indication of not being moderate in life (*Navaqi*, n.d.). However, non-satiation does not mean an exit from moderate limits; it is natural that the consumer would always prefer abundant foodstuffs, extra clothing and more housing facilities to lesser quantities of them, but the quantity of food, clothing and housing that he chooses would depend

on his purchasing power and the relative prices of the said commodities. He would always select a combination of these commodities that would maximize his total utility. As long as his income increases, the quantity of his consumption would keep on increasing, to the extent that his consumption would not fall under the verdict of non-extravagance. As indulgence in extravagance is undesired by a Muslim, he would automatically refrain from that. The norms of a society would determine the boundaries of extravagance. Therefore, the consumptions that are associated with extravagance are not considered as legitimate and permissible “*Halal*” by Muslims and are not chosen. Hence, non-satiation here would mean that more quantities of a good are preferred to a lesser quantity provided that it does not cause extravagance. If it does, it would be undesirable and not selected.

One of the most emphasized principles of Islamic religion is to observe moderation, even in the case of philanthropy and worship. There is a *Hadith* by the Holy Prophet (SAAS) that says a person must divide the 24 hours of his day into three parts. One must be allocated for work and economic efforts; another for worship, leisure and family affairs; and the last part must be devoted for taking rest. If a person allocates all of his time either for worship or for business, he may not be considered as suitable from the viewpoint of Islamic leaders (*Tabatabaei* 1362/1993, 14). Similarly, His Holiness Ali (AS) also reproached a Muslim person who had gone after mortuary and abstinence from the world and left such acts (*Nahj ul Balaghah*, 1967, ed. by Subhi Salih). The holy Qur’an (*Forqan*, 25/67) also dissuades Muslims from excessive benevolence and extravagance. Even the Messenger of Allah was advised to refrain from unlimited donations that would make him bare-handed at the same time that he was also advised not to fall short in generosity (*Isra*, 17/29).

Observing moderation in most of the above cases implies the declining desirability and utility of extravagance. The declining MRS between the commodities implies exactly the same meaning; over-consumption of any commodity would result in a declining utility of additional units consumed. In this way, the consumer approaches a moderate state and tries to avoid extremes and overconsumption.

If there were no persuasion towards moderation in several verses of Qur’an and recommendations by the Prophet (SAAS), it is conceivable that individuals would have consumed a single commodity; they could spend all of their income on philanthropic affairs, leaving nothing for themselves; or they would spend all of their time on worship and austerity, leaving no time for their leisure and social activities.

3 CITATIONS FROM CONSUMPTION MANNERS OF THE HOLY PROPHET (SAAS)

Prior to the analysis and evaluation of the behavior of Muslims, it would be timely to cite a few samples from the manners of the Holy Prophet (SAAS), so that we can make adaptations and follow him. To this effect, the following evidences have been surveyed from the book entitled *The Messenger's Traditions* by the late *Tabatabaei* (1362/1993) to be reported here.

3.1 *Moderation*

The Messenger of Allah (SAAS) said: “Beware that any person who performs extreme worship in the beginning, he would go on getting lax and recess. Hence, whoever worships as I do, would be guided to the right path and those who do not observe my traditions would be lost and their deeds would get spoiled. You folks, please note that I do pray, I sleep, I observe fasting, I do break my fast, I laugh and cry as well. Therefore, whoever, deviates from my path, he does not belong to me” (p. 39).

His Holiness Imam Hosein (AS), once asked his father the Commander of the Believers Ali (AS) about the private behaviors of the Messenger of Allah (SAAS). In the reply, he said that the Messenger of Allah divides his time into three parts. One part is devoted for worshipping Allah, another part is kept for his family and last part is kept for himself. This last part is used for issuing necessary orders to the elite among the companions entrusting them to take care of the public's affairs (p.16).

It has been quoted that a beggar once approached His Holiness *Imam Sadiq* (AS); he got up and inserted his hand into a basket of dates and gave the beggar a handful of dates. Later, another beggar came and Imam got up again and also handed him also a handful of dates. This story went on with a third beggar in the same manner. But when a fourth beggar came in, he said to the beggar “May Allah bestow livelihood on both of us”.

Finally, the Imam tells the narrator that there could be no one who requested the Messenger of Allah for something and would not be gifted by him. Once a lady sent her son to the noble Prophet (SAAS) and made him ask for something. He was advised that if the Holy Prophet (SAAS) replied there was nothing in his hand then her son should ask for his shirt. The Imam says that the Holy Prophet (SAAS) took off his shirt and gave it to him. Then the Almighty guided his Messenger to moderation and sent this verse (*Isra*, 17/29): “Neither hang your hands from your neck

nor let them fully open so that you ought not become bare-handed and miserly” (pp. 53–54).

In an introduction to the book *Medical Advices of the Prophet (SAAS)* there is a quotation from the Prophet which says: “We are a type of people who do not eat as long as we do not feel absolutely hungry and when we eat we would not overdose ourselves” (p. 181).

3.2 Food

In his book, *Amali, Mohammad bin Muslim* presents a quotation from *Imam Baqer (AS)*: “O *Mohammad* do you think that from the day of his prophethood till the date on which the Messenger of Allah left the world, there could be three consecutive days in which he would have full square meals of wheat bread?” Then he gave the answer to his own question: “No, by Allah; I swear that until the date his holy soul was taken, there were no three consecutive days in which he had adequate meals of wheat bread.” He added, “I do not mean he had nothing to eat, sometimes he used to gift an individual with one hundred camels and if he wanted he could have had the best meals. Indeed, *Gabriel* brought the key to the earthly treasures near the Messenger of *Allah* three times and left him to select without the fear of losing the testimonial remunerations, but His Holiness opted for courtesy and humility in front of the Almighty instead of all the treasures on the earth. There was no one who asked him for something and received a negative answer. He would give out if he had, else he would pray to Allah (ST) to make it available” (pp.182–183).

It is seen in many narrations that the Holy Prophet (SAAS) used to love perfumes and made use of them quite often. *Kaafi* in his book quotes from *Imam Sadiq (AS)* who said that the Messenger of *Allah* (SAAS) used to spend more on perfumes than on foodstuffs (p. 97). Further, he states that he used to consume fruits such as melon, grapes, watermelon, pomegranate, dates and cucumber and, among the vegetables, he liked squash and sweet basil and never ate onion, garlic and cress. Among other edibles, he liked milk, honey, vinegar, olives, bread, butter and mutton (*Tabatabaei* 1362/1983; 97,107,172,174–175,177,189–192). In yet another quotation, it is seen that the main food of his Holiness was the barley bread if he could find it, and his sweets were dates and the fuel of his house was branches of palm tree (p. 175).

3.3 *Hospitability*

The Holy Prophet (SAAS) used to honor his guests to a great extent. Whenever he received guests, he had to have food with him and as long as the guest was busy eating he would not stop keeping his guest company (p. 67). *Imam Sadeq* (AS) said “Lending and loan giving and reception of guests are among the traditions of our great Prophet” (p.88). According to the Messenger, one of the common traditions of prophets was to feed and celebrate at the time of marriages (p. 151).

3.4 *Clothing*

It has been narrated that whenever the great Messenger used to wear a new piece of clothing, he would hand over his worn clothes to the needy and would say that any Muslim who, for the sake of Allah (ST), gives his worn clothing to another Muslim, he would be taken care of by the Almighty, whether the donor were alive or dead (p. 123).

Tabarsi (1311/1894) reports that the mattress of the Holy Prophet was an *aba* (cloak) and his backrest cushion was a hide filled with palm filaments. He had another mattress made of hide and filled with palm filaments. He had another *aba* which was used as a spreading mattress wherever he travelled (p. 140). It has also been stated in this book that he had a mat on which he used to sleep and he had no other mat to be used as a spread (p. 140).

To present the consumption behavior and conducts of the noble Prophet (SAAS), we may resort to Ali (AS) in his *Nahjul Balaghah*, regarding the Messenger of Allah, in order to complete and suffice. Ali (AS) says: “From the world he would take only as much as he needed and would never pay any attention to it and never consumed a mouthful of it nor had an eye on it. He was the slimmest person on the Earth and he was the hungriest man in terms of food consumption. The treasures of the world were offered to him and he rejected all. When he came to know that Allah (ST) is against something he was also against that, and whenever he understood that something is very insignificant for the Almighty he used to neglect that.”

In *Nahjul Balaghah*, His Holiness Ali narrates as follows: “Indeed the Messenger of Allah (SAAS) used to have his food on the ground and sit like the others. He used to repair his own shoes and used to ride a donkey with no saddle carrying another person along with him.”

In summary, the Messenger turned his back on the material world. He abolished the remembrance of it from his heart to the point that he ignored the material bounties of this world. He refused to wear beautiful and expensive clothes. He considered life on this Earth temporary and, therefore, closed his eyes to its material bounties. He demolished all chains of dependence on the material aspects of existence in this world. This is how those who do not care for a thing, do not wish to even see it or have others remind them of it.

3.5 *Love to Work*

It is said that once the Holy Prophet (SAAS) asked his helpmates about the business state of a person whom he considered as a respectable individual. He was told that the person did nothing and was unemployed. His Holiness replied that he lost respect for him. When the helpmates requested to know the reason for that, the Prophet (SAAS) replied when a believer is idle and unemployed, he may utilize his religion to make a living (p. 88).

4 PRE-EMINENT MUSLIM CONSUMER BEHAVIORS

Muslims would choose different combinations of *Halal* or permissible commodities to satisfy their diet, clothing and other needs depending on the level of their income and the prices of those goods and services. For example, if all the goods under consideration were divided into categories X and Y, one can derive the AB budget line on the basis of a consumer's income and the prices of commodities X and Y (Fig. 8.1). The curves U1, U2, U3 each indicate a different level of satisfaction and are derived based on the assumption of diminishing MRS between X and Y commodities. The U1 curve is the locus of points showing different combinations of X and Y, all of them having a constant and identical level of total satisfaction equal to U1. The U2 curve is the locus of points indicating different combinations of X and Y which have total satisfaction of more than U1 but less than U3. Income and other endowments of the consumer do not permit him attain welfare beyond budget line AB. Hence, his equilibrium point is reached at E, where he would consume X1 and Y1 units of the two commodities.

At this point, the satisfaction or the total welfare of the consumer is maximized because, if the consumer, instead of being moderate and made the

choices at point E, had opted for a combination where Y is over-consumed and X is underutilized, his level of satisfaction would decline to the U1 level. This choice, which involves excessive and wasteful consumption, is irrational and against Islamic ethics; therefore, the consumer would never select that point and his optimal selection would be at point E.

If the price of X decreases in the market, then the budget line of the consumer rotates and becomes less steep. The tangency of this line with a higher indifference curve will be the new equilibrium of the consumer. If we connect these equilibrium points in a separate diagram denoting the horizontal and vertical axes as the quantity and price of X, respectively, we obtain the consumer demand curve for X. This curve shows the relation between the price of X with the quantity of it demanded when prices of other goods and income of the consumer remain constant. However, a more interesting conduct of Muslim consumers is their benevolent behaviors, inspired by their belief system. Therefore, this will be discussed in detail below.

4.1 Infaq (*Philanthropic Expenditure*)

In Fig. 8.1, if we consider X as personal consumption and Y as the amount of *Infaq* to others, the curves U1, U2, U3 would be the indifference curves between personal consumption and *Infaq*. In Fig. 8.2, equilibrium point is E', where the consumer uses his income for the choice of X1 units of commodities for his personal consumption and Y1 units of commodities for giving out to needy people. If the income of consumer increases from AB to CD, his new equilibrium point would be at H', where he would spend X2 for his own consumption and Y2 for the sake of *Infaq*.

Now, if we are interested in studying the *Infaq* behavior of this consumer to predict his actions when his income changes, it would be sufficient to trace the locus of points such as E' and H' on a curve. The relationship between quantities of *Infaq* Y1 and Y2 at different levels of income M1 and M2, which are derived from equilibrium points such as E' and H' in Fig. 8.2(b), are shown in Fig. 8.2(a) by the OEH curve, the so-called Engel's Curve. This curve would indicate the differing levels of *Infaq* at different income levels of a consumer. It also indicates what would be the changes in his *Infaq* expenditure for a unit change in his income level.

If we intend to analyze the behavior of the *Infaq* spender in greater detail, we must note that his personal consumption has to surpass a mini-

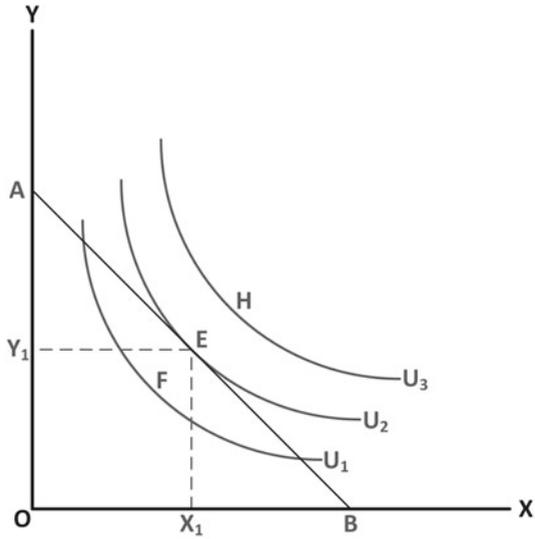


Fig. 8.1 Consumer equilibrium

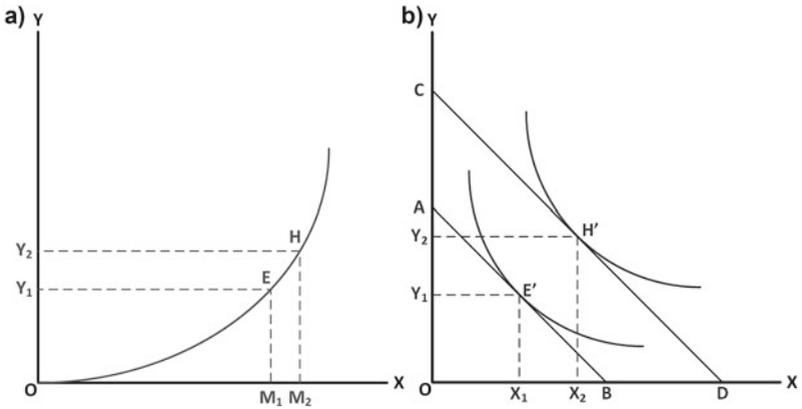


Fig. 8.2 (a) The effect of income on *Infaq*; (b) *Infaq* Engel curve

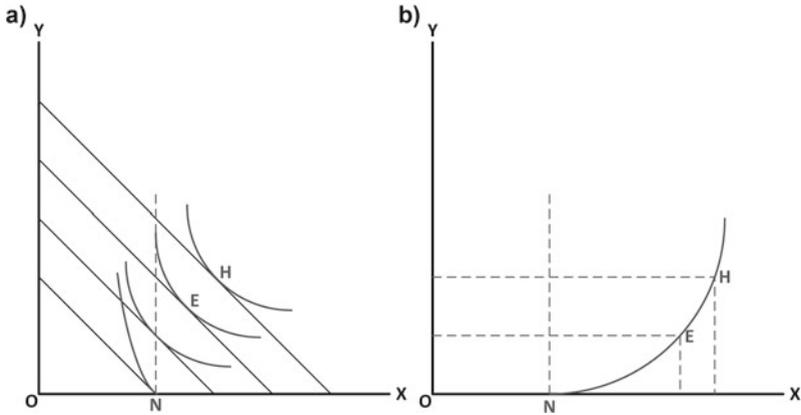


Fig. 8.3 (a) Indifference curves for *Infaq*; (b) Abstinence from *Infaq* at low income level

imum level, meaning that every family would require a minimum maintenance income. Before that point, he would never opt for *Infaq*, because his family is needier than others and spending *Infaq* in such a situation would mean wastage. Only when the income of an individual rises beyond subsistence level, would he be able to spend on *Infaq*. This state is illustrated in Fig. 8.3(a). When the income level is too low to support below ON units of personal consumption, there would be no spending on *Infaq* at all. He would be indifferent between self-consumption and spending for the others only when his income is sufficient to spend ON expenses on self-consumption and above. Therefore, the Engel curve drawn in Fig. 8.3(b) does not pass through the origin, but it starts from point N.

4.2 Khums

The amount of *Khums* that a consumer has to pay is shown in Fig. 8.4. In this figure, the income of the consumer is measured on the Y axis and his consumption is shown on the X axis. If we assume that the price of every unit of Y or other goods and commodities is equal to 1—say, 1 *Dirham*—the maximum quantity or value of Y that he can consume is exactly equal to his income. The equilibrium point for the consumer is shown by the

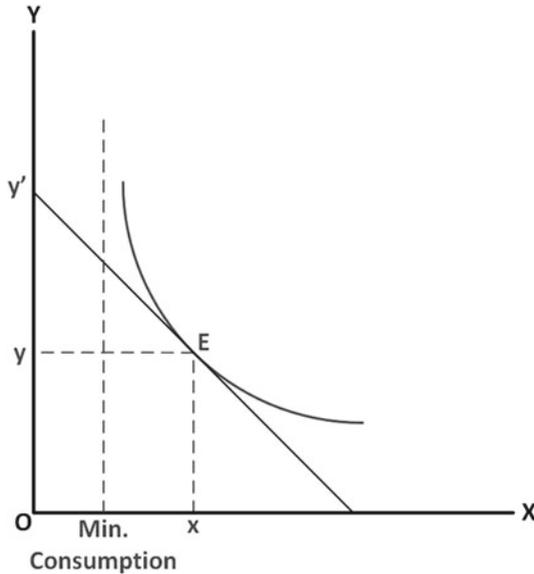


Fig. 8.4 *Khums* payment

point E and his equilibrium consumption equals Ox units, leaving Oy units to be saved. This person has to pay at least one fifth of his savings, or $Oy/5$, as *Khums*. If he spends all of his savings on *Infaq*, the sum total of his obligatory and voluntary *Infaq* equals Oy *Dirham*.

4.3 Constraints on Consumer Behavior

Unlike acts such as *Infaq*, *Khums* and *Zakat*, which carry Allah's (ST) blessings, committing acts such as wastage, extravagance and nuisance to others in the process of consumption would involve cursing and become sinful; hence, Muslims would avoid committing them. Therefore, in the commodity space selected by the Muslims, there are no combinations that would involve wastage and extravagance.

Wastage would mean the destruction and disposal of a commodity which could have been used and utilized by some other person in society. Discarding a used shirt may be classified as wasting, because it could be used by someone else. Therefore, a commodity is wasted when it has no

utility for the owner, but may be useful for society. More precisely stated *the marginal utility of the good for the individual is zero while it is positive for the society*. Garbage and rubbish items may be discarded and they do not count as wastage because their marginal utility for society is nil.

Extravagance takes place in a situation where *the marginal utility for an individual is positive but much less than its marginal utility for society*. Over-consumption of a commodity is a clear indication of this state. To be moderate in consumption would lead to the avoidance of extravagance.

The analysis of the above-mentioned behaviors will be presented along with the discussions on production. What can be presented here is the extravagance in consumption, where income surpasses the “sufficient levels” set by social norms. As the minimum threshold level of consumption is a right for every consumer in an Islamic society, going beyond such sufficient levels of consumption is considered to be an abuse of those rights. Considering the average income of households in an economy, the sufficient limit must be well above this average level and the minimum subsistence income must be considerably below this figure. The minimum subsistence income is an amount of income that will provide the essential requirements of a family for food, clothing, housing, education, health and other basic needs. However, this level of income is just the minimum and the families with incomes less than these figures are considered as poor and needy, and requiring the support of society and the *Baitul Mal*. Income or consumption at the sufficient level occurs when such consumption is well above the social average; it indicates that personal consumption higher than this level is excessive.

As the economy of a society grows and becomes developed, the average income of a family increases and, subsequently, the minimum and sufficient levels of consumption may change. Therefore, the said limits are variable and dependent on the production and consumption opportunities of a society in each time period.

As time passes, the number of households with incomes below the subsistence level must be reduced. However, as far as the number of these households is not insignificant, consumption above the maximum level for a Muslim family is considered to be extravagant and inappropriate. Hence, if we wish to imagine the indifference curves of a Muslim individual for consumption levels lower than the minimum subsistence level and more than the maximum sufficiency level, they could be presented as shown in Fig. 8.5. It is clear that the marginal rates of substitution beyond these limits is increasing and not diminishing, meaning that the

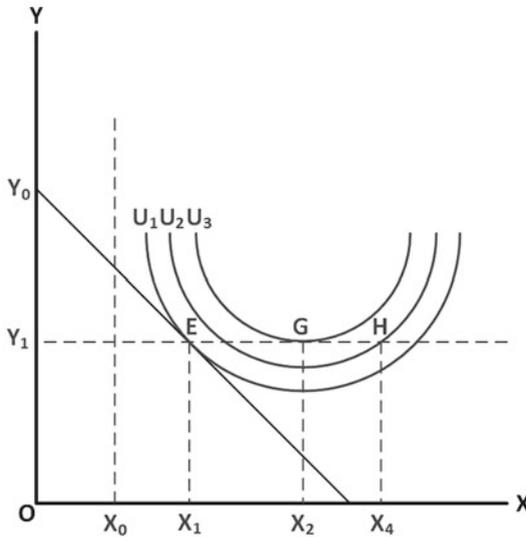


Fig. 8.5 *Nisab* and *Kafaf* limits of consumption

individual intends to leave that situation for a better and higher level of welfare. For example, let us consider a consumer who has a consumption level of x_4 and spends Y_1 amount of his income on other commodities, can reduce his consumption to x_2 units and shift himself from point H to point G on a higher indifference curve, attaining a higher level of satisfaction. Therefore, if his consumption crosses the maximum sufficient level, a Muslim has committed an act of extravagance.

If this excessive consumption continued further, he would commit wastage of goods. In Fig. 8.5, we assume that the income of a consumer is Y_0 and his equilibrium point is depicted by E. Consumption in the range of X_1X_2 is associated with extravagant behavior and in the range of X_2X_4 it would imply wastage of goods.

The other rule governing the consumption behavior of Muslims is the principle of “No external harm”. In accordance with this verdict, no person is allowed to inflict direct or indirect losses on others as a result of his consumption behavior. For example, smoking in a closed atmosphere may endanger the health of other individuals. *Whenever the marginal private benefit of consuming a commodity is less than its social marginal cost, its consumption would bring losses to others.* Further analysis of this behavior,

such as overconsumption and wastage, will be dealt with in the discussion on production.

5 THE SUPPLY OF FACTORS OF PRODUCTION

Production inputs may be divided into three groups. First, inputs that are extracted from mines, or inputs such as water and timber, which are accessible from nature. Water is obtained either by digging wells or by way of diversion from rivers with the help of canals. The second group includes the labor force, which is the origin of all the economic activities; by combining it with the first group of inputs, the production of goods is plentiful. These products are either consumed after production (such as cereals, grains or fruits), or they are sent for further processing to produce other goods (such as cotton, which is used in the production of yarn and cloth).

The third group, are intermediate goods or inputs for production which are the output of a prior production process and act as an input for a subsequent production process. Therefore, we can study their supply function in a similar way to the way in which we study the supply function for other goods. This discussion will be elaborated in Chap. 9 on production. But the supply of inputs belonging to the first two groups may be presented with the help of consumption theory.

First, let us study the supply of raw materials. Assume that the maximum reserves in a mine or the maximum volume of water a reservoir owner has stored is equal to S units. The larger the stocks of extractable material from a mine or water reservoir, the more desirable they are, being a source of natural wealth. On the other hand, more income is also welcome because, by spending that income, he can finance his consumption of food, clothes, and so on.

Therefore, we can imagine his indifference curves for raw materials and income as they are depicted in Fig. 8.6. To derive the budget line, we may note that the extractor can retain and store all of his wealth and sell zero quantity of it. He would be then at point S . He may also sell all of his stocks at going prices in the market and gain the maximum possible income out from them. If we assume that the price of each unit is w_1 and the maximum revenue from the sales of outstanding stocks is M_1 , then the budget line would be shown by M_1S . The equilibrium point of this extractor, as is shown in Fig. 8.6, is depicted by point E , implying that, at the going prices, he prefers to retain R_1 quantity out of a total stock of S ,

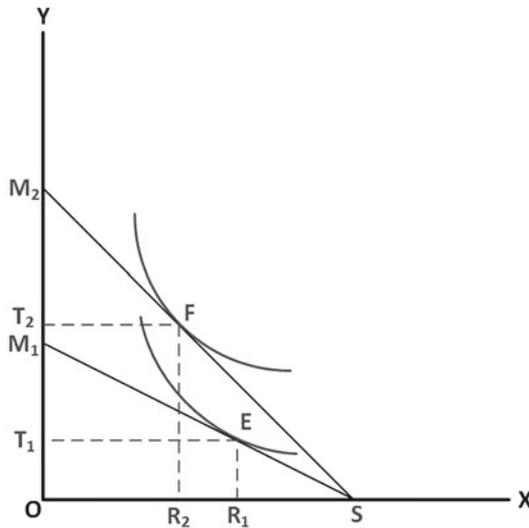


Fig. 8.6 The effect of price change on the supply of raw materials

sell the rest of his stocks, which equals $L1 = (S - R1)$, and collect an income of $T1$, which is equal to $(w1) * (L1)$.

If the price of raw material goes up in the market and equals $w2$ for each unit, the producer would now be willing to supply a greater amount of his stocks. As is shown in Fig. 8.6, his new budget line would be $M2S$ and his new equilibrium is point F . In this situation, he would intend to retain $R2$ amount of his stocks and sell the rest, which is equal to $L2 = (S - R2)$. His sales revenue would be $T2 = (L2) * (w2)$.

Having derived the equilibrium points E and F , we could obtain the supply curve for the raw materials as depicted in Fig. 8.7.

At the point E' , which corresponds to point E , the producer would supply $L1$ units of the input at $w1$ price and, at point F' , he would supply $L2$ at $w2$ price for each unit of input. The locus of points such as E' and F' would construct the supply curve for raw materials.

At this stage, we shall try to analyze the supply of labor. Taking into account the importance and value of work in Islam, and having in mind the advice of our Holy Prophet (SAAS) to divide the whole time of a day into three parts including work, leisure and prayers, we could derive the

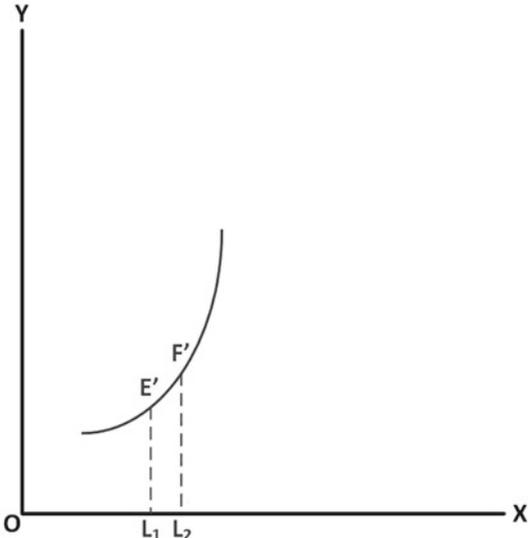


Fig. 8.7 The supply curve for raw material

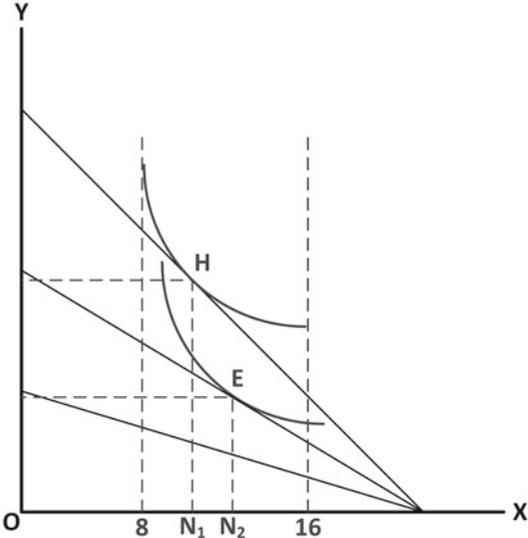


Fig. 8.8 Equilibrium between income and leisure plus worship

indifference curves of consumers for leisure plus worship and income as shown in Fig. 8.8.

If the duration of leisure and worship exceeds 16 hours per day, it would not be desirable for a Muslim. Similarly, if the working hours exceed 16 hours per day, leaving less than 8 hours for leisure and prayers, this would also be a non-optimal selection. Therefore, his equilibrium point will not occur in a state that has less than 8 hours for leisure and prayers. The budget line for a Muslim worker-consumer is derived in a similar way as before. If the wage rate is set at w_1 per hour, his equilibrium point will be at E, implying that he would spare N_1 hours for leisure and prayers, leaving the rest $L_1 = (24 - N_1)$ for work. If the wages are increased to w_2 , he would work for more hours and, hence, less time is left for leisure and prayers. In the equilibrium state of H, N_2 hours are allocated for leisure and $L_2 = (24 - N_2)$ are devoted to work. Now, we can illustrate the working hours in every equilibrium point against the going wage rate to derive the $E'H'$ curve in Fig. 8.9, where these points correspond to the points E and H in Fig. 8.8, respectively. It can be seen that the labor supply

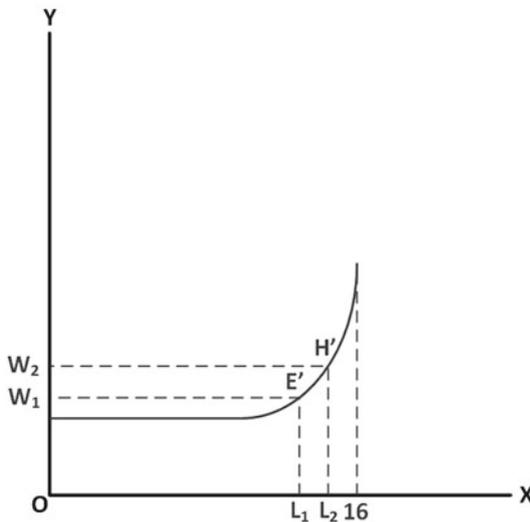


Fig. 8.9 The supply of labor

becomes vertical after 16 hours of work per day, implying that he would not work any longer even at higher wages. On the other hand, he would not work less than 8 hours per day even for a low wage, since idleness is resented by Muslim workers.

6 CONCLUSION

Consumer theory was applied in this chapter to explain the behavior of Muslim consumers. At the outset, conventional theories were described in connection with standard consumption behavior in general and with specific reference to benevolent Muslim conduct. *Infaq*, *Khums* and other charitable activities are shown to contribute to both the efficiency of fiscal policies and market price determination. Voluntary donations improve income distribution and the welfare of low-income groups in the economy. They also reduce the need for governments to collect and disperse taxes and, consequently, the cost of tax administration. Less tax charges on market transactions enhance the efficiency of market-determined prices and increase the number of transactions.

Another important subject discussed in this chapter was the consumption behavior of the Prophet of Islam (SAAS). His manners are examples to be followed by all Muslims. Further, his consumption guidelines are the principles that should be followed by all believers.

The chapter concluded with the derivation of the labor supply function and suggested that dedicated Muslims work minimum hours per day or days per month abiding with Islamic work ethics and the “moderation” principle in allocating their time to work, leisure and worship, instead of the conventional minimum wage rate rule.

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Production Theory

1 INTRODUCTION

What is the motive of firms for production activities? If, as in conventional theory, we assume that the objective of the producer is to maximize the total sum of his profits in the process of production, would it be compatible with the business ethics in Islam which were presented in Chap. 7? In an Islamic market, the private value of goods and services are determined on a par with their social values. Satisfying consumer demand by the firms is on a par with creating social values. If the supplied commodities are in the category of “everybody’s obligation to produce”,¹ the associated blessings are quite apparent; on the other hand, if they are in the category of “permissible goods”,² that would increase the welfare of consumers. Procurement of food to the Muslims, an accommodation allowance, supplying means and facilities for their education, advancement of science and technologies, and eradication of the dominance of strangers in their circles are all among the most desired and admirable activities that entail the satisfaction of God and perfection of the producer, and adds value to society. In this way, maximized profits in procuring goods and services that are demanded by consumers seems completely compatible with Islamic market values and ethics and is, therefore, considered to be the axiom of a firm’s behavior.

2 THE RULE OF DIMINISHING RETURNS

One of the general rules that govern the physical relationship in production processes is the diminishing marginal productivity of the factors of production. According to this rule, if, in a production process, all the factors of production are kept constant except for one, as the quantity of this variable input increases, its marginal productivity would ultimately decline. In other words, by increasing the quantity of the variable input, the total output might increase at an increasing rate and later at a declining rate to reach a maximum, and then start to decline. This rule determines the optimum ratio of the quantity of variable input to the fixed inputs, because the application of the variable input beyond the limits where its marginal productivity becomes zero would imply its wastage. On the other hand, application of this factor with less than the limits in which the average products has reached its maximum is an unnecessary saving and implies its underutilization because, in the latter state, an increment in the application of this input would, on average, increase the total production more than its previous units. Scrimping at this stage of application of the input may lead to opportunity loss, thus increasing the effect of production. Hence, if there is no over- or under-utilization of inputs, we have to employ them in such a way that their average products are maximized and their marginal products are still positive. Therefore, until the output or the total product continues increasing with an increasing ratio, we do not have to scrimp on using the inputs involved. Equally, we have to stop the expansion process as soon as the total production starts declining through over-utilization of the inputs.

Now, if this variable input is kept constant and we let another input, which was previously kept constant to vary; again the above rule is applicable, meaning that economic and efficient utilization is the stage in which the average product of the input is maximized where the marginal product of the same variable is positive. This is called the “economic stage of production”.

2.1 *No Wastage*

Using this rule, we can conclude that *if an input is utilized until its marginal product becomes negative, that input is wasted* and it has been over-utilized. On the other hand, if the input is employed below the levels where its average product is maximized, it has been under-utilized. An optimum

application of every input requires that its application must be within an economic range, where it is neither over-utilized nor under-utilized.

3 PRODUCTION FUNCTION, ISOQUANT CURVES AND THE PRODUCER'S EQUILIBRIUM

The rule of diminishing returns determines the shape of a production function. A one-to-one relationship between the sets of inputs and the maximum output which can be produced by them is called a “production function”. Now, if we are able to vary the inputs while keeping the output constant, we would be in a position to derive the isoquant curves. These curves are the locus of points showing equal quantities of output with different combinations of inputs. If we assume that the quantity produced is a function of the two inputs, the shape of the isoquant curves can easily be derived as convex to the origin (Fig. 9.1).

This is due to the fact that by using more of X and less Y—that is, substituting X for Y such that output remains constant, —according to the rule of diminishing returns, the marginal product of X, MP_X , declines; because less of Y is utilized, it will have a greater marginal product. Hence,

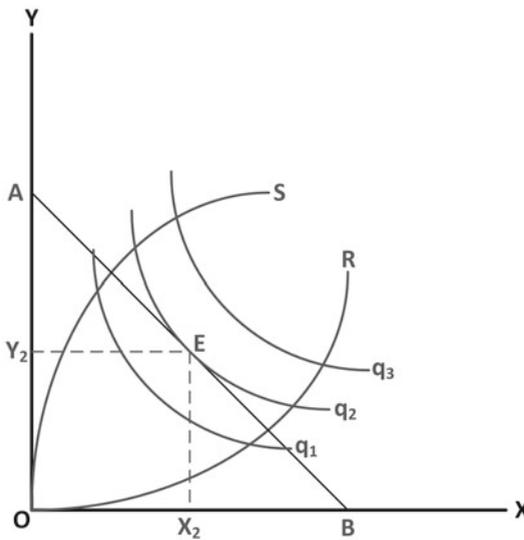


Fig. 9.1 Firm equilibrium

the numerator of the ratio of marginal technical substitution declines and its denominator increases. Therefore, the value of this ratio after substituting input X for input Y declines, implying that the shape of the isoquant curves is convex to the origin.

This result could have been obtained by an alternative type of reasoning. Consider the quantity of output at the beginning of the economical stage of production. The quantity of output at any mid-point is greater than its minimum value at the beginning or end point. Therefore, the three points cannot be located on one isoquant; rather, the mid-point should be located at a higher isoquant and the latter point at a lower one. This is possible only if isoquants are convex to the origin and have a negative slope. If we now consider the shape of the isoquant curves at the same economical stage, we notice that any point that is located between two points of an isoquant is located on an upper isoquant curve.

In Fig. 9.1, there are three isoquant curves; q_1 , q_2 , and q_3 . The curves OR and OS indicate the border edges of the economical stage of production. The points in between the two lines are within the stated stage. The points to the right of OR are the combinations with negative marginal products for input X, as a result of which the isoquant curves have positive slopes. The points to the left and above the OS line have the same status for input Y. Therefore, as stated earlier, in the economic stage of production the isoquants are sloping downward.

The isocost or the budget line of the producing firm is shown by the line AB. With this outlay, the firm can buy at most either OB units of X input or OA units of Y input. However, in Fig. 9.1, if X2 and Y2 units of the two inputs are combined by the firm, it can be on the q_2 isoquant curve at point E. With the budget constraints faced by this firm, it can never reach any higher isoquant. Being placed on the isoquants below q_2 would imply lower quantities of production and, hence, no maximization takes place. Therefore, point E is the equilibrium point of the firm exhibiting a combination of the two inputs that maximizes the total production of the firm subject to the budget limitations faced by the firm. At this point of equilibrium, the slope of the isoquant is equal to the slope of the isocost line. The former slope is equal to the ratio of substitution between the two inputs and the latter equals the ratio of their prices:

$$-dy / dx = MPX / MPY = Px / Py \quad (9.4)$$

3.1 *No Extravagance*

A moderate application of inputs X and Y is consistent with their application under the point of equilibrium. The points in the economic region other than the equilibrium points indicate less than optimal application of either input, because their quantity is more than their optimal or the equilibrium level. Since the budget of the firm is fixed, over-utilization of one of the inputs imposes lesser amounts for employing the other input. As a result, the application of more input is sub-optimal, leading to the output level being less than its optimal level. If the firm continues to over-utilize an input, it will move out of the ridges of being economical and, hence, the input will be wasted.

3.2 *No External Harm*

Sometimes in the production process, it is possible to observe that an adjacent firm inflicts losses on another neighboring firm because of its production activities. For example, assume that a farmer cultivating wheat (q) uses the inputs water (x) and land (y). Further, assume that, with the limited budget at his disposal, he irrigates the land by way of ribbing a canal and the land is being used on a rental basis. The cost of every cubic meter of water is w and the rent for every hectare of land is r per annum (Fig. 9.2).

Now assume that a new firm is set up on the riverside and disposes of its refuse material into the river, causing severe pollution of the water. The polluted water will not be usable for farming and the farmer is compelled to have it purified and sublimated. The cost of refining the water is a per cubic meter and the total cost of supplying water to the land increases to $(w + a)$ for every cubic meter. Therefore, the isocost curve of the farmer rotates from AB to AC and his equilibrium point is now at F, rather than being at E, and his production declines to q_1 from a previous level of q_2 . In the first equilibrium state, the farmer could supply x_2 cubic meters of water to the land but, with the cost of refining the water being added to earlier costs, he would be able to supply only x_1 cubic meters of water. The cost of refining the water or the amount of reduction in the output from q_2 to q_1 is the loss inflicted on the farmer by the factory. In accordance with the "No Harm" rule in Islam, no one has the right to inflict harm or losses on others. Therefore, on the basis of this verdict, the factory either has to compensate the farmer for the losses borne by him, or stop polluting the river.

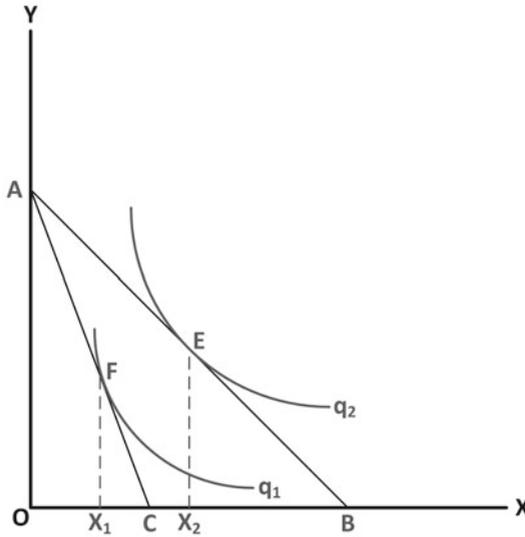


Fig. 9.2 The effect of external cost on the production of q

4 PRODUCTION COST CURVES

By using the equilibrium points for the firm, we can derive their total, average and marginal production cost curves. The total cost of production function indicates a one-to-one relationship between the quantity of production and the minimum costs involved.

In Fig. 9.3, the equilibrium point is shown by point E, where the producer uses x_1 and y_1 quantities of the two inputs to produce q_1 quantity of the output. Therefore, the total cost of production is given by $c_1 = wx_1 + ry_1$. At the other equilibrium point, F, the cost of producing q_2 amount of the output equals $c_2 = wx_2 + ry_2$. The unit price for x and y are given by w and r , respectively. By calculating the total costs of production at points E and F, we can obtain the least cost of production for q_1 and q_2 levels of output. If we continue to calculate the total production costs for several levels of output at equilibrium points, we will derive a one-to-one relationship between different levels of production with their associated total costs. This is the total cost function stated under as:

$$C = f(q) \tag{9.1}$$

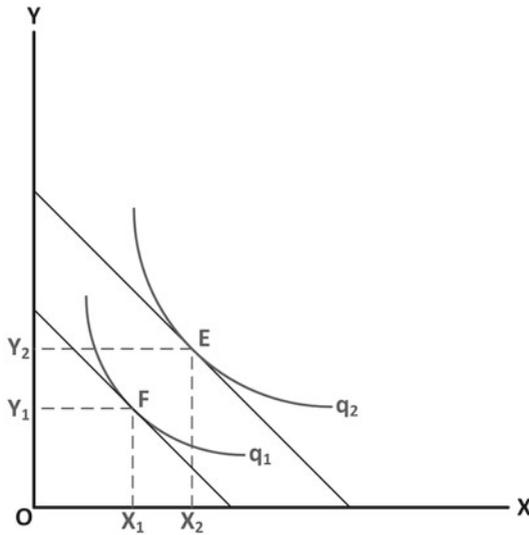


Fig. 9.3 The shift of isocost line and production level

The shape of the cost function depends on the production function. The rule of diminishing returns states that the production function has a quasi-concave shape. For this reason, the cost function also has a quasi-convex shape. The average and marginal cost functions are as follows:

$$AC = c / q \tag{9.6}$$

$$MC = dc / dq \tag{9.7}$$

4.1 Equilibrium of the Firm

In Fig. 9.4, we present the curves for the average total cost (ATC) and average variable cost (AVC). The points E, F, and G lie on the marginal cost curve of the firm. If we assume that the market for commodity q and its factors of production has the same characteristics as the early Islamic markets and that the price for the commodity was set at p_3 , then, under these conditions, every firm would produce a quantity for which the marginal cost of production equals this price. In this case, the profit of

the firm is maximized being equal to AP_3GB . The total production cost is $OABq_3$ and the total revenue of the firm is OP_3Gq_3 .

If the firm reduces production by one unit at price p_3 , the marginal cost will be less than the market price and it cannot maximize its profits, as the cost that is saved is less than the revenue that is lost. On the other hand, if the firm produces one more unit beyond q_3 , the marginal cost of producing that unit would be more than the revenue obtained by sales of that unit. Therefore, when the firm obtains maximum profits, is in equilibrium and is unwilling to change its position, its marginal cost of production must be equal to the price determined in the market.

If the price of the commodity further drops in the market—say, to p_2 —the equilibrium of the firm will consequently change to point F, and it will produce and sell only q_2 units in the market. In this case, the total revenue of the firm Op_2Fq_2 would equal its total cost, leaving the firm with no/zero profit.

If the price drops to p_1 , subsequently, the position of the firm will also change. In this case, the production will decline to equate the marginal cost of production to the new lower price of p_1 . The equilibrium point is E and the total revenue of the firm is Op_1Eq_1 . This is equal to the total variable cost of the firm at q_1 level of output. Therefore, the total revenue of the firm is sufficient to cover its variable costs, excluding the fixed costs. Thus, the firm would temporarily continue with its production activities with the hope of observing higher prices in the market. However, if the price declines further below p_1 , the firm would be unable to pay its variable costs; hence, it will be compelled to shut down.

4.2 *The Supply Curve of the Firm*

The locus of equilibrium points of the firm, when the price of the commodity changes in the market, constitutes the supply curve of the firm. In Fig. 9.4, the points E, F, and G lie on the supply curve of the firm. Hence, we can say that the supply curve of the firm is nothing but the marginal cost curve of the firm rising above the minimum of its average variable cost.

$$P = MC = f(q) \quad (9.8)$$

Provided that $P \geq \min AVC$

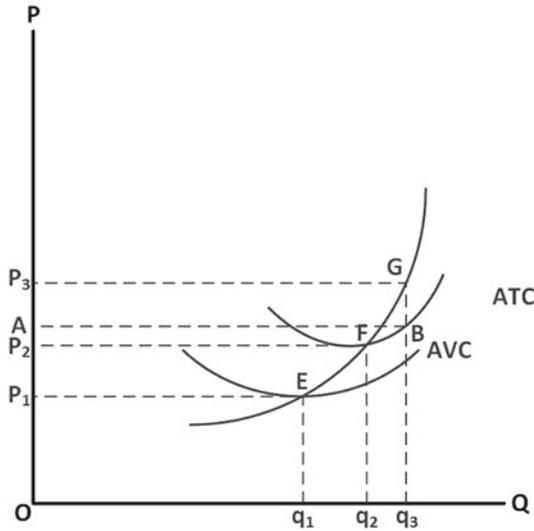


Fig. 9.4 Average and marginal cost curves

By horizontal summation of the supply curves of the firms producing q in the market, we arrive at the aggregate market supply curve of this commodity.

5 EFFICIENCY

One of the important topics in the theory of production is the degree of efficiency of input usage. The proper combination of production inputs and their transformation to products in a production process requires access to technical information. For the production of every commodity, numerous inputs may be used as substitute inputs or as complementary inputs. The selection of these inputs would depend on their relative prices and the available technologies.

The determination of output quantity depends on its demand and market price. A firm that produces at the levels where the price equals the marginal cost of production, and the value of marginal product of input is equal to its price is considered an efficient unit. This equally implies that the firm gains the highest possible profits, or that it would produce any given quantity at the least possible production cost.

However, firms may not be adequately sensitive to the prices of the factors of production. Customary and traditional usages of one or a few inputs may cause the producer to be insensitive to the input prices. For this reason, one of the issues continually emphasized in production theories is a firm's efficiency in the performance of its production activities and the methods of upgrading and developing the production processes.

Normally, the concept of efficiency is divided into three major categories: *allocative efficiency*, *technical efficiency* and *overall economic efficiency*. By allocative efficiency, is meant application of any input up to the point where its marginal product value is equal to its unit cost. In other words, this leads to the observance of equality between the marginal rate of technical substitution (MRTS) of the inputs and the ratio of their prices. Technical efficiency implies that the inputs' marginal products are at the maximum. This may depend on the technologies and know-how used by the firm; sometimes, it may also depend on the monopoly nature of some inputs (such as land, the location of a more fertile plot compared with others), or it may depend on the managerial powers and the coordination techniques of managers who are creative or innovative. The product of the technical and allocative efficiencies is called the "overall efficiency" or the "economic efficiency" of the firm.

Unlike the extensive discussion of the issue of efficiency in production theory, it is never discussed in consumption theory. Since the consumer is assumed to be rational, every behavior of the consumer is perceived to be a rational behavior, even if the consumer indulges in wastage of the goods rather than using them for their proper consumption. From the view point of economists, the total utility of the consumer keeps on increasing by wasting those goods and he enjoys his actions. As long as there is no interference with the welfare of others, he is free to spend his income in any way he likes and, since he is a member of society, if his welfare increases by any method, the welfare of society also increases. In this way, there is no discussion of the concept of efficiency in consumption theory. Due to the assumption of consumer sovereignty, whatever he does is presumed to be good and beneficial to him.

In production theory, similar conduct with respect to a firm would never be seen. Firm efficiency, despite being an essential part of its equilibrium behavior, is never assumed in advance. On the contrary, this efficiency is defined, analyzed and tested.

The reason for questioning the behavior of the producer and conducting research into his efficiency (as opposed to a consumer's behavior,

considering all his actions to be rational) is that economists believe in consumer sovereignty and individualism; they presume society as being the sum of these individuals. The interests of society reflect the preferences of the majority.

Bearing in mind that the individual is well aware of his interests and that his behavior is considered the most rational and optimal, there are no grounds for doubting his deeds. However, this is not the case with regard to the producer. The rule of diminishing returns dictates that the marginal product of any input will eventually decline; a rule that is empirically verifiable. The marginal rate of technical substitution between the two inputs would be diminishing according to this rule. Based on this, the economic zone for production is defined. The production function is empirically testable and the isoquant curves would show a specific level of output. Unlike the firm, in consumer theory similar concepts are neither observable nor empirically testable—neither the total and marginal utility functions, nor the diminishing nature of the marginal rate of substitution between the goods; the necessary conditions in all of them are assumed. Consequently, the choices of consumers are neither questioned, nor put to an efficiency test. Whatever he does is considered to be the most efficient act.

In an Islamic worldview, the consumer is considered to be fallible and not the best judge of his behavior. The individual preferences are not always the basis of his social rights. Therefore, the contradictions between social and individual interests are foreseeable, with higher priorities being placed on social rights. For this reason, the regulations governing consumer behavior and the analysis of these conducts are presented in consumer theory. However, these regulations would similarly hold true about producers. But, as we have seen, in current economic theory, only the behavior of the producer has been calibrated with no regard to consumer behavior.

6 SUMMARY

Production theory was applied in this chapter to show when wastage of resources or extravagance would occur. The chapter also discusses the optimum and moderate levels of resource usage. In addition, the incidence of external cost was analyzed and we explained how the application of Islamic rules of production behavior would render efficiency and savings in production costs. In fact, many efficiency criteria that are defined in the production literature are in conformity with the stated production rules.

Despite the importance of the concept of efficiency, it is not discussed in connection with consumer behavior. In standard theory, consumer sovereignty is assumed and, therefore, his decisions are perceived to be rational. In Islamic economics, consumers are perceived to commit wastage and be lavish. Therefore, the market rules of behavior equally apply to them . Consequently, the contradictions between social and individual interests are not foreseeable in a genuine Islamic market, like the market at the time of the Prophet (SAAS).

NOTES

1. واجب كفائی
2. مباح

Exchange

1 INTRODUCTION

In this chapter, we shall be studying the exchange processes for consumer goods, and the factors of production. As we proceed, we shall try to shed more light on the effects of governing regulations on exchange efficiency and the role of specific behaviors on the mutual welfare of producers and consumers. The characteristics and the general features of Islamic markets were analyzed in Chap. 7. Under these conditions, consumer and producer hold on to their economic activities. Consumer demand for every commodity and the supply of those goods by each firm were presented in Chaps. 8 and 9. By means of a horizontal summation of consumer demand, we could arrive at their total demand in the market. Similarly, the horizontal sum of supplies by all the firms could demonstrate the total supply of an industry. The point of intersection between the two curves would show the market equilibrium for a given commodity, where the price, total quantity supplied and quantity demanded is determined. Taking into account this market-determined unit price of the good, every firm would determine its production level and every consumer would decide on the level of his consumption. The profit of every firm is maximized at a point where its marginal cost of production equals the market equilibrium price and, in the long run, the firm would vary and adjust its production scale in such a way that the marginal and average cost of production equated with the stated price. On the other hand, welfare of the consumer is maximized

when every unit of money spent on that commodity or any other good results in an equal marginal utility.

According to the above description and the more elaborate discussions in the earlier chapters, the reason for the exchange of goods between producers and consumers appears obvious; it is done with the intention of increasing the producers' profits and the consumers' welfare. There remains a question regarding the exchange of commodities amongst consumers and the exchange of inputs amongst producers; thus, implying that a producer that has excess stock of an input could exchange it for another input of which he has a shortage. This behavior will be further elaborated in this chapter.

2 THE EDGEWORTH BOX DIAGRAM

Assume that a firm uses two inputs, X and Y , in order to produce a good Q . The isoquant curves q_1 and q_2 for Firm A are shown in Fig. 10.1(a). Further assume that Firm B, using the same two inputs, produces good S . The isoquant curves s_1 and s_2 of this firm are shown in Fig. 10.1(b). If this figure is rotated by 180° around the origin, we arrive at Fig. 10.1(c) with the same s_1 and s_2 isoquant curves.

Now, consider an economy where only two goods, Q and S , are being produced, using the inputs X and Y . Assume that the total quantity of available inputs in this economy are shown by X and Y . Of the total quantity of X , x_1 is allotted to the Firm A and x_2 is allotted to Firm B, where $x_1 + x_2 = X$. In the same manner, y_1 and y_2 of the Y input have been allotted to Firms A and B, respectively, in such a way that $y_1 + y_2 = Y$.

If Fig. 10.1(a) and 10.1(b) are imposed on each other, we obtain a rectangle as shown in Fig. 10.2, in which point O to the left and the lower part show the origin of axis for the Firm A, where the input X is measured on its horizontal axis and the input Y on its vertical axis. The opposite corner to the right and up, O' , is the origin of the axis for Firm B, where, again, the horizontal axis measures the X input and the vertical axis represents the Y input. As $x_1 + x_2 = X$, the length of the horizontal axis equals X and the length of the vertical axis equals Y . Of total X input, a quantity equal to x_1 is allotted to Firm A and the remainder is given to Firm B.

Similarly, of the total of Y input, a quantity of y_1 is allotted to Firm A and the remainder $y_2 = Y - y_1$ is left to Firm B.

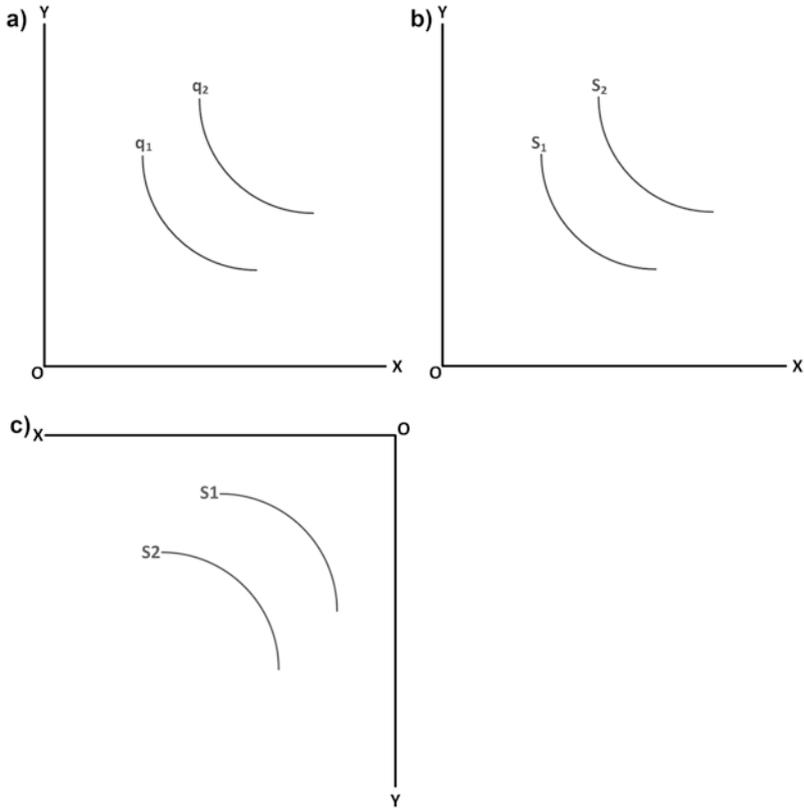


Fig. 10.1 (a) Good Q isoquants; (b) Good S isoquants; (c) S isoquants rotated 180°

2.1 Initial Allocation of Resources

Based on the above discussion, point M in Fig. 10.2 indicates the initial distribution of inputs X and Y between Firms A and B. By initial distribution, we mean that, in a given economy with a generally acceptable ownership structure or a rationing system of inputs, the amount of each raw material allocated to an individual firm. Since we have limited their number to only two firms, the division of inputs between the Firms A and B is easily performed, as it is shown by point M. In this figure, the isoquants q_1 , q_2 and q_3 are shown convex to the origin O. Similarly, the s_1 , s_2 and s_3 isoquant curves are also drawn for Firm B, being convex to

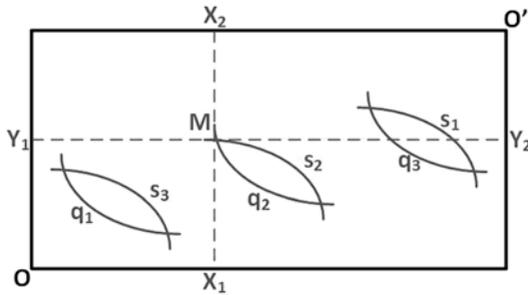


Fig. 10.2 The Edgeworth Box

the origin O' . The difference between these sets of isoquants is that, as we move farther away from origin O' , it would mean more quantity of good S and a lesser quantity of good Q . The opposite of this situation would be true if we move away from the origin O , indicating more quantities of good Q and fewer of S .

With a combination of x_1 and y_1 of X and Y inputs, Firm A would be able to produce a q_2 quantity of product Q . For this reason, the isoquant q_2 passes through point M . Similarly, with the combination of x_2 and y_2 inputs, Firm B would be able to produce a s_2 quantity of product S . Therefore, the isoquant s_2 also passes through point M .

We notice that, at point M , the slopes of isoquants q_2 and s_2 , or the ratio of the marginal rate of technical substitution (MRTS) between the two inputs for production of S and Q , are not equal. If the two firms agree to exchange certain amounts of inputs X and Y , they can increase the output from the present level of q_2, s_2 to a higher level, or at least increase the production of one product without decreasing the output of the other. In Fig. 10.3, let us assume that Firm A agrees to transact the input Y for X , provided that its production level remains constant at q_2 . In this case, it would be willing to move from point M on the q_2 isoquant to point N on the same isoquant. To shift from M to N on the q_2 isoquant, Firm A would hand over $y_1 y_3$ amount of input Y in exchange for $x_1 x_3$ amount of input X . The same exchange applies to Firm B , also permitting it to shift from point M to point N , which is located on a higher isoquant s_3 in Fig. 10.3. As a result of this exchange, we may notice that the production of Q remains constant and the level of production of S is increased. On the other hand, it is possible to increase the output of Q , keeping a constant production level for product S . If Firm B agrees to exchange $x_1 x_4$

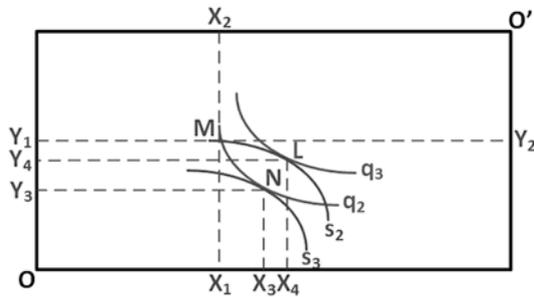


Fig. 10.3 Exchange equilibrium

amount of input X for y_1y_4 amount of input Y , it may be shifted from point M to L , keeping its production of S at the previous level of s_2 . However, due to this exchange, Firm A moves from point M to point L on a higher isoquant to produce q_3 .

It is possible that instead of being shifted to either M or L , as a result of which the production of only one commodity increases; the exchange of inputs may occur in a proportion that both firms may be shifted from their initial positions to a new point between M and L . Two new isoquants may pass from this point, indicating a production level well above q_2 and s_2 , permitting both firms to benefit from this exchange because they have been able to increase their production levels.

Now, let us see how far these exchanges could continue. The two firms, by trading off their inputs, could move from the initial position, M , to a better and higher position such as N , L or any point between N and L , in such a way that the MRTS between the inputs for production of the two commodities are equal. There remains no motivation for further exchanges of inputs because hereafter the production of one product would be increased at the cost of reducing the production of the other product. Therefore, points such as N and L , where the slopes of the isoquants are equal to each other, or the point in which the MRTS between the inputs is the same for all the firms, are the points of equilibrium for the exchange of inputs. In equilibrium, the efficiency of the exchange is maximized because it is not possible to increase the level of production by substituting the inputs for each other. The locus of these points is called the *contract curve* and the diagram in Fig. 10.3 is known as an Edgeworth box. The points that are not located on the contract curve in the box are not efficient points because, by moving towards the contract curve, or by

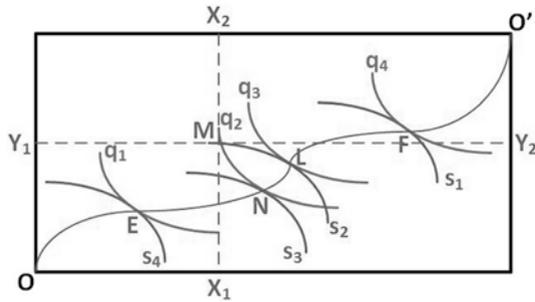


Fig. 10.4 The contract curve

trading the inputs for each other, the two firms can increase the production of at least one product without reducing the output level of the other. The curve OO' in Fig. 10.4 is one such contract curve.

With the help of the contract curve, we can derive the *production possibility curve* for the assumed economy.

In Fig. 10.5, the quantities of products Q and S are measured on the horizontal and vertical axes, respectively. If all the quantities of X and Y —that is, X and Y are efficiently utilized for the production of q and s —then the two firms must be on the contract curve. If they are on point E , they would be able to produce q_1 quantity of Q and s_2 quantity of S and no more. Accordingly, point F' in Fig. 10.5 is located on the production possibility curve of the presumed economy. If the two firms are at point F on the contract curve, they would produce q_3 and s_1 units of the said commodities. There again, point F' , which is the transpose of point F , is located on the production possibility curve. Therefore, by derivation of the points E' , N' , L' , F' which are transposes of the points E , N , L and F , respectively; one can obtain the production possibility curve for the presumed economy.

Point M , which is not on the contract curve in Fig. 10.4, has a mirror point M' in Fig. 10.5 which is not on the production possibility curve but, rather, lies below the curve, indicating that it is not an efficient exchange point. The points outside of the production possibility curve are not feasible to reach. The technology and the production know-how do not permit further expansion of output beyond the production possibility curve with any combinations of the inputs X and Y .

The Edgeworth box analysis that was used for the description of the exchange behavior between the two firms for the factors of production may equally be utilized for presentation of the exchange behavior between

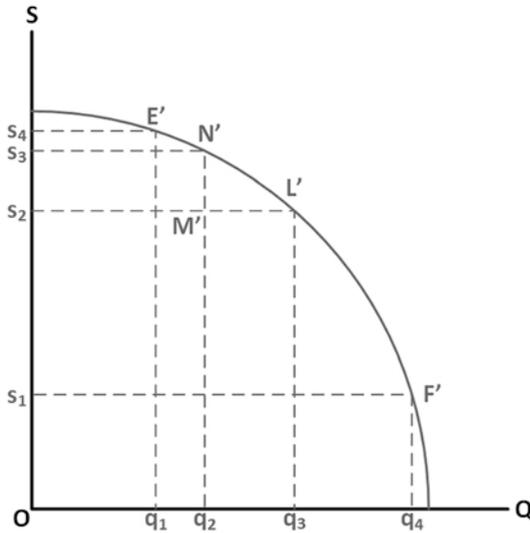


Fig. 10.5 Production possibility curve

the consumers. Assume that the two consumers A and B in Fig. 10.4 initially possess x_1, y_1 and x_2, y_2 of products X and Y, respectively; in such a way that $x_1 + x_2 = X$ and $y_1 + y_2 = Y$ are fixed quantities. The curves q_1, q_2, q_3 indicate the differing levels of utilities for consumer A if he is to consume different quantities of the goods X and Y. Similarly, the curves s_1, s_2, s_3 would represent the levels of utilities gained by consumer B. Point M represents the initial endowment of the goods by the consumers under any ownership or the rationing system of distribution. If A and B agree to trade products with each other, the total utility of at least one of them would be increased without leaving the other worse off. If the exchange is such that they move from point M to N, the welfare of A remains constant at q_2 , but the welfare of B increases from s_2 to s_3 . However, if they move from M to L, the welfare of A increases from q_2 to q_3 and the welfare of B remains constant. If they move from M to any point between N and L, the welfare of both consumers would increase. The exchange would continue to increase the welfare of one of the consumers without leaving the other consumer any worse off, as long as the marginal rate of substitution (MRS) between the goods is not equal and, hence, they lie off the contract curve. However, if they lie on the contract curve, it would

be impossible to increase the welfare of one without leaving the other any worse off. Therefore, the contract curve is the locus of equilibrium points of consumers trading off goods with each other. Equally, it is the locus of points where the MRS of the two goods for the two consumers is identical, indicating a situation in which the efficiency of the exchange is at its maximum.

In the same manner in which the production possibility curve was derived from the contract curve for the factors of production, we can deduce the *utility possibilities curve* from the contract curve for the exchange of commodities. The derived curve will look like E', N', L', F' in Fig. 10.5, except that the horizontal axis would measure the total utility of consumer A and the vertical axis would measure the total utility of consumer B.

2.2 Exchange Efficiency

Presentation of the Edgeworth box and the analysis of exchanges between the factors of production for the firms and the products between the consumers resulted in a model that demonstrates efficiency. This model, which is known as *Absolute Efficiency* or *Pareto Efficiency*, shows that the efficiency of exchange between the factors of production or the finished goods is maximized only when the ratio of marginal substitution between them is equal:

$$MRS_{xy}^A = MRS_{xy}^B \quad \text{for the goods,} \quad (10.1)$$

$$MRTS_{xy}^q = MRTS_{xy}^s \quad \text{for the inputs.} \quad (10.2)$$

2.3 Infaq and Exchange

In the discussions regarding the exchange of goods and inputs between the producers and the consumers, neither positive nor negative externalities were taken into account. If consumption of a commodity not only causes positive utilities to the person consuming the goods, but also results in positive utilities to some other person—such as the happiness of a mother whose baby consumes food or milk—the consumers will have different types of utility functions. If a mother enjoys her own consumption of food as well as the consumption of food by her child, then the food consumption by the child has positive externalities for the mother and, thus, the

utility function of the mother depends on the consumption by the child. These types of utility functions are known as the *interdependent utility functions*. The variables of these utility functions would include the quantity consumed by the person himself or herself and the quantity consumed by the other person.

$$U = U(q_1, q_2) \quad (10.3)$$

In function 10.3, q_1 is the amount of goods consumed by the person himself and q_2 is the quantity of goods consumed by the other individual. For example, q_1 is the quantity of food consumed by the mother and q_2 is the quantity consumed by her child. For the one who presents a gift to his friend, q_2 is the quantity consumed by his friend. Whoever spends on charity enjoys his own consumption, q_1 , and the quantity consumed, q_2 , is enjoyed by the *Infaq* receiver. The indifference curve of the *Infaq* donor for his own consumption and the consumption of the goods given away by him was previously shown in Fig. 8.2.

To enlighten the role of *Infaq* in the welfare of the giver and the receiver, the initial and later welfare position of both are shown in Fig. 10.6.

The indifference curve of the *Infaq* donor and the receiver are presented in parts (a) and (b), respectively. If the donor gives the receiver some of the goods that were being consumed by himself, the receiver moves from point B to point C, which lies on a higher indifference curve providing a higher welfare level—say, from 50 to 60. On the other hand, consumption of the commodity by the giver is reduced by the same amount, shifting him from point A to point D on a lower indifference curve to the left. Although, a reduction in consumption of the first commodity by this person (i.e. the *Infaq* giver) would reduce his welfare initially, giving away that commodity to the second person as an *Infaq* increases his welfare, and causes greater satisfaction and achievement of more utilities, increasing the utility index of his indifference curve from 100 to 120.

2.4 *An Example of Exchange and Infaq amongst the Muslims from the Early Islamic Era*

Incidental to the *Bani-Qoraidzeh* conflict, it has been narrated that there was a dispute between an orphan and an adult named *Abi-Lobabeh* over the ownership of a palm tree. As the man claim was right, the Prophet

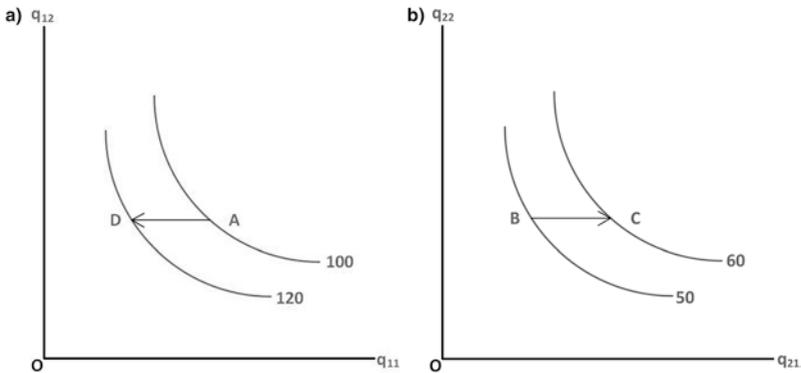


Fig. 10.6 (a) *Infaq* donor; (b) *Infaq* receiver

(SAAS) ruled in favor of him. The orphan, who was disappointed at the verdict, burst into tears and went to the Messenger for help, who then asked *Abi-Lobabeh* to give away the tree to the orphan, who refused and declined to do so. Then the Prophet offered him an equal tree in heaven, but again he declined. Here, another *Ansar* person named *Ibn Dahdah* asked the Messenger whether he could purchase that tree and hand it over to the orphan with the intention of gaining the same reward. The Prophet (SAAS) gave a positive answer. *Ibn Dahdah* approached *Abi Lobabeh* and offered him a palm garden in exchange for his single palm tree. As *Abi Lobabeh* was agreeable to this lucrative offer, the tree was purchased and handed to the orphan (Waqedi 1361/1982, 282). By this exchange, *Abi-Lobabeh* became an owner of a palm garden, but *Ibn-Dahdah* secured himself a place in heaven through *Infaq*.

3 THE EFFECTS OF REGULATORY GUIDELINES

3.1 *No Extravagance*

Using the definition of exchange efficiency and keeping in mind the concept of extravagance (*Israfa*), we can say that if the exchangers are not on the contract curve, they will indulge in extravagance of inputs and commodities through their substitutions. When the MRS of inputs and commodities of the producers and the consumers are not equal to each other, one of the two has been consuming well above moderate levels and

the other has been consuming considerably below moderate (equilibrium) level. Denouncing lavishness deters Muslims from the commitment of this act, ensuring the achievement of a moderate level and maximum efficiency among the Muslims.

3.2 *No Valueless Intermediation*

Some of the traders, even prior to the emergence of Islam, used to exploit the unawareness of caravan parties and purchased their merchandize at very low prices to resell them in the city market at very high prices, gaining profit well above the value of the social services rendered by them.

In the Edgeworth box in Fig. 10.4, we can observe that a shift from an initial point M to the contract curve may be in such a way that either only one of the parties may capture the total benefits of the exchange, or both parties may share the benefits. In Fig. 10.4, in the shift from M to N, all the value added by the exchange is transferred to B and A remains indifferent. The shift to point L causes the opposite effect. The shift to the point within the range N–L on the contract curve brings about benefits for the two parties involved. The final settlement between the points would depend on mutual bargaining power. It is clear that if a party knows that the other is gaining considerably from this deal, he would seek to have a share in the profits. Conversely, their lack of awareness about the market will cause them to have minimal claims. Due to this, shrewd traders used to go out of the cities to receive the caravan leaders in order to exploit their ignorance and to make phenomenal profits out of such exchanges. In Fig. 10.4, the efforts of B on moving from M to N is an indication of the behavior of *Rakban*, for reaping all the benefits of this exchange for themselves. Apart from the lack of awareness of city dwellers and caravan parties, it was the financial resources at their disposal that helped them carry out such exchanges.

The great Prophet (SAAS) denounced such acts. However, certain *Hadith* (narrations) do state the distance that was set as a milestone for these cases of trade. Going beyond that would equate the activity as a genuine trade, and exchanges within the limited distances would be considered as brokerage and useless intermediation.

Denouncement of this evil act caused the eradication of invalid intermediary activities and increased business motivations between the Muslims. Due to the blessings of this, the information and awareness of Muslims regarding goods and commodity markets were improved. Further, the

stabilization policies adopted by the great Prophet (SAAS) for wealth and income, and his anti-trust policies on trade and commerce facilitated the abolishment of useless intermediation.

3.3 *No Hoarding*

One of the improper acts of sellers is to hoard commodities with an intention to abuse consumer deficiencies. Hoarding happens in the process of distribution and it is a short-term behavior, whereas monopoly is a long-term activity and is different from hoarding (Sadr 1362/1983).

In the latter quoted source, the underlying factors for hoarding have been discussed in great detail. The most important factors among them are those that reduce the certainty and belief of the consumer in the continued availability of goods. Outbreak of wars, blockades of borders in a country, natural disasters such as earthquakes and the like bring about uncertainties in society.

Misuse of these opportunities by sellers and short supply of goods would escalate expected uncertainties. This anxiety causes an increase in total demand by consumers willing to purchase the hoarded commodities at any price. Gaining a profit by hoarding acts as an incentive for the hoarders and, as long as consumer uncertainties are in place, the market situation will continue to deteriorate and decline, leading to an increase in hoarding activities.

In Fig. 10.7, the effects of hoarding commodities in the market are shown. In the short-run and under the said conditions, there is a limited and known amount of goods being supplied which is assumed to be q in the figure. Therefore, the short-run supply curve for a commodity would be vertical. The curve D_1 is the initial demand curve for the commodity and P_1 is the unit price for that commodity in the market. With increased consumer anxiety, their total demand would increase.

No supply of goods in time will result in the exacerbation of anxiety among the buyers and their demand will shift from D_1 to D_2 . As a consequence of this increased demand, each unit price rises from P_1 to P_2 and hoarding profits of P_1P_2HE will be reaped by the sellers. If q_2 amount of goods are hoarded, then in the next stage the quantity demanded and price will be well above D_2 and P_2 , respectively. If part is supplied and the rest is hoarded, the price of the hoarded goods will depend on the level of demand in the next stage and the magnitude of the hoarding. If the factors causing the anxiety of the public are not resolved and the hoarding activities are continued, the price of goods will keep on increasing.

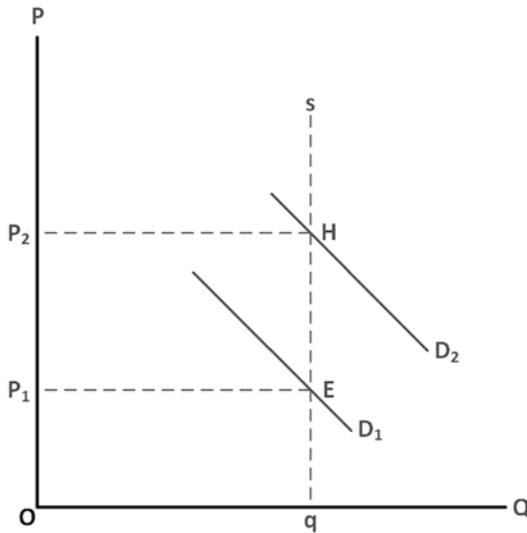


Fig. 10.7 Hoarding

The great Prophet (SAAS) prohibited the hoarding of commodities in *Madinah* and ordered the sellers to supply their stocks and disclose all the related information about their inventories, but never fixed a price for those goods (ibid.).

It seems that under the prevailing conditions of *Madinah* in those days, the mere supply of goods and the dissemination of information about the inventories could have reduced public uncertainties and the market prices could have facilitated a smooth distribution of the commodities. However, at times when the market is unstable and consumer anxieties are not be promptly resolved, then the state may opt for price setting, which will stop price escalations in the short run; rendering stability and steadiness to the market (Chaps. 4 and 7).

3.4 Riba *Prohibition on Exchanges*

One of the factors that affect the efficiency of exchange is having it associated with *Riba*, where the goods are sold against greater quantities of the same type. This type of exchange may lead to persistent high prices for commodities with no real value added to society. Prior to Islam, similar

conditions used to prevail in *Makkah* and the deferred payment exchanges were extended by increasing the prices. In the process, the purchaser was compelled to pay the value/price of the purchased good many times over (Shehabi 1357/1978, Vol. 1363).

This type of exchange, along with receipt of *Riba* on the loans, was prohibited in order to pave the path for the growth of investment activities and economic development, as is explained in Chaps. 6 and 11. On the other hand, by upholding the *Qard Hasan* and *Infaq* activities, perceiving them to be highly valuable and deserving of blessings, the Islamic *Shari'ah* substituted them for the *Riba*-oriented activities.

Since the effects of *Riba* on economic activities, including the *Riba* on loans were elaborated on in the discussions on monetary policy, we shall be brief on the subject.

4 INITIAL ALLOCATION OF WEALTH AND THE EXCHANGE EFFICIENCY IN THE EARLY ISLAMIC ERA

With the help of the Edgeworth box and the principles of exchange efficiency, which were discussed earlier, we can elaborate and analyze the effects of ownership structure on the allocation of inputs and productive resources or consumption to measure their welfare effects on different groups of Muslims. Further, we must also analyze the consequences of exchange-related rules and regulations, on one hand, and the promotion of activities with respect to income redistribution, on the other hand, with regard to the efficiency of exchanges. With this in mind, first, we will discuss the allocation of productive resources in *Madinah*, wherein the Muslims had migrated from *Makkah* and the great Prophet (SAAS) had declared the formation of an Islamic community. Later, we will study the effects of the measures applied by the great Prophet on the initial allocation of resources between the *Muhajerin* and the *Ansar*. Finally, we will analyze the exchange efficiencies among them.

4.1 *Initial Allocation of Production Possibilities Between Ansar and Muhajerin*

The post-immigration economic geography of the Islamic community was discussed in Chap. 3. When the pact was signed by the Messenger and the residents of *Madinah*, the community had opportunities for agriculture,

trade and craftsmanship. The gardens and farms were totally owned by the *Ansar*, and the *Muhajerin* merely had an unskilled labor force. However, the immigrants had some experience of trading but, due to a lack of capital and security, they could not practice their talents. The notable craftsmanship activities were owned by the Jews, not the Muslims; hence, the immigrants had no share in this activity, either. Therefore, the stock of farm capital, including farmlands, horticulture and livestock, was totally owned by the *Ansar*, who were also endowed with skilled labor and agricultural management. Further, the tools and related agricultural equipment that are considered capital were also owned by the *Ansar*. *Muhajerin*, as stated earlier, had only unskilled labor. Those who were affluent could not travel with their capital because of the severe conditions of immigration and tough security checks at *Makkah* borders by the unbelievers.

In the beginning years of immigration, there were limited commercial activities in *Madinah*, but all these activities were run by the *Ansar* themselves. In the later years of immigration, after the extension of welfare services, development of the Muslim economy, and gradual transfer of their capital to *Madinah*, the *Muhajerin* had shown some interest in commercial businesses. Therefore, the initial stock of land, cultivation tools and capital instruments in the economy of *Madinah* belonged to the *Ansar*, and the stock of the unskilled labor force was owned by the immigrants.

Point A in Fig. 10.8 shows the initial allocation of land and labor between the *Ansar* and the *Muhajerin*.

The area of the arable lands of the *Ansar* has been assumed to be ON_1 units. Since cultivated land is a kind of natural capital, we can measure its total value, including the tools and other skills and knowledge used by the *Ansar*, with ON . Therefore, if we let N measure the surface area of land or the value of capital, it would make no difference in the present analysis. The labor force of the *Ansar* is assumed to be OL_1 workers. The remaining part of the available labor force of *Madinah* (i.e., L_2) belongs to the immigrants, and the small amount of land held by them is assumed to be $O'N_2$. This land was almost nil during the initial years of the immigration, increasing only in the later years. In the present analysis, if we assume it to be nothing more than zero; it would have no effect on the consequences of our analysis. Thus, we have:

Total Stock of Land and Capital = Total Stock of *Ansar's* Land and Capital + Total Stock of Immigrant's Land and Capital

$$ON = O'N_2 + ON_1$$

Total Muslim Labor Force = *Ansar* Labor Force + Immigrant Labor Force

$$OL = O'L_2 + OLI$$

With the above discussion, point A, which shows the initial allocation of the above-mentioned resources during the initial years of the *Hijrah*, is located at the north-west of the Edgeworth box Fig. 10.8.

The steps taken by the great Prophet (SAAS) for uplifting production and employment opportunities and the social welfare of Muslims were discussed in Chap. 3. The first step was to create a brotherhood pact between the *Ansar* and the *Muhajerin*, which resulted in their mutual understanding and willingness to cooperate with each other. Further, he encouraged them to indulge in agricultural activities. The high frequency of *Muzarah* and *Musaqat* contracts between them was an indication of a large number of partnerships. Thanks to these partnership contracts, the immigrants could gain the agricultural skills and develop their human capital. By the fourth year of the *Hijrah*, on the recommendation of the *Ansar*, the *Bani-Nadzir* land properties were distributed amongst the *Muhajerin*. We witness, then, a substantial increase in the stock of wealth or the stock of land and the capital of Muslims accompanied with a change in their initial distribution. Wealth accumulation also took place through the distribution of war booty gained at the battles of *Bani-Qinoqa* and *Badr*. The stock of capital has increased, in Fig. 10.9 from N to N'. Due to the influx of new Muslims coming from *Makkah* together with their families, the population of the Muslim community continued to increase. Hence, their active

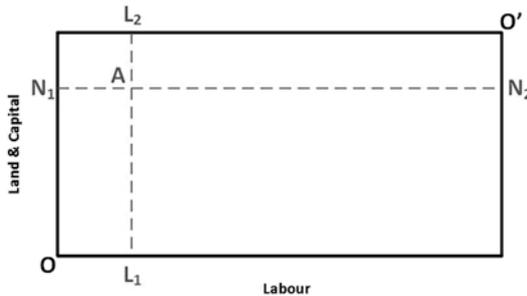


Fig. 10.8 Initial wealth endowments of *Muhajerin* and *Ansar*

labor force increased from L to L' . Ultimately, learning agricultural skills and farm management resulted in a significant development of immigrant human capital. However, most important of all was the war booty gained by the Muslims at several battles. As four fifths of the booty was equally distributed among the participant warriors, the per capita stock of wealth continued to increase, causing a change in the type of wealth distribution in society. All these factors led to more balanced distribution of wealth, forcing point A to move eastwards and finally rest at B .

The other major factor with great influence on this process was the emergence of ownership rights over barren land after reclamation. Since ownership rights were given to the individual land developers who owned the managerial talents and labor force rather than capital, the parties who worked on the lands not only increased the stock of land capital in the economy of the early Islamic era, but also influenced the type of land distribution among the Muslims. Now, if we add the harnessing (*Hyazat*) rights to the renovation (*Ibia*) rights, the reason for shifting from the initial distribution at point A to the new position at B will be clearer. The distribution of land lots for house construction by the great Messenger had a significant effect on the above process.

Besides all of these factors, due to the improved economic conditions and their ability to transfer some parts of their savings from *Makkah* to *Madinah*, over the due course of time, the immigrants could begin undertaking business. The expansion of trade and business once again increased the initial capital stock holdings of the Muslims with certain changes in its initial structure.

The pattern of land ownership during the early Islamic era was given in Chap. 3. The original distribution of the natural wealth was in favor of the public sector. *Ansar* were entitled to a trivial part of the land in the Arabian Peninsula. Promotion of public ownership prevented the monopolization of natural resources; landless individuals could gain land ownership title by the reclamation of barren land. Therefore, the land and natural ownership rights during the early Islamic era prevented monopolization by the private sector, thus, helping society attain a moderate land distribution structure.

The general conclusion about distribution of ownership, reclamation and utilization rights during the early Islamic era, and the steps taken by the great and honorable Prophet (SAAS) to enhance the welfare and production possibilities for Muslims, is that the initial distribution of the stock of human and physical capital resources were moderate in *Madinah*

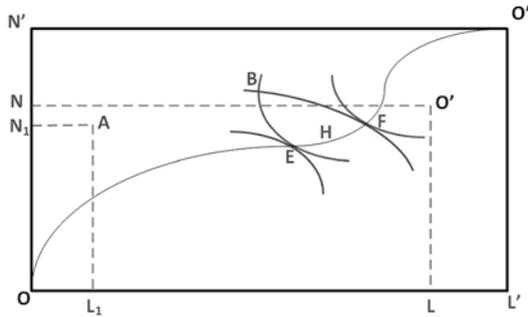


Fig. 10.9 Enhanced wealth endowment and income level, thanks to the Messenger's economic policies

and, during the later years of the *Hijrah*, it assumed the position indicated by point B in Fig. 10.9.

4.2 Exchange Efficiency

The promotion and encouragement by the great Messenger for the spread of partnerships between *Ansar* and *Muhajerin* resulted in different contracts and deals. Agreements on the contracts meant the exchange of production resources between the parties and attainment of the point of equilibrium. Thus, we can imagine the contract curve in Fig. 10.9 for the *Ansar* and the *Muhajerin* in *Madinah*. The necessity of putting in effort to gaining the family's bread, presentation of different incentives for economic activities in the economic system of the early Islamic era, and the fact that Muslims refrain from extravagance and wastage of consumption and production facilities would themselves induce Muslims to participate in trade and transact with each other. In the process of these activities, the *Muhajerin* and the *Ansar* may get shifted from point B to E or F, or any other point, such as H which lies in between the two, as was explained in the beginning of this chapter, in order to attain equilibrium. As explained earlier, they are located on the contract curve and, hence, the efficiency of the exchanges between the two groups is maximized.

Through factors such as *Infaq*, movement along the curve is also possible. The process of this change in position was elaborated at the beginning of this chapter. The evidence from the early Islamic era of *Infaq*, *Waqf*, *Qard Hasan*, *Haq-ul-Ma'loom*, *Khums* and *Zakat* are all indications of

these shifts. Of them, the division of income earned by way of cultivation in the ratio of 50:50 between the *Ansar* and the *Muhajerin* embedded in the *Muzarah* contracts, as indicated earlier, are movements along the contract curve from the point F to H or even E, which shows increased advantages for the *Muhajerin*. Therefore, we note that not only the agricultural and commercial exchanges between the Muslim groups used to take place in an efficient manner, but also, due to very high motivations intrinsic among the Muslims for economic activities, the redistribution of income between them was in a way that led to a moderate distribution of income. The wealth and assets that were distributed among the Muslims according to the Islamic ownership verdicts and policies of the great Messenger, with the current mechanism for the redistribution of income, as discussed above, also had a good profile.

5 SHARES OF THE OWNERS OF FACTORS OF PRODUCTION

It would be timely, towards the end of this chapter, to utilize the concepts related to the role of economic rights in the income distribution among owners of production factors, as seen in Chap. 3, to further analyze income distribution between workers and capital owners in the early Islamic era. By a capital owner, we mean the person who uses his savings for investments and partnerships in different individual or group economic activities, with no reference to the size of capital involved.

In Chap. 3, we concluded that the rules governing methods of natural resources utilization, such as reclamation and harnessing, plus the verdicts regarding sale, partnership and *Ijarah* contracts are devised in such a way that they give maximum credit to the labor force. It implies that the Islamic verdicts and rules are derived so that the labor force, under different conditions and in various productive and commercial activities and on various occasions, can select a contract that offers the highest benefits, whereas no such priorities are available for the owners of capital. For instance, under the conditions of certainty, a laborer can sign a contract that will offer him a share in the output of an enterprise or, under uncertainty and risky conditions, he may opt to work for fixed wages. This privilege is not available to the capital owner due to the prohibition of *Riba*. The developers and extractors of raw materials not only gain the ownership rights over these materials, but also on the final or intermediate goods that are produced by them. In addition, they could even sell the material for a fixed price and

transfer their ownership title to the buyer. Finally, financial capital, unlike physical equipment, can be used in any participation arrangement. It can claim a share in value added only after the activity and the partnership contract has been terminated with a profit. On the other hand, the laborer can enjoy making either participation or a fixed wage contract. Therefore, the nature of rules and regulations pertaining to partnership and the shares of production factors is such that they give more privileges to workers as compared with capitalists.

Besides economic rights, there are two other variables influencing the income shares earned by the owners of production factors. One of them is the degree of abundance or scarcity of that factor in the economy. Naturally, in the dry regions, the water input is scarce and valued, and even when it is used economically; the share that is allotted to this factor, whether it is in the form of wages or as a percentage of profits, will be high. This very position is being held by the capital factor in poor and less-developed countries. Due to scarcity, its share is comparatively higher than the other factors of production, as its returns are higher under these conditions. In the economy of early Islamic era, due to the natural dryness and geography of the region, water was scarce for agricultural activities, but its share or that of irrigated lands was comparatively higher in the *Mosaqat* contracts on palm groves and vineyards.

We may note that this situation compels the utilizers of water resources in the said economies to think of substituting this scarce input by innovating new technologies, either to increase the stocks of scarce water resources, or to economize on its applications. The advancements in digging wells and the construction of aqueducts during the early Islamic era might have been because of this very situation. One of the skills and technologies which were hailed and promoted was this very profession. Historical evidence state that His Holiness Ali (AS) attempted to dig several wells in *Madinah* on his own and developed vast areas of irrigated lands by this method, which were endowed subsequently (Ahmadi 1361/1982) At present, there is a suburb in *Madinah* known as *Abar Ali* (the wells of Ali).

The second factor affecting income distribution between the owners of production inputs is applied technology in the production process. Each technology or skill may lead to increased returns. In this case, the income share of such factors from the output would be greater. Due to technical efficiency that was discussed in detail in Chap. 9, taking into account the range of available technologies applicable to a firm and the varying input returns in different technologies, it would be suitable to

employ a technology under which the returns to inputs are maximized. Substitution efficiency requires that this ratio must be equal to the ratio of input prices. Consequently, the general efficiency of production is maximized only when all units of production costs are spent on the most returning inputs. The return to production activities, as was discussed earlier, would depend on the knowledge status, sciences, skills, immigration of managers and administrators, and, above all, it would also depend on the technologies applied. With this in mind, if the economies are mostly using labor-intensive technologies, the share of labor input in the process of production processes would be higher; however, if the economy is run mostly by the capital-intensive technologies, then the income share going to owners of this input will be higher. The shape of production functions or the physical relationship between the inputs and the outputs will depend on labor-intensive, capital-intensive or neutral technologies. Innovations and advancements in the said technologies would depend on several factors, including the abundance or scarcity of inputs, and the stock of technical knowledge and tools.

Among the social features of *Madinah* prior to the immigration is the abundance of the labor force and scarcity of capital. The most prominent policies employed by the Messenger of Islam were to uplift the skills, efficiency and human capital of these working Muslim masses. Promotion of literacy and the declaration of a ransom fee, at the battle of *Badr*, by setting the emancipation fee for prisoners of war as enabling ten Muslim youths to read and write, were among the initial actions of the respected Prophet in this regard. Promotion of partnership and the attainment of agricultural skills by the *Muhajerin* from the *Ansar* was elaborated earlier. The encouragement of craftsmen and development of smithing, carpentry, leather works and the utilization of underground water resources, and the efforts to import medical and weaponry technologies were all discussed earlier.

A notable point is the competence of Muslims in the mobilization and organization of their human resources in several activities. In the *Abzab* War, as we have seen earlier, Muslims were compelled to stay at home in *Madinah* to defend the city. It was decided to dig a trench around the city, which is reported by some historians to have been 275,000 square meters of excavation with primitive tools in just six days before the arrival of the *Quraysh* forces (Ayati 1359/1980, 352–353). The motivation behind the materialization of this objective was the proper organization and division of responsibilities within different Muslim groups, coupled

with policies to promote and encourage them to avoid inter-community disputes and prevention of fatigue without the loss of interest; which made them endeavor for days and nights to stay busy digging the trench. Classification of Muslims into different groups in the war fronts and their military structures were all indications of proper organization and defense work division among them. Although, most of the information remaining from the early Islamic era is about the promotion of Islam and battles of the holy Prophet (SAAS), rather than in relation to economic activities, by looking into the methods of propagation and taking into account the personality of the Prophet's successors, (whenever His Holiness took part in the wars) missionaries, tax collecting envoys, war commanders or market supervisors; it shows that, the Prophet (SAAS) used to appoint his assignees for the performance of any duty from persons who had the most suitable capabilities and maximum efficiencies. "For dividing the assets, the Prophet (SAAS) used to classify the people into groups of ten persons each to be headed by an answerable person who was called an *Areef*", and every 12 *Areefs* representing their groups of ten persons, were headed yet by another liable person called a *Naqeeb*, who was appointed by the Prophet (Biazar Shirazi 1368/1989, 107). For instance, at times he used to appoint war commanders, tax collecting envoys or propagators from among young individuals such as *Osama ibn Zayd*, *Amr ibn Hazam* or *Masab Bin Omair*, but while appointing judges or successors, he used to assign elderly persons (*Kattani*, n.d., Vol I, 194, 235–236, 240–246, 248–249, 285–286). At the time of bringing together the *Ansar* and the *Muhajerin* in *Madinah* (the calling of brothers), the Prophet (SAAS) bore their families, clans and cultural characteristics in mind. Similar considerations were noted while appointing the head of every Muslim clan. The best of these balanced appointments is the selection of His Holiness Ali, as his brother.

The above considerations indicate how the honorable Messenger of Islam, by way of educating and uplifting their ideological and cultural standards, at the same time improving their capabilities and investing in human capital and increasing the efficiency of the labor force, could lead their societies into cultural, social and economic development in order to globalize the Islamic mission, culture, religion and civilization.

6 SUMMARY

The process of market exchange and conditions for efficiency have been discussed in this chapter. The achieving of efficiency is illustrated with the

help of the Edgeworth box diagram and the contract curve. Exchange efficiency is obtained when partners, whether they are consumers or producers, exchange their endowments of goods and resources, respectively, such that they move towards and ultimately reach the contract curve—the loci of the most efficient exchange agreements. The characteristics of these equilibrium points are that the MRS of the goods or resources is equal for the contracting partners, implying that any further exchange will increase the welfare or revenue of one partner at the expense of the other partner.

Compliance with market rules in the early Islamic era induced market participants to continue trading until they reach the point of market equilibrium. Market price is set when all parties reach the equilibrium state; that is, the per unit rate of exchange of any good or input for another one is the same across all market participants.

Further, the Edgeworth box illustrates that the policies that were implemented by the Holy Prophet (SAAS) promoted growth and employment and, concurrently, reduced inequality among individuals and groups in the economy. In addition, it was illustrated that benevolent acts contributed to achieving efficiency and equity in the economy. Thus, compliance and ethics, the two main features of the early Islamic market institutes, not only rendered growth, but also spurred on equity in the early Islamic economy.

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Investment and Saving

1 INTRODUCTION

Prior to the emergence of Islam in the Arabian Peninsula, due to the spread of *Riba*-based activities, we could say that *Riba* itself played a great role in decisions related to investment and savings. But, with the gradual prohibition and denouncement of *Riba* in the post-Islamic era and its complete removal from the economic relations between the Muslims, we have to analyze and discover which variables or indicators were substituted for it and the basic determining forces behind the savings and investment decisions of Muslims. The economic development of early Islamic era after the conquest of *Makkah*, and its evolution and phenomenal growth during the reign of the *Rashedin* caliphs are indicative of widespread productive activities and investments by the private and public sectors. Therefore, it is clear that the Muslims had certain criteria on which to base their decisions.

An analysis of the commodities and asset markets of the early Islamic era may help to understand these criteria, given the fact that both the markets of those days were quite active with a considerable volume of transactions. There were two types of transactions: those that used to take place in cash, meaning that the goods and their values were delivered on the spot; and those where either the commodity or the pertaining value was delivered on the spot and the other was promised to be delivered in future. For example, in credit sales, the commodity is delivered on the spot, and the payment for its value is deferred to some time in future. In *Salaf* transactions, the price is paid on the spot when signing the

agreement, but the commodity is delivered on a future date. However, in both kinds of transactions the price and the delivery time are clearly set at the time of agreement. Aside from these transactions, the other partnership contracts were mostly term agreements such as *Mozaraah*, *Mosaqat*, and *Mudharabah*, as these contracts were used for the fulfillment of productive or service generating activities, which needed adequate time for realization. Every agricultural activity needs at least an agricultural season to lapse. The activities that provide a service, especially the trades, require time for travelling, procurement and delivery of the merchandize, which is again a time-consuming process. Finally, installment sales also clearly indicate that they are term contracts.

2 CRITERIA FOR INTERTEMPORAL DECISIONS

Since, by the conditions and terms of the contract in Islamic law, it is compulsory to declare the price, delivery, quantity and quality of goods, we could expect that the spot and credit prices of such goods and services, plus the proportionate relationship between them, were all determined at the market. These prices and proportions would have formed some of the decision-making criteria for the Muslims in the early Islamic days, as they were observable and measureable in the market.

By using the cash and credit prices of commodities that were determined in the markets, we can analyze consumer behavior for savings and also that of investment producers. For the convenience of analysis, we assume that all term contracts were of one year's duration and in the form of the *Nesiah* contract or *Bai' Moajjal*. If we call the percentage difference between cash and the *Nesiah* or credit price of goods and services the *Nesiah* rate, in the following equation p and P' would be the cash and *Nesiah* prices, respectively, and n is the rate of *Nesiah* sales:

$$n = (P' - P) / P$$

3 AN INTERTEMPORAL ANALYSIS OF THE CONSUMER'S BEHAVIOR

Consumers decide on their consumption and savings every year by taking into account their current and future income. For the convenience of analysis, we shall study their behavior over two periods, including this

year and next year. To adjust their consumption plans, we shall try to find out what are the permissible methods and transactions used by consumers for saving their present income in order to have a greater flow of it in the next year to finance their consumption. One possibility seems to be that consumers were able to save a part of their income by way of purchasing commodities on the spot and selling those goods on a *Nesiah* basis to be repaid during the next year.

Normally, *Nesiah* prices are higher than the cash prices of commodities. Due to the fact that the present consumption is preferred over future consumption, or due to the impatience of the consumers to consume the demanded commodities, the consumer will be ready to delay one unit of his consumption until next year provided that he is going to be rewarded with more than one unit in the future. Otherwise, present consumption of one unit of every commodity is preferred to its future consumption. For this reason and certain additional factors, which will be discussed later as the factors affecting *Nesiah* sales, the latter price for every commodity will be higher than its spot price. Therefore, the *Nesiah* rate is positive. As stated earlier, this rate is observable in the market because the current and the *Nesiah* prices are determined by the market itself.

Based on this introduction and using intertemporal consumption decisions, we may deal with the explanation of the consumers' behavior during the early Islamic era.

Assume that the current income of a consumer is Y_0 and his income in the next year is Y_1 . Therefore, point M indicates the initial endowment position of the consumer in Fig. 11.1. With the present income of Y_0 *Dirhams*, the consumer can purchase OY_0 worth of commodities in the cash market and resell them in the future market. As has been said, the *Nesiah* price P' is higher than the spot price P ; thus, the *Nesiah* rate of the commodity, n , is positive and, hence, he will receive Y_1A *Dirhams* in the next year, which is higher than OY_0 . The sum of this income plus his own assumed income for the next year will be: $(OY_1 + Y_1A) = OA$. Therefore, his maximum consumption in the next year will be as high as OA *Dirhams*, meaning that point A lies on the intertemporal budget line of the consumer.

On the other hand, the consumer depending on his expected income for the next year, OY_1 , can purchase $Y_0B = (OY_1/P')$ *Dirhams* on a credit basis to be paid in the next year. Hence, the consumer can purchase an amount OB *Dirhams* of commodities in the current year, of which OY_0 will be purchased on cash terms and the remainder, Y_0B , on the *Nesiah* basis. Point B will also lie on the intertemporal budget line of the consumer, AB.

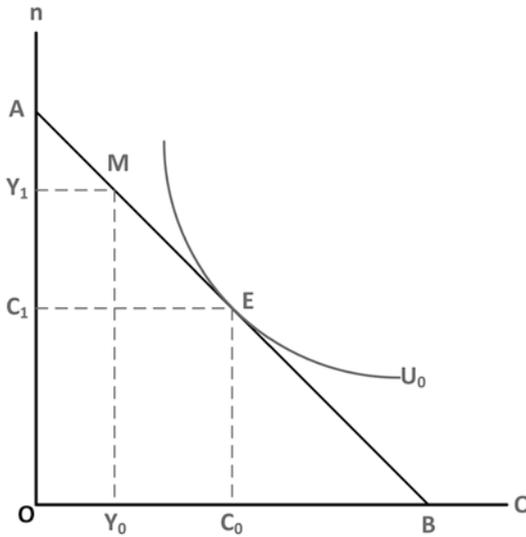


Fig. 11.1 Consumer intertemporal equilibrium

The preference of the consumer to current consumption versus deferred consumption is shown by the indifference curve U_0 . This curve is the locus of points showing different combinations of present and future consumptions on which the consumer remains indifferent. The slope of this curve, due to the decreasing marginal rate of substitution (MRS) between current and future consumption, is negative. This ratio is called the “marginal time preference rate”; that is, the preference for current consumption, C_0 , to that of the future, C_1 .

$$-dc_1 / dc_0 = MUC_0 / MUC_1 \tag{11.1}$$

At equilibrium point E, this ratio will be equal to the *Nesiah* rate¹

$$-dc_1 / dc_0 = OA / OB = (1 + n) \tag{11.2}$$

In the meantime, and at equilibrium, this ratio is equal to:

$$-dc_1 / dc_0 = MUC_0 / MUC_1 = 1 + t \tag{11.3}$$

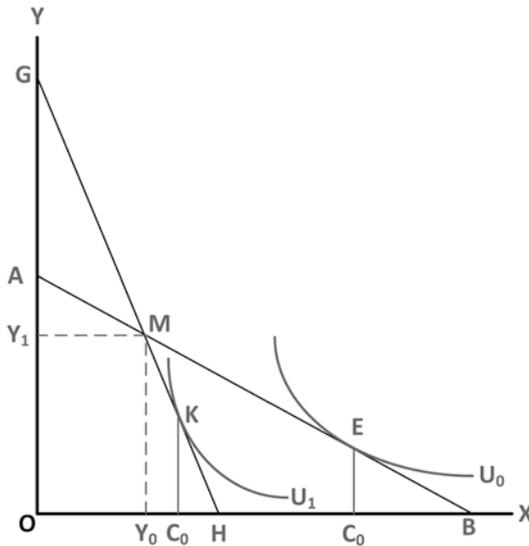


Fig. 11.2 The effect of the Nesiah rate increase on consumption and saving

In this equilibrium, t is the marginal time preference rate, which shows that, in equilibrium, current consumption is preferred to consumption next year by t percentage points.

As may be inferred from Fig. 11.1, the total welfare of the consumer reaches its maximum level, if he consumes OC_0 Dirhams this year and OC_1 Dirhams in the following year. Consequently, he consumes more than his current income this year. The excess consumption Y_0C_0 is being financed on credit. The possibility of being able to buy and sell in the cash and credit or the *Nesiah* markets permits every consumer to move from an initial position, M , to a better and preferred position, E .

Now, let us study the reaction of the consumer to an increase in the *Nesiah* prices. If they are increased, the intertemporal budget line AB in Fig. 11.2 will rotate to a new budget line shown by GH . The new equilibrium is point K and the current year's consumption will be OC'_0 , which has been reduced by C'_0C_0 . With changes in the *Nesiah* rates, consumer demand for present consumption may be derived intertemporally, as shown in Fig. 11.3. As expected, when the *Nesiah* prices and rates increase, consumer demand for *Nesiah* goods declines.

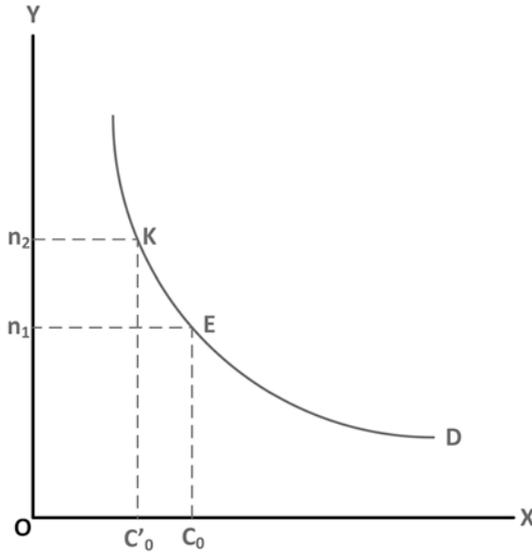


Fig. 11.3 Temporal consumption demand

Some consumers may intend to save a part of their income. This behavior may also be derived using the consumer’s intertemporal consumption model. In Fig. 11.4, point M shows the consumer’s initial endowment and point E reflects his equilibrium point. In this figure, it is shown that the consumer wishes to consume OC_0 in the current year and C_0Y_0 Dirhams will be saved.

With this saving, he can purchase C_0Y_0 amount of commodities and resell them on a *Nesiah* basis to receive Y_1C_1 Dirhams in the coming year. With this income, plus his initial endowment income for the next year, he can purchase OC_1 Dirhams of the commodities to be consumed in the next year.

However, if the *Nesiah* rate increases in the market, the intertemporal budget line of the consumer changes its position to DH and the new equilibrium point will be H , where his present consumption is less and his savings higher. In other words, with an increased *Nesiah* rate, the consumer’s tendency to acquire goods on credit terms increases. With the help of the *Nesiah* rate and his savings at points E and H , we can derive his supply curve for *Nesiah* goods in Fig. 11.5, where:

$$OX_1 = C_0Y_0, \quad \text{and} \quad OX_2 = C'_0Y_0$$

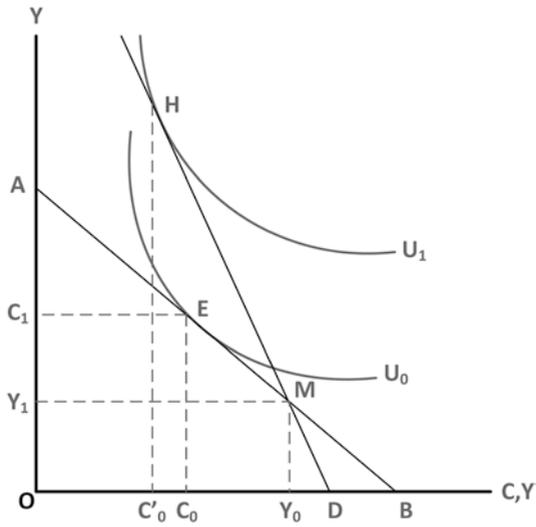


Fig. 11.4 The effect of the Nesiah rate increase

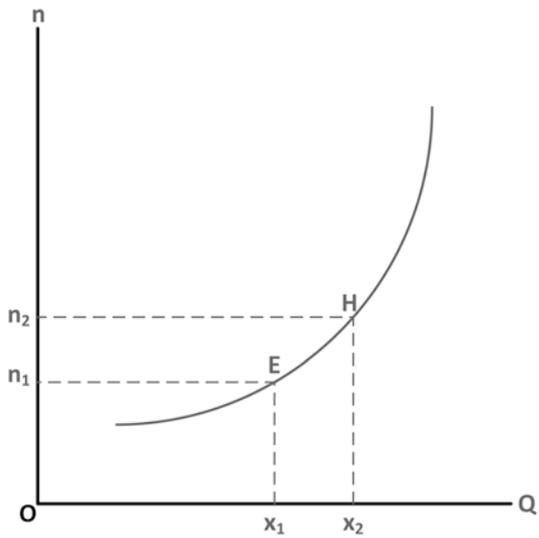


Fig. 11.5 The gross saving function on savings

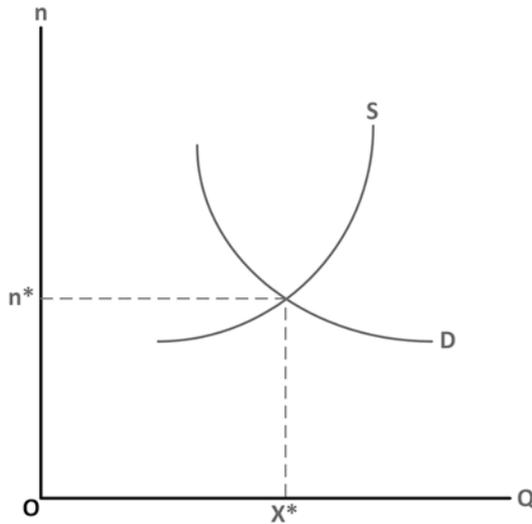


Fig. 11.6 Demand for and supply of goods sold on credit

The upward slope of the supply curve and the downward sloping shape of the demand curve for *Nesiah* goods are derived from the first and second conditions of the consumer's utility maximization function, $U(C_0, C_1)$, subject to his intertemporal budget line:¹

$$(1+n)C_0 + C_1 = (1+n)Y_0 + Y_1$$

Now, by taking into account the aggregate supply and demand by consumers, we can derive the equilibrium *Nesiah* rate and the equilibrium quantity of *Nesiah* commodities in a pure exchange economy. This equilibrium rate is shown by n^* in Fig. 11.6. Actually, the slope of the consumer's intertemporal budget line is equal to this *Nesiah* transaction rate in the market; that is, n^* .

4 AN ANALYSIS OF INVESTOR BEHAVIOR

Now, we shall try to extend our analysis from a pure exchange economy to a two-sector production and consumption economy. Figure 11.7 is a

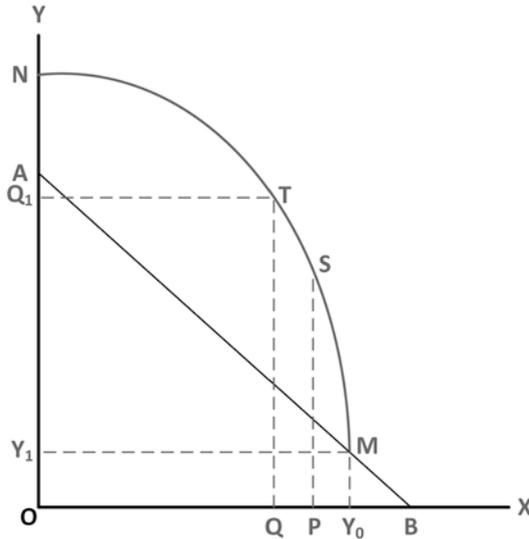


Fig. 11.7 Investor equilibrium

typical decision making pattern for an investment firm. Point M is the initial endowment of the investor and the line AB is his intertemporal isocost line. The slope of this line is $-(1+n)$. The available investment opportunities for this firm are given by the curve MN. The slope of this curve $-(dq_1/dq_0) = 1+r$ indicates the marginal rate of return on investment, which is decreasing due to the rate of the law of diminishing marginal returns. In this relationship, Y_0Q_0 is the quantity of the current year's investment or the capital goods that are purchased, and Y_1Q_1 is the output or the receivable income in the coming year.

This firm can at most buy Y_0O Dirhams of capital goods this year for allocation to its investment activities. In this case, the firm will have Y_1N Dirhams of income in the next year. If the firm invests Y_0Q_0 Dirhams this year, it will have an income of Y_1Q_1 in the next year. Finally, if the firm invests only Y_0P in the current year, it will have an income of only KS Dirhams in the coming year.

It is natural that the firm will invest up to the point where the difference between its earned income from investments and its *Nesiah* costs or the opportunity cost of investment is maximized. In other words, the

firm will continue to invest until the present value of its net income from investment is maximized. This state occurs at point T, because the slope of the investment opportunity curve, which shows the marginal rate of return on investments, is equal to the slope of the AB line, which indicates the *Nesiah* rate or the cost of capital:

$$r = n$$

Now, by changing the *Nesiah* rate we can derive the firm's demand for investment. In Fig. 11.8, we may observe that when the rate is increased from n_1 to n_2 , the intertemporal isocost curve of the investor firm rotates on M to become LM. With this, the slope of investment opportunities curve at point S to become equal to the slope of the LM curve. Hence, the firm's demand for investment declines to only Y_0P *Dirhams*. The quantities demanded for investment by the firm at n_1 and n_2 *Nesiah* rates in Fig. 11.9 show the demand curve for investment by the firm.

In this economy, besides the consumption demand of the consumers there is an investment demand by firms, too. The sum of these two indicate that the aggregate sum of consumer and capital goods in the goods

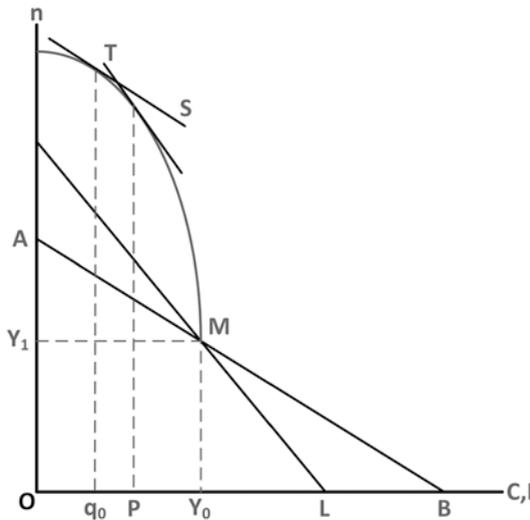


Fig. 11.8 The effect of the *Nesiah* rate change on investment decision

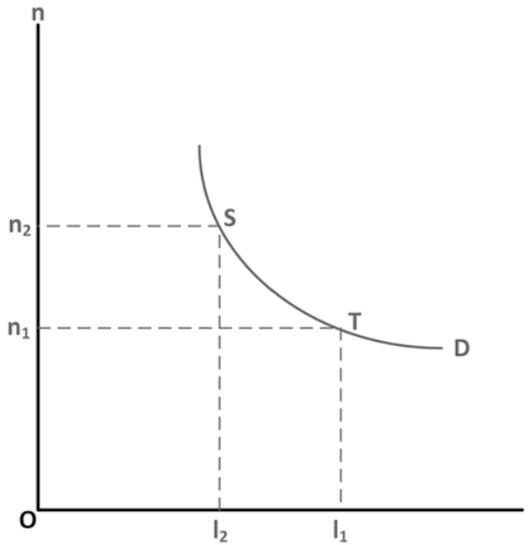


Fig. 11.9 Investment function

markets of the early Islamic era was equal to the aggregate savings of consumers at equilibrium, as shown by Fig. 11.10.

In this economy, from an aggregate of OX^* *Dirhams* of *Nesiah* goods supplied, a sum of OX_1 is consumed and the remainder, X_1X^* , is saved and invested. Using Figs 11.9 and 11.10, we can derive the demand curve for investment and the supply curve for net savings, which are specially meant for investment. The resulting curves are shown in Fig. 11.11 separately, where the equilibrium for the *Nesiah* rate in the commodities market and the equality between savings and investment in this market are depicted.

In addition, we may note that the demand for investment and the supply of savings are both functions of the *Nesiah* rate, where the former is negatively related to the *Nesiah* rate and the latter is positively related to it.

$$I = I(n); dI / dn < 0, d^2I / dn^2 > 0 \quad (11.4)$$

$$S = S(n); dS / dn > 0, d^2S / dn^2 < 0 \quad (11.5)$$

The investment function shows that, if the *Nesiah* rate is increased, the quantity demanded for investment will decline because the *Nesiah*

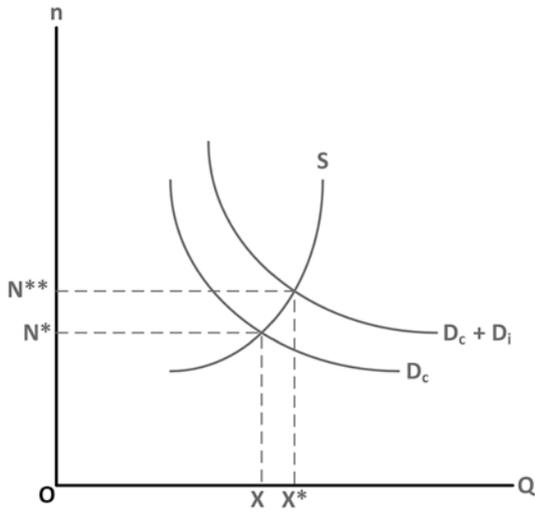


Fig. 11.10 Aggregate demand for and supply of goods sold on credit

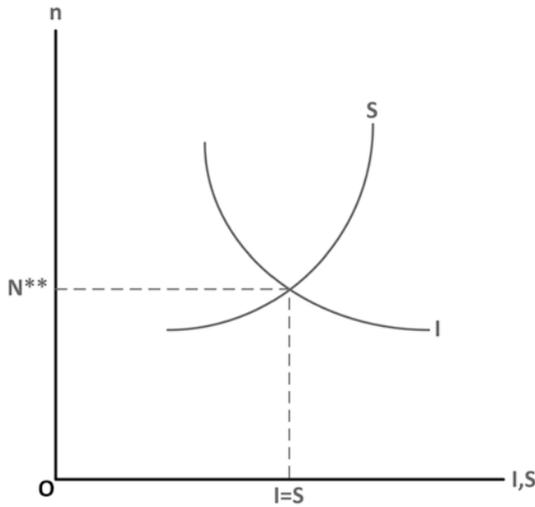


Fig. 11.11 Capital market equilibrium

prices of capital goods have increased and the investment opportunities of firms with limited intertemporal budgets will decline. Conversely, with an increased *Nesiah* rate, the willingness of consumers to save will increase because a consumer may buy more cash commodities that may be sold on credit with the intention of gaining more income in the coming year.

5 FACTORS AFFECTING THE *NESIAH* RATE

One of the factors that affect the *Nesiah* rate is the patience of consumers and their preferences between current and future consumption. As the marginal time preference rate increases, the *Nesiah* rate also rises. As consumers become more optimistic about the future, the *Nesiah* rate will decline; with increased uncertainty of the future, current consumption will be preferred to future consumption; hence, the *Nesiah* rate increases. But during normal conditions, this rate will depend on the preferences of consumers.

The other factor that effectively influences the *Nesiah* rate is the distribution of income flows for the consumer between the present and the future. As these flows are more in the future and less in the current period, the consumer is ready to pay higher prices in the future to finance his present consumption; thus, *Nesiah* prices increase. Conversely, the higher current incomes associated with lower future incomes will force the *Nesiah* rate to decline. In an economy that has productive and investment activities to supplement its exchange activities, the *Nesiah* rate will also depend on the investment and production opportunities, as the demand for investment is higher. In other words, if the economy is booming, the *Nesiah* rate increases. Unlike this position, when the economy passes through recession and production opportunities are limited, this rate declines.

The other factors that increase the *Nesiah* rate are the presence of risk and uncertainty in economic activities. Innovations and initiatives result in the creation of new production techniques and methods; entrepreneurs will be induced to employ these new techniques and take more risks. New techniques are not tested and there is insufficient information about them; therefore, the risk of their application is much higher than using conventional methods. Consequently, their application raises the *Nesiah* rate.

New and feasible investment opportunities in an economy may lead to an increase in the *Nesiah* rate. Development of exports, discovery of a mine and favorable climate conditions will all help increase the demand for investment; hence, the *Nesiah* rate will rise.

The *Nesiah* rate is not always positive. It may, in some conditions, become zero or even negative. If individuals are not permitted to enter the *Nesiah* market for exchange, this rate will remain at zero. In this event, the total income flow becomes a stock that may not be increased. However, if this stock faces a natural deficiency, the *Nesiah* rate becomes negative. There is an example given by Irving Fisher (1930) where he assumes an island to have a single output of figs. These figs may be dried and retained for the coming year, in which case the rats in the island will eat up about one quarter of the output. In this economy, the return to storing figs is -25% .

The next factor influencing the *Nesiah* rate in an Islamic economy is the availability of *Qard Hasan* loans. With the supply of these loans, most of the needs of the consumers are met; therefore, their demand for purchasing goods on credit will decline. Hence, the *Nesiah* rate decreases. *Infaq* in the Islamic economy also helps reduce the *Nesiah* rate. *Waqf* and most of the other behaviors that result in the transfer of wealth and income in an Islamic economy—such as *IhsanHaq-al-ma'loomKhumsZakat*, and so on—have similar effects to a *Qard Hasan*.

6 NESIAH RATES VERSUS INTEREST RATES

An analysis that has been made of the *Nesiah* rates, the role that these play in an Islamic economy and the factors that affect them have sometimes generated similarities with the interest rate in a *Riba*-based economy. These similarities pose the question as to what may be the difference between them.

The first important distinction between the two concepts is that *Riba* is a *Fiqhi* notion, not an economic concept. *Riba*, which literally means “surplus, extra or growth”, will appear during the temporal contracts between the lender and borrower when an extra amount, pecuniary or non-pecuniary, will be required to be paid by the borrower. Also, in a sale contract if the good is sold with an extra amount of the same good it would be *Riba*. In Islamic law, lending and transactions must be free from *Riba*. If, however, profit is gained by means of a *Mudzarabah* contract, it will be legitimate, because it is not obtained by the two types of contract that have been mentioned.

The subject of contract is very important in the law and *Shariah* discipline, because the privileges and obligations of contracting parties in any activity are specified by the terms of the contract. One definition of justice given by Imam Ali (AS) is “giving every participant in any activity

his due rights” (Chap. 12). The rules of exchange are designed in Islam such that the legitimate privileges and responsibilities of the participating partners will be determined and allocated according to the goal of justice (Sadr 1969). When these rules, including abstaining from *Riba*, are not implemented, the rights of contracting parties are not determined and secured, either completely or partially. To show the role of contracts in determination of the gains and inputs of the participants in different contractual arrangements, *Motahhari* (1364/1985) compares *Qard Hasan*, *Ijarah* and *Musharakah* contracts with lending and borrowing arrangements. All the gains that are obtained by the suppliers of funds in the former three contracts are retained by the lender in the loan contract; but all of their obligations are transferred to the borrower in the latter agreement. In *Qard Hasan*, the principal loaned is secured and must be returned by the due date, but no return is obtained on the loan. In an *Ijarah* contract, rent is obtained by the supplier of the capital good, but the instrument is depreciated concurrently. In *Musharakah*, profit may be gained at the risk of loss. In contrast, all the privileges of financing—such as a loan guarantee, rental income or profit—are allocated to the lender but payment of the loan principal plus the interest, that of the rent and acceptance of risk of loss, are all borne by the borrower. Because of this disproportionate division of benefits and expenses, stipulated by interest-based loans, they may have been prohibited to secure equitable division of rights and obligations.

When economists analyze the economic relationships between different participants in the market, they usually pay scant attention to the contractual relationships between them and focus instead on the substance of the exchange, and the gains and losses that are involved. It is only important that the transaction will be legal. Lending and borrowing is permissible in *Ribawi* systems; therefore, all types of revenues, whether interest or otherwise, are legitimate.

One legacy of the classical economists is that the loan and the capital markets are mirror images of each other, and the suppliers and consumers in the two markets are the same. If both markets are competitive and will be in their long-run equilibrium, the rate of interest and return that are determined in the loan and capital market are equal. Thus, they could be used interchangeably; that is, the interest rate may represent the cost of capital.

The rate of *Nesiah* is exactly the long-run equilibrium rate of return in the capital market, provided that Islamic rules of exchange are applied. Every good or factor price is a return to the seller and a cost for the buyer.

The *Nesiah* price and rate are, therefore, revenue for the supplier and a cost to the consumer. They are determined and observed in the goods market in an exchange economy and in the capital market in a multi-sector economy. They reveal all the market information that is needed by the participants in those markets.

7 THE CONSEQUENCES OF ELIMINATING *RIBA*

7.1 *Harmonious generation of income in both financial and real sector of the economy*

The most important implication of the prohibition of *Riba* is the elimination of the loan market in the economy. Since all market transactions should be *Shariah*-compliant, interest-based loans are illegal; therefore, no loan market can formally emerge. All excess fund holders shall apply *Riba*-free modes of finance for investing their funds. These are either fixed rate of return (FRR) products whose rate of return is negotiated and determined prior to conclusion of the deal, such as credit sales, installment sales, hire purchase, or variable rate of return (VRR) products such as *Musharakah*, for which the return is determined after enactment of the contract and completion of the investment venture. In either type, contracts mandate that the financiers will gain financial income if real income or value is created in the real sector of the economy. In a *Nesiah* deal, for example, the fund owner can purchase a capital good and sell it on credit in order to obtain the *Nesiah* price of the good or the *Nesiah* income at the end of the contractual period. Unless there will be demand for this capital instrument by an investor, the contract will not be fulfilled and the supplier will not gain income. On the other hand, without employing a capital instrument in a production activity and producing a product, the agreement would not be concluded. For the VRR contracts, it is obvious that without creation of value in the real sector, the financier will not be remunerated by any income. Thus, the most salient feature of an interest-free economy is the harmonious generation of income in both the financial and real sectors of the economy.

7.2 *Saving Incentives Are Maintained*

A question may be raised that the elimination of interest may lead to disappearance of certain remunerations for savers and, hence, the risk-averse

consumers who are interested in earning a risk-free income would lose this opportunity. Therefore, there would remain no incentives for saving after the elimination of interest and aggregate savings in the economy will decrease.

In reply, we would respond that, in the capital market, there are plenty of long-term and short-term activities taking place, each one having its own risk and prospects of return. Activities such as credit exchanges and installment sales have very little risk associated with them. Conversely, participation contracts such as the *Mudharabah* and *Musharakah* are more risky. If we consider the activities in agricultural, industrial, housing, transportation and other service sectors, we notice that, in every sector of the economy, there are high-risk activities with high-returns as well as low-risk activities with low-return activities. Risk-loving individuals would select high-return activities and the risk-averse individuals will take part in activities with comparatively certain returns. There are still saving incentives for individuals who prefer to have a stable source of income because they have the opportunity to participate in activities with an almost definite stream of income.

Furthermore, in a *Riba*-free economy, banks offer a number of short-term and long-term investment accounts to their customers. Therefore, everybody, depending on their own preferences, information and experience, will be able to find a substitute for *Riba*-generated incomes; hence, there will remain no reason for reduced incentives and reduced savings in a *Riba*-free economy under equal conditions.

In addition to these activities are the utilities of gaining *Riba*-free incomes for some Muslims. Most religious people are not ready to deposit their savings in *Riba*-based banks. Similarly, they do not participate in other activities that seem to be *Riba*-based. On the contrary, the elimination of *Riba* from the economic system of an Islamic community provides greater motivation for savings and participation in economic activities.

7.3 *Investment Incentives Are Promoted*

The other important outcome of the elimination of the loan market and prohibition of *Riba*-based activities will be an increased demand for investment. Along with the loan market, investment takes place to the point where the marginal rate of return on investment equals the rate of interest. The interest rate, as we have seen, determines the ceiling for investment and sets the minimum rate of return. With the elimination of *Riba*, there would remain no exogenous factor affecting the quantities

of funds to be invested. In other words, if the rate of interest is assumed to be 10%, then projects with rates of return below 10% would never be selected for investment; but with the elimination of *Riba*, there will be no external rate to determine the limits of investment; hence, the demand for investment will increase.

The other factor that increases the demand for investment is the reduction of risks borne by the investor. Climatic changes have considerable effects on agricultural activities. Application of new techniques and methodologies always expose the productive activities to unforeseen problems. With the changes in economic conditions, such the entry of a new product or changes in demand, there would probably be a reduction in the expected prices. Under the conditions of the loan market, all the above-mentioned risks are to be borne by the investor and the lender will not share the risks. Consequently, to cover these risks, the producers would add a risk premium to the interest rate on loans obtained. If the internal rate of return on any project is higher than the sum of the interest rate and the risk premium, only then will they go for an investment.

Under conditions where *Riba* is eliminated from the economy, investors would participate with interested parties and they would have proportionate shares in the profit or loss of a project; hence, the impact of any risk, in the event it materializes, would be shared by the parties involved. Since the share of investors in bearing the losses arising from such risks would be lower compared with the conditions of loan financing, the expected percentage rate of risks for them declines and, hence, their demand for investment increases.

Participation of suppliers and consumers of capital in the profits and losses of investment activities increases the incentives for inspection, guidance and monitoring of one partner by the other. It is natural that suppliers would be more concerned about such matters. Enhanced monitoring leads to better performance and liability observance by both sides; thus, increasing the probability of success for the project under implementation. Or, due to participation, there will be greater incentives for information exchanges regarding the procurement of productive inputs, application of suitable techniques and methods, and utilization of targeted markets and distribution centers. These factors lead to improved efficiency of the investment activities to be followed by greater demand for investments. Hence, increased inspections, information flows, production efficiency and reduced investment risks, plus the elimination of *Riba*, overall would enhance the investment activities in the economy.

7.4 *Increased Output and Redistribution of Income*

The increased level of aggregate investment in the economy is accompanied by many positive effects. First, the supply of aggregate production increases; this is followed by an increase in the employment of productive factors. It is natural that, with an increase in production, the labor force, land and the unutilized raw materials would all be employed. In the event there were any difficulties in the application of any one of the above factors of production, investment would be made in order to sort out the problems. This fact, coupled with the efforts to increase the production and completion of investment projects, paves the way for the emergence of managerial talents and helps develop innovations and inventions in production processes. Naturally, inventive managers who have considerable experience in leading profitable economic activities would be welcomed with enthusiasm and all the owners of funds would be inclined to participate with them. This phenomenon leads to an increased demand for participation with innovative managers and, hence, to an increased opportunity cost of human capital in the economy. In *Riba*-based economies, investors and managers must find sources with which to finance their projects. Hence, they are compelled to accept almost all the provisions of the lenders. In a *Riba*-free economy, the opposite of this phenomenon happens and the owners of funds are obliged to seek participation in productive investments due to the blockade of usury and speculative channels. They therefore search for experienced entrepreneurs and managers in order to maximize the profitability of the partnerships in which they engage. Due to this, a fourth positive effect taking place in the economy may be observed; this is the redistribution of income from the owners of physical capital to the owners of human capital.

7.5 *Rapid Adjustment to External Shocks*

Most of the benefits of eliminating *Riba* that were enumerated above may be observed in the real arena of the economy. We will now have a look at their nominal or monetary effects. The elimination of the loan market brings equality between the flow of goods and services or the real value added, on one hand, and the flow of money income, on the other hand (Khan 1987). Due to this balance, the real value of money remains constant in the economy, preventing the outbreak of inflation. To present this concept, we make use of the circular flow diagram of income and

commodities to show the relation between real and monetary sections plus the several markets in an economy. The parties involved in an economy may be divided into two groups: producers and consumers; Fig. 11.12 shows the governing relationship between them. Producers supply goods and services to consumers and, in return, they provide the producer with their inputs, such as labor, land and capital. In other words, in the real sector of the economy, consumers demand goods and services and supply production inputs. On the other hand, producers demand production inputs and supply goods and services. It is obvious that, in the real sector of the economy, there is a perfect balance between the goods market (the upper semicircle) and the inputs market (the lower semicircle). In the event a consumer could not supply labor, land, capital or any other production factor, he would receive practically no real income and, automatically, could not place any demand for goods and services.

If the production inputs are fully employed, the production level of goods and services will also be maximized and not be capable of increasing any further.

Illustrated above is the circular flow of production and inputs in the real economy sector. The flow, as can be seen in Fig. 11.12, is shown by the inner circle. The outer circle shows the financial flow of income in the economy. Consumers would pay the producers' cost of the goods and services received. In return, the producers would pay wages, salaries, rents and profits against the employment of production factors such as labor, land and capital. In an economy where *Riba* is permissible, in addition to these outgoings, the producers would pay interest to consumers for the loans received from them. For a better understanding of the concept, assume that, in a *Riba*-based economy, all the funds are supplied in the form of loans and there is no participation enterprise; hence, no profit is divided. In a *Riba*-free economy, there is always a perfect balance between the upper semi-circle, which shows the expenditure in the goods market, and the lower semi-circle, which shows the sum of wages, rents and profits. If we assume that the labor market and the market for land are in equilibrium, the capital market would also be in equilibrium. If the investment project is successful, the producers will return the proceeds to the consumers after deducting wages and rents. As a result, the revenue and expenditure flow of the production factors will be balanced in the goods market. In other words, whatever is paid to the producers as expenditure by consumers on goods and services, the same amount is returned to the consumers in the form of wages, rents and profits.

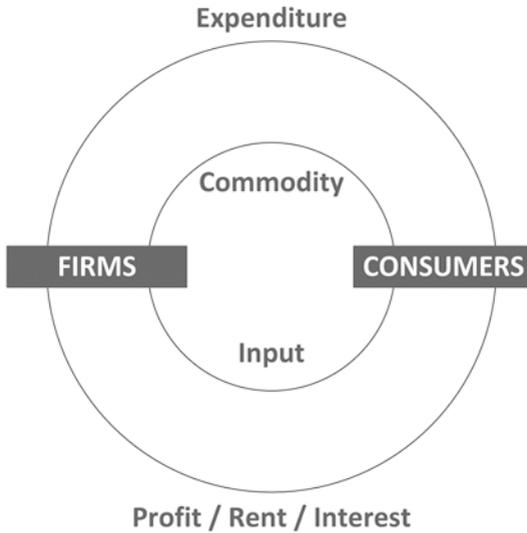


Fig. 11.12 The flow of income in the real and financial sector

Now consider a *Riba*-based economy in which a project fails. In the expenditure semi-circle in the goods market, the consumers will make no payments to the project investor and he will have no revenues, as such. But in the lower semi-circle, the entrepreneur has to pay interest to the lenders of the loans, due to his legal obligations. Hence, the sum of income received by owners of factors of production in the form of interest and other forms of income is greater than all the expenditure received by firms in the goods market. This phenomenon disrupts the balance between the money income flows and those of the real income or the real value added.

If we assume that under a *Riba*-free economy, for the production and supply of 100 units of value added to the consumers, the producers earn 100 *Dirhams* of income; they would pay the same 100 *Dirhams* to the owners of factors of production such as labor, land and capital in the factor markets. For example, if some of the projects do not succeed and only 80 units of value added is produced, an amount of 80 *Dirhams* would be earned by the producers and an equal amount would be distributed to the owners of the production factors. However, in a *Riba*-based economy, if only 80 units of value is added and only 80 *Dirhams* of income is exchanged in the goods market, due to the legal obligations governing *Riba*, the

producers who have taken the loan must pay the capitalists an amount equal to 100 *Dirhams*. Therefore, the capital owners have received 100 Dirhams of income as remunerations for production of only 80 units of value added. Payment of interest has disrupted the balance of goods and money income flows in the economy and caused inflation, reducing the purchasing power of money.

In this economy, automatically, there will be no room for speculative and non-productive intermediation activities because the real economy sector is highly competitive and efficient with no loan markets creating *Riba*-based and speculative incomes.

8 SUMMARY

Chaps. 8, 9 and 10 discussed consumption, production and exchange decisions over a period of time. This chapter complemented them by explaining the process of making consumption, savings and production decisions over time. The first part of the chapter was devoted to a presentation of analytical saving and investment models in an interest-free economy. It is feasible to make these decisions efficient with the help of prices that are determined in the goods and capital market. The difference between the spot and future prices of the goods and capital inputs in the long-run equilibrium of both markets is called the *Nesiah* rate and was shown to indicate the return and cost of capital in that period. Furthermore, it was illustrated that savings and investment decisions are direct and reverse functions of this variable. Other factors that affect the said decisions were also discussed.

The second part of the chapter explored the implications of eliminating *Riba* from the economy. It was shown that implementation of this Islamic rule has important consequences in both the real and financial sectors of the economy. It was shown that, in the real sector, eliminating *Riba* maintains savings incentives, promotes investment demand and results in the redistribution of income from the owners of financial capital to the owners of human capital. With regard to the financial sector, it was shown that eliminating *Riba* contributes to rapid adjustment to external shocks, controls inflation and induces harmony between the two sectors. As a result, it was demonstrated that one can expect to observe steady economic growth together with income distribution and welfare in an interest-free economy, an example of which was noted during the rise of Islam.

NOTE

1. The maximum present and next year consumption is equal to this year and the present value of the next year income: $c_0 + 1 / (1 + n) c_1 = y_0 + 1 / (1 + n) y_1$. The present value of every *Dirham* which will be paid or gained next year is equal to $1 / (1 + n)$.

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PART IV

Justice

Efficiency and Justice

I INTRODUCTION

Chapter 10 discussed efficiency in detail, yet the criterion put forth for measuring it (i.e., Pareto efficiency) was not a relative concept, but absolute. Any change that would result in a betterment of one or the other is, of course, an optimal change. One can hardly find any plan in economic policy making which improves the conditions of some people and does not worsen the conditions of others; however, it is possible that the outcomes of implementation of one plan benefit the majority of a society and cause harm to a minority of the very same society. For instance, one can think of the construction of a reservoir by damming a river; it will result in a reduction of devastation by flood and, at the same time, will make barren land cultivable through the supply of the water saved. Nonetheless, the lands of a group of farmers might be submerged under the reservoir, or be covered by the installations, thus losing its utilization forever. The Pareto efficiency criterion does not recommend such changes, and new selection criteria are needed for deciding about the implementation of such plans. The first part of this chapter is dedicated to discussions of relative efficiency—that is, changes which are not absolutely efficient but are, instead, relatively efficient (i.e., their benefits are higher than their costs).

The criteria that have been introduced for measuring relative efficiency have ethical values and depend on the definition of justice in various economic systems. In this way, the second part of this chapter discusses

economic justice from the Islamic standpoint. In addition to relative efficiency, the definition and implication of the social welfare function also depends on the definition of social justice. This function, which is used to determine the general equilibrium in every economy, will be used at the end of this chapter to illustrate the general equilibrium in the economy of the early Islamic Era.

2 RELATIVE EFFICIENCY

The utility possibility curve was defined and derived in Chap. 10. This curve is indicated as FDHK in Fig. 12.1 and is the locus of points which show the maximum achievable welfare for two individuals (or groups): A and B. Thus, points such as M which occur under the curve are not efficient, while those which fall on the curve have absolute efficiency. Any change from points such as D to other points, say H, is not efficient because the welfare of A increases but the welfare of B decreases.

Consider any point, such as S, which is under the utility possibility curve and is thus not efficient. How can its efficiency be judged with respect to point M? At least two criteria have been proposed for this judgment; one

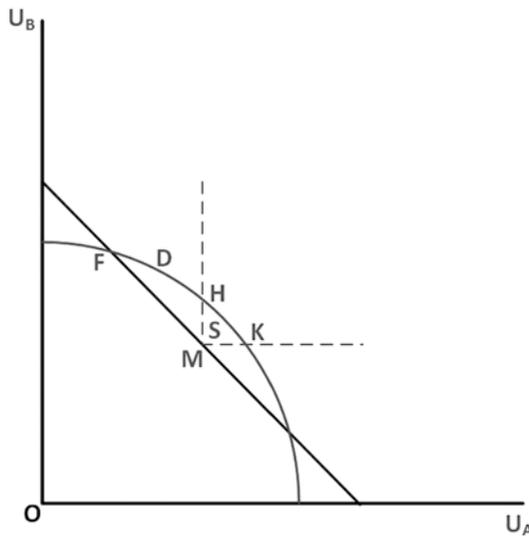


Fig. 12.1 Absolute and relative efficiency

is Pareto superiority and the other is total utility (Lee 1986). The first criterion is derived from the definition of Pareto efficiency and is used in situations which are not absolutely efficient. A change is considered “Pareto superior” where the welfare of one individual is improved while that of the other is not worsened. Taking this into account, point S is superior with respect to point M. But point D is not “Pareto superior” compared with point M because the change from point M to point D worsens the condition of A, while point D demonstrates absolute efficiency due to its location on the utility possibility curve. Compared with point M, points H and K are both “Pareto superior”, as well as “Pareto efficient”.

The second criterion for relative efficiency is the increased total welfare or total utility of society. Any change that increases the total welfare of society is relatively efficient. According to this criterion, it does not make any difference which individual or group gains from the resulting welfare; it all might go to either A or B; in both cases, the change is relatively efficient. In Fig. 12.1, the line passing at a 45 degree angle from point M indicates a certain level of total utility. Points occurring above this line (such as S, D, K and H) have higher relative efficiency than point M because a change from point M to any of these points results in an increased total utility and higher relative efficiency. Point D—which, on the basis of the “Pareto superior” criterion is not efficient—compared with point M is relatively efficient on the basis of the total welfare criterion. Conversely, point F, which has absolute efficiency, will have lower relative efficiency as compared with point M.

The total utility criterion is more widely used for measuring relative efficiency than the “Pareto superior” criterion. This is because Pareto efficiency can only compare points which fall within the MHK area, such as S with point M, and does not consider other points which fall outside that area, such as D, as relatively efficient. Total utility does not have this limitation and can be extended; its greatest setback, however, is that it compares the welfares of individuals with each other and considers a unit increase in total utility of A as equivalent to a unit increase in total utility of individual B. Thus, the slope of the line passing through point ‘M’ would amount to -1 (minus one). However, such justification might be in contradiction to the overall justification of society about the welfare of A and B. For example, the members of society might have particular priorities for the increased consumption opportunities of the poor, and do not judge a unit increase in the welfare of the poor equivalent to a unit increase in the welfare of the rich. Some societies prioritize younger and

future generations in allocating resources; that is, a unit increase in the welfare of the future generation is favored more than a unit increase in the welfare of the present generation. If the society not judge welfare distribution in this way, it cannot use total utility as a criterion and such judgment is a reflection of the definition and concept of social justice in society. As a result, various definitions and concepts of justice are discussed under the next heading to illustrate their effects on welfare distribution among different groups of society.

3 JUSTICE

The meaning of justice in the current discussion is “economic justice”, which includes the initial distribution of consumption or production opportunities between different individuals or groups of society, on the one hand, and determines the manner of distribution of income resulting from productive activities between owners of production factors, on the other hand. In fact, it defines the value judgment of society about the mode of welfare distribution between its members and their perception about justice.

3.1 *Equality*

One of the manifestations of justice is maintaining equality in the distribution of consumption and production opportunities between individuals. According to this interpretation, justice will prevail in society when society’s opportunities are equally owned by its members. Taking into account the concept of the Edgeworth Box which was defined in the Chap. 11, the initial distribution of commodities or inputs between two individuals or groups is considered equitable when the initial distribution point is exactly located at the center of the Edgeworth box. Redistribution of commodities or inputs in business transactions is equitable when the shares of both parties are equal.

3.2 *Equal Utilization Opportunities*

Another interpretation of justice is providing equal utilization opportunities for the members of society. If an individual gains more welfare or products based on his work, effort or better performance, and another

individual gains less due to his negligence, this does not oppose justice. What matters is the availing of equal privileges and opportunities for all individuals at the beginning and avoidance of the violation of rights of individuals during the use of opportunities and upgrading to higher levels of welfare. Once again, according to the concept of the Edgeworth Box, justice is achieved when the initial distribution point is located at the center of the box but, if the equilibrium point is moved to another position during various business transactions, justice is not violated.

3.3 *Inequality*

Two different definitions of economic justice were furnished in order to allow us to depict their effects on the distribution of social welfare and reaching general equilibrium. Other definitions of justice have also been provided which do not acknowledge equality in the distribution of welfare opportunities. In what follows, an example of such definitions is described using the social welfare function.

4 SOCIAL WELFARE FUNCTION

The welfare possibilities of individuals in a society are either equal or unequal. The perception of society members about equal or unequal distribution of welfare is different; some consider it favorable and some unfavorable. The relationship that exists between different forms of welfare distribution between society's members with the social judgment of society about each of such forms of distribution is defined as the "social welfare function". The implicit form of this function can be similar to that of Eq. 12.1

$$W = f(U_A, U_B, \dots, U_N) \quad (12.1)$$

where variables U_A , U_B and so on, measure the different levels of welfare of A, B..., while W is the perception of society about the distribution of the levels of welfare between the members of that society. Three types of such functions may be described: total welfare, equality in welfare and intermediate state welfare.

4.1 Total Welfare

In this function, the judgment of society depends on the increase or decrease of the welfare of all members of that society. If the welfare of one of the members of the society decreases due to a change while the welfare of another member increases somewhat more so that the total welfare of society increases, the overall judgment of the society will consider this change as optimal because the total social welfare of society has increased. If, for the purpose of simplicity, we think of a society comprising of A and B, then this function will be as follows:

$$W = U_A + U_B \quad (12.2)$$

If U_A is reduced and U_B is increased and their sum is positive, negative or constant, then the total welfare W increases, reduces or remains constant, respectively.

Figure 12.2 depicts social welfare indifference curves. As is apparent, the welfare of society increases W_1 to W_2 if U_A and U_B increases individually and reaches points H and K, respectively, or both increase simultaneously,

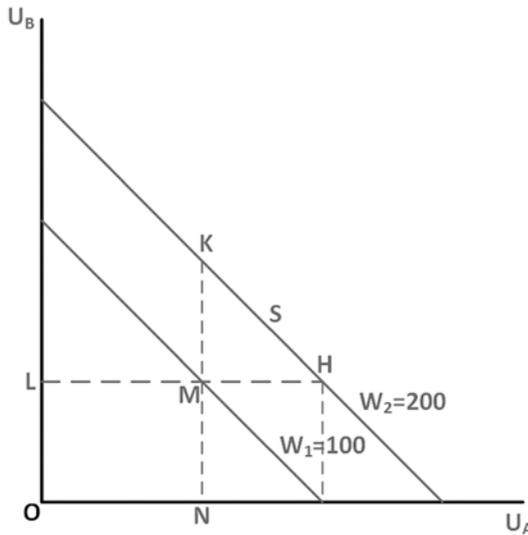


Fig. 12.2 The social welfare indifference curves for total welfare

and point M reaches point S. Therefore, the social welfare function in Fig. 12.2 suggests that, if the welfare of all individuals increases, social welfare will also increase. There is no difference between the poor and the rich, or the young and the old; the value of a unit increase in welfare of any individual is equal to that of any other. The relative efficiency criterion based on total welfare, which was defined earlier, is based on this concept of economic justice. Consequently, judging various programs or changes that result in increased relative efficiency of society will depend on the rise of total welfare of individuals in a society.

4.2 *Equality in Welfare*

In contrast to the previous vision, social welfare may be a function of equality of individuals in welfare; it increases if the welfare of individuals is increased in equal proportions. In other words, the judgment of society about social welfare depends on equal distribution of welfare between individuals or groups in a society. If the welfare of one group alone is changed, social welfare does not change. Within this notion of social welfare, parity and equal distribution of opportunities and welfare, as well as an equal increase or decrease of the welfare level is important, not the change in welfare of a specific group or the sum of welfares of individuals.

This social welfare function can be written as follows:

$$W = \min(U_A, U_B) \quad (12.3)$$

where W is the index of social welfare which depends on the minimum welfare level of A or B. The higher the minimum welfare level of all members of the society; the greater is the value of W .

In Fig. 12.3 we may observe the indifference curves for this social welfare function. If the welfares of A and B are increased equally, the welfare of society will increase from $W_1 = 100$ to $W_2 = 200$, but if the welfare of A or B is increased individually, then we will remain at level 100.

Within this social perception and judgment, as stated earlier, justice is considered as the equivalent of equality. Since the minimum welfare is distributed equally between all individuals, society's judgment about W will also depend on this minimum level.

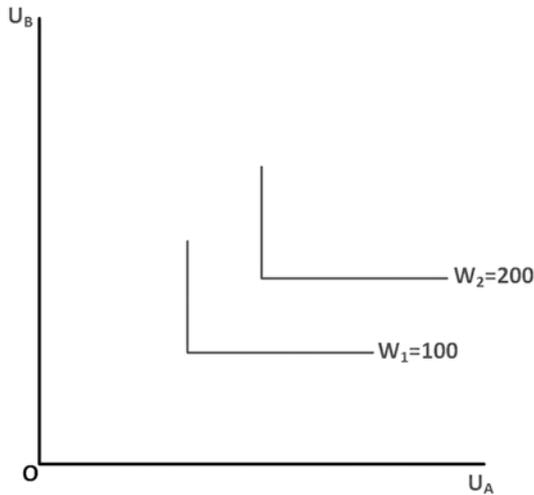


Fig. 12.3 The social welfare indifference curves for the minimum welfare level

4.3 *Intermediate State Welfare*

Justice in a society may neither be equivalent to absolute equality, nor be equivalent to equality devoid of any significance or values. In addition to the importance of equal distribution of welfare between individuals, if a change results in a significant increase in the welfare of particular individuals or groups and, simultaneously, decreases the welfare of certain others negligibly, so that the total welfare of the society is noticeably increased—that is, those who have gained can compensate the losers—the change in total welfare is considered valuable. This judgment is, in fact, an intermediate state between absolute equality and total welfare. If the distribution of welfare between individuals is improved without changing the total welfare, then the social welfare index is increased. The shape of this function can be written as follows:

$$W = (U_A^a + U_B^a)^{\frac{1}{a}} \quad (12.4)$$

$$a \leq 1$$

If, in the above function, the value of 'a' is equal to 1, the function will turn out to be the total welfare function, and if its value approaches minus

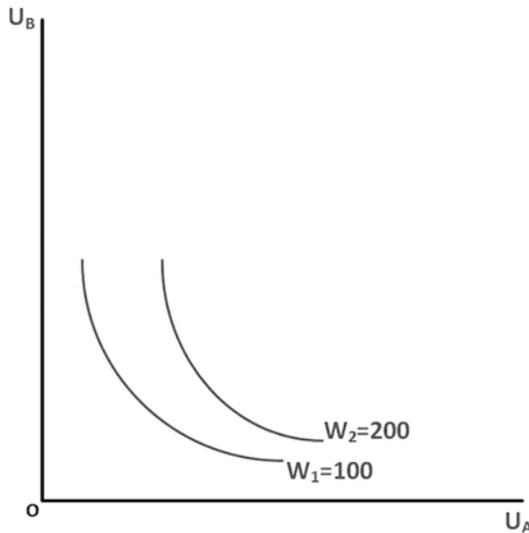


Fig. 12.4 The social welfare indifference curves for the intermediate state

infinity, the function will skew towards the second case; that is, equality in welfare distribution. The role of ‘a’ is that of ‘weight’ or importance coefficient which is applied to individuals’ welfares: the lesser the value of ‘a’, the greater the role and importance of low-income, low-welfare individuals in determining the welfare of a society. The shape of this function is illustrated in Fig. 12.4.

5 GENERAL EQUILIBRIUM

Having derived the social welfare function, with the help of the utility opportunity curve one can obtain the general equilibrium point. The curve LFEMT in Fig. 12.5 depicts the utility opportunity curve having tangency with the indifference curves of the three different types of social welfare function. Points M, E and F show the general equilibrium point based on equal welfare, the intermediate state and total welfare, respectively. As can be seen, the intermediate equilibrium point occurs in between the other two states. Accordingly, the social welfare levels at points M and F are lower and, hence, not efficient. Point E is efficient and indicates the fair distribution of welfare between A and B based on the intermediate state.

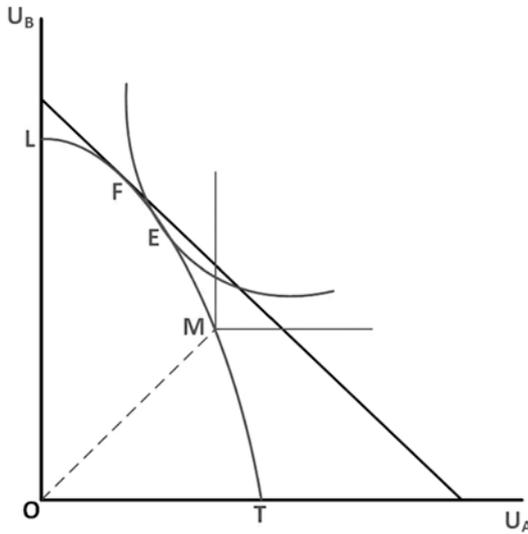


Fig. 12.5 The general equilibrium point under alternative social indifference curves

Once point E is defined, the welfare level that society intends to have for A and B is determined. Since the welfare of individuals is a function of the commodities and services they consume, optimal distribution of the commodities and services between A and B from the point of view of society is also determined. The production opportunity curve and point E*, which corresponds to point E, are illustrated in Fig. 12.6. If we presume that only commodities x and y are produced in this society and that the welfare of A and B is also a function of these two commodities, point E* indicates that the optimal level of production of these two commodities from the point of view of society are \bar{X} and \bar{Y} , respectively. In addition, point E* defines the slope of the production opportunity curve which is equal to the marginal transformation ratio of the two commodities.

$$MRT_{xy} = \frac{MC_x}{MC_y} = \frac{P_x}{P_y} \tag{12.5}$$

This ratio is equal to the ratio of marginal costs of the two commodities, as well as the ratio of their prices under a perfect competitive

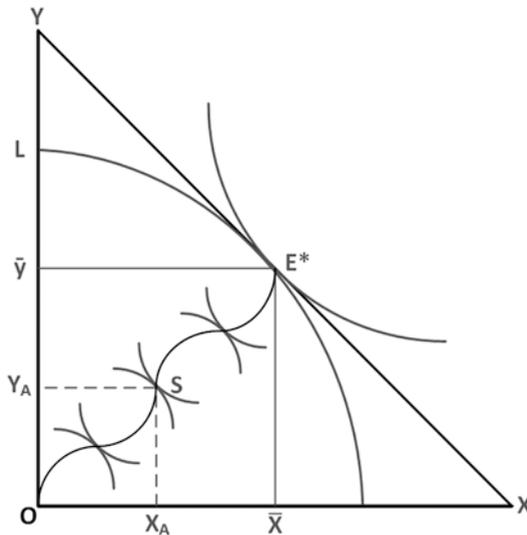


Fig. 12.6 Determination of total output and individual welfares

condition. By determining this ratio and plotting the contract curve, the point on the curve, which equals marginal rate of substitution between the two commodities, is determined. In Fig. 12.6, this point is denoted by S which, once again, defines the welfare levels of A and B . Moreover, it also shows the quantities of commodities x and y which are shares of A and B . Therefore, in the economy as a whole, the individuals' consumptions of commodities and services, the prices of such commodities, their distribution and, finally, the welfare levels of individuals are determined.

If the social welfare function were the same as Eq. 12.3 and society's welfare depended on its equal distribution between individuals, the general equilibrium point in Fig. 12.5 would have been point M , whereas, if social welfare depended on the sum of individuals' welfares and its shape was the same as Eq. 11.2, then point F would have indicated the point of equilibrium. In both cases, however, the shares of individuals from the produced commodities and services, as well as their welfares, are determined according to what was previously discussed.

In short, in determining the general equilibrium, the efficiencies of production, exchange and consumption activities, as well as the perception of society about economic justice, are all considered to be vital. The available

stocks of production inputs, along with information, knowledge and skill, define the production opportunities curve. The tastes and interests of individuals and the total distributable stock of commodities determine the consumption opportunities curve. Observing efficiency in production, consumption and exchange guarantees being placed on these two curves and prevents deviation to the area underneath the curves. The perception of society about justice and the pros and cons of the method of welfare distribution defines the social indifference curves and general equilibrium point on them.

6 JUSTICE IN ISLAM

One of the most important objectives of the Islamic system is the realization of justice in the world. The mission of the divine prophets was to invite people to monotheism and to establish equity among them. The holy Qur'an and the demeanor of the holy Prophet of Islam (SAAS) place such emphasis on the establishment of equity and justice that Justice has been established as one of the pillars of the *Shia* sect.

There are various aspects of justice in Islam. First, "Divine Justice"; this states that the Almighty will treat his creatures with justice and impartiality, and reward them accordingly in the world and afterlife. Second, is justice in the creation system, meaning that; the clouds, the moon, the sun, the stars along with the other cosmic objects and also human beings, animals and other living creatures are created in a justified manner and, accordingly, there exists a predefined relationship between them; this is referred to as "Genesis Justice". The third type of justice is "Legislative Justice", which refers to the observation of justice in Islamic laws and regulations. The fourth aspect is "Social Justice", which is about social rights and the obligations of individuals. Some of these rights are, in fact, legal rights; but social relations, responsibilities and obligations are more inclusive than legal rights and, thus, social justice gains a more comprehensive meaning and application than legal justice.

In the Islamic doctrine, the relation between man and his Creator and the surroundings of his life are all based on righteousness and justice so as to allow growth and the supremacy of Mankind. *Martyr Motahhari*¹ discusses the relationship between Man and his Creator in great detail in his books. Here, we shall discuss a summary of concepts from him on social justice. We will make use of these concepts for the derivation of the social welfare function.

6.1 *The Three Definitions of Justice*

In his book “*Divine Justice, Martyr Motahhari* (1353/1974) states three definitions or interpretations of justice. In the first definition, justice is considered as “observing the proportion or balance among all constituents of a complex system”. The opposing concept to this interpretation of justice is “disproportion” and not oppression. In fact, the proper balance and combination of constituents or members of a system reflect consideration and justice in its construction. The divine system of creation, as well as the harmoniousness of the Earth, moon, sun and stars is governed by such balance and proportionality. Observance of the proportion of each constituent in the whole system and the existence of balance between them indicate the beauty of combination and justification within the system. Such proportion and balance are considered with respect to the aims and objectives of the creation of it. In the creation of the natural world, the objective has been utilization by Man, and the proportionalities of water, soil, light and temperature are assessed in this respect. Deficiency of light in a building points towards disproportionality and the imbalance of its constituents. Correspondingly, underdevelopment of the rural sector and development of the urban sector in a country are indicative of an imbalance of the developmental process, while the existence of proportion within various economic policies signifies balanced economic growth.

Other interpretations of the same concept of justice in Islamic studies are *Eqtasad* and *Qasd*. Both these terms mean the observance of temperance and moderateness. Avoiding exorbitance and insufficiency, and abiding by moderation are, in fact, observing a kind of proportionality; that is, not going to extremes, and balance between various choices which individuals, groups or society as a whole encounter in the process of decision making.

Other instances for this definition are the presence of balance between the economic sectors of the early Islamic era. It was mentioned earlier that both the *Baitul Mal* and the private sector played active role in the economy. Proportionality was also observed in accordance with the expediency of system. Public goods were distributed by the *Baitul Mal* while private goods were distributed by the markets. Another instance of it is seen in the adopted policies of the Holy Prophet (SAAS) for development of the newly-established Muslim society in *Madinah*. On the one hand, attention was paid towards demand-boosting policies (e.g., the distribution of war spoils, signing brotherhood contracts, and encouraging acts of

Infaq and *Qard Hasan*); on the other hand, policies that increased total supply (e.g., the distribution of *Bani-Nadhir* lands, teaching how to read and write, importing technology and skills, encouraging *Musharakah*, and increased employment) were promoted. Additional examples of this kind of justice in the early Islamic era which have not been discussed in this book include balancing cultural, political and economic activities; valuing Mankind, especially the youth and the elderly, the poor and rich, and Muslims and non-Muslims; and, finally, propagating Islam both inside and outside the Arabian Peninsula.

The second definition of justice by *Martyr Motahhari* is observing equality between individuals, provided that they are equally merited. The application of this definition is revealed in allocating concessions to deserving people; the opposing concept to this definition of justice is “discrimination”. Examples of this type of justice are employment, promotion, assignment, honoring, allowing entrance and participation. Generally, all the policies regarding the distribution of income are included in this definition.

Following the conquest of *Khaybar*, the Jewish people requested Prophet Muhammad (SAAS) to permit them to stay on their farms and, instead, contribute half of their annual date production to the government. The Holy Prophet (SAAS) accepted their offer and appointed *Abdullah-bin-Rawahib* for the estimation and collection of the product. He estimated the amount of output as 40,000 camel-backs, to which the Jews objected as they thought it should be less. *Abdullah* answered them that they could either take the responsibility of harvesting and guarantee the Muslims’ share, or hand over the task to Muslims and receive the estimated amount as their share. The Jews admired his justice ([Waqedi 1362/1983](#), 527; [Ayati 1359/1980](#), 481).

In Islam, all individuals are equal in a court of law. If a judge treats the two sides of a hearing differently and discriminates between them, he will be disqualified. All individuals are equal in the court of the Almighty as well, and no one is privileged based on race, language, and so on. The only concession is based on their faith, piety and honest deeds. An example of this kind of justice in the early Islamic era is the supply of minimum livelihood requirements of Muslim and non-Muslim families. Moreover, distribution of excess *Baitul Mal* income at the time of the Holy Prophet (SAAS) and Imam Ali (AS), as well as distribution of the spoils of war between the warriors of battles, are other instances of such justice. Distribution of the lands of *Bani Nadhir* between the *Muhajerin* and two needy members

of the *Ansar* was carried out in this manner, as the opinion of the *Ansars* was first asked and implemented. When the liberation fee for the educated captives of the Battle of *Badr* was set at educating 10 Muslim youths, the opportunity was given to all the young; there was no discrimination between *Muhajerin*, *Ansar*, *Bani Hashem* or anyone else. The third definition of justice is the allocation of rights, rewards and concession based on the participation of individuals in an activity. The decree “provide every individual with what he deserves” by Imam Ali (AS) is a manifestation of this definition of justice. According to *Motahhari*, this definition reflects social justice, and aspirations for righteousness arise from this concept. “Oppression” is the opposing concept to this definition of justice. In this definition, the involvement of doctrine and the worldview in attaining social justice is greater than the previous two. This is because of the fact that the concept of “rights” is intrinsic, as well as legal; intrinsic or natural rights depend on the worldview of a doctrine towards Mankind and nature; legal rights are also defined by this school of thought. Therefore, social justice primarily depends on the definition and enactment of rights and, second, on determining rewards and shares on the basis of those rights. For this reason, *Motahhari* initially describes the intrinsic rights of Mankind that has been stated in the holy Qur’an and the Prophet’s tradition. Then, with respect to the ultimate cause for the creation of all the natural wealth and endowments which are for Mankind’s sake and his free access to them, and the creation of further values by Man, which is his mission and source of his legal rights, *Motahhari* tries to illustrate and analyze social justice in Islam. His views (1358/1979) are briefly discussed in the following paragraphs, and examples from the early Islamic era are then presented in order to derive the social welfare function.

6.2 *Intrinsic Rights*

In the Islamic worldview, an eternal attachment exists between Mankind and Allah’s endowments; that is, Allah’s endowments have been created to be utilized by Mankind. A number of verses in the holy Qur’an are indicative of this eternal connection: *It is he who hath created for you all things that are on the Earth (Baqarah, 2/29).*

It is we who have placed you with authority on the Earth, and provided you therein with means for the fulfillment of your life: small are the thanks that ye give (A’era’f, 7/10).

Thus, in the divine system, Mankind has a special status and Allah's endowments have been created for his utilization. Such relationship and objective lead to potential natural rights for human beings; in other words, simply being a human imparts the rights to the utilization of all natural resources. In Islamic ideology, human beings are intelligent, knowledgeable and free creatures; and, based on their wisdom, determination and their intrinsic rights, they are responsible for the utilization of Allah's endowments and the development of the Earth:

It is he who hath produced you from the Earth and made you husband it; then ask forgiveness of him (Hud, 11/61).

6.3 Shariah Rights

The responsibility of human beings is the habitation and the development of the Earth. If they satisfy this obligation—to which they have a duty and responsibility, according to Islamic ideology—they will obtain the rights to utilize the Earth. However, the precondition for these privileges is satisfying their obligation. Nonetheless, human beings are free and may not act according to their obligations and responsibilities. Other creatures live and reproduce according to their instincts and thus are not obligated. Human beings are dominant creatures due to their wisdom and determination, and are obligated to rehabilitate, cultivate and develop the divine endowments which are potentially considered as their properties. If they act and accomplish prosperity, they will be privileged to utilize the land. The Islamic *Shariah* rights—whether those on ownership, share of production factors, exchange and participation, or those relating to the distribution of wealth, transfer of wealth and income—are all ordained for realization of this category of rights. In Islamic ideology, the two categories of rights (i.e., intrinsic and *Shariah*) are proscribed in coordination with each other, so that any individual who abides by his obligations would be able to avail of his efforts and Allah's (ST) endowments, and those who do not are deprived. Based on *Motahhari's* thoughts, since intrinsic and legal/*Shariah* rights are both ordained by Allah (ST), the Almighty has set the religious laws in coordination with intrinsic and creation laws, as emphasized in the Holy Qur'an (*Rum*, 30/30): *So set thou thy face steadily and truly to the faith; (establish) Allah's handiwork according to the pattern on which he has made mankind; no change (let there be) in the*

work (wrought) by Allah; that is the standard religion: but most among mankind understand not.

The companionship of rights and obligations has been numerously indicated in the Holy Prophet's (SAAS) and the only Imams' deportments and conducts. The Holy Messenger stated: "One who puts the burden of his living on other people's shoulders, is deprived of Allah's blessings". Such a person makes use of public rights and benefits obtained through hard work by others, as well as Allah's (ST) endowments, but does not exercise his obligations towards production and rehabilitation. Imam Ali (AS) stated in the early days of his rule: "You are responsible not only before Allah (ST) and the public, but before animals and lands." Habitation and cultivation constitute one of the four obligations of the governor put forth by Imam Ali (AS) in the letter to *Malik Ashtar*. In another instance, regarding the interdependence of privileges and responsibilities, he states: "There is no privilege for anyone unless he is bound by a responsibility, and no responsibility is considered for anyone unless he is benefited or rewarded for it." Therefore, obligations and rights are inter-related in the Islamic doctrine; if an individual receives some rights, he has obligations for them as well.

A person demanded his share of *Al-Fai* (what is obtained from enemies when they lay down arms, without fighting) and *Al-Ghanima* (what is obtained from enemies after fighting) from Imam Ali (AS). The *Imam* replied: "These are neither my properties nor yours; they are obtained by Muslims from the enemies; if you had fought alongside them in the battle and have endured the difficulties they faced, you would have had the privilege to take a share of it like them; else what they have obtained will not feed others' mouths". The above-mentioned examples are evident of the interdependence of rights and obligations between human beings and nature. The same relationship exists between individual human beings, parents and offspring, government and people, business partners, neighbors and, finally, members of a society. Imam Sajjad (AS) explains such rights to certain extent in *Risalat Al-Hoquq* (*The Treatise on Rights*); moreover, the rights and obligations every individual has as a member of a family, society, or government in relation to others, or vice versa, or even that of Allah (ST) in relation to his creatures, were thoroughly listed therein. Thus, it can be seen that in the Islamic worldview not only that the intrinsic and legal (*Shariah*) rights are harmonious, of the same root and follow the same objective, but that a philosophical, legal and practical association exists between rights, rewards, obligations and responsibilities.

At the end of the discussion, *Martyr Motabbari* adds that the poor and needy are among those who potentially have the rights of utilization of natural endowments. Those who are not able to work or trade and cannot perform the duties of habitation and development are not obligated to do so. But, according to their intrinsic rights, they have a share from Allah's endowments; a number of verses in the Holy Qur'an emphasize these rights; for example:

And render to the kindred their due rights, as (also) to those in want, and to the wayfarer; but squander not (your wealth) in the manner of a spendthrift (Isra' 17/26). And those in whose wealth is a recognized right (portion) for the (needy) who asks and him who is prevented (for some reason from asking) (Ma'rij, 70/24–25).

Once again, *Motabbari* emphasizes that “in accordance with the divine legal principles of Islam, the poor are really entitled to natural endowments, but in man-made/secular legal systems privileges are allotted based on activity, production, labor and manufacturing”.

7 FORMATION OF SOCIAL RIGHTS

Following the discussion on the basis of rights in the Islamic worldview and the definition of social justice as “allocation of every individual's privileges to himself”, the next step will be assessing the mode of origination of these rights. Habilitation and development are among the social activities, and it is not possible for human beings to live in isolation because of their inherent civilized and social nature. Cooperation, employment and division of labor, the benefits of which have been proved to human beings following extensive experience, are considered as group activities. Habilitation and development are also carried out as group work. In this case, how are the rights of different individuals to be calculated out of the outcome of their developmental efforts?

Inspired by the virtue of “strive as in a race in all virtues” (*Baqarah*, 2/148; *Ma'edah*, 5/48) (*Motabbari* equates economic and social activities to a contest where all the members of society have the right to participate). The preconditions to take part, from his point of view, are: (1) freedom of participation and free conditions for entrance, and (2) maintaining society's rule and order. The important point is having the privilege to participate in the contest, which is the intrinsic right of every individual.

However, in the course of contention, those who are more talented will be rewarded, likewise will those who have tried harder to obtain skills, and have practiced more. If all individuals are given equal opportunity to take part in the contest and they compete with one another, they will achieve various ranks and placements based on their efforts and talents. Two foundations of such contention are: (1) the work and activity that the contest is about; and (2) the benefit and reward which is given to the achievers.

The theme of the contest is economic and social activities which are beneficial to society: charity and benefaction, production and services, agriculture and industry, piety and honesty, alleviation of poverty and unemployment. In general, value creation, as well as any activity which reflects that, constitutes the theme of contest. The benefits and rewards of the contest are nothing but the privileges which are allotted in accordance with the quantity of labor, probity, merits and endeavor. *Motahhari* contends that members of the community must have the right to participate in the contest freely. Every individual will attain a position as his reward, in accordance with his talent, on the basis of his merit and endeavor. The contest arena is the same as that of responsibilities and obligations, and the privileges are, in fact, those benefits and ranks which are received by the members in accordance with their responsibilities and obligations.

Martyr Motahhari then concludes: "If we recognize the coexistence of rights and obligations in Islam; truly comprehend life is a contest for performing duties and obligations or 'everyone shall have in his account only that which he strives for' (*Najm*, 53/39); and precisely understand that the outcomes and the rewards of the contest are nothing but benefiting from social privileges, then we have empathized the basis of social rights in Islam".

Naturally, this will also lead to the appreciation of the concept of social justice in Islam.

8 MEANING OF JUSTICE FROM THE VIEWPOINT OF *MARTYR MOTAHHARI*

In his view, justice requires equality under congruent legal conditions; that is, there must not be any discriminatory criterion other than skill and talent. This would distinguish between proper and improper differences, as well as valid and invalid discriminations: "Justice is to provide every individual with what he deserves" and "Justice will place everything in

their respective positions and status”. He further comments that a just social condition for contest is the one in which, by the order of the Holy Prophet (SAAS), all its “people are like teeth of a comb” and receive equal privileges. He argues that this condition prevailed in the early Islamic era. The oppressed and the slaves became lords of masses based on the power of their merits, piety and endeavors. The talented and pious servants and their children, such as Abdullah Bin Masoud, reached lordship and magnanimity while unworthy judicial dignitaries, such as Abu Jahl, Abu Lahab and Walid Bin Moqayreh, were debased with humiliation.

8.1 *Social Welfare Function*

The judgment of Islamic society about the distribution of welfare among people can be deduced from the discussions on the concept of social justice. Providing equal opportunities and possibilities for participation in economic activities is genuine, but equal distribution of products and outcomes between the members of the society does not mean observing justice. The shares of individuals must be determined on the basis of their participation and endeavor in production. Excerpts from the letter to *Malik Ashtar* which were discussed in earlier chapters indicate that Imam Ali (AS) regarded this as the duty of the governor. Therefore, the social welfare function in Islamic societies cannot be of the type shown in Eq. 12.3 in which the welfare of all members of society is equal. The welfare of each individual is a function of commodities and services which are at his disposal. If these products—which are, in fact, the rewards and the remunerations for the participants involved in their production—are not equally divided between them, then, their welfare also will not be equally divided. According to *Motahhari*, equal distribution of welfare is against justice.

On the other hand, the social welfare function is not equivalent to total welfare; the perception of society about welfare does not necessarily depend directly on the total welfare of its members, because distribution of this welfare, as discussed earlier, is of prime importance. If privileges are not given to those who deserve them, welfare distribution is unfair. The sum of the welfares of individuals after a social change without considering equal conditions in the “contest” for such change and the “distribution of rewards” are not indications of the implementation of justice. Distribution of privileges between those who deserve them is one of the foundations for the implementation of justice. Moreover, it was noted that the disabled and deprived individuals in an Islamic society also possess rights. However,

since they do not have the capability and the possibilities to produce, the direct dependence of the social welfare function on the sum of individuals' welfares of those who are capable and have opportunities is ruled out; distribution of welfare in a way to provide the minimum livelihood of this group affects the said function. Therefore, the social welfare function in Islamic society is neither one of equality nor one of total welfare; it is, in fact, in between the two; that is, the social perception of society about welfare is promoted with the improved distribution of welfare and the increased welfare of society members accompanied by a balanced distribution of welfare.

9 GENERAL EQUILIBRIUM IN THE ECONOMY OF THE EARLY ISLAMIC ERA

In the previous section, the method of derivation of the social welfare function in an Islamic society was deduced; here, we can draw the indifference curves for social welfare (Fig. 12.7). Curve W is tangential to the production possibilities curve at point E . At this point, the rate of marginal transformation of the two commodities x and y is equal to their marginal rate of substitution in society. If we consider the total volume

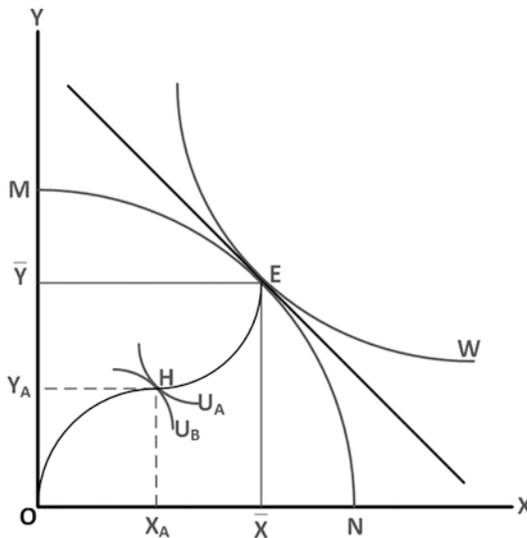


Fig. 12.7 General equilibrium in the economy of early Islam

of commodities x and y , which society intends to produce and distribute are \bar{X} and \bar{Y} ; respectively, the volumes of these commodities would be produced with maximum efficiency, because point E lies on the production opportunities curve. Consumption of the same volume of these commodities i.e., \bar{X} and \bar{Y} will push the welfare of society to the maximum. What matters is when the distribution of these two commodities among two individuals or groups A and B become be fair.

As seen earlier, the equality holds at point E:

$$MRS_{xy} = \frac{MC_x}{MC_y} = \frac{P_x}{P_y} \quad (12.6)$$

The ratio of marginal costs of production of x to y in the early Islamic markets is equal to the ratio of the prices of x to y . This ratio is illustrated by the slope of the line which is tangential to curves W and MEN at point E. Therefore, as explained earlier, the amounts \bar{X} and \bar{Y} are divided between A and B according to their share in the production of x and y based on *Shariah* and participation rights. Specifically, in line with the proprietorship system as the method of determining the share of owners of production factors and the profit of producers, the rights of A and B from \bar{X} and \bar{Y} are determined and distributed on the same bases. The primary distribution point in Fig. 12.7 is located somewhere around point H. However, the demands of A and B for the commodities may be different, and therefore, they would begin exchanging these commodities in the market. The exchange of a unit of commodity x with an amount of commodity y will continue until their marginal substitution ratio between A and B equals the ratio of the prices of x to y in Eq. 12.5. Point H in Fig. 12.7 is the point of tangency between the indifference curves of A and B. The slope of these two curves is equal to the marginal rate of substitution between the two commodities x and y at point H. Moreover, this slope is equal to the ratio of the price of x to y .

$$MRS_{xy}^B = MRS_{xy}^A = \frac{P_x}{P_y} \quad (12.7)$$

If the above-mentioned equation does not hold true, the exchange will continue until the ratio at which both parties are inclined to exchange a

unit of x with an amount of y equals their price ratio, and thus, exchange of A and B reaches equilibrium at point H. As mentioned earlier, this point is located on the curve and is efficient.

Following the exchanges, the share of A from the two commodities would be equal to x_A and y_A in Fig. 12.7, which, in fact, reflects his welfare, because $U_A = (X_A, Y_A)$. The share of B from the two commodities would be equal to $x_B = \bar{X} - x_A$ and $y_B = \bar{Y} - y_A$; that is, the remainder of commodities x and y after deduction of the share of A.

The welfare of A and B, or their total utilities, are determined after receiving their shares. The social welfare function, W , is also ascertained, because it is a function of the same distribution of welfare between A and B. The curve W in Fig. 12.7 determines the social welfare level.

Until now, we have seen how the general and partial equilibriums are achieved in the overall economy, and in the x and y markets, respectively, provided the early Islamic society is considered as comprising of two groups, A and B, who consumed or produced commodities x and y . Such equilibrium points are all efficient. Now, we would also demonstrate that the points of equilibrium are fair; this means that the decision on consumption and production of x and y in the market, and the distribution of them between A and B, are in accordance with the Islamic concept of social justice.

It was previously shown that consumers and producers are at equilibrium when they do not waste and squander; cause no damage; and consume and produce at a moderate level. Analysis of the early Islamic markets revealed that the activities which lead to confiscation, hoarding, short-selling, cheating and intermediation—without creating added value—were prohibited and prevented by the market rules. The markets were like contesting arenas where thousands of buyers and sellers were striving to make a living. No buyer or seller could influence the prices determined by those markets. The profits earned by participants depended on their efforts, management, entrepreneurship and human capital. Therefore, everyone's share of the market, in the form of profit, rent or wage, was proportional to his rights. Consequently, their shares and rewards were determined fairly, because everyone was given his rights. It is thus clear that the prices of commodities and inputs in markets during the early Islamic era, which determined the profit, rent and wages, were efficient as well as fair.

The amount of every individual's production and consumption and observing moderation depends on the efficiency and fairness of these

prices. The consumer and producer of both x and y commodities were to reach an equilibrium, provided the marginal rate of substitution between the two commodities was equal to their relative prices. Consumption and production at this equilibrium level were efficient, as well as fair. The reason for this efficiency is described in the previous paragraphs; but the reason for its fairness is that such equilibrium corresponds with the first definition of justice; that is, “preserving proportionality and balance in complex sets”. Consumption or production of one or more commodities will match the above-mentioned definition when the proportionality in the combination of those commodities is observed for the benefit of consumers or producers. The interests of these two groups lie in obtaining maximum welfare or profit. Therefore, observing equilibrium—which obviates exorbitance, damage and other prohibited acts in markets, and equalizes the marginal rate of substitution with the price ratio of the two commodities—will lead to attaining proportionality and balance in the combination of two or more commodities, which indicates fairness of the choice in turn.

Such choices or equilibrium points in the trading of any commodity are also efficient and fair. The production or utility opportunity curve illustrates the locus of all efficient points, while the social welfare function introduces all the fair combinations, as well as those combinations which are relatively efficient. Therefore, the point of general equilibrium is efficient as well as fair, because it is positioned at the tangential point of both curves.

10 SUMMARY

It is worth highlighting a few points on the conclusion of this chapter. The first point is the coincidence of the interests of individuals and society as a whole. In systems where the consumers or individuals have sovereignty, there is always the possibility of conflict of interests. Since the priorities of individuals vary, the comparison between their preferences is problematic and complex. However, as discussed in Chaps. 8 and 9, the motivations for consumption and production in the Islamic system are attaining transcendence and striving for benefaction. Transcendence, benefaction and values are defined by the Islamic doctrine; and Muslims have quested for such qualities through their economic endeavors. Efficient and fair choices result in average Muslims attaining their optimal social choice, as well as the development, benevolence and prosperity of society. Since the motivation

for justice exists among the people of society, the process of economic and political decision making is carried out on the basis of moderation, equity and justice; society will also demand justice and attain moderation.

Society consists of individuals. Sociability of individuals leads to intellectual, affectionate and cultural exchanges. The origination of division of labor, cooperation, employment, participation, government, cities, languages, and so on results in the increased efficiency of group work and, consequently, both the total production and the total welfare of society increases. Though the total production of society is the sum of the production of individuals, if the individuals were to perform their activities unitarily and separately, the sum of their individual productions would not have reached society's total production following urbanization and civilization. Therefore, the consequent existence of the human society is greater than that of the summation of individual human beings. This synergy and nobility has been stipulated and emphasized in the Holy Qur'an repeatedly. Nonetheless, the total supply of a society is not produced elsewhere, but is equal to the sum of individuals' supplies. Since the efficiency and productivity of individuals are augmented through communal life, division of labor, participation, as well as increased skills and experience, the product of a group of 1000 human beings who live communally is greater than the sum of their products when they live separately and individually.

The issue that can cause the lowering of social efficiency is usurping the products of the endeavors of others, causing losses and incurring similar damage by individuals. Such acts, as indicated in the description of the early Islamic markets, are all prohibited and do not cause separation of individuals' activities from that of their society. By performing all consumption, production and exchange processes, an individual or a group reaches a state of equilibrium and that person or group is simultaneously in a moderate and just position. Consequently, the concepts of efficiency, fairness and justice in the Islamic economy are not disconnected, but are coincident, interrelated and complementary to one another.

NOTE

1. Morteza Motahhari was one of the renowned contemporary Islamic philosophers and theologians. He was assassinated by terrorist groups in 1979 in Tehran after the Islamic revolution.

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