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THE ROLE OF ISLAMIC FISCAL POLICY FOR A SELF-RELIANT AND JUST DEVELOPMENT
A Macro-Perspective

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I. INTRODUCTION

The Islamic fiscal policy as opposed to modern fiscal policy is expected to mobilise and allocate community's resources through tax-expenditure programmes in such a way that each and every individual member of the community receives the treatment based on Ad-Adl wal-Ihsan. Unlike the modern fiscal policy geared to attaining maximum social advantage solely through physical capital, the Islamic fiscal policy must aim at the desired objectives of growth with distributive justice involving complete full employment and stability by putting equal emphasis on physical as well as human capital. Under the modern fiscal system, the Pre-occupation with material development made possible with mechanism of capital accumulation and investment regardless of moral and spiritual development for the world hereafter has contributed to devising a fiscal mechanism the benefits of which are unequally shared by the different members of the society. While the vast majority bear either directly or indirectly the substantial proportion of the burdens, the few privileged enjoy the lion's share of the fruits of government's tax-expenditure programmes. The various instruments used by government to mobilise financial resources and the different government functionaries to administer them have, infact, given birth to a highly Centralised Structure of development. The failure to recognise the potentials of human capital or what we call the vast army of unemployed has forced the resource poor highly populated countries to opt for mobilising scarce capital from external sources only at the cost of a self-reliant : type of development[1] capable of dealing with any shocks be it mililary, economic, political, social and moral. The Comtemporary world phenomena as manifest through the perpetual and gross violations of human justice by the western super powers bear enough testimony to this. In view of what has been stated this paper examines the role of Islamic fiscal policy that is capable of achieving not only the desired objectives of full employment, stability and growth of conventional fiscal policy but also of ensuring a self-reliant and just development with more emphasis on non-conventional as opposed to conventional resources,[2] the need for financial support structure suitable for local community organisations as apposed to conventional dependence on external capital and finally the ability to create self-generating indigenous capital.

II. THE CASE FOR SELF-RELIANT DEVELOPMENT IN THE MUSLIM WORLD

The development according to Islam has to be a most pragmatic concept. It encompasses not only the well-being in this world measured by some quantifiable concepts like income, wealth or the posession of modern gadgets of life. Rather, the development in Islam is understood to include both the material and spiritual aspects of human beings, the relationship between man and Allah (S.W.T.), between man and man and between man and society. To a muslim, life in this earth is not the be all and end all. This very realization defines the boundary of all fields of activities in this world for every man either in the capacity of an ordinary citizen or a head of state. This speaks for the significance of an environment where a God-fearing man can choose, work, act, decide and perform activities according to the tenets of Islam. Unfortunately, the Muslim world implying the Muslim majority countries of the world has terribly failed both individually and collectively to create such an environment which can be called as either ideal or nearly ideal for establishing sovereignty of Almighty. The Muslim countries of Asia and Africa most of which inherited colonial economies rather take fancy in identifying the secular type of western policies be it in the fields of monetory, fiscal or general development as a symbol of their own success. The persuing of such development strategies through the dependencies on interest based foreign capital measured either by financial, trade, technological or military criteria in most of the Muslim countries with some exceptions is the obvious result. Individually speaking, the lack of commitment on the part of government of these countries to look for non-conventional resources such as autonomy, solidarity, mutual cooperation, wider participation, harmony with environment, community activity has, on the one had alienated the vast majority of population having no assets from the mainstream of economic activities, and created built-in dependency, on the other. Under such a system, the privileged few trained and educated in secular environment become the champion of anything that is western or modern. The voice of the monority to defend status-quo in the absence of a proper democratic institution reflecting the true opinion of the majority has further gone in favour of creating a perpetual dependency-underdevelopment syndrome in some of these countries.

III. PRESENT SCENARIO OF DEPENDENT DEVELOPMENT IN THE MUSLIM WORLD

Four types of dependency are discussed. They are basic needs depency, trade dependency, financial dependency and socio cultural and techonological dependency. The magnitude of each depency is shown in Table 1.

TABLE 1
Magnitude of Dependency in Muslim World in 1984

Criteria of Dependency / Category of Countries	Food Dependency Col. 1	Trade Dependency Trade Ratio (% of GDP) Col. 2	Financial Dependency: Gross Liabilities (% of GDP) Col. 3	Financial Dependency: Foreign Exchange (% of Import) Col. 4	Social Dependency (Rank out of 118 Col. 5
A. Low Income					
1. AFMCS	.31	32 - 61	50 - 111	(1 - 25)	4 - 41
2. ASMCS	–.1	31 - 42	42	27	48
3. FEASMC	.13	24	46	20	–
B. Middle Income					
1. AFMCS	.47	34 - 82	27 - 194	5 - 31	29
2. ASMCS	.28	38 - 100	19 - 93	6 - 32	33 - 44
3. FEASMCS	.09	44 - 104	40 - 41	32 - 41	33
C. High Income					
1. AFMCS	.78	63	–	58	15
2. ASMCS	.86	73 - 93	–	36 - 78	22 - 31
D. Muslim World					
.84	.26	–	–	–	
.80	.19	–	–	–	

Notes and Sources of data:

Col 1 Based on self-sufficiency in cereals estimated for the Muslim world. The self-sufficiency coefficient (SSC) is a ratio between gross domestic forduction of cereals and the gross availability including net of imports. The value of 1-SSC gives food dependency in cereals. AFMCs, ASMCs, and FEASMCs are respectively for African, Asian and Far-East Asian Muslim Countries. The low income AFMCs include Mali, Burkina Faso (upper-Volta), Niger, Uganda, Somalia, Siera Leone, Guinea, Guinea Bissau, Sudan, Senegal, Chad, Gambia, Comoros, and Benin; the Low Income ASMCs include Pakistan and Afghansitan; The single Low Income Far-East Asian Muslim country is Bangladesh; The middle (both lower and upper) income AFMCs include Maritania, Morocco, Egypt, Niegeria, Cameroon, Tunisia, Gabon and Algeria; the middle income ASMCs include Yemen (AR), Yemen (PDR), Turkey, Jordan, Syria, Lebanon, Iran and Iraq; The middle income FEASMCs are Malaysia, Indonesia, Maldives; The single high income AFMCs is Libya; The high income ASMCs include Oman, Saudi Arabia, Kuwait, UAE, Qatar and Brunei. For further details involving the procedure of estimation and sources of data see the following: (1) For 1984 - Author's paper on Economic potentials of Muslim countries and attainment of self-sufficiency in food Through Integration - A paper prepared for presenting at the International Conference on Islamic Common Market in Collaboration with Islamic Centre for development of trade (ICDT), Casablanca, Morocco and scheduled to be held at Dhaka in November 1988. (2) For 1980 - Author's paper on Economic Integration as a strategy of development of the Muslim Countries under the Islamic Framework - A paper presented at the International Seminar organised by the University of Sokoto, Nigeria, February 11 - 16, 1985.

Col 2 The ratio of imports and exports to GDP; A.1 include Mali (32), B.Faso (42), Nigeria (50), Uganda (17), Somalia (35) Benin (53), Siera Leone (35), Guinea (36.7), Sudan (32), Senegal (61); A.2 include Pakistan (30.5); A.3 include Bangladesh (24); B.1 include Mauritania (82), Morocco (46), Nigeria (34), Algeria (45), Cameroon (43), Egypt (66), B.2 include Iran (17), Yemen A.R. (48), Turkey (38), Jordan (100), Syria (38); B.3 include Malaysia (104), Indonesia (44); C.1 include Libya (63); C.2 include Oman (93), Saudi Arabia (73); Kuwait (90), UAE (73)

Col. 3 A.1 include Mali (111), B.Faso (53), Niger (71), Uganda (22), Somalia (101), Benin (72), Siera Leone (50), Guinea (59), Sudan (99), Senegal (85); A.2 include Pakistan (42); A.3 includes Bangladesh (46); B.1

include Mauritania (194), Morocco (93), Nigeria (27), Cameroon (35), Egypt (77), Turkey (47), Jordon (93), Syria (19); B.3 include Indonesia (40) and Malaysia (41).

Col. 4 A.1 include Mali (9), B.Faso (43), Niger (25), Somalia (2), Benin (2), Siera Leone (9), Sudan (1), Senagal (1); A.2 include Pakistan (27); B.1 include Morocco (7), Nigeria (16), Cameroon (5), Egypt (10), Algeria (31); B.2 include Yemen A.R. (23), Yemen PDR (32)m, Turkey (23), Jordan (31), Syria (6), B.3 include Indonesia (41), Malaysia (32); C.1 includes Libya (58); C.2 include Oman (36), Saudi Arabia (78), Kuwait (70), UAE (86). This colums is given to compare the extent & external liability ie, col. 3 of col. 4.

For Cols, 2 - 4, See World Development Report, The World Bank, 1985.

Col. 5 Based on a study entitled An Empirical Examination of The Dependency Approach to Underdevelopment by Donald G. Richards, The Singapore Economic Review, Vol. xxxii, No. 1, April 1987. This study based on 118 Countries of the world examines dependencies from various angles using some very important quantifiable and unquantifiable variables clustered under social, Trade, Financial and Military dependencies; A.1 include Benin (9), Chad (6), Gabon (2), Mali (32), Niger (11), Senegal (41), Siera Leone (27), Sudan (30), Uganda (13), B.Fasc (4), A.2 includes Afghanistan (48); B.1 include Nigeria (29); B.2 include Yemen A.R (1), Syria (43), Iran (44), Iraq (37); B.3 include Malaysia (33); C.1 include Libya; C.2 include Saudi Arabia (31), Kuwait (22)

The bracketed figs of cols 2-4 show percentages, while the figs of col. 5 the rank.

a. Basic needs Dependency

It is no wonder that the dependency of the Muslim world comprising 42 countries of Asia and Africa has been an increase even after the so-called green Revolution. For a quarter of their food consisting of cereals, these countries depend on the surplus producing western industrialised countries (col. 1, table 1). The most surprising phenomenon is that the relatively better-off Muslim countries belonging to resource-rich less-papulated middle and higher income categories are more dependent compared to resource-poor highly populated low income groups including resource-rice two Far East Asian Muslim Countries namely, Indonesia and Malaysia. Among the low income countries the magnitude of dependency in 14 African countries (31%) is worst. The single Muslim country enjoying self-sufficiency in food worth mentioning is Pakistan (10%). Judged by the size of population, the African Muslim countries (numbering 23) are the worst sufferers compared to the rest of Muslim world. This holds regardless of their income categories.

b. Trade dependency

Based on the dependency theory, there exists direct relationship between this and country's vulnerability to external shocks. Obviously, the countries with higher trade ratios are more susceptible to external pressures be it in the fields of political, economics or military. It is to say the least that the trade dependent countries are the most vulnerable nations in the world to decisions made at the centre of the International financial system. These nations are most often compelled to pursue domestic policies which conformed to the external dictates in the name of structural adjustment through currency depreciation or higher interest rates. Our findings suggest that like the criterion of food deficiency, the high including middle income Muslim countries show higher trade dependencies compared to low income Muslim countries. This dependency varies from 34% to 104% for the former and 24% to 61% for the latter (col. 2). The two highest trade dependent countries are Malaysia from FEASMCs (104%) and Jordan from ASMCs (100%). The lowest trade dependency for the poorest Muslim country in FEASMC ie. Bangladesh seems to suggest that the better-off Muslim countries are more exposed to external pressures than do the worse-off countries. But the result of another study shows that as far as commodity concentration is concerned, the highly trade-dependment countries belonging to middle and high income groups including Jordan and Malaysia are in an advantageous position in the sense that they also enjoy higher trade diversification. Some small African countries like Benin, Chad, Gabon, Gambia, Niger, Senegal, Siera Leone, Somalia, Tunisia, Burkina Faso and Mali from low income category and Algeria from upper middle income category rather show higher commodity concentration implying lower trade diversification or fewer trade partners.

c. Financial dependency

The financial dependency measured either by higher ratio of gross external liabilities or lower foreign reserve ratios (Compare 3 & 4) is generally worse for low income countries regardless of geographical regions. However, the African Muslim countries (numbering 23) as a whole are found to be highly dependent from financial prespective excluding a single high income oil exporting country namely, Libya. Among only 4 middle income Asian Muslim countries such as Yeman (AR), Turkey, Jordan and Syria, while Jordan seems to be most dependent (93%) in terms of gross liabilities. Syria worst in foreign exchange reserves (with only 6%). Judged by the criterion of financial dependency, the position of 2 resource-rich FEASMCs namely, Indonesia and Malaysia seems to be relatively better-off. In these countries realtively higher external liabilities are matched by equally higher foreign reserve ratios.

d. Socio-Cultural and Technological Dependency

This criterion of dependency appears to show one of the most dominant forms of dependencies.[3] This, infact, encompasses the socio-economic disarticulation characteristic of dependent countries brought about by the structural deformities attending their positions in the world economy (Table 1.5). In a sense, this criterion reflects the overall pattern, or structure of economic activity of a country. Quite obviously, the low income African countries numbering 10 out of 14 are heavily dependent on externally determined factors under socio-cultural and technological aspects. The higher rankings on this dependency score by oil-rich capital surplus countries like Saudi Arabia, Kuwait and Libya appear to indicate that what ever development is taking place in these countries are mainly contributed by exogenously determined forces. The case of other opec countries including Malaysia on this score is no good at all. This partly explains why the oil-rich Middle East Muslim countries like Afghanistan, Benin, Libya, Somalia, Egypt, Turkey, Iran, Iraq, Algeria, Bangladesh, Sudan, Syria and Jordan in particular are so much vulnerable.

What has been discussed above provides enough grounds for devising a kind of fiscal policy that can operate in the framework of self-reliant and just development of Muslim Ummah. However, it would be really difficult for this system to work in the perspective of an individual Muslim Country given the nature and magnitude of dependencies mainfest above.

IV. ISLAMIC FISCAL POLICY

As has indicated the resource mobilisation aspect of Islamic fiscal is very crucial in so for as the objective of attaining a self-reliant and just development is concerned. The fundamental character of this mobilisation should be guided by the internally available resources. Apart from this, the methods of mobilising resources should be enjoined by the sanctions of the Shariah.

1. Some salient Features of Resources Mobilisation

(1) Mobilisation of Physical Resources:

(i) Zakah Revenues (From Muslims)

One of the important tools for mobilising resources within the framework of Islamic fiscal policy should be zakah on Wealth including gold, silver or other precious metals, commerce, livestocks including agricultural equipments all agricultural harvests and zakatul-fitr. Although all kinds of zakah are expected to be the most important tools of resource mobilisation these are not like other tools of modern government revenues like taxes and duties. To a muslim, the obligation of paying zakah is part of his Ibadah. Similarly, to the government of a muslim majority country the obligation of collecting zakah primarily to look after the welfare of the specified zakah receivers is the sacred responsibility thrusted directly from Allan (SWT). It, therefore, implies that the failure to implement Islamic way of mobilising resources in the Muslim world lies with their reliance on mobilising resources in ways deviated from the Islamic Principles. The highly centralised revenue administrative structures relying on indirect taxes of these countries inherited from colonial legacies of the past appear to be responsible for this. That a kind of highly decentrained administrative structures geared to Islamic system can operate even today becomes evident from the operation of the institution of 'Hisba', Public duties in Islam[4] in early Islamic period. In almost all the Muslim countries, the mosques, widely dispersed in every nook and corner of the country can provide an important centre of operation. It gives a fair chance for decentralised type of Islamic administration system. Under this system, the government appointed official (Muhtasib or ombudsman in modern terminology) in collaboration with the mosque committee with Imam as representing the head of the community can sucessfully perform the onerous task of collecting zakah in the way enjoined by the Shariah. The religious obligation of distributing the proceeds of zakah revenues can also be preformed through the same committee.

Bringing Imam and mosque to the centre of the operation of zakah administration as opposed to present revenue administration may serve more than one purpose. Firstly, the Imam and the other members including muazzim who often pray in a particularly mosque are in the know of economic positions of the local community much better than any government appointed official under the present set-up. Secondly, the zakat payers who are supposed to be better muslims will have more faith in Imam than any government official as far as zakah distribution is concerned. Thirdly, the administrative costs of zakah in terms of extra office structures, physical facilities and full-time staff can be significantly curtailed under this method.

a. Implication of Zakah Revenues for Justice:

The reliance on mobilising resources through this system has got implications for the revenue administration based on justice. The sole pre-occupation with secular tax system primarily depending on indirect taxes of all sorts has failed to do justice to the vast majority of poor earners cum-consumers. The regressive nature of indirect taxes used as the main source of existing revenues as such, can be significantly reduced through the Islamic way of mobilising resources the incidence of which is only borne by the direct bearer of the burden. The scope of charging higher prices through manipulation in the market under multiple indirect tax system can be minimised. Given the limitation of empirical investigation for such an Islamic system which is non-existing it is very difficult to comment on the adequacy or inadequacy of comprehensive zakah revenues or in other words, the extent of reducing reliance on the regressive type of indirect taxes under the existing system. One empirical work[5] done in the context of Malaysia carries a ray of hopes for mobilising resources through comprehensive zakah system and more so with a highly decentralised administrative structure that is outlined in the Appendix.

b. Built-in Incentives Behind Zakah Including Toll Taxes

It hardly needs any mentioning that every injunction either in the form of economic, social or moral duties in Islam is for the welfare of the mankind. This explains why the taz Kiyyah or the 'Self-purification with growth' aspect of zakah payment has built-in incentive system that plays most curcial role in the production process.[6] Even without going to the debates of short run and long run implications of progressive such as direct taxes on the incentives to work, save, consume and invest, it can be simply suggested that the overwhelming nature of proportional taxes as advocated by the Islam goes infavour of maximising production in all economic activities. So, the in the context of alleged inadequacy of proportional taxes (the zakah) growing needs for revenues can be overcome by the prospect of higher aggregate zakah revenues made possible through higher investment and production in the absence of any disencentives associated with existing progressive and variable tax structure.

(ii) Toll Taxes From Non-Muslims

Corresponding to zakah revenues collected from the Muslims under Islamic fiscal system, the non-Muslims in these countries will be required to pay poll-tax or what we call jazia to ensure their security and economic well-beings. Depending on their size in the total population and their stake in the economy, the nature and magnitude of such poll-tax will vary in different Muslim countries. The administration of justice in this case demands that a particular race despite being minority might be required to sacrifice more in terms of poll taxes to Baitul-Mal provided, they enjoy proportimately much greater share of economy's total wealth.

(iii) Need For Non-Zakah Revenues (From all Citizens)

It is quite understood that the proceeds of zakah revenue including toll taxes regardless of its volume cannot be utilized for purposes other than the specified areas most of which are related to the satisfaction of one's needs for sustenance of life as well as to perform without any hindrance the mundane duties from Allah (SWT). Now the existence of government is not only to ensure this life sustenance but also undertake activities be it moral, social, administrative and security-both internal and external to ensure a decent and comfortable lives for society as a whole. The mere expectation of leading a decent and secure rather than pursuing luxurious western life styles has, infact, increased the direct involvement of government in many socio-economic activities not normally taken up by the individuals. So, to meet up the general developmental needs of the society the governments in Muslim majority countries will have to mobilise resources through conventional tax system as well. As the development based on Al-Adl and wal-Ihsan demands, the formulation and implementation of such tax system should be guided by such principles as incentives to work and the capacity to bear the burden. A judicious combination of a direct and progressive tax structure along with the adequate provisions to produce more for the collective interest of the society is something that needs be evolved based on the experiences of other contemporary societies. But while mobilising resources through conventional tax system, the government's activities should is no way, be guided by extravagance and unproductive activities like unnecessary arms build-up beyond means. Unfortunately, because of mere lip-services to the cause of Umrah, some better-off muslim countries have been spending a significant proportion of revenues mobilised through conventional methods to meet such kinds of expenses hardly warranted by Islamic tenets of life.

(a) Pre-Requisites for Effective Mobilisation of Non-Zakah Revenues:

In the context of the desired objective of establishing a self-reliant as well as just society, the volume of non-zakah revenues pertaining to trade dependency (ie. import and export duties, excise duties, sales taxes etc.) is likely to be substantially redused. The empirical evidences do support the large-scale evasion (say, more than 50%) of existing direct taxes. Based on contemporary works on the effectiveness of tax-administration both in developed and in developing countries it can be suggested that a well-integrated self-enforcing taxation system depending more on assets such as cash, bonds, equities, productive assets, (say, lands) and inventories has a better prospect so far as incentives to produce are concerned. Kaldor's suggestion of expenditure tax despite the limitation of administrative costs can also go a long way in checking the growth - retarding effects of conspicuous consumptions in Muslim societies. The reason why Kaldor advocates a smaller tax rate for all kinds of assets (say varying from 1% - 8%) and a much higher rate for incomes and expenditures (say, varying from 6% - 40%) depending on economic position is to make the evasion under such an integrated system impossible. Based on Kaldor's vast practical experiences on the tax administration of India, Indonesian, Philippines and Libya in the recent decades, another study[7] comes up with a suggestion that a comprehensive self-enforcing tax system with more emphasis on taxes on assets couple with expenditures rather than on personal and corporate incomes can maximise revenues even after meeting up high administrative costs of this system. The advantage of this system lies in reducing conspicuous consumption and minimising the tax burdens by investing in directly productive assets.

(iv) Need for External Borrowings:

The borrowings in general and the external borrowings in particular have been the major source of government's tax-expenditure programmes in most of the developing Muslim world. The empirical works done so far as to the effect of external finance either in the form of publicly guaranteed foreign loans or in the form of private invesment by multi-national Agencies on savings, investment foreign exchange and overall growth rate of the economy do not speak in favour of external financial dependence.[8] Not to speak of purely economic arguments infavour of financial dependency regulated by secular policies like interest rate; the socio cultural dependency concomitant with moral and spiritual bankruptcy as manifest above (Table 1, col. 5) severely contrasts with our desired objective of establishing an Islamic way of life for the Ummah. Therefore, given the limitations of the secular financial system, the Islamic financial system warrants nothing short of an Islamic monetary Fund with the contribution of the Muslim world particularly from the resource-rich members. The use of funds from this institution mostly in the form of equity participation in the viable projects of an individual member country is likely to minimise the financial and other dependencies on interest-based system.

(2) Mobilisation of Human Resources

In the context of the fundamental objective of this paper for attaining a self-reliant development based on justice, the major thrust of mobilising resources should be on non-conventional ones. By that we recognize the human ingenuity, the dormant initiatives, the organisational ability, the social awareness giving rise to common responsibility, the social energy emanating from mutual cooperation all combined together make a human being. By the conventional measure of the factors of development, the human beings are simply treated as a unit of labour capable of working only with the help of some dorment external forces like machines or dollars/pounds. The failure to recognise this role of human ingenuity against the back ground of Western concept of development through technological advancement has, infact, been the main reason why the labour abundant resource-poor economies despite achieving so-called GNPled growth completely failed to involve the vast army of unemployed with whatever economic activitites taking place in the economy.

The love for export-oriented commercial production[9] with western sophisticated technologies either imported through hard-earned foreign exchange or received as a part of technical aid has contributed to produce non-wage goods more than the wage goods by using more and more scarce resource and less and less of abundant resources. All these, it is believed, have emanated from the fear of mobilising human resources. Once the so long neglected people are given the understanding that whatever development activities are being undertaken will be for them and by them and most of all in and around them where they live, they breath, they move, the process of alienation will stop. Their commitment towards government's development efforts will turn the impossibles into possibles. The method of devising, a self-reliant development programmes to widen the participation of human resources along with growth as discussed in the section under allocation of resources. The ingeruity needed for mobilising human resources is, no boubt, very difficult to attain. But the development based on human resource mobilisation of China[10] does suggest that given a strong political will and committed leadership, such mobilisation through an organised institution like cooperation and community organisation on self-help basis is not impossible.

2. Some Salient Features of Resource Allocation Programmes:

(1) Allocation of Zakah Revenues

The expenditure programmes relating to the allocation of all zakah proceeds must aim at benefiting the specified claimants. The economic needs measured by poverty, deprivations and sufferings are supposed to be the major guiding factors behind this expenditure pattern. Now the question remains as to how to spend the huge volume of zakat proceeds likely to be mobilised if all possible avenues of zakatable resources are effectively utilized. There are debates as to the effects of zakah distribution either in cash or in kind on the incentives to work, save, invest and finally to produce more.[11] Depending on the volume of zakah the propensity to consume and the motivations to work more, the distribution of zakah proceeds in the short-run may go either in favour or against the interest of zakah claimants living below the minimum level of subsistence.

(i) The Problems Involving Zakah Distribution

First, if the claimants of zakah except the one associated with its collection, have in their possession, some sort of assets in the form of lands, small trades or businesses or other forms of capital (ie. means of earnings), the zakah money spent through, transfer payments (ie. producers subsidies), is likely to enhance the production of the wage goods ie. the goods and services requiring greater proportion of labour compared to capital. Given the higher propensity to consume such goods by most of the zakah claimants, the increased effective demand for wage goods and services in the context of rural-oriented economies of the developing muslim countries, is likely to create more employment opportunities for them.

Secondly, if most of the zakah claimants posses no assets and depend entirely on wage employment implying little or no requirement of additional skills through education and training, the zakah proceeds have to be spent both in the form of consumers' and producers' subsidies. It may be mentioned that while the consumers' subsidies will be mainly in the form of cash transfers, the producer's subsidies in the form of transfers, the producer's subsidies in the form of transfers in kind ie, in the form of inputs or small capitals. While the immediate impact of cash zakah transfers will be to increase demand for wage goods which, in the presence of supply rigidity, may push up prices of the essentials. This is likely to frustrate the whole objective of increasing welfare of the poor zakah claimants and to other low-income groups, in general. Provided the economy in question does not suffer from supply rigidity in the short run, the cash zakah transfers to the poor through increased effective demand may provide additional incentives to enhance production. This may be the case of relatively resource-rich countries like Malaysia, Indonesia in Far East Asia and Pakistan and Turkey including all resource-rich oil surplus countries of Asia. In case of most of the low income African countries including Nigeria from lower middle income category and Bangladesh from FEASMC, the supply rigidity in wage goods is a major constraint on the prospects for huge cash zakat transfers (Table 1, col. 1). These are the countries where the distribution of ownership of assets and of income/employment opportunities is also highly unfavourable for the poor.

(ii) The Way out for Distribution of Zakah With Equity Participation in place of External Borrowings:

The supply rigidity in wage goods of these countries can be tackled only through an integrated approach contributing to the production of basic needs like foods among the Muslim world. The author, in another empirical study, [12] has argued that the resource-rich countries of Asia including Turkey and Pakistan, Nigeria and Libya from Africa and Malaysia and Indonesia from Far East Asia can substantially enhance the production of agriculture through mutual transfers of capital and labour for such schemes as flood control, irrigation and mechanisation from surplus to deficient areas having comparative advantage in the sense of producing more than regional average productivity. Judged by the criteria of potentials of land to produce more with less costs with given technology, countries like Pakistan, Turkey, Iran, Afghanistan, Syria and Bangladesh from Asia and Nigeria (inmaize), Egypt, Morocco and Sudan from Africa have an edge in wheat, while most of the Asian countries particularly, Pakistan, Bangladesh, Malaysia, Indonesia enjoy special advantage in rice. So the transfer of capital through the redirection of investment based on say, equity participation unlike foreign aid coupled with the mobility of agricultural labour force from the surplus to the deficient countries can go along way in increasing the flexibility in the supply of wage-goods among the Ummah. Not only that with the use of equity participation in directly productive activities such as foods in agriculture and other essential consumer goods in rural industries much of the financial dependency problems involving interest-based borrowings and socio-economic dependency pertaining to the susceptibility to external pressures can be significantly overcome.

(2) Allocation of Non-Zakah Revenues

(i) Some Specific Goals

(a) Economic Growth With Wider Participation

Depending on the coverage and effciency in spending zakah revenues, the nature and significance of allocating non-zakah revenues primarily collected through conventional tax system will vary. Provided most of the needs for wage goods and services of zakah claimants are met from the zakah expenditures, the major allocation of non-zakah revenues can be made for the supply of those publicly provided goods and services which can ensure security both internal and external and provisions for socio-economic infrastructures. Again, the major thrust of these expenditures would be to provide maximum benefits to the majority of the population. This implies rural-development-oriented expenditure patterns as opposed to the existing urban or modern sector-based ones.[13] The increased share of the so long neglected sector like agriculture at the cost of so long privileged urban sector may mean greater sacrifice on the part of the urban dwellers. The growth rate of so-called fast moving sectors primarily comprising the big and medium scale commercial enterprises producing goods for the privileged few may be temporarily halted. But with the redirection of government expenditures from non-zakah revenues for providing physical and social overhead capital in rural areas, the so-called growth centres from the urban areas can be shifted to rural areas. The private investos will be motivated to increase investment and stimulate production with indigenous resources including human resources available in the neighbourhood. Given the appropriate fiscal policy package in favour of the investors, the government can motivate the private investors to go for the production of essential consumer goods as well as inputs for agriculture in small and medium scales by using labour intensive methods of production. So based on what is stated above, the primary aim of expenditures from non-zakah revenues will be to create necessary investment climate for the private small investors to come forward. Such kind of tax-expenditure programmes can serve multiple objectives by stimulating small private investors to invest, encouraging to adopt labour insentive methods of production and helping to utilize all sorts of indigenous resources available within the neighbourhood. The goods that will be produced by the manipulation of such fiscal mechanism will primarily meet the needs of the vast market and not for the limited internal market in the framework of dualistic development strategies of Arthur Lewis Medal.

(b) Effecting Income Redistribution

The use of non-zakah revenues through shifting the so-called modern-sector based growth centres to the traditional sectors and to utilize all kinds of indigenous resources by producing in small and medium scales to cater to the needs of the locality can, in addition to providing stimulas to the growth process, take care of most of the existing distributional problems. The development of the rural/agricultural sector by providing subsidised credits and other inputs as indicated coupled with the fulfilment of the demand for wage goods, then, is likely to act as a catalytic agent for the poor to benefit from the promotion of social overhead capital by government. This suggests that at the initial stage of a development based on self-reliances as envisaged above, the resource-poor developing Muslim countries with high unemployment rate ought to give more priority to rural/agricultural sector. It is only after having fulfilled the unsatisfied demand for wage goods of the poor that the government can direct attention towards further improvement of social overhead capital like education and housing. Based on a number of empirical evidences, the author strongly feels that given the huge unfulfilled demands for basic requirements of life in the rural areas and high educated unemployment any amount of extra priority at the cost of primary sector is likely to benifits only those who are already lying above the poverty line.

As has been argued above, a substabtial proportion of non-zakah revenues need be spent through the transfer payments ie. producer's subsidies of all kinds starting from agricultural inputs to the provision of capitals (ie. equipments, interest-free credits etc.) Only those who remain isolated from the mainstream of economic activitites either because of physical disabilities (children and old people) or because of social milieu will deserve cash a transfers through consumers' subsidies ie. rations, food coupons, free school meals etc. Thus, by giving more priority in the budget to the rural sectors, most of the existing problems of income inequality can be resolved thereby redirecting the flow of poor from urban to rural areas.

(c) Economic Stability

The economic stability examined from macro-perspective is primarily related to the structural imbalances of an ecomony. If the aggregate demand for all goods and services including money and foreign exchange does not match with aggregate supply the imbalances result giving rise to the instability of prices. This problem is more acute particularly in the resource-poor open economics suffering from supply inelasticities. The recent development experiences indicate that some countries despite having a reasonably flexible fast-growing economy (case of Malaysia), because of too much openness manifest through higher trade ratios, become the victim of unfavourable policies of external market.[14] Even the oil-rich countries having a high socio-cultural and technological dependency, could not excape from the world recession of early 70's and 80's.

The position of structurally rigid resource poor slow-growing Muslim countries of Africa in general and Bangladesh in particular constrained both by financial and socio-cultural and technological dependencies are worst by all means. The stabilising role of Islamic fiscal policy has to be understood against this perspective of dependency syndrome. The author believes that without outside cooperation through proposed integration no amount of effort through fiscal policies on the part of a single muslim country let alone the poor ones can over come the problems of external and internal shocks. Fortunately, the salvation lies with some members of Ummah who have been bestowed with fortunes measured in terms of surplus resources in world financial market. What is important is to develop an Islamic financial system within the framework of Islamic Monetary Fund for financing the deficits of less fortunate members[15] through direct private investment based on PLS and equity participation as indicated above.

Based on what has been stated above it is also believed that the sucess of a stabilising function of Islamic fiscal policy largely depends even in the micro context of an individual country on how and to what extent the structural rigidities can be overcome. Once this has been achieved through the operation of fiscal policies financed by equity participation and other arrangements enjoined by Shariah the destablishing impact of inflationary situation resulting from excessive credit creation coupled with interest based foreign, borrowings can be significantly tackled. The policies, thus, pursued can also help tackle the inflationary forces likely to be generated by the zakah distribution on the one hand and the limited scope of zakah funds for purposes of economic stabilisation, on the other.

V. IMPLICATION OF ISLAMIC FISCAL POLICY FOR MALAYSIA

So long the Role of Islamic fiscal policy has been discussed in the macro-frame work of Muslim Ummah. It has also been argued that given the prevailing nature of structural dependency on interest based system, the prospect for such policy in a resource-poor largely populated slow-moving country is extremely bleak. In what follows it will be argued, the economy of Malaysia having some unique features not common both other resource-rich and resourch-poor countries, holds a good case for fiscal policy as outlined above. Economically speaking, both the financial and basic need dependencies are not very severe. The greater diversification of the export-based sectors is capable of overcoming the temporary external shocks resulting from high trade and social dependencies. The vast productive potentials of the agricultural sector burdened by lower population are yet to be realized. The overall management of the economy manifest through a sound tax-expenditure programmes[16] coupled with socio-political stability deserves special attention. The country despite having limitation of a multi-racial society has been able to maintain a favourable social awareness, social harmony and spiritual upliftment in all walks of life. Above everything, this country has a long history of dealing with the mobilisation of resources through Baitul Mal within the framework of a decentralised system as advocated in this study. Infact, the author is not aware of any other Muslim country which has been successfully operating its fiscal policy to reduce income equality. Given all these positive factors, what is most warranted is the assurance of a free mobility of capital and labour within the framework of PLS and equity participation both to realize the productive potentials of the economy as well as to implement a model for self-reliant type of development based on Al-Adl wal-Ihsan for others to follow. This calls for the necessity of Economic integration as a primary step towards establishing Islamic brotherhood[17] among the Ummah guided by the philosophy of Towhid, mutual cooperation and Haqqul-Ibad. And this again, is possible only by reducing dependencies on a system completely alien to the one we have been longing for.

NOTES:

1. His Majesty King Moshoe shoe II based on his varied experiences on Development has strongly argued for alternative strategies for development for resource poor countries. See Development Dialogue. Alternative Strategies for Development – A clarion Call!, Dag Hammarksjold Institute, 1988-1.

2. Jorge Jatoba with his practical experiences gained by different community organisations in latin America has come up with the suggestion for the effective utilization of alternative resources for another development. See Development Dialogue, Ibid.

3. Danold G. Richard, 'An Empirical Examination of the Dependency Approach to Underdevelopment', The Singapore Economic Review Vol. xxxii, No. 1, 1987, pp. 9 - 12.

4. Al-Shaykh al-Imam Ibn Taymiya, 'The Institution of the Hisba (Public Duties in Islam), Translated by Muhtar Holland, the Islamic Foundation, UK, 1982.

5. Aidit bin Ghazali, 'Zakat Administration in Malaysia, A paper presented at the workshop on Islam and the Economic Development of South East Asia, held in Singapore, 24th - 25th August 1987, organised by Institute of South East Asian Studies (ISEAS), Available in monograph.

6. For further details on economic impact of zakah see Author's paper, 'Poverty, Inequality and the Role of Some Islamic Economic Institution', presented at the Second International Conference on Development, Finance and Distribution in Islamic perspective, held in March, 1983, at Islamabad, Pakistan (pp. 13 - 22); Ziauddin Ahmed et. al., Fiscal Policy And Resource Allocation in Islam, International Centre for Research in Islamic Economics, King Abdul Aziz University, Jeddah, 1983.

7. Benjamin Higgins, 'Economic Development problems, principles and policies' pp. 528-543, Revised Edition, 1968.

8. See in this connection the most recent and through works done by Keith Griffin, World Hunger and the World Economy, Macmillan press, 1987 chaps 9-10; P.B. Rana and J.M. Dowling, Jr. The Impact of Foreign Capital on Growth : Evidences from Asian developing countries, the

journal of developing Economies, vol. xxii - 1, March 88. Although the results of these two studies apparantly look quite contrasting ie. while the former speaking against and the latter for foreign capital, the emphasis on mobilising domestic resources for enhancing productivity of labour and reduction of reliance on foreign capital by the latter indirectly confirms the result of the former; Another study by Bhaduri Cautions that even in the absence of unforseen external shocks, the objective of self-reliant growth and selective delinking from foreign capital warrants serious, long term policy commitment on the part of a developing country that goes beyond the usual political rhetoric, See Amit Bhanduri; Dependent and Self-reliant growth with foreign borrowing, cambridge journal of Economics, Vol. II, No. 3, 1987.

9. The controversies over the export-led industrialisation vs. the import substitution industrialisation of 60's and 70's are still not resolved as far as its replications for other resource poor thickly populated agrobased economies are concerned. This is mainly because, the growth promoting factors behind the so-called success stories of East Asian (ie. Japan, Taiwan, South Korea) model of out-ward looking development strategies are more of non-economic rather than economic ones. Paul W. Kuznets based on his empirical investigations has indicated the overwhelming importance of non economic characteristics of the Three, such as ethnic and linguistic homogeneity, relatively compact geography, manageable population size and the confucian tradition of frugality education and philosophy of kinship in influencing labour productivity, savings behaviour and other aspects of economic performance. The role of high government commitment (Taiwan and Japan) and of authoritarian administration (South Korea) can hardly be denied, too. For more elaborate and empirically substantiated evidences behind the success stories ot outward looking strategies see Economic Development and Cultural Change (EDCC), Vol. 36, No. 3 April 1988. (Supplement) for cusing on 'Why does over crowded, Resource-Poor East Asia Succeed — Lesson for the LDCs'? A.K. Sen while talking on Future Development Policy and Program, emphasized the role of institutional, social, cultural and political barriers behind development of Japan. See a Review Article, on 'Amartya sen on Future Development Policy and Program', W. Malenbarum, EDCC, Apr., 88.

10. Sartaz Aziz, 'Rural Development in China — A Comparative Study' Jan 1976 and 'The Chinese Approach to Rural Development', World Development, ii, 2, Feb. 1974. This goes without saying that given the socialist path of development pursued by China, the Muslim countries

cannot simply imitate their way of mobilising human resources by political slogans of Mao. The Muslim countries, should, rather apply moral pursuasion, principles of tawhid and brotherhood as the main motivating force behind mobilising human resources leath voluntarily and involuntarily.

11. Dr. M.M. Metawally, 'Fiscal Policy in an Islamic Economy' in the book entitled Fiscal Policy and Resource Allocation in Islam edited by Ziauddin Ahmed et. al. (op. cit.) pp. 59-97; This volume also contains a number of other valuable contributions on various aspects of fiscal policy in an Islamic economy, criticisms and replies. In this regard the contribution of Dr. F.R. Faridi, Dr. Abidin Ahmed Salama and Dr. Monzer Kahf are worth mentioning.

12. Ataul Huq 'Economic Potentials of Islamic Countries and Attainment of Self-Sufficiency in Food Through Integration, op. cit.

13. Ataul Huq, 'Development Through Urban-Bias Public Expenditure – An Empirical Study of Bangladesh, Central for Social Studies, Dhaka University, Bangladesh, 1982; S.C. Dube, 'Development Perspectives For the 1980's, U.N. APDC, 1983; David Morawet, 'Twenty Five years of Economic Development 1950-1975, A World Bank Publication 1977' Lloyd G. Reynolds, 'Economic Growth in the Third world : A Introduction', Yale University Press, 1986.

14. Khor Kok Peng, 'Recession and the Malaysian Economy. Institut Masyarakat, 1983. This study suggests for reducing commodity concentration of exports.

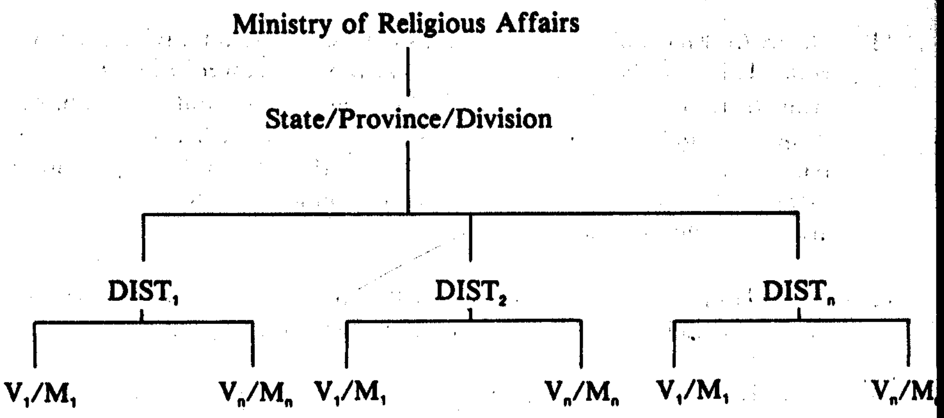
15. It is most shocking to observe at this juncture the desperate resource needs of the poor members of the Ummah, Concomitant with the huge idle balances of Islamic Development Bank because of lack of proper investment portfolios. Moreover, the investment amounting to more than 80% of the oil surplus, in the safe custody of world financial market is, of course, another picture that prompts us to rethink of the whole concept of Ummah. See Campbell, Burnham.O, 1982, Petro-dollar Recycling 1973-'80: Regional Adjustment and the World Economy, Asian Development bank, Economic Staff paper No. 8.

16. Donald R. Snodgrass, 'Inequality and Development in Malaysia', Oxford University Press, 1980, Chap. VI.

17. Muhtar Holland 'The Duties of Brotherhood in Islam', The Islamic Foundation, Leicester, United Kingdom, 1980.

APPENDIX

Proposed Administrative Structure of Baitul Mal in a Muslim Majority Country.



Notations

DIST for Distinct, 1, 2, n, for 1st, 2nd and nth Distinct. V_1 for first village mosque, M_1 for 1st Mohalla (meaning area in a city or town) mosque, V_n for nth village mosque and M_n for nth Mohalla mosque.

The operational procedure of Baitul Mal

As it appears this is a 4-tier system. Each zame mosque where Friday prayer is held will be run by a 'Mosque Committee' consisting of 6/10 members depending on the population of the area/mohalla/village. This committee will be helded by Imam. The other members will include Muazzim and those Musallis who are regular visitors of mosque. The government appointed official, 'Muhtasib' will be the nomitated member. The collection and distribution of all forms of zakah including toll taxes will be made as per detailed guidelines and objectives of the central body ie. Ministry. To ensure accountability there should be provision for auditing the accounts of each committee at least once a year. The Central Authority can also arrange regular trainings or lectures for the members of the mosque committee for converying among others the divine responsibility of serving the needy and the underprivileged. If duly approved and properly integrated these committees can also acts as seen rity or collateral for those poor borrowers who intend to borrow from Qarde Hasana fund of Baitul Mal or any other financial institution run by Shariah principles. The excess or unutilized fund of Baitul Mal of one committee can be redirected to those committees facing shortages. To provide encouragement to a successful committee for further welfare activities the Central body can operate through 'Matching fund principle' ie., allocating extra fund from the surplus to the sucessful committees.