Distributional equity in Islam

Zubair Hasan

International Islamic University of Malaysia

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Dr. Zubair Hasan†

INTRODUCTION

One of the reasons why the world today is torn between different economic systems has to do with the problem of deciding whether economic freedom or distributional equity should be given the highest priority in the social scheme of things. Islam seeks to combine the two in a balanced way. It allows freedom of enterprise and accommodates inter-personal economic differences as a part of the Divine Scheme. At the same time, however, it emphasizes, in very strong and unmistakable terms, the need for distributional equity. Indeed, Islam’s anxiety to achieve this objective, along with others, underlies its entire social philosophy and gives form and content to its various norms and policy prescriptions. The present paper attempts to provide an overview of the Islamic approach towards achieving distributional equity. An attempt will be made to demonstrate that:

1. The guiding principles as well as the institutional arrangements of Islam are such that under their proper operation the problem of an unjust distribution can seldom emerge;

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*This is an extensively revised version of the paper presented to the Conference. A number of the comments made during the Conference have been accommodated [Editor].

†The author is Head of the Department of Economics, Zakir Hussain College (University of Delhi), Delhi-6, India. He was working on deputation from the Government of India at the Institute of Technology, Amarah, Iraq when he wrote the preliminary draft of this paper. He is grateful to Dr. E’sa Omiran, the Dean of the Institute, and especially to Miss La’ale Mohammad Hafiz for the permission and facilities they provided for the work.

The quotations in parenthesis are from the Qur’ān; the first number indicates the chapter and the second the verse. The same arrangement is followed both in the text and the references.
at least it can hardly be expected to assume alarming proportions.

2. If, despite the in-built safeguards of the system, distribution becomes inequitable then corrective measures are available to rectify the situation.

The discussion is cast in a "pure" Islamic frame. Its underlying assumptions may appear stringent, even unrealistic, in the context of the present-day conditions in Muslim societies. However, this need not detract from its usefulness. If nothing else, idealistic models help to identify the direction for attaining the goal, put behavioural norms into sharp focus, provide desired orientation, make easy the identification of the relevant variables of the system and establish their inter-relations – all of which are crucial for making appropriate policy decisions.

The paper is divided into four parts. Part One examines some of the issues considered relevant to the present exercise and attempts to state the Islamic position on them. Part Two discusses the notion of amānah, which provides, at a philosophical level, the prime inspiration for and the fulcrum of the programme for ensuring distributive justice in Islam. Part Three seeks to show that the Islamic attitude towards factor shares, its doctrine of ḵ̣aṣaṣ, and its laws of inheritance are all equity oriented. Part Four evaluates, very briefly, the role assigned to the state as a corrective agent in the realm of distribution. The various controls that modern states exercise and the measures that they use for purposes of redistribution are well-known and can be utilized in an Islamic system providing that they do not violate the letter and spirit of Shari‘ah. The focus in this part is, therefore, largely on what other measures Islam may either allow or require.

I. SOME ISSUES IN DISTRIBUTIONAL EQUITY

The purpose of economic endeavour in organized communities is to maximize overall social welfare. Its achievement requires, along with other things, an equitable distribution of the goods and services flowing from the productive process. There is, however, much difference of opinion on (i) what variable is appropriate as an action base, (ii) what view of distributional
equity is appropriate and (iii) to what extent we can combine equity with the pursuit of other policy goals, such as growth.*

These issues are of a highly complex nature and cannot be resolved in a short paper. Here, I shall state some of the basic reasons for my choice or position on a particular matter without going into the finer points of the debate. The first two issues are discussed below while the third is considered at the end of the paper.

1(a) The Distributional Variable

Economists have for long regarded money income as the prime measure of peoples' economic well-being. Professor Pigou's, *Economics of Welfare* is a classic and comprehensive example. Many economists still follow the tradition. As such, the notion of distributional equity is essentially associated with money income.

However, in recent years many prominent writers in the area of welfare economics seek to hold, at least by implication, that the variable suitable for distribution policy is individual utilities, and that the optimum distribution of money incomes must be determined by their market or social evaluation. They consider money income as no more than a means for achieving the distribution of utility.\(^5\)

This change has, to my mind, only unsettled a rather settled issue and has not provided a more adequate alternative. The reasons for this are not difficult to find.\(^6\)

Firstly, it is well-known that we can only make ordinal comparisons of personal utilities. But a concept of distributional equity, to be of any practical value, would necessarily require an objective measure of utility common to all individuals. Such a measure does not exist.

Secondly, we would have to presume that peoples' capacity to enjoy income was relevant to such a definition. However, individual capacities to enjoy income differ. Should then, say, A with a higher capacity receive more income than, say, B with a lower capacity, or should A get less because he can perhaps extract

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*In the original draft, the issue of the inter-relationship between equity and other policy goals was not discussed. The point was made in this regard by Dr. Shafey and this has been accommodated in the revised paper [Editor].*
enough satisfaction out of that? One can argue the case either way. For example, K. E. Boulding demonstrates that on the utility criterion, “an increase in the total income of the society should result in more unequal distribution as the increase in income should go mainly to those who will enjoy it most.”

Thirdly, human welfare is a composite whole. Its bifurcation into economic and non-economic components is arbitrary. Only total welfare can be a reasonable measure for the purpose of a fair distribution. Hence, for determining the distribution of money incomes as required by the proper distribution of welfare, one also has to take into account the utilities and the disutilities arising from other factors such as sex, religion, politics, the weather, and so on. This would clearly involve endless calculations and would lead to nothing precise or practical.

Last but not least, even if we momentarily grant that an ordinal measure of utility is sufficient for the purpose, we have to face another problem and so far this has not received the attention it deserves. It must be noted that by defining distributional equity in terms of individual utilities we would at once negate the administrative advantage that competition is claimed to bestow under certain conditions. For, if the fair distribution of money incomes has to be derived from the required welfare distribution the decision-making authority must have prior knowledge of all the production functions of the economy as well as of all the individual indifference maps in the society. The task of collecting this information would be gargantuan and excruciating. This apart, its very availability to the decision-making authority would make competition pale into insignificance as an optimal allocator of resources on a decentralized basis. For, individual production units would have direct and specific instructions about pricing policies.

Most of the pitfalls mentioned above can easily be avoided if, following the tradition, we define the concept of distributional equity, primarily, in terms of money incomes. Of course, this definition has its own limitations, but on balance it seems to be a better alternative than the one based on individual utilities. It is at once objective, precise, and operable. Moreover, we do not miss much in this choice since the two approaches to distributional equity can be mutually convergent. We prefer the money income approach because it facilitates economic analysis considerably.
More importantly, it is the money view of things that seems implicit in the Islamic approach to the question of distributional equity. One finds that the Qur'an talks more of earnings, expenditures, capital, interest, etc. – all measured or measurable in money terms – than of abstract satisfactions. Above all, it requires that wealth should not circulate only among the rich persons of the community (59:7).

1(b) Income Distribution and the Concept of Equity*

Income distribution can be viewed from a number of angles – personal, functional, temporal, and regional, etc. In each case, the nature of the theoretical approach is radically different. It is extremely difficult if not impossible to construct a comprehensive single theory of income distribution covering all aspects. One can, however, perceive and sometimes discover a few useful links between them. The main concern of the present discussion is with the personal and functional distributions, though references to other classifications may also be found.

The Islamic approach to equity almost exclusively centres around the personal distribution of incomes. But this at once raises the question of policy goals. What ought to be our aim – the equal division of unequal incomes, division according to contribution, or division on the basis of needs? Unfortunately no clear choice is possible. Each alternative has its merits and demerits and specific situations do suggest one over and above another. However, under normal circumstances, and at the theoretical level, one may venture an opinion on matters of choice but the limitations of the selected goal must always be kept in mind.

In the case of the need criterion, the information system tends to break down and matching demand with supply becomes either arbitrary or accidental. The contribution criterion of income distribution leaves large sections of the population who do not or cannot work for their living high and dry. Nevertheless, we shall have occasion to consider the extent of its relevance to the Islamic system in the following part. Let us first examine the remaining case of the equality of incomes.

*The first three paragraphs of this sub-section have been added in light of the point raised by Dr. Shafey concerning various concepts of income distribution [Editor].
Even the most egalitarian of ideologies, including that of Islam, are quite explicit on the point that since all men are not alike, perfect equality of money incomes would be as unjust if not more unjust than the glaring inequalities that afflict many a society in the world today. Besides, perfect equality also adversely affects the incentive to produce. The Qur'anic wisdom not only allows for income differences but also advises people not to grudge the same (4:32).

Once we exclude the perfect equality of incomes from our consideration as the possible objective of distributional equity, it becomes necessary to define the range beyond which income inequalities would be regarded as undesirable and so require corrective action.

It is difficult, however, to mark off such a range as no firm criterion is available for the purpose. Nevertheless, an effort is often made to fix on the basis of some notion of minimum needs — biological and cultural — a floor for individual incomes. Similarly, an income ceiling is, at times, advocated as the ratio between the lowest and the highest incomes. Let us examine the Islamic position on these points.

The Qur'an reminds us time and again that even though people may differ from one another in regard to the quantum of ṭiṣq, i.e. sustenance granted to them, all creatures of the Almighty have an equal right to a livelihood from His inexhaustible treasures of the earth (and the heavens). The obvious inference is that one prime consideration governing money income distribution in Islam is the fulfilment of the minimum needs of all members of the community. These needs may include according to Ibn Hazm (and he is not alone in this) legitimate food requirements, clothing for summer and winter, and reasonable accommodation. It may be added that any concept of minimum needs has to be flexible. Its scope and standard in a particular society would have to be spelled out from time to time in accordance with the level of economic development reached.

In principle, the concept of an income floor is basic to the teachings of Islam. However, the position regarding incomeceilings is not very clear. One can perhaps build up a rather presumptive argument.

In this regard it is important to make a distinction between "restriction" and "intervention" as corrective measures — once
popular in the discussion on exchange control. Restriction does not permit the happening of an event. Intervention, on the other hand, seeks to alter or modify the consequence if needed, after the event has taken place. The first impinges upon the individual’s freedom – something so dear to Islam, even in matters of religion (2:256, 10:99, etc.). The second only seeks to amend. A ceiling on incomes is not only restrictive of human freedom but also attempts to block the operation of the verse “... God does provide for those whom He will without measure” (24:38). Therefore it appears to be repugnant to Islam unless one can show it to be otherwise in a conclusive way.*

The Islamic approach to distributional equity is qualitatively different from the customary approach of making income distributions less skewed and more flat-topped. Islam aims at preventing the emergence of the malady rather than treating it after its emergence. The elements of its grand scheme flow from its all-pervading concept of amānah. This concept is elaborated in the following section.

II. AMĀNAH – THE FOUNDATION OF EQUITY

The concept of amānah is fundamental to Islam, although other religions may also touch upon it.12 It seeks to convert the material ambitions of man into the means for attaining spiritual heights, i.e. his ultimate goal. The Qur’ān says: “But seek with the wealth which God has bestowed on thee, the Home of the Hereafter, and forget not thy portion of the present world” (28:77).

Amānah underlines Islam’s entire socio-economic philosophy and encompasses its programme right through from the individual to the state. It is rather surprising that the ramifications of amānah have so far not been adequately explored in the writings on the upcoming Islamic economics, even though it is this very concept which helps glorify Islam as a via media that utilizes the means of the capitalist structure for organizing production but achieves at the same time the egalitarian objectives of the socialistic system.13

Amānah may mean different things to different people. In common parlance, however, the word refers to something tangible

*The argument here has been substantially changed to clear the doubts expressed by Dr. Shafey about the author’s original inference from verse 24:38 [Editor].
that a person entrusts to another in good faith for safe-keeping and to be returned to him as and when required in exactly the same condition (as far as possible) in which it was given. The fulfilment of amānah is considered to be a moral obligation and is regarded as an outstanding human quality in all civilized societies. Islam recognizes this ordinary view as a tiny, though important, element of a much wider concept encompassing the fundamental relationship between man and his Creator.\textsuperscript{14}

All things in heaven and earth belong to God, the Almighty (31:26, 42:2) Who has created them not in idle sport but with just ends (28:76, 84:38). He handed over the earth with all its treasures to man, gave him intellect and the capacity to understand, subdue, tame and harness the forces of nature for his use, and made His bounties flow to him in exceeding measure (31:20). For, man alone agreed, rather in foolishness, to accept His amānah (33:72). “In foolishness” because he could hardly realize how great and difficult a responsibility he was undertaking. The source of difficulty was that God granted man free-will as well. According to Maulānā Jalāl-al-Dīn Rūmī, this “free-will” gives essence and lends meaning to the notion of amānah.

Amānah clearly implies that its Creator expects the trustee to use it in conformity with the former’s will and instructions, and not otherwise. God granted man discretion in worldly affairs but He imposed various obligations lest he may go astray. In a broad classification these obligations relate to God, to fellow human beings, and to one’s own person. Obligations from one side become “rights” from the other. Shari‘ah is essentially an aggregation of these rights and obligations; it is a code of conduct prescribed for running God’s Trust in conformity with His Will. Islam is nothing but a total submission to this Will. Thus viewed, the entire religion becomes an amānah.\textsuperscript{15} Given free-will, those who fulfil amānah obligations will be rewarded and those who do not can hardly hope to escape the Divine punishment. Amānah is a comprehensive concept, but we shall highlight only its economic aspect.

God’s aim in creating various things was to provide for the needs of all human beings. The Qur’ān which addresses everyone says without distinction: “He is Who created for you all that is in the earth” (2:29). According to this Divine proclamation all things in the universe are the common property of Adam’s
progeny and nothing in its nature belongs to any particular person.\textsuperscript{16} Because of its initial source, even produced wealth may be deemed as accruing, in the first instance, to the entire society. It is to avoid dispute and encourage individual effort to produce that the acquisition of material goods through permitted means is allowed. This is the basis of private property. And as long as one is in rightful possession of something no one else can deprive the owner of its legitimate use or enjoyment (4:29). If property continues to remain one of the prime centres of dispute in modern societies, it is perhaps not so much because the “right” itself is in question but because people have different perceptions about actual and ideal distributions of property and the gap between the two.*

Since wealth is initially common to all, it must not remain concentrated in the hands of a few (59:7). The possessor himself should not hold what is in excess of his genuine requirements. He must voluntarily surrender the surplus in favour of the less privileged members of the community; for, to that extent their rights are clearly invoked in his wealth.\textsuperscript{17} The surplus belongs to them, and he holds it only as a trustee. This is why he is not permitted to misuse it in frivolous expenditure (26:151) nor can he keep it in idle hoards (70:18) or elsewhere.

The Prophet (s.a.w.s.) is reported to have observed: “One who has the means of power and strength more than his needs, it is his duty (emphasis mine) to hand over the excess in wealth to the weak, and one who has articles of food more than his requirement must surrender the surplus with him to the needy and the poor.”\textsuperscript{18} Abū Saʿīd Khudrī, the narrator of this tradition, says that the Prophet (s.a.w.s.) went on to mention the names of different goods (in addition to food articles) that we ultimately had to accept that none among us had any right whatsoever to in excess. There are a number of traditions that support the same point of view.

Thus, in Islam all wealth beyond one’s legitimate needs is held in amānah and confronts its holder with a serious trial (64:15). Lest one may be tempted to betray the trust and become oblivious to one’s obligations (63:9), the Qur’ān warns people time and again of those powerful people who, blinded by their status and

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*This sentence has been added in view of a remark by Dr. Shafey [Editor].
riches, defied the instructions of Allah the Supreme only to face total destruction.\textsuperscript{19}

The \textit{amānah} view of wealth, as explained above, should dispel the illusion entertained by many that the notion of private property is no different in Islam than the one held in capitalism.\textsuperscript{20} It seems to stem from the view that private ownership of property is not after all completely unfettered in free-enterprise economies as well. This is true insofar as it goes. A car owner, for example, must observe speed limits, is not allowed to drive through stop-traffic signals; and does not have licence to park his vehicle anywhere he likes. These type of “restrictions” are not, however, significant to Islam, it is rather the positive and explicit “rights” that \textit{Sharī‘ah} and the \textit{Sunnah} so clearly grant to other persons in one’s wealth, and the repeated insistence that these rights must be recognized and honoured that is important.

What one’s “legitimate needs” and “excess wealth” are, are essentially matters for the individual’s own determination and not one of objective external evaluation. \textit{Amānah} is an attitude of mind, a sort of self-discipline. It promotes in man the feeling that he is in the centre of an oceanic circle which consists of a family, a neighbourhood, a group, a community, a nation and a humanity. “We cannot be pure individualists because we are not pure individualists, we are bound together in a social web that permits none of us to be either completely independent of others or completely non-responsible for others.”\textsuperscript{21} This view is the cornerstone of the Islamic ideology. The Qur’ān exhorts: “... conduct yourselves with beneficence toward parents, and toward kindred and orphans, and the needy and towards the neighbour that is the kindred, and the neighbour that is a stranger, and the companions by your side, and the wayfarer; and those who work for you. Surely, Allah loves not the proud and boastful who are niggardly and enjoin people to niggardliness” (4:37–8).*

\textit{Amānah} is not an isolated idea; it is the soul of religion. Without this base, the various Islamic principles would not fit so neatly, as they do, into a harmonious pattern devoid of conflict and contradiction. On this foundation the superstructure of the Islamic economic system is raised. It is one which I believe, can alone

\*This paragraph has been added in response to Dr. Shafey’s observation that the author was not specific (in the original draft) on the issue of measurement of “legitimate needs” and “excess income” [Editor].
function uniformly ensuring both the fastest rate of economic growth and equitable distribution of incomes together with fundamental civil liberties.

III. THE STRUCTURE FOR DISTRIBUTIONAL EQUITY

The gap between social perceptions of the “ideal” and “actual” income distributions in an economic system would probably depend, among other things, on (1) the place of wealth in its value system including either the means allowed or tolerated for its acquisition, (2) the way factor relations are structured in the realm of production, and (3) the institutions it promotes for redistributational purposes. These three factors are inter-connected and reinforce one another in a circular relation. We will now briefly examine Islam’s position on these points so as to demonstrate that its economic structure almost automatically minimizes the said gap, i.e. between the ideal and the actual.

3(a) The Attitude Towards Wealth

In essence, the doctrine of amänah brings about a harmony between individual interest on the one hand and social gain on the other. For, without their adequate synchronization the potential for freedom of enterprise, which Islam so clearly recognizes, would become stilted and therefore, rarely an instrument for mass amelioration.

Amänah adds a social dimension to personal benefit. It gives an entirely new orientation to one’s attitude towards material pursuits. Once man imbibes the idea that he indeed has little moral claim to his wealth after his legitimate requirements have been met, he can more readily heed the advice that he ought to moderate his ambition for wealth,²² that the means to acquire it should be neat and honest,²³ and that if there is a conflict between wealth and virtue, he must be contended with what he can obtain rightfully even though it may be little (5:103).

Western atomistic and rationalistic concepts are essentially based on a dichotomous view of man, placing him against the society. In contrast, Islam projects a new vision of man. It emphasizes his self-developmental quality wherein his social, economic, and political activities are all fused together for
achieving a balance between his personal requirements and his extra-self obligations.

Under this Islamic projection of human personality, self-interest can neither remain the sole motivational force behind individual effort nor can wealth become the prime goal of one's life. The temptation to amass riches through deceit, monopolization, exploitation or other unfair business practices is much reduced. If only it were realized that the grave income inequalities that continue, unabated, to plague many present-day societies are the result of this very temptation we would then appreciate the healing element that the Islamic orientation can provide.

3(b) Factor Relations

The impact of amānah on the Islamic view of factor relations – including the determination of their relative shares in the fruits of their combinational productivity – is of great consequence for distributional equity. This can have a profound effect on personal incomes because in the economy as a whole the task of income creation and the task of income distribution are accomplished simultaneously. Let us discuss this in some detail.

Amānah leads to the Islamic norm of al-ʿAdl, i.e. social justice, of which economic fair play is an integral part. The Qurʾān declares: “God created the heaven and the earth for just ends and in order that each soul may find the recompense of what it has earned” (45:22).

From this it seems that the Islamic principle for the determination of factor rewards is: “To each his due”, i.e. according to what he contributes to total output. For this, it is imperative that exchange relations among factors are so devised that their rewards have the least possible chance of being vitiated by the element of gharar, i.e. exploitation whatever its shape or form.

The outcome of modern business is characterized by a high degree of uncertainty. Therefore, market forces are powerless to achieve justice in apportioning the revenue product among the participating factors. Even if the market could bring, by some magic, factor prices in relation to their marginal products these prices may not be just on the contribution criterion. For, the marginal revenue product of a factor is a function not of what it contributes to total output but of its scarcity relative to other factors.
Under the circumstance, predetermined factor prices would presumably be distasteful to Islam as the final determinants of factor shares. To begin with, this presumption finds support because Islam explicitly prohibits, rather condemns, lending on interest in any form. One of the reasons for this is that the outcome of the productive effort is uncertain, and so interest necessarily involves an element of gharar. In the case of the rent of agricultural land the dominant view seems to be that Islam would prefer its settlement between the land-owner and the tenant in the form of a reasonable proportion of the produce or of its money value. Rent as a prefixed amount of money would confront us with gharar.

Thus, interest is completely ruled out of the Islamic scene. Capital owners can participate in the productive effort only as sharers in profit accruing to them. The landlord-tenant relationship in cultivation, the major land use, is also sought to be structured, at least as a matter of preference, on a basis akin to mudārabsah - again a profit sharing scheme much popularized by Islam. This leaves us with labour and the problem of determining its reward in production. I have yet to come across a valid reason in Islamic economics for excluding the workers alone - and altogether - from sharing in the consequence of the uncertainties of modern business operations.

True, Islam allows the workers to receive a fixed wage independent of the business results. But to insist that the fixity of amount is the essence of the Islamic injunction would be a misplaced emphasis. Such insistence would in a way put wages and interest on a par. The simultaneous permission for the one and the condemnation of the other would be hard to defend. Luckily, such a defence is not required. For, what Islam really wants is to give labour a "just" wage for the work done (45:22). Preset wages could reasonably conform to norms of fair play in the days when production was largely carried out on a small scale to fill standing orders. However, in modern mass production, the payment of the market-determined wage or for that matter of any amount, however fixed, in the final settlement of the workers' compensation before the result of the productive effort becomes known can rarely be shown to meet the ends of justice.

*In the original draft, the author held that land rent was not allowed in Islam unless it is agreed as a proportion of output. He modified his opinion in light of a comment made by Dr. Martan [Editor].
A small digression may not be entirely out of place here. We cannot raise in the present context the analogy of fixed rentals being allowed for specific pieces of capital equipment. That is an important but separate issue. It lies outside the restricted scope of the present argument. In any event, men are different from machines in the matter of applying the laws of demand and supply for determining their returns. The questions of justice and injustice are more serious and consequential for the workers than the question of the hire of lifeless instruments of production. The two cannot be treated on the same level.

Coming back to the main theme, it may sometimes be argued in defence of prefixed wages that the workers are human beings and have in any case to be sustained. But this requirement can be met by ensuring to the workers the payment of an amount sufficient to maintain them during the period of production. The notion of such a minimum wage can be deduced from the Islamic insistence, noted earlier, that the basic needs of all the members of the community—working or non-working—have to be provided for. Minimum wages are to be the sure component of the production cost as is the depreciation allowance for maintaining the capital.

It can be safely presumed that subject to the minimum wage constraint, Islam intends to support labour participation in profits. For, then alone can we hope that the workers’ earnings will have a reasonable chance of being gharar-free and not only to them but to their employers as well. The presumption is further strengthened by the Islamic principle of muḍārabah which was used commonly in early Muslim societies and is currently being revived. To my mind, muḍārabah is not only a form of business organization; it has a message and a principle of wider implications.

It follows that we have to treat the entire product value minus the minimum wages as profit resulting from the combined productivity of labour and capital and meant for sharing between them. The workers may receive the market wage during the period of production but their earnings will have to be adjusted in light of the final business results.
3(c) Distribution Model

The macro-level Islamic model for income distribution that emerges from the above discussion can be neatly fixed and made clear by using a few simple notations.37 Let $Y$ be the net value added in the process of production, $P$ be the profit, and $\bar{W}$ the minimum wage. We have:

$$Y = P + \bar{W} \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots (1)$$

Suppose $P$ is shared between capital (including land) and labour in the ratios of $k$ and $(1-k)$ respectively. The above equation becomes:

$$Y = kP + (1-k)P + \bar{W} \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots (2)$$

However, the market wage — denoted say by $W$ — that the workers have already received will invariably be more than the minimum wage. In all fairness the excess paid out to them must be adjusted to $(1-k)P$, their share of profit. With this adjustment equation (2) takes the form:

$$Y = kP + [(1-k)P - (W-\bar{W})] + W \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots (3)$$

But $[(1-k)P-(W-\bar{W})] = B$, where $B$ may be called the bonus payable to the employees of all categories. This would give us the final Islamic model for the income distribution as under:

$$Y = kP + W + B \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots (4)$$

where $kP$ accrues to the suppliers of capital, and $(W+B)$ goes to labour.

$k$ and $\bar{W}$ are policy variables, and must be fixed juridically, subject of course to periodic review. Industry-wise differences in the value of $k$ may be used to distribute resources according to social priorities. Capital–output ratios, resultant rates of return on investment, industrial hazards, etc. are some of the factors which need to be watched constantly for effecting changes in $k$. Alternatively, a domain for $k$ may be specified, leaving the determination of its actual value open to the bargaining powers of the parties concerned. $\bar{W}$ may be different for different categories of workers, or else $(1-k)P$ may be shared by the employees on some differential basis to recognize skill gaps between various groups. Anyway, it is clear that these are matters
of detail for sharing and not of principle.*

In order to bring into sharp focus the significance of this adjustment device the following quotation from Jan Pen (p.17) may be useful: "The high incomes of top executives can in fact be understood only if we bear in mind that they are in a position in which they can fix their own remuneration. Supply and demand do not take us far here, nor does the concept of productive 'contribution'... Here 'power' is a more enlightening term than the forces of the market. And perhaps something of the same kind applies to wages fixed by collective bargaining." Our "adjustment" seeks to neutralize the consequence of this "power", rather erases the temptation to take advantage of "position". It tends to bring the ultimate earnings of the top executives into some reasonable relation with those lower down the order, thus reducing vertical income inequalities. Above all, it establishes the necessary equation between remunerations and the paying capacity of industry.

The model contained in the above equations is equity oriented. It is based on Islamic rationality, and can be put into operation. It attempts to mitigate *gharar* and minimizes the chance of exploitation of one factor at the hands of others. Thus, it promises to contain class conflicts and social strife. I believe, it must help *ceteris paribus* in reducing the emergence of undesirable inequalities both in the functional and personal distributions of incomes.

The profit-sharing scheme of the model deserves further examination in view of the comments made by a number of scholars.†

Dr. Shafey is inclined to support the case of profit sharing by labour as a system. But he fears that wage-plus-profit would raise the remuneration of the employed persons above their marginal revenue product, creating an adverse effect on the employment opportunities of new entrants to the labour market. Thus, profit sharing may not improve distribution of incomes. A similar view has been expressed by Dr. Shafey in his comments on an earlier

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*In the original draft, the mechanism for determining the relative shares of factors was not touched upon. This led Dr. Shafey to observe that they have been left open to be determined by mutual consent. The author has added this paragraph in response to that observation [Editor].

†This discussion has been added in light of comments made during the conference [Editor].
draft of my paper. He has maintained that: “Overpopulated capital-poor Islamic countries with structural disequilibria in the labour market can ill-afford profit-sharing arrangements on an extensive scale.”

This argument stems from the static theoretical construct wherein the marginal physical product can be shown to be reflected in the wage rate, under some heroic assumptions. But this cannot conclusively be shown to be the case under dynamic circumstances. In the real world there is no single unequivocal price system in which the various contributions and rewards are valued, where marginal revenue product does not unambiguously determine either the contribution or the reward of the productive factors. In any case, the principle of distributive justice should not be compromised for increasing employment. For, as a logical extension of that argument one can presumably ask: Why then are wages not allowed to fall, rather be pushed below, even the marginal revenue product if, and so long as, employment can be expanded in the capital scarce and labour abundant Muslim countries?

Today the industrial scene in most of the developing economies – Muslim or non-Muslim – is characterized with disquieting labour unrest – open or simmering. Both trade union leaders and industrialists show every sign of becoming increasingly weary and distrustful of each other. The crux of the disagreement is the role of the wage structure in industrial peace. It has been calculated, for example, that in the overpopulated and capital-short Indian economy, disputes over workers’ compensation have accounted for as many as 45 per cent of man-days lost between 1976 and 1979. This brings into focus the stark reality that if capital employs labour, in a sense labour also employs capital, for machines would stand idle if workers did not co-operate. In the process both capital-owners and workers suffer and the rest of the community also suffers.

The underlying spirit of the Islamic model pictured above is to help build bridges of goodwill and mutual trust on a just basis. In a supportive vein Dr. Said S. Martan observes: “Furthermore, it is valid to share the product between labour and capital-owners such as in muḍārabah. It is valid also for the employer to pay some bonus to his employees.” But he follows this immediately with the remark: “However it is unpractical for labour to share
profits in modern mass-production economies – as suggested in the paper.”* This looks queer. Even secular economics is now favourably inclined to the idea, and profit-sharing schemes are becoming increasingly operative in various forms in capitalistic economies. These schemes now form an important part of an attempt to build responsibility, and participation, and therefore, loyalty into the worker’s relationship with the firm.

It has also been argued that profits are primarily returns for risk-taking and presumably labour does not involve itself in risk-taking and as such cannot be a rightful claimant for a share in profit. The author is of the view that factors are paid for their services essentially because they are productive. Risk-taking is by itself barren, incapable of production. Again, what is the measure of risk and uncertainty? Can profits be shown on a priori reasoning to be entirely commensurate with risk?

The fact is that both capital and labour become productive only when combined in a firm. The combination is exposed to risk and uncertainty as a unit. In case of the failure being total, if financiers lose their capital and the workers lose their efforts, who will suffer more depends on their relative circumstances. Even in a going concern, the workers face the risk of exploitation because of their restricted mobilities; they are open to retrenchment; exposed to health hazards, etc. The risk borne by the two factors may be different in nature and magnitude but neither of them is completely immune.38

3(d) Some Redistributive Measures

The functional distribution scheme of Islam as outlined above, does not cover vast sections of the population – children, housewives, the infirm, the disabled or the unemployed – all of whom are not engaged in the community’s productive effort. We must support these non-producing elements of society, “because in some sense they belong to us, just as a limb belongs to us. A craftsman does not deny his feet shoes because he earns his living with his hands.”39 Again, the model leaves out self-employed persons – doctors, lawyers, accountants, architects, etc. as well as civil servants, military personnel, teachers, persons engaged in

*For Dr. Martan’s argument, see his comments following this paper [Editor].
religious institutions, etc. The determination of the earnings in these cases is more the result of complex social evaluations than of market processes – the marginal productivity theory is completely disarmed. These are nevertheless linked in some way with the level of the material output of the economy.

Under these circumstances and because contribution is the basis of reward, the equalizing effects of the model may not go far enough. Even through honest means, a number of people acquire great riches while many others remain needy and poor. But since the surplus with the former is an amānah, Islam introduces into the picture its grand principle of infāq. God promises His fadl or bounties (2:268) but warns that in no case will man attain righteousness unless he spends freely from his wealth in the way of God for the needy and the poor (3:86). Fadl and infāq are strictly interdependent; they cannot be separated from one another in a pure Islamic model. Broadly, infāq starts from one’s own self at the centre of the circle and covers in a ripple effect the family, the group, and the community until it reaches humanity at large on the circumference (4:37–8).

For spending in the way of God, the Qur’ān uses the words infāq, sadaqah and Zakāh as perfect synonyms. Its unceasing mention of them is not a mere exhortation for the pious act of generosity. Rather, their observance is a form of worship that ranks only third among the five fundamentals of Islam. So great is its significance in the Islamic system that Qur’ānic wisdom could not leave infāq entirely to individual taste and discretion. Allah instructed His messenger (s.a.w.s.) that he must extract one sadaqah from peoples’ material possessions (9:103). The minimum exemption limit as well as the rates applicable in case of various assets were left to be decided by the Prophet (s.a.w.s.). As such, he laid down the system and his decisions on both counts continue to be sacred and unalterable.

This obligatory part of the payment is since known as Zakāh and is kept distinct from infāq or sadaqah which constitute a separate and voluntary category. It is not relevant for our purpose to elaborate on the details of the system as they are well-known. However, a few observations may not be out of place.

Firstly, the scope of Zakāh in its various forms is very wide. It applies to both the incomes (e.g. ‘ushr) and the wealth of the rich. It covers cash in hand, in the bank or on loan; gold, silver
or their ornaments; all property (save residential houses) even if
under dispute or on auction or mortgaged; insurance provided
funds; agricultural produce; animal husbandry; goods for trade;
the output of manufacturing units; minerals including crude;
buried treasures as and when found; goods on hire; and so on.
Even this incomplete list is quite formidable. Thus, despite many
exceptions and low rates, the amount collected would be fairly
sizeable for the purpose that it is meant for. More so because
there is not much temptation for avoidance and evasion because
Zakāh is not a tax, it is worship. 40

Secondly, Zakāh is a pure transfer operation which siphons off
from the rich part of their wealth and current incomes into the
hands of the poor and the needy. There is no material return
whatsoever to the payee either directly or indirectly. Zakāh funds
can only be used for explicitly specified purposes (9:60 and
elsewhere). If and to the extent these uses can include the
provision of income-creating assets for and training facilities to
the weaker sections of the community, Zakāh would redistribute
material advantages not only in time but also over time, in favour
of the poor. Such possibilities may exist. At least there seems to
be a good case for juridical exploration. Success in the matter
may lend Zakāh expenditures to have more than the social security
dimension which is currently claimed. 41

Thirdly, the use of the word “one” in the verse (9:103) quoted
earlier is of great significance. The implication clearly seems to
be that the rich are not altogether absolved of their amānah
commitments even when Zakāh has been paid. This perhaps led
some of the Companions into believing that the retaining of the
surplus, if any, with the rich is harām or illegitimate 42 and they
ought to hand over the same to those entitled to it through infāq
or ṣadaqah. This, of course, is an extreme view, but it underlines
the unparalleled importance of amānah in the working of the
Islamic system.

Lastly, but by no means least, at a higher analytical level,
amānah operating through the institutions of Zakāh, infāq and
ṣadaqah, seeks to promote a culture, a way of living imbued with
the spirit of fellow-feeling, mutual support, sacrifice, co-opera-
tion, equity and fair play as opposed to rank individualism,
self-centredness, avarice, competition, injustice and exploitation.
One wave of prosperity originating from any of the individuals
helps create wave after wave until the entire communal pool is covered by them. In addition the spirit of amūnah at the international level can go a long way towards mitigating the ever-widening gap between the rich and the poor nations of the world.43

Before closing this section, a reference to the Islamic laws of inheritance must also be made. As the details of these laws are well-known, I have only to submit that they are an important weapon in the Islamic arsenal meant to root out completely the possibility of wealth being concentrated in a few hands and ensuring its distribution over a wide circle. Their revolutionary import can easily be appreciated if only we remember that they sought to reverse completely, when they were initiated, the well entrenched practice of keeping wealth undivided in one way or another after the death of the owner. The maintaining of “estates” and “undivided joint property” are still prevalent but seem to have lost much of their grip under changes that have taken place because of the laws of inheritance of other communities presumably under inspiration from the Islamic model.44

IV. THE STATE AND INCOME DISTRIBUTION

Islam accommodates freedom of enterprise and the private ownership of property essentially to get the best out of individual efforts for achieving overall prosperity which is its ultimate aim. In no case is it prepared to leave economic affairs entirely to the random choice of the individuals. For Islam is well aware of their intrinsic violent love for material gains (100:8) as well as of their avarice and niggardly nature (4:128, 17:100). Despite all the warnings, they may be tempted into acquiring wealth through oblique means and become negligent of their trusteeship responsibilities. As such, Islam makes it obligatory on the part of the state authority – the custodian of social welfare45 – to intervene, effectively, in the economic deliberations of the community if and when things are feared or seen to be going astray.

For promoting distributional equity, the state can legislate to abolish interest* and can launch interest-free banking institutions.

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*This is something the Islamic state must do in any case and not only for promoting distributional equity [Editor].
It must take over the work of the collection and disbursement of *Zakāh* funds. Such steps have already been initiated in some Muslim nations and others may follow suit.

Again, the state can make laws for the payment of minimum wages to the workers as well as ensure their share in the profits of various productive units so as to put into operation the income distribution model briefly pictured in the preceding part. There is also room to suggest, as is evident from the earlier discussion, that an *amānah* fund with a first charge on profits before their distribution ought to be established in each firm that may have grown beyond a specified size measured, say, by the total capital employed in it. A proportion of these funds may be contributed to the industry level trusts which may be obliged to pool a particular part of their receipts into a National *Amānah* Fund, thus completing a pyramidal structure. The fund of each firm can be utilized for promoting the material well-being of those directly related with its operations in inverse relation to their earnings. Each industry level trust can launch research and development programmes for the common benefit of its constituent units. The National Fund can use its resources to lessen the regional imbalances in economic development and prosperity. This is only an illustrative sketch; a more detailed and purposeful programme for using the financial resources collected in the proposed *amānah* funds can be prepared after more elaborate deliberations.

Further, the state can introduce market regulations to ensure fair trading practices which conform to Islamic norms and values. These may concern, for example, keeping standard weights and their correct use, maintaining quality, charging reasonable prices, and so on. It can take action against hoarding, profiteering, black-marketing, trading in prohibited lines, speculation or any other manipulations that may be considered from the Islamic viewpoint as inappropriate or which might lead to *iktināz*, i.e. the concentration of wealth in a few hands.

Last, but very important, is the fact that most undesirable income inequalities invariably arise from the unequal distribution of property. However, this cannot be allowed to be the case in Islam. Islam no doubt admits private ownership but by no means considers it as sacred, devoid of social responsibility, and untouchable. The Qurʾān clearly instructs: “To those weak of understand-
ing make not over your property which God has made a means of support for you but feed and clothe them therewith and speak to them words of kindness and justice” (4:5).

This applies in the first instance to the orphans but the formulation seems to be quite general. Some of the eminent commentators have interpreted the words “your property” in this oft-quoted verse as implying that all property in the ultimate analysis belongs to the community and is intended to be for the support of “you” all. The individual owner holds it essentially as an amānah. Thus, if individuals fail to fulfill their trusteeship responsibilities the Islamic state is under an obligation to restrict their ownership rights and take over the management of property from them on just and reasonable terms in the larger social interest. Early Muslim history amply testifies to the validity of this interpretation. Those who may not agree with the inference will have to produce Qur'ānic evidence to the contrary. Presumably, they will find none.

The economic scheme which Islam presents is a flexible one. To the extent that people voluntarily observe the Islamic norms, it will resemble the capitalist structure minus its major ills including glaring income inequalities. On the other hand, the more people neglect their amānah obligations the greater will be the need for state intervention that will ensure distributional equity by putting socialist-type curbs on individual freedom but falling short of repression.

CONCLUSION

By way of conclusion, I will take some selective points from my discussion in a summary form and make a few remarks on some matters which have not been elaborated upon or dealt with in the main argument.

Money income is preferable to individual utilities as an object of distribution. The achievement not of the perfect equality of incomes but of equity in their distribution is the proper policy goal. Equity can be interpreted in several ways none of which can be preferred to the others in a once-and-for-all choice. Similarly, income distribution can be viewed from different angles but from the equity viewpoint, personal distribution is the centre of attention. An improvement in functional distribution promises
to improve, other things being equal, the personal distribution as well.

The Islamic approach to equity seems to centre around the personal distribution of incomes. In this regard, the notion of an income floor is basic to Islam but it does not seem to approve of income-ceilings.

The concepts of “ideal” and “actual” income distributions are matters of social perception, not of objective determination. Yet, such perceptions are useful for attempts to close the gap between the two. The objective is achieved with greater ease in the Islamic system because it relies more on preventive measures than on “after the event” corrective measures. The fountainhead of these measures is amānah.

Interest is banished in Islam to avoid gharar and rent must preferably be a proportion of the crop. In the same way, prefixed wages in the area of mass production meant for the market are likely to invoke gharar. So the workers’ earnings should also finally depend on the outcome of business subject to a minimum wage constraint. A macro-level distribution model incorporating a scheme of profit-sharing in line with the Islamic requirements has been presented. The scheme is expected to have, among other things, an equalizing effect on the personal distribution of incomes.

Even after the implementation of the proposed model, undesirable income inequalities though reduced may persist. Here, Islam introduces into the picture its celebrated notion of infāq – an instrument that brings the doctrine of amānah into full play. Infāq has a number of variants including obligatory Zakāh and sadaqah. Even its Zakāh part has a very wide application. Infāq constitutes a pure transfer operation designed to level undesirable income and wealth differences. The Islamic laws of inheritance further reinforce the process.

Consequently, the Islamic system must ensure through a self-regulating voluntary social mechanism an equitable distribution of incomes among the members of the community. But people are prone to deviate from the right path. Therefore, Islam empowers, rather instructs, the state to initiate a whole range of control measures including the takeover of property should the larger communal interest so demand. In this connection, the institution of different levels of amānah funds has been suggested.
Islam promotes economic freedom, but also insists that individuals must fulfil their social responsibilities. The coin has two sides and neither can be separated. Responsible behaviour on the part of individuals is perhaps the best way for keeping state intervention at a minimum.

A word about the inter-relations among the various policy goals. Economic freedom has already been paid some attention in the above discussion. Stability is perhaps largely consistent with distributional aims. This leaves us with the relationship between equity and economic growth.

The issue of distributive justice is invariably discussed with the implicit assumption of a fixed total income that has to be distributed among various individuals and social groups so as to converge to some “ideal” division. However, total income is not fixed, it grows in a developing economy. Under dynamic situations, we must, therefore, attempt to build bridges and evolve trade-offs between the ideals of distribution and the objectives of economic progress. But it is a highly complex and difficult task, not yet adequately resolved even at the theoretical level.\(^\text{50}\)

However, I feel that the conflict between distributive justice and growth may not be that sharp in the Islamic system as elsewhere because of its in-built safeguards against the emergence of undesirable income inequalities. Further, amânah funds can be suitably manipulated to bring some measure of reconciliation between the two. In any case, the Islamic system would probably prefer, in general, a relatively slower rate of economic development if that works better for achieving distributive justice compared to a position where faster growth can be ensured but at the risk of increasing the existing wealth and income disparities.

In sum, the author is of the firm conviction stemming not from emotion but cold logic\(^\text{51}\) that the flexible Islamic way alone promises a peaceful solution to the explosive income distribution problem of the Muslim societies of today without unduly suppressing basic human liberties.
NOTES AND REFERENCES

In the following notes (U) stands for Urdu. The quotations from the Qur’ān are not always exhaustive; the same point may be supported by other verses as well.

1. For, Islam allows the private ownership of property including that of the means of production. It holds trade and therefore production in high esteem and hails profit as a form of God’s bounty (2:180, 188, 198, 240; 3:180; 4:7–9, 11, 12, 19, 33, 176; 5:100, 111; 9:34; 62:10; 73:20).


3. The Qur’ānic instructions to shun fraud (83:1), to fulfil all obligations (5:1), to honour each trust (41:58) and to give each person his due (2:278; 11:85; 26:183; 45:22) all testify to Islam’s anxiety for achieving distributional equity.

4. Among the leading welfare economists who seem to take this stand we may include Bergson, Samuelson, Graff et al.


8. For example, implicit in the insistence that the society must satisfy the minimum basic needs of all its members is the fact that individual utilities do influence to that extent the distribution of money incomes.

9. For an interesting discussion on the three alternative goals of equity, see Boulding, K. E., *op. cit*, Chapter 4. “Economic Justice”.


12. For example, Gandhiji the celebrated Indian leader of this century propagated this idea on the basis of verses taken from the Hindu scriptures.


16. See the enlightening commentary on this verse in Maulānā Maḥmūdul Hasan, ‘Ilāh al-Adillah, p.168. Also Maulānā Abūl Faṣād Mālām Aẓād, *Tarjumān al-Qu‘rān* (U) where the verse is numbered as 2:27.

17. 6:141; 17:26; 30:38; 51:19; 70:24–5. In all these verses the right (Haqq) of others in one's wealth is explicitly recognized. Even at the time of the distribution of the inheritance if some persons other than the relatives of the departed are present they may be given something (4:8–9; 89:14).
22. The Prophet (s.a.w.s) is reported to have said: “Fear God and be moderate in your pursuit of wealth. Take only what is allowed and leave what is prohibited.” Ibn Mājah, Vol. 2, p.725.
23. For example, one should not trade in the prohibited lines, should have and use correct measures, and must be honest in making the statements about the quality of his goods.
24. 4:27; 28:77; 29:54; 57:20, 21 these verses remind man of the trilling nature of wealth in relation to ethical values.
25. These include *ihtikār*, *iktināz*, *gharar*, *istighlāl*, etc. On this see Hifzur Rahman, *supra* n. 10, pp.360–3.
27. Islam aims at shaping all exchange relations on the principle of mutual benefit, co-operation and fair play (4:29–30). So, as a general rule it does not permit transactions or contracts wherein pure chance can cause any one of the parties a loss to the benefit of the other if the same can possibly be avoided. This is the celebrated principle of *gharar*.
28. Perhaps no other subject has attracted so much attention in writings on Islamic economics as the question of interest and the axiom has emerged that for interest there is no scope whatsoever in an Islamic order (2:279; 3:57; 3:86; 4:10).
29. For example, Maulānā Maudūdī takes this stand, see *supra* n. 13, pp.228–41.
30. The question of such a similarity between the two has been raised by Dr. W. A. Kabuli which has been referred to by Dr. Mohammad A. Mustafa al-Zarqa in his ‘Jawāb ‘Ala ‘Tas’dulât *I’awl al-Fā’idah Wal-Riba’*, Ṣaḥīfa al-Madīna, p.7, February 9, 1982.
31. Dr. Zarqa in the note quoted above gives reasons as to why Islam permits prefixed wages but not a fixed payment (interest) for capital. His arguments though commendable do not go far enough.
32. According to a Tradition, of the three persons who are certain to attract the wrath of God on the Day of Judgement one will be the person who takes full work from the workman but does not pay him his due wages. *Bukhārī*, Vol. 3, p.112.
33. For example, this is one of the reasons given by Dr. Zarqa in defence of prefixed wages, *Supra* n. 30, p.7.
34. “The Islamic principle which was laid down in this respect entitles the workers to share the profit with their employers. Some Mālikī jurists prudents went so far as to give the employees an equal share of the profit.” Muhammad Quṭb, *Islam – the Misunderstood Religion*, Chapter 3, Dārul-Bayān Book Shop, Kuwait.
35. Maxime Rodinson, *supra* n. 20, for example, provides such evidence, p.51.
36. For this approach to profit see Zubair Hasan, *Theory of Profit*, Vikas Publishing House, New Delhi, 1975, Chapter VII.
37. This model was given by the author in a somewhat different form in an earlier paper, *Theory of Profit from the Islamic Angle* – a research work done for the International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia.
38. For a more complete argument see the author's *Theory of Profit*, Vikas Publishing House, New Delhi, 1973, Chapter 3, “Cause and Source of Profit”.


42. For example, this was the opinion of Abū Dharr al-Ghifārī.

43. For, the developing nations complain and rightly so, that the affluent countries are not providing them due aid for their projects, not even the minimum as desired by the UN.

44. For a comparison see Hifzur Rahman, *supra* n. 10, pp.352–5. Changes in the Hindu law have, for example, been made very recently to enlarge the number of inheritors.

45. See Kišāb al-Amwalī, pp.5–6.

46. 11:84; 17:35; 26:181–3; 83:1–4.


48. In the early Muslim period land was the main form of property. There are many examples where the land of the conquered areas was not distributed among the participating soldiers. It was either left with the original owners or retained by the state. In some cases it was taken back if the owners could not use it within a specified time limit.


50. “The problem to what in fact is the relationship between distribution and economic progress is one of the least known relationships in all of economics.” Boulding, K. E., *op. cit.*, pp.10–64.

51. The logic of all argumentation in the area of social dynamics is primarily inspired by a minimal of some belief system. This is true of capitalism, socialism, Marxism and Islam in equal measure.

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