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## The Legacy of Muhammad Hamidullah in Islamic Economics\*

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### Abstract

Dr. Muhammad Hamidullah is famous for his French translation of the Qur'an, and well-known for discovery, editing and bringing in light a number of rare and invaluable *hadith* manuscripts. He is also rightly acknowledged for his groundbreaking research works on international Islamic law, biography of the Prophet (peace be upon him), Islamic politics and archival heritage of Islam. A less known but significant aspect of his contribution is his pioneering works on Islamic Economics. Spread over more than fifty years he wrote scores of papers in English, Urdu, Arabic, French and Turkish. In fact it was he who coined the term "Islamic Economics" by which this discipline is known worldwide today. Many firsts in this subject belong to him. For instance: the first and the earliest record of the interest-free financial institution in the modern period, advocacy of mutuality as the basis for Islamic insurance, mutuality based Islamic finance, proposal for establishment of international interest-free monetary fund, federation of currencies for Muslim countries, etc. He also focused on topics such as nature of Islamic economic system, critiques of capitalism and communism, insurance, *zakah* and public finance, money and banking, partnership and equity finance, production and distribution, labor relations, *et cetera*. The present paper aims at introducing this aspect of his contribution and his legacy in Islamic economics.

**Keywords:** Genesis of Islamic Economics, Islamic Insurance, Zakah, Labour organization, Interest, Risk shifting, Federation of currencies, Mutuality.

### Introduction

Dr. Muhammad Hamidullah (1908-2002) born in Hyderabad, lived in Paris and died in USA<sup>1</sup> is well-known for discovery, editing and bringing in light a number of rare and invaluable Islamic manuscripts. He is also famous for Qur'an's translation, *hadith's* collections, the Prophet's (peace be upon him) biography, international Islamic law, Islamic politics and archival heritage of Islam. A significant aspect of his contribution is his writings on Islamic Economics. He was also an active member of a forum organized by Nawab Bahadur Yaar Khan (d. 1944) to discuss contemporary socio-economic problems (Khan, n.d. pp. 3-4). But surprisingly enough, this important aspect of his contribution remained largely unnoticed by his biographers.<sup>2</sup>

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<sup>1</sup>Since Muhammad Hamidullah is a very common name, he is sometimes called as Muhammad Hamidullah of Hyderabad and sometimes he is called Muhammad Hamidullah of Paris.

<sup>2</sup>For a survey of literature see Islahi (2015b, pp.19-20).

He authored more than a dozen essays related to the subject and a few book reviews.<sup>3</sup> In fact Dr. Muhammad Hamidullah is among the pioneers of modern Islamic economics. His first article entitled "*Tijarat ka ta'alluq Aan-Hazrat (pbuh) aur Khulfa-e Rashidin se*" (Trade as related to the Prophet and his caliphs) appeared in 1927. He started writing on Islamic economics in English in early 1930s. Spread over more than fifty years he wrote scores of papers in English, Urdu, Arabic, French, Turkish and Persian.<sup>4</sup> He focused on topics such as nature of Islamic economic system, critiques of capitalism and communism, insurance, zakah and public finance, money and banking, partnership and equity finance, production and distribution, labor relations, *et cetera*. The present paper aims at introducing the legacy of Dr. Muhammad Hamidullah in Islamic economics.

## 1-Innovation of the term 'Islamic Economics'

At present, Islamic economics is a well-developed and recognized discipline. Modern writings on the subject started during the thirties of the last century, and Hamidullah is, no doubt, one of its pioneer writers. The term 'Islamic economics' is also a product of the 20<sup>th</sup> century although the origins of Islamic economics go back to early period of Islam. However, a majority of scholars are not clear when this term was first used and how it got currency. In one of his articles, Kahf attributes it to Mawlana Manazir Ahsan Gilani. He says: "It [the term Islamic Economics] dates back to the late 1940s when it was used for the first time by a professor of Islamic studies in Osmania University, in India the late Sayyid Manazir Ahsan Gilani in an Urdu language book published in 1947 that he gave the title "Islamic Economics" [*Islami Ma`ashiyat* in Urdu].<sup>5</sup> This is not correct. Earlier than that in 1939, Mawlana Hifzur Rahman Seoharawhi published his book *Islam ka Iqtisadi Nizam* (Economic System of Islam) and used the term "*Islami ma`ashiyat*" (Islamic Economics) at several places.<sup>6</sup> No doubt, Seoharawi's work is *the first book exclusively on Islamic economics in modern period in any language*. However, to the best of our knowledge the term 'Islamic economics' was coined by Hamidullah first time in English in his paper "Islam's Solution of the Basic Economic Problems – the Position of Labour" (1936, pp. 213-33).<sup>7</sup> He uses this term in this article at several places.

## 2- Nature and Characteristics of Islamic Economics

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<sup>3</sup>In his recent work *Muhammad Hamidullah and his pioneering works on Islamic economics*, this writer has collected, edited and appended all such works (Islahi, 2015b).

<sup>4</sup>For a list of his papers on Islamic economics in these languages see Islahi (2015b, pp. 20-22).

<sup>5</sup>[http://monzer.kahf.com/papers/english/methodology\\_malaysia.pdf](http://monzer.kahf.com/papers/english/methodology_malaysia.pdf)

<sup>6</sup>For example see Seoharawi, 1969, pp. 35, 36 [1939].

<sup>7</sup>It may be interesting to note that a Turkish American writer Timur Kuran, a critic and opponent to Islamic economics wrongly attributes the term to Mawlana Mawdudi to provoke readers against the discipline. He observes:

In addition to "Islamic economics," Mawdudi coined or popularized many other terms that quickly became key elements of Islamist discourse, including "Islamic ideology," "Islamic politics," "Islamic constitution," and "Islamic way of life" (Kuran p. 84).

Arguably a contemporary author, who is expert of Urdu, Arabic and English in addition to economics, after a survey of Mawlana Mawdudi's works concludes that the Mawlana never used the term 'economics' (in Urdu *ma`ashiyat* or *iqtisadiyat*) (Zaman, 2011, p. 305).

At the time when Hamidullah started writing on economic issues two, economic systems - Capitalism and Communism - with similar worldviews but different visions and strategies were struggling to dominate. The primary emphasis in Capitalism was on the market, while that in Communism was on central planning. The goals were to be realized in the former through the interaction of market forces in a competitive environment, and in the latter, through central planning in a totalitarian system where means of production were collectivized. Moral values had little direct role to play. Hamidullah presented a convincing Islamic alternative, the middle way between the two extremes of capitalism and communism which received strong support from the later writers on Islamic economics.

The main principles of Islamic economics are derived from the revealed sources, the Qur'an and the Sunnah and *ijtihad*. Thus, the Islamic economic system is also distinguished from the so called mixed economy which combines the elements of free enterprise and control but completely depends on faulty human reasoning affected by emotions and sensations.

Hamidullah felt in thirties of the last century that the world needs a new economic order and that new economic order or "new economic system" is provided by the religion of Islam. To him "both *laissez-faire*<sup>8</sup> and socialism are untenable extremes. For efficient and equitable economics the elimination of their defects and a proper balance of the two, such as Islam offers, seems well worth considering" (Islam's Solution p. 233). This objective he kept in mind while writing on various aspects of Islamic economics. Following are some of the characteristics of Islamic economics as compared to *laissez-faire* of capitalism and totalitarian communism emphasized by Hamidullah in his article "Islam's Solution of the Basic Economic Problems: The Position of Labour":

- 1- "Islam gives an economic system that is automatic, which is what the purely equalitarian or socialistic systems are not,
- 2- It tends to equalise distribution which the *laissez-faire* system cannot,
- 3- It provides a method of production which leads to maximum output with minimum disutility which the equalitarian systems do not,
- 4- It provides stable business and industrial conditions which the *laissez-faire* economics cannot, and
- 5- It maximises both the national dividend and the social welfare arising from it to a degree which neither of the two can. In it private enterprise does not interfere with increasing equality of distribution; rather each promotes the other" (Ibid. p. 218).
- 6- "The Islamic system guarantees ample subsistence to the poor". ... "in Islamic economics the State undertakes to fulfil this guarantee on behalf of God through the institution of *zakah* or "Growth-tax"(Ibid. p. 215).
- 7- "It provides the greatest initiative to production by recognizing private enterprise, private property, the institution of the family, inheritance, and a

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<sup>8</sup> *Laissez-faire* is a French term which means abstention by governments from interfering in the workings of the free market. One of the guiding principles of capitalism, this doctrine claims that an economic system should be free from government intervention or moderation, and be driven only by the market forces.

high standard of living, it yet contrives completely to eliminate the harmful influences of each of these" (Ibid. p. 218).

8- "Then Islam also approves private enterprise in business, the reward of which the Qur'an constantly calls the "the bounty of Allah." The permission is plain. "Allah permitteth trading and forbiddeth usury" (Qur'an 2: 275) (Ibid. p. 225).

9- The most important feature of Islamic economics is that its operation eliminates industrial fluctuations altogether by prohibiting the institution of lending on interest (ibid.).

10- Islamic Economics of production thus takes a definite position between *laissez-faire* and socialism and so gets rid of most of the problems attached to them" (ibid. p. 230). ... According to Hamidullah "The communistic system only emphasizes distribution. It neglects production. Islamic economics, having them both in view, finds itself unable to sacrifice these institutions. It approves them with limitations" (ibid. p. 233).

In Hamidullah's opinion both capitalism and communism are extreme systems. Islam's is a middle and moderate economic system. "Although Islam and Communism are not the same thing, it is possible that they do not differ in each and every thing. ... Economic betterment is the common goal the ways leading thereto may differ. The pros and cons are to be weighed against each other before making the choice" (*Islam and Communism*, P.1)

To Hamidullah, the main difference between Islam and communism is that "Islamic emphasis is more on the moral aspect than on the economic one" (ibid.pp.10-13). In his opinion, the root cause of evil in both capitalism and communism is "materialism". Materialism has been responsible for the degeneration of Capitalism. Similarly, "Communism, that is collective ownership of the means of production, may as such not lead to anything unbearable what I fear for it is its alliance, or rather conspiracy, with materialism" (Ibid. P. 17).

Hamidullah is not against competition and freedom of enterprise. He argues: "The past history of man shows that every advance and every discovery of the means of comfort came into existence through competition and desire for amelioration and also through the existence of grades of wealth or poverty among men one above the other" (Ibid. P. 2). This does not mean there is no place of control and interference in Islamic economy. He makes clear that "In normal times, Islamic polity makes least interference in the economic freedom of individuals. Free trade is its motto, though cut-throat and unfair competition is not allowed. ... In abnormal times, in periods of need and emergency, the interference proportionately increases" (Ibid. p.18).

### **3- Labour organizations in Islamic System**

Labour economics is one of the least discussed topics of Islamic economics. There is gap of writings on this aspect of Islamic economics. Surprisingly, Hamidullah showed the way to this in his early writings. As mentioned above his first research paper was entitled "Islam's Solution of the Basic Economic Problems: The Position of Labour" (1936). While reading Hamidullah's reflections on Islamic economics one will notice that he gives some new interpretations to old and well-known facts. This is very clear when he proves existence of labour organizations in Islamic system and qualities of labour in Islamic economics. He infers from the story of Moses and the pious man of Madyan (cf. Qur'an 28: 26-27) the employer and employee relations. Islam requires

that an employer should not be hard to his employees, "and the qualities required of the worker are in a nutshell 'strong and honest'" (Book Review, 1955, p. 144). In addition, for a particular kind of office there may be some other relevant qualities needed. For example, in the Qur'an (12: 55) a would-be employee describes his qualifications as trustworthiness and knowledge with regard to finance and accounts: 'I am trustworthy and well versed in (this) science' (ibid.).

Hamidullah claims that labour organizations have always existed in Muslim countries, "and all *fiqh* books for instance speak of them in the chapter on *ma`aqil* or insurance against heavy damages to pay. The *Chaudhri* of Indian Islam, the '*arif* elsewhere, are heads of trade guilds" (Book Review, 1955, P.145). Many Western writers have also supported the existence of guild in Islamic history. According to Baer (1970, p. 17) a clearer picture of guild is noticeable in Ottoman cities in the period after 15<sup>th</sup> century. Looking into the emphasis of Islam on dignity of labour and justice with the subordinate workers, it is surprising that generally the topic of labour has not attracted the attention of the Islamic economists.

#### **4- The economic policy of Islam with respect to distribution**

Although Islam allows private property and individual ownership of productive agents, it does not approve concentration of wealth in few hands, increasing gap between the rich and the poor, and deprivation of any section of the society from fulfillment of its basic needs. It provides a number of measures for redistribution of income and wealth and alleviation of poverty. The core of Islamic distributive policy, as the Qur'an has laid down, is that "It (the income and wealth) *may not circulate solely among the rich from among you. . .*" (Q. 59: 7). Since natural talents are not equal among different men and women, the just system of Islam calls for equitable distribution and not equal distribution. Hamidullah reiterates:

Even if one were to start a group of persons with complete equality, the spendthrift will soon fall into difficulties and will again look on the fortune of his comrades with greed and envy. Further, on philosophic and psychological grounds, it seems that in the very interest of human society, it is desirable that there should be grades in wealth, the poorer having the desire and incentive to work harder. On the other hand, if everybody is told that even if he works more than what is required of him as his duty, he would get no reward and would remain as those who do not do more than their duty, then one would become lazy and neglectful, and one's talent would be wasted to the great misfortune of humanity (The Economic System ... p. 121).

The socialistic and communistic slogans are respectively "from each according to his ability to each according to his work" and "from each according to his ability to each according to his need" (Oser and Blanchfield, 1975,p. 148). To Hamidullah, "the Islamic formula of distribution seems to be: "to the poor according to their needs, to the rich according to their services" (Islam's Solution ... p. 231).

Hamidullah pays special attention to the provision of bequest (*wasiyah*) and its place in the distributive scheme of Islamic economics. Fulfillment of a will becomes obligatory on the survivors and it gets priority over the legal inheritors, provided that it is up to one-third of the inheritance. According to Hamidullah the wisdom of limiting the bequest to one-third is to prevent concentration of wealth. He remarks:

"... the right of testamentary bequests is operative only within the limits of a third of the property, in favour of persons other than creditors and heirs. The aim of this rule seems to be two-fold: (1) To permit an individual to adjust things, in extraordinary cases, when the normal rule causes hardship; and a third of the property is sufficient for fulfilling all such moral duties. (2) Another motive of the law of the will is to prevent the accumulation of wealth in the hands of a few, a thing which would happen if one should give all this property, by will, to a single person excluding totally one's near relatives. Islam desires the circulation of wealth among as large a number of people as possible, taking into account the interests of the family" (The Economic System p. 124).

He suggests that "In countries where the Islamic law of inheritance is not applied by governments, yet the right of testament is recognized, the Muslim inhabitants can (and must) utilize this facility, in order to fulfill their religious duty with regard to the disposition of their property after their death" (ibid.). He means a Muslim must write his testament regarding his assets in accordance to Shariah rules of inheritance.

#### **5- Interest and economic crisis**

Perhaps Dr. Hamidullah's attention was drawn to economic issues due to the economic crisis of 1930's known as the Great Depression. That is why he reflects in his first article "Islam's Solution of the Economic Problem" as the most important feature of Islamic economics is that its operation eliminates economic fluctuations altogether (1936, p. 220). In recent years also we have witnessed a worst kind of global financial crisis. One of the most important factors behind this crisis has been excess lending. In the opinion of Chapra (2009, p. 13) the crisis was due to "an unhealthy expansion in the overall volume of credit, to excessive leverage, ... and speculative investment". Jean Claude Trichet, President of the European Central Bank, has rightly pointed out that "a bubble is more likely to develop when investors can leverage their positions by investing borrowed funds".<sup>9</sup> It is to be noted that while analyzing the causes of crisis in his own time, Hamidullah also points out the institution of interest as the main culprit behind economic crisis. Interestingly he uses the same word "bubble" though the situations were very different:

"A wave of optimism spreads. Lending institutions become overconfident and lend more and more to the speculators and to the less competent enterprisers coming into business. Very soon the credit bubble expands to its full capacity" (Islam's Solution, p. 220).

In his survey of contemporary literature Siddiqi comments:

Hamidullah pointed out that the institution of interest introduced an essential duality of interests between the capitalist and the entrepreneurs, which is a source of fluctuation in the system. By abolishing interest and bringing the capitalist and entrepreneurs together on the basis of profit-

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<sup>9</sup>Cited in Chapra (2009), "The Global Financial Crisis: Can Islamic Finance Help?"

sharing, Islam ends this duality and harmonises the interests of the two classes. (Siddiqi 1981, p. 64)

Hamidullah further shows how borrowing on interest creates conflict of interests and results into financial crisis (Islam's Solution ... , p. 221):

The disease is only of the essence of the institution of lending on interest. Islamic capitalistic economy eliminates lending on interest but retains capitalism and thus gets rid of all crises. (Ibid. p. 222)

Hamidullah's use of the phrase "Islamic capitalistic economy" in the above passage may not be agreeable to many Islamic economists. Obviously he does not mean to say that Islamic economics is capitalism minus interest in all aspects. Nor does he endorse philosophy of capitalism. What he means is related to lending institution i.e. the banking and investment only.

Hamidullah suggests the government arrange interest-free loans to its people. This will have favourable impact on production of goods and services and the foregoing of interest by the government will be compensated in the form of increase in production of goods and services. He says: "In fact, the governments will not lose in renouncing interest on loans advanced to its own subjects, for the growing prosperity will recuperate the eventual interest in the form of increased income from taxes on houses and on industry and commerce" (A Suggestion ... 1955, p. 11). This will work as preventive measure for occurrence of crises.

## **6- Risk-sharing vs. risk shifting**

In Islamic system two most recommended modes of financing are *mudarabah* and *musharakah*. Both are characterized by risk sharing among the participating parties, whereas the interest-based traditional method of conventional finance subsists on risk transfer and risk shifting to counter parties. Today it is much emphasized that the financial crisis may be avoided if instead of risk-shifting risk-sharing is adopted in financing the projects. It is noteworthy that Hamidullah stressed risk-sharing long ago while discussing the reason for prohibition of interest (The Economic System ... p. 131).

Recently a very valuable work entitled *Risk Sharing in Finance: The Islamic Finance Alternative* has appeared by four international experts of finance: Hossein Askari, Zamir Iqbal, Nouredine Krichene, and Abbas Mirakhor in which they present the Islamic finance as an alternative to the debt-based risk-shifting conventional finance. Hamidullah's views have great support in this book. They defined risk-sharing as 'a contractual or social arrangement whereby the outcome of a random event is borne collectively by a group of individuals or entities involved in a contract, or by individuals or entities in a community' (Askari et al., 2012, 70-71). Risk sharing is an essential feature of equity financing, where the risk of loss and gain are shared by the partners. Such a system provides impetus to economic growth because 'the financial sector and the real sector are seen as closely linked, with both having to grow in tandem' (ibid.).

While discussing Islamic banking Hamidullah makes it clear that "If the bank participates in the profit of its debtors as well as in their risks, Islam allows such banking activities, otherwise not" (The Economic System, 132). At another occasion

he described the negative impact of fixed charge (i.e. interest) on money borrowed for production purpose. He observes:

If you have spare money you can become a partner or purchase a share and partake of both positive and negative profits. You are not allowed to give a blow to the entrepreneur in his worst moment and destroy his resisting power and not only ruin him but create social havoc. There is the huge injustice in the institution of interest and the strong tendency to get out of control. (Islam's Solution ... p. 223)

According to Hamidullah "It is now universally admitted that each and all economic miseries of the present day world are ultimately traceable to the institution of interest on loans"(The Political Significance of Zakah, 1950, p. 5).What Hamidullah said more than 65 years before was endorsed by a conference held at Amman in Jordan during 1-2 December 2010. There was consensus among the participants that excessive lending and risk shifting in the conventional finance, in addition to interest (*riba*), excessive risk (*gharar*), gambling (*maysir*), speculations (*mujazafah*), were the main reasons behind the financial crisis. Capitalist system was held as to have an inherent tendency to frequent crises. In their opinions, the risk-sharing and Islamic economic system based on ethical values presents an alternative to avoid occurrence of such crises (Urran 2012).

## **7- Federation of the currencies of the Muslim countries**

One of the unique proposals of Hamidullah is regarding formation of the federation of currencies of Muslim countries. In 1949, Hamidullah wrote an article in Urdu entitled "*Islami Sikkon Ka Wifaq*" (Federation of the currencies of the Muslim countries). He gave the summary of that article while commenting on *Homo Economicus Islamicus*. Proposal was about "forming a new bloc by the side of dollar, sterling, franc, etc. From Morocco to Malaya-Indonesia, including the Central Asian colonies, if Muslim countries gradually realize this union (and they are in a favourable position for their products of petrol, jute, tin, cotton, etc.), they would secure their economic independence better than in any other way of merger with other blocs or floating in loneliness as in Egypt, Saudi Arabia, Syria, etc." (*Islamic Quarterly*, 1955, Vol. 2, P. 145). He advised the economists of Pakistan who was going to organize its first economic conference to constitute a committee of experts and think over the feasibility and difficulties of this proposal (*Islami Sikkon ka wifaq* p. 20).

It is not known whether any step was taken by the Muslim economists at that time. Europe made such a block by introducing Euro zone comprising 16 European countries. GCC countries<sup>10</sup> also have such a plan but some of them got out of it before its implementation. It may be noted that Hamidullah's concept of federation of currencies is slightly difference from a single currency. Countries forming federation of currencies may retain their own currencies but at the same time they can make all dealings within the federation without resorting to so-called hard currencies of outside the federation. This will, of course, give them advantage of trading within the federation. Whereas maintaining union of

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<sup>10</sup>GCC or Gulf Cooperation Council is a political and economic union of Arab Gulf states, namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

currency is a difficult task, retaining federation of currencies may be an easier system. This formula needs to be studied seriously and its details have to be prepared. One can imagine Hamidullah's economic foresight on his proposal at the time when no such a block was existing.

## **8- Mutual and cooperative financing**

Islamic banking and finance is the most discussed topic of Islamic economics. Due to its dominance and neglect of other aspects of the subject, some Islamic economists called this phenomenon as 'financialization' of Islamic economics (Askari et al., 2012; Islahi 2015a). Hamidullah stressed on micro-financing based on mutuality and cooperation in which members paid a small percentage monthly towards expenses of the establishment, like stationery (the staff consisting of honorary workers). The surplus of this was preserved as reserve fund, to cover unforeseen losses. This reserve fund was later put to enhanced utility: a store as organized on commercial basis, where members of the society purchased on credit their requirements in non-perishable goods. The benefit was used to remunerate the workers and also to strengthen the reserve fund further" (Haidarabad's Contribution ... p. 75).

In one of his earliest papers in Urdu entitled "*Anjumanha-e Qarzah-e-besudi*" (Interest-free Loan Societies), Hamidullah gives an account of interest free lending societies in Hyderabad. He had the essence of the idea of banking. He says that some people have surplus money, while some others are in deficit. It is humanistic to help one's needy brother. But very few people would be ready to do this 'painful good deed' without charging anything in return. That is the reason that all religions and past civilizations prohibited charging interest (*Anjumanha-e Qarzah...* 1944, 53: 3, p. 212). Islam not only prohibited interest, but also provided means to abolish it altogether and ordered that a part of government revenue should be allocated to help the indebted. In the time of the Caliph Umar, the State treasury lent moneys even to the person of the Caliph himself - of course to others also - on providing security of repayment" (*Bunuk al-Qard...* 1962, p. 20). As a proof, Hamidullah presents the verse which stated the heads of expenditure of *zakah*: "Surely (the government revenue) *zakah* (etc.) are meant for the poor, the needy, the collecting officers, reconciliation of hearts, freedom from captivity, and indebted ....." (Qur'an 9: 60). Hamidullah argues that since the poor and needy have been mentioned in the beginning of the verse, the 'indebted' does not refer to starving poor. Rather it means 'the well-to-do' who is temporarily in need of finance (*Anjumanha-e Qarzah...* 1944, 53: 3, p. 213; *Bunuk al-Qard...* 1962, p. 19).

Hamidullah points out that there is no Shariah prohibition if unconditionally and without predetermined amount, the bank pays certain extra sum to its depositors. He observes:

Confidence is born of confidence. If the savings banks of a government declare at the end of the year (and not at its beginning) that they are in a position to pay such and such percentage of profit to the clients, not only would this be lawful according to Islam, but the public also would have no hesitation in depositing its savings with governmental banks, in spite of the silence in the beginning with regard to the quantity of the expected profit. For one has confidence in the public administration. (The Economic System ... p. 132)

Perhaps he is inspired by the report that without prior fixing, the Prophet returned extra amount and encouraged that practice, stating that the best people are the ones who are most generous in repaying their debts (*khiyar al-nas ahsanu-hum qada'a*).<sup>11</sup> Imam al-Shafi'i considered such repayment above the borrowed amount reprehensible if it becomes habitual, to the point of being conventionally expected because the Shari'ah rule is "something commonly known is just like a condition".<sup>12</sup> That is why the Islamic economists do not agree with this suggestion because once it becomes a known custom, it is just like a fixed and conditional charge.

Dr. Hamidullah's article "Interest-Free Cooperative Lending Societies" is very significant in the sense that it not only sheds lights on needs and importance of interest-free lending institutions but he presents the earliest record of implementation of such a model in modern period. Many people think that interest-free financing institutions are product of 20<sup>th</sup> century and some others think that it developed as a result of petrodollar wealth (Warde, 2010, p.93; El-Gamal), but Hamidullah tells us that such initiative was taken by a *sufi* in Hyderabad as early as 1891 and a number of such organizations worked until the first half of 20<sup>th</sup> century in Hyderabad (Interest-Free... p. 493). Hamidullah's original writing or translations appeared on the same topic in Arabic, Urdu, French and Persian.<sup>13</sup>

## 9- International Monetary Fund for Muslim Governments

One of the consequences of the WWII was establishment of the International Monetary Fund (IMF). It was originally laid out as a part of the Bretton Woods system exchange agreement in 1944. The financial operations of the IMF started on 1st March, 1947. The primary purpose of the IMF is to give technical and financial assistance, oversee exchange rates, address global financial problems and extend loans to countries to help them to adjust the financial or economic structure. It is alleged that this international institution works sometimes as an agent of the most developed countries and interferes in financial affairs of borrowing countries in favour of its host country. Dr. Hamidullah foresaw this reality and suggested establishment of interest-free Islamic Monetary Fund for Muslim countries in 1955. In this way they could be saved from begging "aids" from other countries and falling their prey of interference and meddling in their affairs ("*Bunuk al-Qard ... 1962, p. 21*). Arguing for such an organization he said:

Today not only private citizens but even governments are in constant need of borrowing money, in millions and billions, to finance programmes of construction and other developments. There is an international monetary fund in America; yet as could be expected, it is not interest-free. An Islamic monetary fund could and should be

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<sup>11</sup> Narrated by al-Bukhari in the chapter of *istiqrad* (borrowing) and Muslim in the chapter of *musaqah* (fruits haring) on the authority of Abu Hurayrah.

<sup>12</sup> *Al-urf al-ma'ruf ka'l-shart al-mashrut* (a commonly known custom is like a condition agreed upon) (Ibn Taymiyah, *Majmu' Fatawa* 30: 98).

<sup>13</sup> In Arabic: "*Bunuk al-Qard bidun Riba*" (Interest-free Lending Banks, *al-Muslimun*, Damascus, vol. 8, no. 3, Dec. 1962, pp. 16-21; in Urdu: (1944), "*Anjumanha-e Qarzah-e-be-sudi*" (Societies of Interest-free Loan), *Ma'arif*, Azamgarh, 53(3), March, pp. 211-16; in French: (1962), "Banques de prêt sans intérêt," *Pensée Chi'ite* (Paris), 12; and in Persian: "*Bank-ha-e istiqrazi-e bi-murabahah*" (Banks lending without interest), (Tr. Ali Asghar Hariri), *Waheed*, Tehran, Second print after the author's review of the translation, 1970.

established, yet not in any spectacular way and not even despising the modesty of its start. (A Suggestion ... 1955, 43: 6, p.11)

Thus, he gave the idea of institution like Islamic Development Bank (IDB) twenty years before its establishment in 1975. He insisted that in such an institution Muslim Governments of Soviet Union should also be included: "There is no reason why even Turkestan, Azerbaijan, Kazan, etc., should not join this fund" (ibid). His dream was realized after disintegration of the U.S.S.R. in 1979. Now Muslim states of former Soviet Union are also members of IDB.

### **10- Mutuality-based insurance**

Hamidullah is among the earliest writers on Islamic insurance and perhaps first to write on the topic in English. Authored in 1946, his article on Islamic insurance was published in *Muslim Year book of India and Pakistan* (1948-49). The same was republished in *Islamic Review*, (London, March-April 1951), with certain modifications. At present there are various models of Islamic insurance or *takaful*. Much before our contemporary scholars, Hamidullah suggested establishment of Islamic insurance on the basis of mutuality as an alternative of conventional insurance. He was first to point out basis of Islamic mutual insurance in *ma`aqil* provision, explained below, of early Arab-Islamic system which was based on mutual cooperation:

[i]t worked in the following manner. If someone was made a prisoner of war by an enemy, payment of ransom was needed to procure his liberation. Similarly, all bodily torts or culpable homicides required payment of damages or blood money. This often exceeded the means of the individual concerned, prisoner or criminal. The Prophet organized an insurance on the basis of mutuality. The members of a tribe could count on the central treasury of their tribe, to which everybody contributed according to his means. And if the treasury of the tribe proved inadequate, other related or neighbouring tribes were under obligation to render aid. A hierarchy was established for organizing the units into a complete whole. (The Economic System ... p.128)

To Hamidullah (1951, p. 45), "Insurance essentially means the distribution of a burden or hardship over as large a number of people as possible, thus lessening the burden of each as much as practicable so that none of them feels it". He criticized the conventional insurance on the same basis on which most of *ulama* rejected it today, i.e. *riba* (interest), *gharar* (excessive uncertainty) and *maysir* (game of chance).

According to Hamidullah, early Muslims needed only protection from payment of blood money and ransom from captivity. It was so urgent a matter that when the Prophet (pbuh) reached Madinah, he paid attention to it and in the first year of his migration, he made provisions for it in the Constitution of the City-State of Madinah. As noted above he based this insurance on a system called *ma`aqil*. It worked in pyramidal hierarchy (Hamidullah, 1969, *Introduction to Islam* P. 128).

Dr. Hamidullah is against the conventional insurance. To him it "falls under the same prohibition as interest. One sided risk and gain without proportionate responsibility in such a commercial contract are reasons thereof" (Haidarabad's Contribution... p.76). According to him, Western insurance is "either through

speculating and gambling and taking risk in expectation of greater benefits", where "the risk is one-sided, i.e., on the side of the company". Islamic insurance is "in a spirit of mutuality, fellowship and avoidance of one-sided risks". Islam is against the contract that is "based on one-sided risk" (Ibid.). Islamic provisions of insurance were based on mutuality. "They were called *ma`aqil*, and concerned mainly insurance against tort and legal damages" (Islamic insurance 1951, p. 45).

To Hamidullah "Insurance essentially means the distribution of a burden or hardship over as large a number of people as possible, thus lessening the burden of each as much as practicable so that none of them feels it" (Ibid). As noted above, much before our contemporary *ulama*, Hamidullah suggested establishment of insurance on the basis of mutuality as an alternative of conventional insurance. In spite of so much discussion individually and collectively no commonly acceptable substitute could be found. There is near consensus that mutuality is the way of Islamic insurance.

Basically as an organization of mutual cooperation, Hamidullah sees there is no harm to invest the collected amount in some economically profitable activities so that the capital is enhanced:

Such a branch could engage in commerce with the help of unutilized funds remaining at its disposal, so that the capital is augmented. A time might come, when the members of a branch could be fully exempted from paying further contributions, or might even receive amounts of the profits of commerce. (Hamidullah, *Introduction to Islam* P. 129)

Thus, he does not enter into a discussion whether the mutuality based Islamic insurance is an act of exchange (*mu`awadah*) or voluntary donation (*tabarru`*), and whether a *gharar* is involved that might incur the deal as invalid. Perhaps he thinks the element of *gharar* is so insignificant that it would not lead to a dispute or result a big loss to any party – contributors or beneficiary. It is its nature of mutuality that makes the *gharar* tolerable. This *gharar* becomes effective and turns into a game of chance if the insurance is organized by a capitalist to earn profit who deprives the policyholder from profit or surplus of insurance company. He says:

Without entering into technical details, it may be pointed out that capitalistic insurance, in which the insured person does not participate in the benefits of the company in proportion to his contributions, is not tolerated in Islam as this would constitute a form of game of chance. (Ibid)

In the above passage by capitalistic insurance he means commercial insurance in which profit goes to stockholders. As far policyholders are concerned, they get only compensation for losses incurred.

Elimination of *riba*, *maysir*, *gharar fahish* from *takaful* is still regarded the most important element of Islamic insurance. Mutuality is considered as the most accepted method. Augmentation of insurance fund through investment methods is justified.

## **12- Prohibition of *riba* needs arrangement for interest-free lending**

According to Hamidullah, all religions have prohibited *riba* (usury and interest). But they are not successful in their efforts to abolish it. This is so because "mere

prohibition of interest does not suffice to eradicate it if provisions are not made to organize institutions for interest-free lending on a nation-wide scale" (Haidarabad's Contribution ... p. 74). At another occasion he observes:

The distinctive trait of Islam is that not only has it forbidden this kind of gain, but it has also remedied the causes leading to the existence of this evil institution in human society. ... Public Treasury organized interest-free loans, in addition to and for supplementing the loans offered by charitable men or organizations, to help those who are in need of them. The principle is mutual aid and cooperation. (The Economic System ... pp. 130-31)

He says that the famous British economist Keynes pleaded for zero percent interest, but even the economists of his homeland did not take it seriously ("*Bunuk al-Qard bidun Riba*" pp. 16-17). In his opinion, there are three ways to fight interest: Nationalization of lending, using endowments (*awqaf*) for lending purpose<sup>14</sup> and establishment of cooperative and mutuality societies for this purpose. To him the last one is more easy and effective in implementation. It can meet the needs of individuals as well as governments (ibid. p. 21). At present while some Muslim economists have argued for using *waqf* institution for lending and financing purpose, and establishment of Islamic banking and finance on the basis of cooperation and mutuality, they have not grasped yet the idea of nationalization of lending institution.

According to Hamidullah, the second caliph 'Umar ibn al-Khattab made arrangement of interest-free loans. "The Caliph 'Umar sometimes borrowed himself money in this way. He lent money even to commercial people, and the State treasury shared profit with them, as a sort of *mudarabah* or commercial bank" (Financial Administration... p. 98). As a corollary of "*gharimin*" (*the heavily charged*) head of expenditure, "the government should establish interest-free lending institution at the country-level or what he calls "nationalization of lending without interest". In his article "The Economic System of Islam" he writes:

The category of those who are heavily charged has, according to the practice of classical times, a whole series of applications. ... It does not refer to the poor, who have already been mentioned in the beginning of the verse, but to the well-to-do who have suffered from abnormal conditions, beyond their power. Caliph `Umar started a special section in the Public Treasury, in order to lend money free of interest, to those who had temporary needs and provided the necessary guarantees for repayment. The caliph himself had recourse to it for his private needs. It goes without saying that the "nationalization" of lending without interest was the necessary concomitant of the prohibition of interest in Islam. The same caliph used to lend public money even to merchants for fixed periods and the Treasury participated with them in a percentage of their

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<sup>14</sup>In Turkey the VakıfBank (or Waqf Bank) was founded on April 13, 1954. VakıfBank's initial purpose was the management of the cash revenues and expenditures of the charitable foundations set up during the Ottoman Empire period. VakıfBank was established in Ankara and quickly began conducting banking activities with branch offices in Istanbul. Unfortunately it is not an interest-free bank. In recent years there is move to establish interest-free bank based on waqf.

business returns.<sup>15</sup> They participated not only in gains but even in the event of losses".<sup>16</sup> (The Economic System of Islam, p. 127)

### 13- *Zakah* as a single tax of Islamic state

*Zakah* is one of the five pillars of Islam. Thus, it constitutes a form of worship. But at the same time it is a financial obligation. This confers upon *zakah* a unique place in the whole financial charges. Dr. Hamidullah has visualized importance of *zakah* as being worship and financial duty at the same time. This imparts a unique position to *zakah* and makes its payment easy and whole-heartedly (Financial Administration...p. 102).

*Zakah* and the state finance had been one of the most discussed topics of Dr. Hamidullah. He gives it the name of 'growth tax' (Islam's Solution ... p. 215; The Economic System p. 128). It appears that there had been gradual changes in his perception of *zakah* as the financial duty. In his first article "Islam's Solution of the Basic Economic Problems" (1936), he devoted a full section on *zakah*. In this early writing he held the traditional view that "its rate is determined by the Prophets saying" (p. 215); "The growth-tax is quite separate from other financial taxes of the State and goes exclusively to the poor ..." (ibid. p. 216); "The immediate purpose of this institution is to relieve the poor and to help them to grow in prosperity by giving them better resisting and competing power" (ibid.). Even in his article *Islam and Communism* (p.18) he seems to have adopted the view of majority. In 1950 he wrote "Political significance of *zakah*" and considered its receipt as the state revenue and only tax collected from Muslims. He says: "*Zakah* is a whole system in itself of state taxation for running the state and serving the people. ...*Zakah* taxes are the only taxes in an Islamic state in normal times. No doubt in times of emergency and national distress additional taxes or increased rates of *zakah* are not only logically but acknowledgedly lawful" (The Political Significance of *Zakah*, 1950, p. 1). His article "Budgeting and Taxation in the Time of the Prophet" (1955) also mainly deals with the *zakah* revenue and administration.

In 1986 he authored "Financial Administration in the Muslim State" in which he reiterates that "the *zakah* is a tax, and in the time of the Holy Prophet and the rightly-guided caliphs there was no tax on Muslims other than the *zakah*" (Financial Administration...p. 103). In fact, as it appears from his overall writings, he considers its receipt as the state revenue and only tax collected from Muslims. In times of emergency and national distress only he allows imposition of "additional taxes or increased rates of *zakah*" (*Political Significance of Zakah* p. 1). Thus, the administration of its revenue and expenditure is the administration of public finance.

It may be noted that the *zakah* bases (i.e. zakatable items) have not been mentioned in the Qur'an. They have been prescribed in *ahadith* (traditions of the Prophet). According to Hamidullah "this silence of the Qur'an may be interpreted as

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<sup>15</sup>Individual cases are mentioned by Hamidullah as the permanent practices. In fact he is ambitious "to focus attention of scholars to some new interpretation of old and well-known facts".

<sup>16</sup>Hamidullah uses the term "*mudarabah*" and said that "they participated not only in gains but even in the event of losses", but he does not make clear how they would share the losses. In *mudarabah* partnership, the two parties share the profit with a predetermined ratio. In case of loss, the one who provides capital loses his capital and working partner's loss is that he gets nothing; his labour goes unrewarded.

giving a latitude to the government to change the rules for income according to circumstances, in the interest of the people" (The Economic System ... P. 124).<sup>17</sup> Again, in his Bahawalpur lectures he remarks: "In fact, if our interpretation is correct, the Qur'an leaves it to the discretion of the state to reduce or increase the rates to be levied" (The Emergence of Islam p. 298).

Similarly, rates of *zakah* have been fixed by the Prophet (p.b.u.h.). The Qur'an paid attention to the expenditure of *zakah* and mentioned in *Surat al-Tawbah* (9:60) eight types of recipients of this revenue. A modern state needs huge resources for its innumerable existing programmes and for a variety of future plans. To claim that "*zakah* is the only tax for a Muslim state" and that their headings of expenditure "seem to be well applicable to our own times in a progressive welfare State, having concern for the well-being of its subjects" (Economic System ... p. 128) cannot stand unless two things are done which are not accepted by the majority of scholars. One: permission to change the rates of *zakah*, and two, liberal interpretation of its heads of expenditure to accommodate all financial requirements of a government. Hamidullah has tried to prove the two.<sup>18</sup>

His idea about changing the rates and base of *zakah* we have already noted above. As far his liberal interpretation of *zakah*'s heads of expenditure is concerned, Hamidullah insists that *zakah* is meant for "the entire administration, civil, military and diplomatic" (The Economic System of Islam, p. 126), "accounting, auditing and disbursing" (Budgeting ... p. 87), even "mosques, schools, caravanserais, free residence for orphans, widows, old or handicapped people, etc." (Financial Administration...p. 99), "construction of roads, bridges, irrigation canals, and highways, etc. According to Hamidullah, "wayfarer" (*ibn al-sabil*), may be aided not only by free board and lodging, but also by improving touristic conditions: hotels, restaurants, means of transport, security of roads and the like" (Budgeting ...p. 89). In his article "Financial Administration..." (p. 99), he includes some other heads "such as police vigilance, security of the route, construction of bridges, health measures, etc. ... Persons in transit are not exploited by the finance ministry, but treated as guests of the Muslim community." At another occasion he observes: "The last category concerns communications and tourist traffic in a wide sense: construction of bridges, road<sup>19</sup> hotels, restaurants, security of routes (police included), hygienic arrangements, transport of travellers, and every comfort provided to aliens in the course of their journeying, including extending hospitality to them without charge and in proportion to the means available. Formerly, such hospitality was assured for three days in every place of stay" (The Economic system ... pp. 127-8).

In March 1980, Dr. Hamidullah delivered a series of twelve lectures at Islamia University, Bahawalpur, Pakistan. These lectures were translated from Urdu and edited by Afzal Iqbal under the titles *The Emergence of Islam*. "Revenue and Calendar" is the eleventh lecture. The fact that out of various topics of Islamic

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<sup>17</sup>Here one can contend that the Qur'an's silence was explained by the Prophet whose duty was to explain what was sent for the people (Qur'an 16:44) and show things in practice.

<sup>18</sup>Surprisingly enough Dr. Hamidullah also supports his claim that it is permissible to change the rate of *zakah* by the instance of the second Caliph Umar who lowered the rate of custom duty! For a critical analysis of this claim refer to the article of this author "*Zakah as the State Finance: A Critical Study of Hamidullah's Views*" in *Muhammad Hamidullah and his Pioneering Works on Islamic Economics*, Jeddah, Scientific Publishing Centre, KAU, p. 57.

<sup>19</sup>It may be remembered that he included construction of bridges and roads under the head of '*fi sabil-Allah*' also.

economics, Dr. Hamidullah chose to deliver lecture on Islamic finance, more specifically "revenue" shows that he gave utmost importance to this aspect of Islamic economics. Even in this book Hamidullah insists that the word tax is fully applicable to *zakah* because it fulfills all the elements of a tax. That is, charging "a particular sum during a fixed period at a fixed rate on a fixed item and we may compel even those who decline to pay it" (*The Emergence of Islam*, p. 109). However, Dr. Hamidullah does not want to fall in the controversy whether *zakah* rates and bases are changeable or not. This is clear from his answer to a question "Can the rate of *zakah* be changed?" raised during his lecture at Bahawalpur. Instead of giving his own view he described *fuqaha*'s stand: "Our jurists are of the opinion that the rate fixed by the Prophet (peace be upon him) should not be changed. New taxes under the category of *nawa'ib* may be levied to meet contemporary demands. Our law comprises commands of God and the Prophet (peace be upon him). Hence, in the opinion of Muslim jurists, nobody has the right to change them nor has such a need arisen so far; nor is it likely to arise in that our governments will never declare that the *zakah* is a heavy tax and should be abolished or reduced. On the contrary, we need more than we receive through *zakah*. That is why additional taxes called *nawa'ib* may be levied" (*The Emergence of Islam*, 1993, pp. 309-10).

In his article "Budgeting and Taxation in the Time of the Prophet" Hamidullah maintains that there was "gradual evolution" of financial aspect of the administration, "beginning with persuasion and recommendation and culminating into obligations and duties enforced with all the power that society could command" (Budgeting and Taxation p. 83).

#### **14- Postponement of diminishing returns in agriculture**

A famous law of production in economics is known as the law of diminishing returns which states that the marginal (incremental) output of a production process decreases as the amount of a single factor of production is incrementally increased, while the amounts of all other factors of production stay constant. It is due to this reason that it is said that the law of diminishing returns apply quickly to agriculture. Hamidullah does not agree with this. He holds that: "Employment of powerful machines and adequate chemical manures may overcome Nature's resistance, and indefinitely postpone the operation of the law of diminishing returns" (*Islam's Solution of the Basic Economic Problems*", p. 225).

It may be noted that the law of diminishing returns which was quoted in support of Malthusian theory of population has not worked as predicted. Hamidullah's proposition that this law may be indefinitely postponed by using powerful machines and adequate chemical manures has proved accurate beyond doubt as has been experienced for several past decades.

Hamidullah suggested formation of joint-stock companies in agriculture as a solution to the agrarian and humanitarian problems. There is no doubt, this is an innovative idea which needs to be tested. He wrote briefly on this topic in the paper mentioned above (*ibid.* p. 224). However, he had intention to write separately in details on this sector of the economy. But it is not known whether he did it or not. We did not come across such an article in his writings.

## 15- Hamidullah's works as a rich source of Islamic economic history

There is wealth of literature on Islamic economics but dearth of literature on economic history of Islam. Hamidullah's works are a rich source for this purpose. His first article which he wrote in Urdu in 1927 was about the trading practices of the Prophet and his succeeding caliphs (Hamidullah 1927). He also wrote on "Budgeting and Taxation in the Time of Holy Prophet" (1955c, 1958), "The reform of monetary system of Hyderabad and development of metric system" (1944), "Pre-Islamic Arabs' economic and Diplomatic Relations" (1957, 1968), "The Scheme of Suez Canal at the time of Hadrat Umar" (1340F/1930), "Petrol and beginning of Islam" (1980), "Muslim world in the face of modern economics" (1961), "The problem of the origins of personal guarantees in Islam" (1974), "Impact of the Economic System of Arab Jahiliyah Period on the Establishment of the First Islamic State" (1943), "The importance of interest free lending societies in Hyderabad and their condition" (1941), "Ex-territorial Capitulations in Favour of Muslims in Classical Times" (1949), "Haidarabad's Contribution to Islamic Economics" (1955b), etc.

*Muslim Conduct of the State* is one of the earliest works of Hamidullah. Its German edition was published in 1935 from Berlin, and the first English edition appeared from Hyderabad in 1941. Since then its several revised editions have been published and it has been translated into many languages. Its third Chapter is on "property" a topic which attracted the attentions of Muslim scholars only in the second half of twentieth century. It may be noted that while the focus of other writers is on individual and state property rights, Hamidullah discussed it from an international Islamic perspective and showed deep insights in the subject.

His article "Haidarabad's Contribution to Islamic Economic Thought and Practice" is a very informative and illuminating article. He reveals many firsts of Hyderabad state in the field of Islamic economics. As against many Western countries Hyderabad state "did not confer the privilege of issuing currency notes on a private bank, property of a few moneyed capitalists, but reserved the right to the government, to the nation" (*Haidarabad's Contribution* p.74). It was "the first Muslim country to issue currency notes on the basis of nationalization" (ibid.). At another occasion he says: "England had to adopt after the Second World War, viz. issue by the State, and not by private banks, profiting a few capitalists" (Book Review... p. 143). Hyderabad was also first among all the Muslim states to innovate, just after the First World War three-year planning and triennial planned budget. It also promoted Public-private partnership in Hyderabad. "So some Muslim and some Hindu capitalists were allowed to share with the government in financing the corporation." Hamidullah calls this experience of mixed economy as "enviable miracle of Haidarabad" (*Haidarabad's Contribution* p.78). In addition, Hyderabad showed the way how interest-free lending institutions could be established practically and how to organize insurance based on mutuality free from interest, *gharar* and *jahalah*.

## 16- CONCLUDING REMARKS

Dr. Hamidullah is among the founders of modern Islamic economics and one of its pioneer writers. He is distinguished among the early writers on Islamic economics as having formal education and training of both traditional Islamic *madrasah* and modern educational institutions. His proficiency in Arabic, English and some other European languages enabled him to consult directly the relevant sources on the subject which is clear from his references to classical Islamic writers and modern

Western writers. He published his articles not only in Urdu, Arabic, Persian and Turkish languages but also in journals of English and other European languages.

In addition to his innovation of the term Islamic economics and his discussion of the nature and characteristics of Islamic economic system, many firsts in this subject belong to him. For instance: the first and the earliest record of the interest-free financial institution in the modern period, advocacy of mutuality as the basis for Islamic insurance, mutuality based Islamic finance, proposal for establishment of international interest-free monetary fund, federation of currencies for Muslim countries. He also focused on topics such as, critiques of capitalism and communism, insurance, *zakah* and public finance, money and banking, partnership and equity finance, production and distribution, labor relations, and economic and financial crises. His works are a rich source of Islamic economic history. None of his contemporaries in the first half of twentieth century has written on such a diverse aspects of Islamic economics.

Hamidullah criticized '*laissez faire*' of capitalism and discussed inadequacy of the concept like any skilled professional economist and showed how Islamic economics is different from *laissez faire* economics. He also disapproved of totalitarian communism and demonstrated that Islamic economics presented a balanced economic system between the two extremes- socialism and capitalism which received strong support from the later writers on Islamic economics. At a time when these two systems were struggling to take rest of humanity into their hegemony, Hamidullah and the generation of Islamic scholars who followed him saved Muslims from coming into the grips of capitalism and communism.

In the area of insurance and microfinance Hamidullah was first to suggest mutuality as the solution. At present hardly anyone will differ about its validity and feasibility. Although a few variants of Islamic insurance are found, the real *takaful* (as the term itself suggests) is one which is based on mutuality.

Hamidullah's suggestion for establishment of Islamic international bank could be realized in the form of Islamic Development Bank and his proposal of the federation of currencies for Muslim states is still under consideration and preparation by some Muslim governments.

*Zakah* and the state finance had been one of the most discussed topics of Dr. Hamidullah. Perhaps no one before Hamidullah has discussed *zakah* from economic point of view. Most of Muslim scholars translated the word '*zakah*' as "poor due", charity, etc. He gave it the name of 'growth tax'. A study of Dr. Muhammad Hamidullah's Islamic economic ideas would show that his thinking had pragmatic orientation.

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